
THE CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Heng Xin China Holdings Limited (“**Company**”), you should at once hand this circular and the accompanying form of proxy to the purchaser, the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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HENG XIN CHINA HOLDINGS LIMITED

恒芯中國控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 8046)

- (1) PROPOSED GRANT OF THE EQUITY LINE OF CREDIT TO THE COMPANY**
- (2) PROPOSED GRANT OF SPECIFIC MANDATE TO ISSUE NEW SHARES**
- (3) PROPOSED REFRESHMENT OF GENERAL MANDATE TO ISSUE SHARES**
- (4) NOTICE OF SPECIAL GENERAL MEETING**

**Independent financial adviser to the Independent Board Committee
and the Independent Shareholders in relation to the grant of General Mandate to Issue Shares**



A notice convening the special general meeting of the Company to be held at 11:00 a.m. on Monday, 14 February 2011 at Mont Blanc Room, Pacific Place Conference Centre, Level 5, One Pacific Place, 88 Queensway, Admiralty, Hong Kong is set out on pages 47 to 51 of this circular.

The letter from the Independent Board Committee is set out on page 40 of this circular.

The letter from CIMB is set out on pages 41 to 46 of this circular.

Whether or not you are able to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time of the meeting to the office of the Company's branch registrar in Hong Kong, Union Registrars Limited, 18/F, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong. Completion and return of the form of proxy will not preclude you from attending and voting at the meeting in person should you so wish.

This circular will remain on the GEM website on the “Latest Company Announcements” page for at least 7 days from the date of its posting and on the Company's website at www.hengxinchina.com.hk.

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

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DEFINITIONS

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

“AGM”	the annual general meeting of the Company held on 9 November 2010
“Agreement”	the agreement entered into amongst the Company, the Investor, GEMML and the Share Lender on 29 December 2010 in relation to the Equity Line of Credit, the Option and the Warrants
“associate(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Business Day(s)”	any day(s) (except any Saturday, Sunday or public holiday) on which licensed banks in Hong Kong and New York are open for business throughout their normal business hours
“Board”	the board of Directors
“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 Bonds Subscription Agreement and constituted by the instrument constituting the Bonds and for the time being outstanding or, as the context may require, any number of them
“Bonds Subscription Agreement”	the agreement entered into by the Company and Sandmartin on 17 December 2010 pursuant to which Sandmartin has agreed to subscribe for the Bonds in the aggregate principal amount of HK\$200,000,000
“Bye-Laws”	the bye-laws of the Company as amended from time to time
“CIMB”	CIMB Securities (HK) Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the proposed grant of the General Mandate
“Closing Date”	the second Business Day which is also a Trading Day following the Closing Notice Date

DEFINITIONS

“Closing Notice”	a notice from the Investor to the Company on the Closing Notice Date, which notice shall state the Final Number of Option Shares to be subscribed for by the Investor and the applicable Subscription Price per Option Share
“Closing Notice Date”	the Trading Day following the last Trading Day of each Pricing Period
“Closing Trade Price”	on any Trading Day, for the Shares, the last closing trade price of such Shares on the Stock Exchange as reported by Bloomberg Financial Markets (or such other international financial news service in substitution therefor which the parties to the Agreement may from time to time reasonably agree) on that day
“Commitment Fee”	a committee fee equal to two percent (2%) of the Total Commitment Amount payable by the Company to GEMML under the Agreement
“Commitment Period”	the period commencing on (and including) the date of when the Company has first satisfied or fulfilled the Conditions Precedent to the Agreement and the Warrants have been issued to the Investor pursuant to the Agreement and expiring upon the earlier of (i) the third anniversary of the date of the Agreement, and (ii) the date on which the aggregate of the Purchase Price paid by or by order of the Investor for subscription for the Option Shares under the Agreement (but excluding any Share purchased under any Warrant) equals the Total Commitment (i.e. HK\$400 million).
“Companies Act”	the Companies Act 1981 of Bermuda
“Company”	Heng Xin China Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the GEM
“Conditions Precedent”	conditions precedent to the Agreement as set out in the subparagraph headed “Conditions Precedent to the Agreement” in the letter from the Board in this circular

DEFINITIONS

“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Consultant”	Shenzhen Wan He Cheng Da Investment Holding Co., Ltd., (深圳市萬禾成達投資有限公司) a company incorporated in the People’s Republic of China
“Conversion Price”	HK\$2.00 per Conversion Share, subject to adjustments, in the manner provided in the instrument constituting the Bonds and the conditions
“Conversion Share(s)”	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 constituting the Bonds
“Current Issue Mandate”	the general mandate approved and granted to the Directors at the AGM to allot, issue and deal with Shares up to a maximum of 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the AGM
“Daily Purchase Amount”	with respect to each Trading Day during the relevant Pricing Period, the number of Shares which is calculated by multiplying the applicable Proposed Number of Option Shares by one-fifteenth (1/15), provided that the Daily Purchase Amount shall be equal to zero (0) for any Knockout Day
“Daily Trading Volume”	with respect to any Trading Day, the trading volume of the Shares on the Stock Exchange as reported by Bloomberg Financial Markets (or such other international financial news service in substitution therefor which the parties to the Agreement may from time to time reasonably agree), and for such purposes all odd lot trades — ”D”, manual trades — “M”, official close — “OC” and direct non-automatching transactions — “X”, and any block trades of 250,000 or more Shares shall be excluded
“Delivery Date”	the date of delivery of the Loan Shares by the Share Lender to the Investor
“Director(s)”	the director(s) of the Company

DEFINITIONS

“Drawdown Notice(s)”	drawdown notice(s) from the Company to the Investor being delivered on any Trading Day during the Commitment Period in respect of the exercise of part or all of the Option by the Company
“Drawdown Notice Date “	the date upon which a Drawdown Notice is treated as delivered by the Company to the Investor pursuant to the Agreement
“Equity Line of Credit”	allotment and issue of the Option Shares to the Investor or its nominees structured over the Commitment Period with each tranche or drawdown made at the discretion of the Company by way of exercising the Option up to the Total Commitment over the Commitment Period subject to the terms and conditions of the Agreement
“Equivalent Shares”	Shares of the same quantity and description (or reasonable equivalent) as the relevant Loan Shares and may be either Listed or not Listed (i.e. Shares which have yet received the grant of a listing of and permission to deal in the Shares on the Stock Exchange)
“Final Number of Option Shares corresponding to each Drawdown Notice”	the final number of Option Shares to be subscribed for by the Investor or any other subscriber(s) procured by the Investor in response to a Drawdown Notice, such number shall be set out in the relevant Closing Notice from the Investor and shall not be less than 50 % and not more than 200% of the relevant Pricing Period Obligation and such number of Shares to be subscribed shall be reduced to such smaller number of Shares so that the number of Shares subscribed under the Closing Notice will not, when added to other Share held by the Investor as legal and/or beneficial owner, cause the Investor to be required under the laws or regulations of Hong Kong to make a mandatory offer for all the Shares of the Company under the Takeovers Code, nor otherwise cause the Investor holding directly or indirectly in excess of 9.9% in aggregate of the total issued share capital of the Company from time to time.
“GEM Group”	GEMML, its affiliated companies and the Investor comprise the GEM Group, a privately held US-based equity investment group that was founded in 1991

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“GEMML”	GEM Management Limited, a company incorporated in the British Virgin Islands
“GEM”	the Growth Enterprise Market of Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM, as amended from time to time
“General Mandate”	a general and unconditional mandate proposed to be granted to the Directors at the SGM to exercise the power of the Company to allot, issue or otherwise deal with Shares up to a maximum of 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing the relevant resolution
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	the independent board committee of the Board comprising all independent non-executive Directors, established for the purpose of advising the Independent Shareholders in relation to the General Mandate
“Independent Shareholders”	Shareholders other than any controlling Shareholders or their associates or, where there are no controlling Shareholders, any Directors who shall hold Shares as at the date of the SGM and their respective associates
“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
“Investor”	GEM Global Yield Fund Limited (together with its permitted successors and assigns), a company incorporated in the Cayman Islands

DEFINITIONS

“Knockout Day(s)”	any Trading Day during a Pricing Period (a) on which the Closing Trade Price is less than the Threshold Price stated in the Drawdown Notice last delivered by the Company to the Investor under the Agreement; (b) during which the Shares are not traded on the Stock Exchange for the whole Trading Day; (c) during which trading in the Shares on the Stock Exchange has been suspended for more than one hour; or (d) in respect of which the Investor has made an election in accordance with the terms of the Agreement that such Trading Day is a Knockout Day if there has been a Material Adverse Change and/or Material Change in Ownership
“Last Trading Day”	28 December 2010, being the last trading date prior to the date of the Agreement
“Latest Practicable Date”	18 January 2011, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing” or “Listed”	the grant of a listing of and permission to deal in the Shares on the Stock Exchange and the term “ Listed ” shall be construed accordingly
“Loan”	Subject to the terms and conditions of the Share Lending Agreement, the lending of Loan Shares from the Share Lender to the Investor or to the Investor’s order
“Loan Shares”	any number of Shares transferred in a Loan under the Share Lending Agreement until such Equivalent Shares are redelivered to the Share Lender under the Share Lending Agreement
“Marketing Services Agreement”	the marketing services agreement entered into between the Company and the Consultant dated 30 November 2010
“Material Adverse Change”	either (i) the audited or unaudited accounts or the accounting records of the Company and its subsidiaries, which have been published or otherwise disclosed to the Investor, contain a material inaccuracy or misstatement or otherwise fail to truly and fairly reflect the financial or business condition of the Company and/or its subsidiaries as of the date on which such

DEFINITIONS

accounts or accounting records were prepared or in respect of the period to which such accounts and records relate; or (ii) the Shares of the Company cease to be Listed on the Stock Exchange (for such purpose, a transfer of the listing of the Shares from the Growth Enterprise Market of the Stock Exchange to the Main Board of the Stock Exchange shall not be construed as a cessation of being Listed on the Stock Exchange); or (iii) the Trading of the Shares is suspended continuously for more than five (5) Trading Days (without the written consent of the Investor whose consent shall not be unreasonably withheld or delayed) (other than as a result of the suspension pending the publication of any announcement or circular in connection with the transactions contemplated hereunder or suspension which is temporary in nature (i.e. for a period not exceeding five (5) Trading Days) pending the clearance by the Stock Exchange of any acquisition, realisation or share transaction); or (iv) the Company has failed to make, file or furnish any material announcements, circulars, offering memoranda, prospectus, instruments, documents or other material information to or with the Stock Exchange or required by any other governmental or regulatory body or otherwise as required by the GEM Listing Rules or any applicable law or governmental or other regulation to which the Company is subject; (v) any information in relation to the financial or business condition of the Company and/or its subsidiaries contained in any announcements, circulars, offering memoranda or prospectus or any other public documents issued by the Company and/or its subsidiaries is or has become incorrect, untrue or misleading in any material respects; or (vi) there has been any material adverse change in the nature of the business activities of the Company or any of its subsidiaries since the date of the Agreement (including where the business of the Company or its subsidiaries has not been carried on in the ordinary and usual way); or (vii) any Material Adverse Effect on the business, properties, assets, operations, liabilities, results of operations, financial condition or performance, profits, losses or prospects of the Company or the Company and its subsidiaries, if any, taken as a whole, or (viii) any Material Adverse Effect on the Shares, or on the authority or ability of the Company to perform its obligations in respect of the Agreement, the Shares or the Warrants (as the case may be),

DEFINITIONS

provided that the amount involved in each of the above paragraphs (i) to (viii) (other than (ii) and (iii)) should be equal to or more than HK\$5,000,000 in aggregate. For avoidance of doubt, if the amount involved in any event, change, effect or otherwise referred to in each of the above paragraphs (i) to (viii) (other than (ii) and (iii)) is less than HK\$5,000,000 (in aggregate), such event, change, effect or otherwise shall not be regarded as Material Adverse Change

“Material Adverse Effect”

any effect, whether financial or otherwise, which individually or taken as a whole, could reasonably be expected to be material and adverse to the Company and its subsidiaries and/or any condition, circumstance or situation that would prohibit or otherwise interfere with the ability of the Company to enter into and perform any of its obligations under the Agreement or the Warrants in any material respect

“Material Change in Ownership”

any change in the control or beneficial ownership of the Shares and securities which are convertible into Shares by the substantial shareholders, directors and officers as at the date of the Agreement resulting in them ceasing directly or indirectly to control, or own issued Shares and securities which are convertible into Shares of a combined total of thirty per cent. (30%) of the issued Shares in the Company from time to time. For the avoidance of doubt, any reduction in such percentage purely as a consequence of new issue of securities pursuant to fund raising or acquisitions shall not be treated as a Material Change in Ownership

“Option”

the option granted by the Investor to the Company requiring, at the Company’s option, the Investor to subscribe for up to HK\$400 million worth of Shares structured under the Equity Line of Credit

“Option Share(s)”

new Shares to be allotted and issued by the Company upon its exercise of the Option

DEFINITIONS

- “Pricing Period” with regard to any Drawdown Notice being served by the Company, a period of 15 consecutive Trading Days commencing on the Trading Day immediately following the delivery of such Drawdown Notice, provided that the number of days comprising a Pricing Period shall be reduced by the number of the Knockout Day(s), if any, and further provided that the Pricing Period shall start only on the receipt by the Investor of Shares to be offered by the Share Lender to the Investor in accordance with the terms of the Share Lending Agreement in respect of such Drawdown Notice in accordance with the Share Lending Agreement
- “Pricing Period Obligation” with respect to any Pricing Period, a number of Shares equal to the sum of the Daily Purchase Amount for each Trading Day during such Pricing Period
- “Proposed Number of Option Shares” in respect of a Drawdown Notice, the aggregate number of Option Shares stated in the Drawdown Notice that the Company wishes the Investor to subscribe for, provided that (i) such number shall not exceed 500% of the average Daily Trading Volume during the 15 consecutive Trading Days immediately preceding the date of the Drawdown Notice; (ii) 200% of such number shall not exceed the authorized and unissued number of Shares as at the date of the Drawdown Notice (excluding Shares which the Company has agreed to allot and issue) nor exceed the number of unissued Shares for which the Board are authorized to allot and issue as at the date of the Drawdown Notice; and (iii) such number shall not exceed such number that, when multiplied by 90% of the Closing Trade Price on the Trading Day immediately prior to the issue of the relevant Drawdown Notice, and then added to the Purchase Price for all the Shares subscribed pursuant to all prior Closing Notices would exceed the Total Commitment
- “Purchase Price” in respect of a Closing Notice, a sum of money which equals the product of the applicable Subscription Price and the number of Shares set out in the relevant Closing Notice

DEFINITIONS

“Required Approval”	all requisite consents, approvals, waivers, authorizations and orders, and all requisite filings and registrations, required by the Stock Exchange to be obtained or made by the Company as the case may be, in connection with the delivery and performance by the Company of the Agreement and the issue of the Warrants, and the allotment and issue of Shares at each relevant Closing Date and upon exercise of any Warrant and Listing of all such Shares
“Sale and Purchase Agreement”	the sale and purchase agreement dated 7 December 2010 entered into between Star Hub and Wealtheme in respect of the acquisition of the Sale Shares, being the entire issued share capital of Wisest Yield pursuant to the Sale and Purchase Agreement
“Sale Shares”	one share of US\$1.00 in the issued share capital of Wisest Yield, representing the entire issued share capital of Wisest Yield
“Sandmartin”	Sandmartin International Holdings Limited, a company incorporated in Bermuda with limited liability and listed on the Main Board of the Stock Exchange
“Securities Account”	the securities account in the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited designated by the Investor by notice in writing to the Share Lender prior to the relevant Loan for the purpose of receiving delivery of the Loan Shares, such designation being binding with respect to all future delivery of Loan Shares by the Share Lender, unless the Investor designates a new Securities Account in writing
“SGM”	the special general meeting of the Company convened to be held at 11:00 a.m. on 14 February 2011 for the Shareholders to consider and, if thought fit, approve the Agreement and the transactions contemplated thereunder, the Specific Mandate and the General Mandate

DEFINITIONS

“Share Lender”	Team Effort Investments Limited, a company incorporated in the British Virgin Islands which is wholly-owned by Mr. Choi Chung Lam
“Share Lending Agreement”	the agreement entered into between the Share Lender and the Investor on 29 December 2010 for lending of Shares by the Share Lender to the Investor, which provides that prior to the delivery by the Company of a Drawdown Notice under the Agreement, the Share Lender shall notify the Investor of its intent to lend Shares and deliver the Shares to be borrowed to the Investor on the Drawdown Notice Date (unless otherwise agreed in writing with the Investor).
“Shareholder(s)”	registered holder(s) of the Shares in issue
“Share(s)”	share(s) of HK\$0.01 each in the share capital of the Company
“Specific Mandate”	the mandate to allot and issue the Option Shares and the Warrants Shares to be sought at the SGM
“Star Hub”	Star Hub Investments Limited, a company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription for the Bonds”	the subscription for the Bonds pursuant to the Bonds Subscription Agreement
“Subscription Conditions”	the conditions precedent to the obligations of the Investor to subscribe Shares under the Agreement, which have been set out in the sub-paragraph headed “Subscription Conditions for each Drawdown” in the letter from the Board in this circular
“Subscription Price”	the price of issue of the Option Shares, the determination mechanism of which are set out in the sub-paragraph headed “Equity Line of Credit and Option granted to the Company” in the letter from the Board in this circular
“Takeovers Code”	the Hong Kong Codes on Takeovers and Mergers

DEFINITIONS

“Threshold Price”	a price per Share set by the Company in each Drawdown Notice (which price may be different in each Drawdown Notice) below which the Company does not wish to sell Shares pursuant to such Drawdown Notice, which price shall not be less than HK\$1.30 per Share (or as adjusted pursuant to the Agreement) unless otherwise agreed by the Company and the Investor
“Total Commitment”	HK\$400 million in total
“Trading”	trading and dealing in the Shares on the Stock Exchange (without restriction) and the terms “ Traded ” and “ Tradable ” shall be construed accordingly
“Trading Day(s)”	a day (days) on which, in the usual course, the Stock Exchange is open for the general trading of securities (and whether or not the Shares are suspended from trading for all or part of such day(s)) for a minimum of three hours
“US”	the United States of America
“Warrant Conditions”	conditions on and subject to which each Warrant shall be issued
“Warrant Exercise Price”	subscription price of each Warrant Share, initially being HK\$2 (subject to adjustments)
“Warrant Shares”	a total of 95 million new Shares to be allotted and issued by the Company upon exercise in full of the Warrants by the holders thereof
“Warrant(s)”	95 million warrants to be issued by the Company to the Investor on the third Business Day after the day on which the Conditions Precedent are satisfied (or such other day as the Company and the Investor may agree in writing), each entitles the holder thereof to subscribe for one new Share at the Warrant Exercise Price at any time on or after the first anniversary of the date of grant of the Warrants to the fifth anniversary of the date of grant of the Warrants
“Wealtheme”	Wealtheme Limited, a company incorporated in the British Virgin Islands with limited liability

DEFINITIONS

“Wisest Yield”	Wisest Yield Limited, a company incorporated in British Virgin Islands with limited liability and a wholly-owned subsidiary of the Vendor
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“US\$”	United States dollars the lawful currency of US
“%”	per cent.

LETTER FROM THE BOARD



HENG XIN CHINA HOLDINGS LIMITED

恒芯中國控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 8046)

Executive Directors:

Mr. Xiao Yan (*Chief Executive Officer*)

Mr. Feng Yongming

Mr. Li Tao

Registered office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Independent non-executive Directors:

Mr. Leung Wo Ping *JP*

Mr. Dong Shi

Mr. Hu Dingdong

Principal place of business

in Hong Kong:

Unit 3, 43/F

Far East Finance Centre

16 Harcourt Road

Hong Kong

Non-executive Director:

Mr. Xu Lei

20 January 2011

Dear Sir or Madam,

- (1) PROPOSED GRANT OF THE EQUITY LINE OF CREDIT TO THE COMPANY**
- (2) PROPOSED GRANT OF SPECIFIC MANDATE TO ISSUE NEW SHARES**
- (3) PROPOSED REFRESHMENT OF GENERAL MANDATE TO ISSUE SHARES**
- (4) NOTICE OF SPECIAL GENERAL MEETING**

INTRODUCTION

Reference is made to the announcement dated 29 December 2010 (“Announcement”) in which on 29 December 2010, the Company entered into the Agreement with the Investor, GEMML and the Share Lender, pursuant to which the Company (1) is granted the Option to require the Investor to subscribe for up to HK\$400 million worth of Shares structured under the Equity Line of Credit; and (2) has agreed to issue to the Investor or to its order the Warrants.

* For identification purpose only

LETTER FROM THE BOARD

The Company will, upon the completion of the Agreement, allot and issue the Option Shares and the Warrants Shares under the Specific Mandate to be sought at the SGM.

The Directors also propose to seek the Independent Shareholders' approval for the refreshment of the General Mandate at the SGM.

The purpose of this circular is to provide you with information regarding (i) details of the Agreement and the transaction contemplated thereunder; (ii) the grant of the Specific Mandate; (iii) the proposed refreshment of the General Mandate and (iv) a notice convening the SGM.

THE AGREEMENT

Date

29 December 2010

Parties

Issuer: The Company

Investor: GEM Global Yield Fund Limited

Other: GEM Management Limited

Share Lender: Team Effort Investments Limited

To the best of the knowledge, information and belief of the Directors having made all reasonably enquiry, the Investor, GEMML and their respective ultimate beneficial owners are Independent Third Parties. GEMML is the investment adviser to the Investor. Based on the information provided by GEMML and the Investor, GEMML, its affiliated companies and the Investor comprise the GEM Group which is a privately held US-based equity investment group that was founded in 1991. The GEM Group is an alternative investment group that manages a diverse set of investment vehicles across the world.

The Share Lender is a substantial Shareholder of the Company and as at the Latest Practicable Date, the Share Lender was interested in 620,690,451 Shares, representing approximately 25% of the issued share capital of the Company. The Share Lender is wholly owned by Mr. Choi Chung Lam and it is an investment holding company. To facilitate the subscription for the Option Shares by the Investor under the Agreement, the Share Lender agrees to lend Shares according to the terms of the Share Lending Agreement.

LETTER FROM THE BOARD

Equity Line of Credit and Option granted to the Company

Under the Agreement, the Company has been granted the Equity Line of Credit and the Option, pursuant to which the Company may require the Investor to subscribe for up to an aggregate of HK\$400 million in value (i.e. the Total Commitment) of Option Shares during the Commitment Period, subject to the terms and conditions of the Agreement.

Set out below are details of the Option:

Term: The Option is exercisable by the Company during the Commitment Period, being the period commencing on (and including) the date when the Company has first satisfied or fulfilled the Conditions Precedent and the Warrants have been issued to the Investor pursuant to the Agreement and expiring upon the earlier of (i) the third anniversary of such commencement date, and (ii) the date on which the aggregate of the Purchase Price paid by or by order of the Investor for subscription for the Option Shares under the Agreement (but excluding any Share purchased under any Warrant) equals the Total Commitment (i.e. HK\$400 million).

The Company may exercise the Option by issuing multiple Drawdown Notices during the Commitment Period provided that it may not, without the prior written consent of the Investor, deliver a Drawdown Notice until (i) the expiry of the Pricing Period relating to any Drawdown Notice previously issued by the Company and (ii) the Shares specified in the relevant previous Closing Notice have been Listed and become Tradable.

Subscription Price per Option Share: With regard to any Pricing Period, the Subscription Price per Option Share shall be 90% of the average of the Closing Trade Prices during such period, provided that the Closing Trade Price per Share of any Knockout Day and the Knockout Day shall be excluded from the calculation of relevant Subscription Price per Option Share. In addition, the Subscription Price per Option Share shall not be lower than the Threshold Price (subject to a minimum of HK\$1.30 per Option Share (unless otherwise agreed by the Company and the Investor), as adjusted by any subdivision, combination or otherwise as set out in the Agreement) set by the Company in the relevant Drawdown Notice.

LETTER FROM THE BOARD

The minimum Threshold Price of HK\$1.30 per Option Share represents:

- (i) a discount of approximately 7.14% to the closing price per Share of HK\$1.40 as quoted on the Stock Exchange on the date of the Agreement;
- (ii) a discount of approximately 10.96% to the average closing prices of HK\$1.46 per Share as quoted on the Stock Exchange for the last five trading days ended on and including the Last Trading Day;
- (iii) a discount of approximately 15.58% to the average closing prices of 1.54 per Share as quoted on the Stock Exchange for the last ten trading days ended on and including the Last Trading Day;
- (iv) a discount of approximately 16.13% to the closing price of HK\$1.55 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (v) a premium of approximately 129.28% to the audited net asset value per Share of approximately HK\$0.567 as at 30 June 2010 based on the number of issued Shares as at the Last Trading Day.

Option Shares:

The Company shall exercise any part of the Option by serving a Drawdown Notice and specifying the Proposed Number of Option Shares thereunder. The Investor shall respond to any Drawdown Notice by delivering a Closing Notice, which shall set out, inter alia, the Final Number of Option Shares corresponding to each Drawdown Notice to be subscribed by, and allotted and issued to, the Investor or any other subscriber(s) procured by it on the Closing Date.

LETTER FROM THE BOARD

Based on the Total Commitment (i.e. HK\$400 million) and the minimum Threshold Price of HK\$1.30 per Option Share (subject to adjustment following subdivision or combination of the issued Shares, if any provided under the Agreement), the Company may exercise up to a total of 307,692,307 Option Shares upon the full exercise of the Option, representing approximately 12.39% of the existing issued Shares or approximately 11.02% of the issued share capital of the Company as enlarged by the issue and allotment of such 307,692,307 Option Shares.

The Company will apply to the Stock Exchange for the listing of, and permission to deal in, the Option Shares.

Commitment Fee and Expenses:

Subject to the fulfillment of the Conditions Precedent, the Company shall pay on the third Business Day immediately after the day on which the Conditions Precedent are satisfied, by issuing to GEMML a promissory note, the Commitment Fee. The Commitment Fee shall be paid by the Company to GEMML within 48 hours of the Company's receipt of the Purchase Price under the first Closing Notice provided that the Company shall not be obliged to pay an amount on account of the Commitment Fee exceeding 20% of the total Purchase Price paid during the first 12 months from the date of the Agreement. Any remaining balance of the Commitment Fee shall be paid on the first anniversary of the date of the Agreement. If no Closing Notice has been issued on or before the first anniversary of the date of the Agreement, the Commitment Fee shall be paid in full on the first anniversary of the date of the Agreement.

The Company, shall on or before the date of the Agreement, irrespective of whether transactions contemplated under the Agreement is successfully completed, pay the Investor or as it directs an aggregate of non-refundable sum up to a maximum of US\$40,000 against legal and expenses incurred by the Investor and GEMML as a result of the transaction contemplated under the Agreement. As at the date of the Agreement, the Company has paid US\$40,000 against such legal and expenses incurred by the Investor.

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In consideration of the Share Lender agreeing to enter into the Share Lending Agreement to facilitate the subscription for the Option Shares by the Investor under the Agreement, the Company agrees with the Share Lender that all costs, fees and expenses incurred by the Share Lender in connection with the Agreement, the Share Lending Agreement and transactions contemplated under such agreements shall be borne by the Company and that the Company shall reimburse the Share Lender for all damages payable by the Share Lender under the Share Lending Agreement which may arise as a result of the default of the Company.

Undertakings by the Investor
under the Agreement:

Pursuant to the Agreement, the Investor undertakes that it shall not:

- (i) on each Trading Day during the Pricing Period, dispose or procure to be disposed through the Stock Exchange of any number of Shares over and above one fifteenth (1/15) of the applicable Proposed Number of Option Shares, provided that where the Investor has disposed or procured to be disposed of Shares on a Trading Day which number is less than one-fifteenth (1/15) of the applicable Proposed Number of Option Shares, the Investor may dispose or procure to be disposed of the remaining balance for that Trading Day on any subsequent Trading Day during and/or after the Pricing Period; and
- (ii) effect or procure to be effected any short selling, as prohibited by Section 170 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), of any Shares and it shall, in respect of the Shares, comply with all applicable laws and regulations of Hong Kong including but not limited to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong); and
- (iii) at any point in time hold directly or indirectly in excess of 9.9% in aggregate of the total issued share capital of the Company from time to time and in the calculation of such shareholding interest, the number of shares to be allotted and issued upon the exercise of the conversion rights attached to the Warrants held by the relevant person or to be subscribed pursuant to a Drawdown Notice shall not be taken into account.

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Undertakings by the Company
under the Agreement:

- (A) The Company undertakes that at any time during the period starting from the issuance by the Company of the Drawdown Notice and ending on the day when all of the relevant Shares required to be subscribed under the corresponding Closing Notice are issued to the Investor or to the Investor's order, (as the case may be) and Listed and Tradable, pursuant to the terms of the Agreement it shall not and shall procure that the Directors shall not:
- (i) pay any cash dividends or make any other rights or distributions with respect to any Shares;
 - (ii) propose or declare the payment of any cash dividends or the granting of any other rights or the making of any other distributions in respect of the Shares to a shareholders' meeting of the Company;
 - (iii) set any record date for the payment of any cash dividends or the granting of any other rights or the making of any other distributions in respect of the Shares; or
- (B) The Company undertakes that at any time during the period commencing from fifteen (15) consecutive days immediately preceding the date on which the Company intends to serve a Drawdown Notice and the last Trading Day of the Pricing Period (both dates inclusive), it shall not and shall procure that the Directors shall not do any act or pass any resolution approving any (i) capitalization, (ii) issue of scrip dividend or (iii) issue of new shares other than for arm's length consideration or in respect of the exercise of any options under any share option schemes or conversion rights attached to any convertible securities issued by the Company.
- (C) The Company undertakes to the Investor that during the term of the Agreement, neither the Company nor any of the Company's subsidiaries shall, take any action which would be reasonably expected to result in the de-listing or suspension (save only temporarily for the purposes of release of an announcement and for periods of not more than twenty (20) consecutive Trading Days) of Trading of the Shares on the Stock Exchange.

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- Indemnity given by the Company under the Agreement:
- (A) Without prejudice to any other rights or remedies which the Investor may have against the Company, in the event that (i) the Company fails to deliver the Subscription Shares, Listed and freely Tradable pursuant to the terms of the Agreement and free from all encumbrances and together with all rights of any nature whatsoever now or hereafter attaching or accruing to them including all rights to any dividends or other distribution declared, paid or made in respect of them after the Drawdown Notice Date (other than those dividends or distribution the record date for which falls a day prior to the Drawdown Notice Date), required to be delivered to the Investor or to the Investor's order under the relevant Closing Notice; or (ii) Trading of the Shares becomes suspended for all or part of the Closing Date or in the five (5) consecutive Trading Days immediately following the applicable Closing Date; the Company undertakes to indemnify the Investor and any person acting by order of the Investor on a full indemnity basis from and against:
- (a) all costs and losses incurred by the Investor or any person acting by order of the Investor as a result of any such failure, including, without prejudice to the generality of the foregoing, all costs and losses incurred by the Investor as a result of its decision to "unwind", rescind or otherwise terminate any or all sales of the Shares by the Investor which have been made by the Investor in contemplation of receiving the number of Listed and Tradable Shares set forth in the relevant Closing Notice on the applicable dates in accordance with the terms of the Agreement arising from or in relation to such default or failure on the part of the Company; and
- (b) all liabilities which the Investor or any person acting by order of the Investor may incur, including but not limited to the liabilities incurred to any third party, as a result of it not being able to complete any such sale of Shares referred to in (a) above, including, without limitation, any liability to reimburse any purchaser of such Shares for the acquisition costs and any other costs incurred by such purchaser.

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- (B) The Company shall satisfy its indemnity obligations under (A) above by making the following payments (the “Indemnity Amount”) to the Investor:
- (a) for each Trading Day or part of a Trading Day, and up to a maximum of five (5) Trading Days, following the relevant dates on which the Company shall have failed to deliver or procure the delivery of the required Shares, Listed and freely Tradable, pursuant to the terms of the Agreement and free from all encumbrances and together with all rights of any nature whatsoever now or hereafter attaching or accruing to them including all rights to any dividends or other distribution declared, paid or made in respect of them after the Drawdown Notice Date, to the Investor or to the Investor’s order pursuant to any Closing Notice, an amount equal to two per cent (2%) of the Purchase Price in respect of those Shares which the Company failed to deliver or procure to be delivered as required and/or failed to procure to be Listed and/or be freely Tradable (as the case may be); and
 - (b) if the Company shall fail to deliver or procure to be delivered the required Shares, Listed and freely Tradable, free from all encumbrances and together with all rights of any nature whatsoever now or hereafter attaching or accruing to them including all rights to any dividends or other distribution declared, paid or made in respect of them after the Drawdown Notice Date, by the opening of Trading on the sixth (6th) Trading Day immediately following any Closing Date, a further amount which equals to the actual losses and liabilities (as referred to (A) above) incurred or suffered by the Investor or any person acting by order of the Investor; provided that the aggregate liability of the Company under this subparagraph (b) shall not exceed the Purchase Price of the Shares which the Company has failed to deliver as required under the Agreement; and

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- (c) if Trading of the Shares is suspended for all or part of the Closing Date, or in the five (5) Trading Days following the Closing Date an amount which equals to the actual losses and liabilities (as referred to (A) above) incurred or suffered by the Investor; provided that the aggregate liability of the Company under this subparagraph (c) shall not exceed the Purchase Price of the Shares transferred under the applicable Closing Notice.

- (C) Without prejudice to any other rights or remedies which it may have against the Company, in the event that any of the Subscription Conditions (i), (ii), (vi) to (xii) set out in the paragraph headed “Subscription Conditions for each Drawdown” below has not been satisfied due to the default on the part of the Company (or, where permitted, waived by the Investor in writing) on the last Trading Day of the relevant Pricing Period with respect to the relevant Drawdown Notice, the Investor shall be entitled to (i) elect, by notice to the Company, not to proceed with satisfying its obligations under the Agreement and treat the relevant Drawdown Notice issued by the Company as null and void without prejudice to other provisions of the Agreement; and (ii) damages in respect of costs and expenses reasonably incurred or suffered by the Investor as a result of the nonfulfillment of the relevant Subscription Condition, provided that the aggregate liability of the Company under this paragraph shall not exceed 2% of the product of (aa) the Proposed Number of Option Shares specified in the relevant Drawdown Notice and (bb) the Subscription Price which would otherwise have been applicable if the above conditions had been duly satisfied.

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- (D) Without prejudice and in addition to any other rights or remedies which it may have against the Company, the Investor may but shall not be obliged to, by notice to the Company, terminate the Agreement if two or more Drawdown Notices issued by the Company pursuant to the Agreement have been treated as null and void by the Investor pursuant to paragraph (C) above. Upon such termination notice being given pursuant to this paragraph, the obligation of the Investor under the Agreement shall terminate and be of no further effect, but, without prejudice to any claims available to any party to the Agreement in respect of any prior breaches in the performance of the parties' respective obligations under the Agreement.

Warrants

Under the Agreement, the Company has agreed to issue to the Investor or to its order the Warrants represented by a certificate of Warrants on the third Business Days immediately after the day on which the Conditions Precedent are satisfied. Set out below are details of the Warrants:

Exercise period: The Warrants carry the rights to subscribe for up to a total of 95 million Warrant Shares at the Warrant Exercise Price at any time on or after the first anniversary of the date of grant of the Warrants to the fifth anniversary of the date of grant of the Warrants.

Warrant Exercise Price: The Warrant Exercise Price of HK\$2.00 per Warrant Share (subject to adjustments) represents:

- (i) a premium of approximately 42.86% over the closing price per Share of HK\$1.40 as quoted on the Stock Exchange on the date of the Agreement;
- (ii) a premium of approximately 36.99% over the average closing prices of 1.46 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 29.87% over the average closing prices of 1.54 per Share as quoted on the Stock Exchange for the last ten trading days ended on and including the Last Trading Day;

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- (iv) a premium of approximately 29.03% of the closing price of HK\$1.55 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (v) a premium of approximately 252.73% to the audited net asset value per Share of approximately HK\$0.567 as at 30 June 2010 based on the number of issued Shares as at the Last Trading Day.

The Warrant Exercise Price shall be adjusted based on the prescribed formula as set out in the Warrant Conditions upon subdivision or combination of Shares.

Warrant Shares:

The 95 million Warrant Shares, if fully exercised, allotted and issued, represent approximately 3.83% of the existing issued Shares or approximately 3.69% of the issued share capital of the Company as enlarged by the allotment and issue of such 95 million Warrant Shares. Upon receiving a notice of exercise of any Warrant, relevant Warrant Shares will be allotted and issued by the Company no later than the third Trading Day thereafter.

Ranking:

Each Warrant shall be issued in registered form. The Company shall be entitled to treat the registered holder of the relevant Warrant as the absolute owner thereof. Each Warrant will rank *pari passu* in all respects among themselves.

The Warrant Shares, when allotted and issued, will rank *pari passu* with fully paid Shares in issue on the relevant date of exercise of the Warrant(s), and shall entitle the holders of the Warrant Shares to participate in all dividends or other distributions declared, paid or made on or after the relevant exercise date unless adjustment therefore has been made as provided in the Warrant Conditions.

Transferability:

Each Warrant shall be transferable.

Listing:

No application will be made to the Stock Exchange or any other stock exchanges for the listing of, and permission to deal in, the Warrants. The Company will apply to the Stock Exchange for the listing of, and permission to deal in, the Warrant Shares.

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Rights on winding up:

The holders of the Warrant shall be entitled to at any time within 21 days after the passing of the resolution for the voluntary winding-up of the Company or the date of an order of the court being made for the winding-up of the Company by irrevocable surrender to the Company of the relevant certificate of the Warrant with the exercise notice of the relevant Warrant duly completed in respect thereof, together with payment of the applicable aggregate Warrant Exercise Price, to elect to be treated as if it had immediately prior to the commencement of such winding-up exercised the relevant Warrant to the extent specified in such exercise notice of the relevant Warrant submitted by it and had on such date been the holder of the Shares to which it would have become entitled pursuant to such exercise and the Company and the liquidator of the Company shall, subject to, and to the extent permitted by the laws and regulations applicable to the relevant Warrant, the Company or such voluntary winding up of the Company give effect to such election accordingly.

Conditions Precedent to the Agreement

The Option of the Company to require the Investor to subscribe Shares and the obligation of the Company to issue the Warrants to the Investor are conditional upon the following Conditions Precedent:

- (a) the Company having obtained the approval of its Shareholders at the SGM to the Agreement and the transactions contemplated in the Agreement (including but not limited to the issue of the Option Shares, the Warrants and the applicable Warrant Shares) and the grant of the Specific Mandate;
- (b) compliance by the Company of all applicable laws, rules and regulations in Hong Kong and Bermuda, including but not limited to, the GEM Listing Rules for the entering into of the Agreement, the issue of the Warrants and all the other transactions contemplated thereunder;
- (c) the Stock Exchange having granted (subject to allotment) the Listing of, and permission to deal in, the Option Shares and the Warrant Shares.

If the above Conditions Precedent shall not have been satisfied or fulfilled within eighty (80) days from the date of the Agreement (or such later date as the Investor and the Company may agree in writing), the Agreement shall be terminated and shall cease to have any further effect and no party to the Agreement shall have any claim under the Agreement against the other Party save in respect of

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any antecedent breach, provided that the Company shall pay the Investor's and GEMML's fees and expenses in the sum of US\$40,000 in accordance with the terms of the Agreement. For the avoidance of doubt, the Company shall not be required to pay the Commitment Fee to GEMML if the Conditions Precedent above shall not have been fulfilled or fulfilled within the period mentioned.

Conditions precedent to the delivery of a Drawdown Notice

The Company may deliver a Drawdown Notice only if the following conditions have been satisfied (or waived by the Investor in writing):

- (a) the Company shall have obtained all the Required Approvals and such Required Approvals shall be in full force and effect such that at least Shares equal to the sum of (i) two hundred per cent. (200%) of the relevant Proposed Number of Option Shares set forth in the relevant Drawdown Notice, and (ii) the Shares issuable on the exercise of the Warrants may be duly allotted and issued to the Investor; and (subject only to issue and allotment) will be Listed and Tradable (without limitation);
- (b) the Company shall at each applicable Drawdown Notice Date, and shall thereafter during each applicable Pricing Period and up to the Listing of Shares as may be specified in the corresponding Closing Notice, have maintained a reserve of authorised and unissued Shares adequate for (i) allotting and issuing the Shares specified in a Closing Notice in respect of the applicable Drawdown Notice, and (ii) allotting and issuing the Shares issuable by the Company upon exercise of the Warrants to or to the order of the Investor pursuant to the Agreement;
- (c) the representations and warranties of the Company contained in the Agreement shall be true and correct in all material respects as at the date made and as at the relevant Drawdown Notice Date as repeated at that time (except that representations and warranties that are expressed by their terms to be made as at a specific date need to be true and correct in all material respects only as at such specific date);
- (d) the Company shall have performed, satisfied and complied with all covenants, agreements, conditions and obligations required by the Agreement to be performed, satisfied or complied with by the Company at or prior to the applicable Drawdown Notice Date;
- (e) Listing or Trading of the Shares shall not have been suspended or threatened to be suspended by the Stock Exchange at any time during the thirty (30) consecutive Trading Days prior to the relevant Drawdown Notice Date (save and except for any suspension for the purpose of consummation or further reporting requirements/disclosure of any transaction under the Agreement or for a period of not more than twenty (20) consecutive Trading Days in aggregate) in the relevant period;

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- (f) the delivery of the Drawdown Notice and the subscription and payment for the Shares under the Agreement and/or upon exercise of any Warrant: (i) shall not be prohibited or enjoined (temporarily or permanently) by any applicable law or governmental or other regulation to which the parties to the Agreement are subject; and (ii) shall not subject the Investor to any penalty, or in the Investor's reasonable judgment, other onerous condition and/or obligations under or pursuant to any applicable law or governmental or other regulation to which the Investor is subject;
- (g) no event or circumstance has arisen or is threatening to arise which would entitle the Investor to terminate the Agreement in accordance with the Agreement;
- (h) the Company shall deliver to the Investor a legal opinion addressed jointly to the Investor and GEMML from each of (i) a competent and experienced Bermudan legal counsel of the Company and (ii) a competent and experienced Hong Kong legal counsel of the Company, in relation to the Agreement and transactions contemplated thereunder pursuant to the Agreement;
- (i) the Share Lender and the Investor having entered into the Share Lending Agreement and the Investor has not given a notice to the Company on or before the applicable Drawdown Notice Date that either (i) the Share Lender has failed to duly perform its obligations pursuant to the terms of the Share Lending Agreement, or (ii) the Share Lending Agreement has been terminated.

Subscription Conditions for each Drawdown

The obligations of the Investor to subscribe for the number of Shares set out in the relevant Closing Notice is subject to and conditional upon the following Subscription Conditions:

- (i) the Company has obtained all the Required Approvals and such Required Approvals shall be in full force and effect as at the Closing Date;
- (ii) the subscription and payment for the Shares pursuant to the relevant Closing Notice not being prohibited or enjoined (temporarily or permanently) by any applicable law or governmental or other regulation to which the Investor and/or the Company are subject (other than by reason of the Investor's own breach of its representations, warranties and/or undertakings under the Agreement, or the default of the Investor);
- (iii) there being no change during the period between the date of the Agreement and on the applicable Closing Date, in any law, governmental or other regulation applicable in Hong Kong which would adversely affect in any material aspect the holding or disposal of Shares by or by order of the Investor or any other rights of the Investor or any person acting by order of the Investor in respect of these Shares;

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- (iv) there being no law and/or governmental or other regulation in Hong Kong on the applicable Closing Date which would require the Investor and/or any person acting by the Investor's order to make a mandatory offer for all the issued Shares and other securities of the Company;
- (v) there being no law or governmental or other regulation applicable in Hong Kong on the applicable Closing Date which would require the Investor and/or any person acting by order of the Investor to comply with prospectus registration requirements in Hong Kong;
- (vi) the Company shall at each applicable Closing Date have maintained an adequate reserve of authorized and unissued Shares for the purpose of allotting and issuing the Shares pursuant to the relevant Closing Notice and upon exercise of any Warrant issued (assuming the Warrants are exercised in full) to or to the order of the Investor on the relevant Closing Date pursuant to the Agreement;
- (vii) the representations and warranties of the Company contained in the Agreement remaining to be true and correct in all material respects as at the date made and as at the relevant Closing Date as repeated at that time (except that representations and warranties that are expressed by their terms to be made as at a specific date need to be true and correct in all material respects only as at such specific date);
- (viii) the Company having performed, satisfied and complied in all material respects with all covenants, agreements and conditions required by the Agreement to be performed, satisfied or complied with by the Company at or prior to the applicable Closing Date;
- (ix) no event or circumstance having arisen or being threatening to arise which would entitle the Investor to terminate the Agreement in accordance with the Agreement;
- (x) the Investor has not given a notice to the Company on or before the applicable Closing Date that either (i) the Share Lender had failed to duly perform its obligations pursuant to the terms of the Share Lending Agreement, or (ii) the Share Lending Agreement has been terminated;
- (xi) the Shares subscribed under the relevant Closing Notice shall be Listed on the relevant Closing Date; and
- (xii) the Listing and Trading of the issued Shares are not suspended or subject to a real or imminent threat of suspension by the Stock Exchange on the Closing Date.

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Share Lending Agreement

Pursuant to the terms of the Share Lending Agreement, prior to the delivery by the Company of a Drawdown Notice, the Share Lender shall notify the Investor of its intent to lend the Investor shares in the Company by delivering a written offer to the Investor. Such written offer shall contain the following information:

- (a) the number and the total amount of the Loan Shares, which shall not be less than one hundred per cent (100%) of the Drawdown number of Shares stipulated in the relevant Drawdown Notice;
- (b) the Delivery Date, which, unless otherwise agreed in writing with the Investor, shall be the Drawdown Notice Date; and
- (c) the delivery procedure applied by the involved securities clearing-institution.

Unless the Investor objects to the Offer by 10:00 am in New York on the Business Day immediately following the applicable Drawdown Notice Date (or as soon as reasonably practicable thereafter), the Share Lender shall deliver the Loan Shares to the Securities Account by 4:00 pm (Hong Kong time) on the Delivery Date in accordance with the terms of the Share Lending Agreement.

Upon the Investor's receipt of the Shares being subscribed and upon such Shares being Listed and freely Tradable, pursuant to the terms of the Agreement, the Investor shall conclude a Loan (or any part thereof) no later than the third Trading Day thereafter by, at its sole discretion, either:

- (a) delivering a certificate or certificates (in board lots) for Equivalent Shares together with an instrument of transfer for the Equivalent Shares duly executed by the Investor or the registered shareholder(s) of the Equivalent Shares (as shown on the relevant share certificate(s)) in favour of the Lender to an address in Hong Kong designated by the Share Lender and as notified to the Investor from time to time; or
- (b) by crediting Equivalent Shares to a securities account designated by the Share Lender and as notified to the Investor from time to time.

The Share Lender is a party in the Agreement for the primary purpose of facilitating the Investor's subscription of the Shares under the Agreement. The Share Lender itself does not have any interest whatsoever in the Option Shares and the transactions contemplated under the Agreement. There is no transaction between the Company and the Share Lender as defined in Rule 20.13 of the GEM Listing Rules; and the lending and redelivery of Shares by the Share Lender and Investor will purely be transactions amongst the Share Lender and the Investor and do not constitute a connected transaction of the Company.

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Termination of the Agreement

The Agreement may be terminated at any time during the Commitment Period by the mutual consent of the Company and the Investor. The Agreement may be terminated during the Commitment Period by the Investor by giving written notice of such termination to the Company if:

- (a) the Company has breached in any material respect any representation, warranty, covenant or material obligation contained in the Agreement and, if such breach is capable of being remedied, such breach is not cured within seven (7) Business Days following receipt by the Company of notice, specifying necessary details of such breach; or
- (b) there has been any Material Adverse Change which would have a Material Adverse Effect or any Material Change in Ownership of the Company, provided that where the Material Adverse Change involves the suspension of Trading of the Shares, the Investor may only terminate the Agreement if such Trading is suspended continuously for more than fifteen (15) Trading Days; or
- (c) any material information supplied by or on behalf of the Company to the Investor in relation to the Company its subsidiaries and the Share Lender is misleading or deceptive; or
- (d) hostilities not presently existing commence (whether war has been declared or not) or in the opinion of the Investor there is a major act of terrorism or significant escalation in existing hostilities (whether war has been declared or not) involving any one or more of Hong Kong and US; or
- (e) either one of the following occurs;
 - (i) a general moratorium on commercial banking activities in Hong Kong is declared by the relevant banking authority, or if there is a material disruption in commercial banking or security settlement or clearance services in Hong Kong; or
 - (ii) trading in all securities quoted on the Stock Exchange is suspended or limited in any material respect for five (5) consecutive Trading Days;

in either case the effect of which is such as to make it, in the judgement of the Investor, impractical to enforce the Agreement or any Closing Notice, or the terms of the Warrant Conditions; or

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- (f) approval is refused or approval is not granted which is unconditional (or conditional otherwise than on the customary listing conditions and such conditions which would, in the reasonable opinion of the Investor, have a Material Adverse Effect on the performance by the Company of its obligations under the Agreement) to the official quotation of the Shares to be issued under the Agreement or on exercise of any Warrant on the Stock Exchange, on or before each relevant Closing Date, or on exercise of any Warrant if granted, the approval is subsequently withdrawn, qualified or withheld.

In addition, in the event that any of the Subscription Conditions (i), (ii), (vi) to (xii) set out in the paragraph headed “Subscription Conditions for each Drawdown” above has not been satisfied (or, where permitted, waived by the Investor in writing) on the last Trading Day of the relevant Pricing Period with respect to the relevant Draw Down Notice, the Investor shall be entitled to, among other things, elect, by notice to the Company, not to proceed with satisfying its obligations under the Agreement and treat the relevant Draw Down Notice issued by the Company as null and void without prejudice to other provisions of the Agreement. In such event the Company shall pay damages to the Investor in respect of costs and expenses reasonably incurred or suffered by the Investor as a result of the non-satisfaction of any of the Subscription Conditions (i), (ii), (vi) to (xii) set out in the paragraph headed “Subscription Conditions for each Drawdown” above, provided that the aggregate liability of the Company under this paragraph shall not exceed 2% of the product of (A) the Proposed Number of Option Shares specified in the relevant Drawdown Notice and (B) the Subscription Price which would otherwise have been applicable if the above conditions had been duly satisfied. Without prejudice and in addition to any other rights or remedies which it may have against the Company, the Investor may, by written notice to the Company, terminate the Agreement if two or more Drawdown Notices issued by the Company pursuant to the Agreement have been treated as null and void by the Investor for reason mentioned above. Upon such termination notice being given pursuant to the Agreement as mentioned above, the obligation of each party to the Agreement under the Agreement shall terminate and be of no further effect, but, without prejudice to any claims available to any party to the Agreement in respect of any prior breaches in the performance of the parties’ respective obligations under the Agreement.

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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 Latest Practicable Date:

Date of announcement	Fund-raising activities	Net proceeds raised	Intended use of proceeds as announced	Actual use of proceeds
14 September 2010	Placing of 200,000,000 Shares at HK\$0.75 each	HK\$148 million	Providing funds 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 and business expansion purpose	The option is not yet exercised
17 December 2010	Issue of the Bonds	HK\$199 million	Providing general working and business expansion purpose	The proceeds has not been utilized

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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 Option by the Company and the Warrants by the holders respectively, the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the issue of approximately 307,692,307 Option Shares to the Investor (based on the Total Commitment Amount of HK\$400 million and the minimum Threshold Price of HK\$1.30 per Option Share); and (iii) immediately after the issue of 307,692,307 Option Shares to the Investor (based on the Total Commitment Amount of HK\$400 million and the minimum Threshold Price of HK\$1.30 per Option Share) and the issue of 95,000,000 Warrant Shares to the Investor are as follows:

Shareholder	As at the Latest Practicable Date		Immediately after the issue of 307,692,307 Option Shares to the Investor		Immediately after the issue of 307,692,307 Option Shares together with the 95,000,000 Warrant Shares to the Investor	
	<i>No. of Shares</i>	<i>%</i>	<i>No. of Shares</i>	<i>%</i>	<i>No. of Shares</i>	<i>%</i>
Investor or its nominee(s)	—	—	307,692,307	11.02	402,692,307	13.96
Share Lender (<i>Note 1</i>)	620,690,451	25.00	620,690,451	22.24	620,690,451	21.51
Mr. Li Haoping and his associates (<i>Note 2</i>)	117,302,443	4.72	117,302,443	4.20	117,302,443	4.07
Other public Shareholders	1,744,449,097	70.28	1,744,449,097	62.54	1,744,449,097	60.46
Total	<u>2,482,441,991</u>	<u>100.00</u>	<u>2,790,134,298</u>	<u>100.00</u>	<u>2,885,134,298</u>	<u>100.00</u>

Notes:

1. The Share Lender is wholly owned by Mr. Choi Chung Lam (“Mr. Choi”).
2. The total 117,302,443 Shares of which 39,164,000 Shares is held by Lomond Group Limited and of which 78,138,443 Shares is held by Wealtheme. Both Lomond Group Limited and Wealtheme are 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 issue 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.

LETTER FROM THE BOARD

REASON FOR ENTERING INTO THE 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.

As discussed in the Company's 2010 annual report, the Group is in a major business expansion phase. Shenzhen Champion Maxium Technology Limited, a wholly owned subsidiary of the Company, has entered into various business cooperation agreements, namely, with Nanchangxian Radio and Television Network Transmission Centre (江西南昌縣廣播電視網絡傳輸中心) as set out in the announcement of the Company dated 23 April 2010, with Anhui Radio and Television Information Network Co., Ltd. (安徽廣電信息網絡股份有限公司) as set out in the announcement of the Company dated 3 May 2010, and with Hebei Television Broadcasts and Information Network Group Co., Ltd. (河北廣電信息網絡集團股份有限公司) as set out in the announcement of the Company dated 26 November 2010. After the initial preparation work, the Group is at a stage requiring substantial investment capital to execute these agreements.

The funds raised during the past 12 months were approximately HK\$466 million of which, approximately HK\$119 million is in the form of option, which has yet to be exercised by the holder of such option. Without taking into account of such possible proceeds, up to the Latest Practicable Date, the actual amount received by the Group from fund raising activities during the past 12 months amounted to approximately HK\$347 million. In addition to the HK\$83 million funds utilized, the Group has in December 2010, applied to the PRC authority for capital increases in registered capital for two of its wholly-owned subsidiaries in the PRC for a total sum of approximately HK\$216 million. Government approval is expected to be received in the first quarter of 2011. Taking into account of the above capital contribution commitment, the remaining fund available for general working capital only amounts to approximately HK\$48 million. In view of the Group's anticipated business expansion of the above three projects and to carry the execution through to the next phase, additional funds therefore are required.

If the Option is exercised by the Company in full, the gross proceeds and net proceeds to be raised by the Company therefrom will be HK\$400 million (i.e. the Total Commitment) and about HK\$382 million (based on the assumption that the total costs payable by the Company is about HK\$18 million) respectively. The Company intends to apply the net proceeds from the allotment and issue of the Option Shares for business development, expansion and/or general working capital of the Group.

If the Warrants are fully exercised by the holder(s) thereof and 95 million Warrant Shares are allotted and issued by the Company, based on the initial Warrant Exercise Price of HK\$2 per Warrant Share, the gross proceeds and net proceeds to be raised by the Company therefrom will be HK\$190 million and HK\$190 million respectively. The Company intends to apply the net proceeds from the allotment and issue of any Warrant Shares for business development, expansion and/or general working capital of the Group.

LETTER FROM THE BOARD

The Directors are of the view that any allotment and issue of the Option Shares and the Warrant Shares offers a good opportunity to raise additional capital for the Company and to strengthen the financial position of the Group. In addition, given the Option is granted to the Company which it shall have the right but not the obligation to exercise the same at its sole discretion, it is considered that the Group will have flexibility in raising funds by exercising the Option during the Commitment Period and as and when the condition is favourable to the Company. Accordingly, the Directors consider that the Agreement (including the undertakings by the Company under the Agreement which are part and parcel of the Equity Line of Credit) and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole; and the terms of the Agreement are fair and reasonable.

THE SPECIFIC MANDATE

If the Option and the Warrants are exercised in full, the Company will allot and issue 307,692,307 Option Shares (based on the minimum Threshold price of HK\$1.30) and 95,000,000 Warrant Shares.

At the AGM, the Board was granted by the Shareholders the Current Issue Mandate to allot, issue and deal in up to 365,540,600 Shares. As explained in the paragraph headed “Refreshment of the General Mandate” below the General Mandate is insufficient to cover the new Shares which may fall to be allotted and issued upon full exercise of the Option and the Warrants. The Directors consider it as reasonable and in the interests of the Company and the Shareholders as a whole to put forward a resolution in the SGM to approve the grant of the Specific Mandate to allot and issue the Option Shares and the Warrant Shares. Any Shareholder with a material interest in the Agreement and his associates shall abstain from voting in favour of the resolution to approve the Specific Mandate. However, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, no Shareholders is required to abstain from voting for the approval of the grant of the Specific Mandate. The Specific Mandate is proposed to be granted to the Directors by the Shareholders to issue not more than 402,692,307 new Shares, representing approximately 16.22% of the existing issued share capital of the Company as at the Latest Practicable Date and approximately 13.96% of the issued share capital of the Company as enlarged by the issue of the Option Shares and the Warrant Shares.

An application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Option Shares and the Warrant Shares.

LETTER FROM THE BOARD

REFRESHMENT OF THE GENERAL MANDATE

Pursuant to the ordinary resolution passed by the Shareholders at the AGM, the Directors were granted, among other things, the Current Issue Mandate to allot and issue up to 365,540,600 Shares.

As set out in the announcement of the Company dated 30 November 2010, the Company and the Consultant entered into the Marketing Services Agreement pursuant to which the Company engages the Consultant for a period of one year from the date of the Marketing Services Agreement to provide various marketing, consulting and introduction services and advice and guidance to support the Group's business expansion and development in the PRC. For a nominal consideration of HK\$10, the Company has, upon the signing of the Marketing Services Agreement, conditionally granted to the Consultant the option to subscribe for 90,000,000 Shares at the exercise price of HK\$1.32 per option share.

Further, as set out in the announcement of the Company dated 7 December 2010, Star Hub and Wealthme entered into the Sale and Purchase Agreement, pursuant to which Star Hub conditionally agree to acquire and Wealthme conditionally agree to dispose of the Sale Shares, being the entire issued share capital of Wisest Yield, for a consideration of approximately HK\$105.1 million. The consideration shall be satisfied upon Completion by way of issuance of 78,138,443 new Shares to be issued and allotted by the Company to Wealthme or as it may direct as payment for consideration by the Company to Wealthme. As stated in the announcement of the Company dated 30 December 2010, completion of the acquisition of the Sale Shares has been taken place on 30 December 2010 and 78,138,443 new Shares have been issued to Wealthme.

Moreover, as set out in the announcement of the Company dated 17 December 2010, the Company and Sandmartin entered into the Bonds Subscription Agreement pursuant to which Sandmartin has agreed to subscribe for the Bonds in the aggregate principal amount of HK\$200,000,000. 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. As stated in the announcement of the Company dated 28 December 2010, completion of the Subscription for the Bonds has been taken place on 28 December 2010 and the Bonds have been subscribed by Sandmartin.

Accordingly, the Current Issue Mandate has been significantly utilized with only 97,402,157 Shares remain outstanding as at the Latest Practicable Date. As at the Latest Practicable Date, the Company had an aggregate of 2,482,441,991 Shares in issue and the 97,402,157 Shares remain outstanding under the Current Issue Mandate represented only approximately 3.92% of the issued share capital of the Company as at the Latest Practicable Date.

LETTER FROM THE BOARD

In order to allow the flexibility to raise further capital to finance future investments and/or for future business development, the Company wishes to seek approval of Shareholders at the SGM to grant the General Mandate to the Directors. Based on the total number of issued Shares as at the Latest Practicable Date (i.e. 2,482,441,991 Shares) and assuming that the Company does not issue and repurchase any further Shares prior to the SGM, the General Mandate will allow the Directors to issue and allot up to 496,488,398 new Shares. However, the Company does not have any immediate plans for any new issue of Shares under the General Mandate.

The General Mandate will expire at the earliest of: (a) the conclusion of the next annual general meeting of the Company; (b) the end of the period within which the Company is required by the Companies Act or the Bye-Laws to hold its next annual general meeting; and (c) when revoked or varied by an ordinary resolution of the Shareholders in a general meeting prior to the next annual general meeting of the Company.

The Independent Board Committee comprising Mr. Leung Wo Ping *JP*, Mr. Dong Shi and Mr. Hu Dingdong, all being independent non-executive Directors, has been established to advise the Independent Shareholders on the grant of the General Mandate. CIMB has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the grant of the General Mandate.

SGM

The SGM will be held at 11:00 a.m. on Monday, 14 February 2011 at Mont Blanc Room, Pacific Place Conference Centre, Level 5, One Pacific Place, 88 Queensway, Admiralty, Hong Kong, the notice of which is set out on pages 47 to 51 of this circular, for the Shareholders to consider and approve, if thought fit, (i) the Agreement and the transactions contemplated thereunder; (ii) the Specific Mandate; and (iii) the General Mandate.

In compliance with the GEM Listing Rules, the resolutions will be voted by way of poll at the SGM.

According to Rule 17.42A(1) of the GEM Listing Rules, any controlling Shareholders and their associates or, where there are no controlling Shareholders, Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates (as defined in the GEM Listing Rules) shall abstain from voting in favour of the resolution to approve the General Mandate and such resolution shall be voted by way of poll.

As at the Latest Practicable Date, to the best knowledge, belief and information of the Directors, there was no controlling Shareholder and none of the Directors, the chief executive of the Company and/or their respective associates held any issued Shares.

LETTER FROM THE BOARD

You will find enclosed a form of proxy for use at the SGM. Whether or not you are able to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time of the SGM to the office of the Company's branch registrar in Hong Kong, Union Registrars Limited, 18/F, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong. Completion and return of the form of proxy will not preclude you from attending and voting at the SGM in person should you so wish.

RECOMMENDATION

Your attention is drawn to the letter of recommendation from the Independent Board Committee set out on page 40 of this circular and the letter of advice from CIMB set out on pages 41 to 46 of this circular, which contains, among other matters, its advice to the Independent Board Committee in relation to the proposed refreshment of the General Mandate and the principal factors considered by it in arriving at its recommendation.

The Directors are of the opinion that the Agreement and the transactions contemplated thereunder, the grant of the Specific Mandate and the proposed refreshment of the General Mandate are in the best interests of the Company and its Shareholders and recommend you to vote in favour of the resolutions relating to the Agreement and the transactions contemplated thereunder, the Specific Mandate and the General Mandate to be proposed at the SGM.

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with 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 the information contained in this circular 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 circular misleading.

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



HENG XIN CHINA HOLDINGS LIMITED

恒芯中國控股有限公司*

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

20 January 2011

To the Independent Shareholders

Dear Sir/Madam,

PROPOSED REFRESHMENT OF GENERAL MANDATE TO ISSUE SHARES

We have been appointed as the Independent Board Committee (the “**Committee**”) to advise the Independent Shareholders in connection with the proposed refreshment of the General Mandate, details of which are set out in the circular of the Company to the Shareholders dated 20 January 2011 (“**Circular**”), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

Having considered the advice of CIMB, the independent financial adviser to the Committee in relation to the proposed grant of the General Mandate thereto as set out in the Circular, we are of the view that the proposed refreshment of the General Mandate is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the proposed refreshment of the General Mandate.

Yours faithfully,

Mr. Leung Wo Ping JP

Mr. Dong Shi

Mr. Hu Dingdong

*Independent non-executive
Director*

*Independent non-executive
Director*

*Independent non-executive
Director*

* For identification purpose only

LETTER FROM CIMB

The following is the full text of the letter from CIMB setting out the advice to the Independent Board Committee and the Independent Shareholders in relation to the refreshment of the General Mandate for inclusion in this circular.



CIMB Securities (HK) Limited

25/F., Central Tower
28 Queen's Road Central
Hong Kong

20 January 2011

*To the Independent Board Committee
and the Independent Shareholders*

Dear Sirs,

PROPOSED REFRESHMENT OF GENERAL MANDATE TO ISSUE SHARES

INTRODUCTION

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the proposed refreshment of the General Mandate, details of which are contained in a circular (the "Circular") to the Shareholders dated 20 January 2011, of which this letter forms part. Expressions used in this letter have the same meanings as defined in the Circular unless the context otherwise requires.

At the AGM, among other things, the Directors were granted the Current Issue Mandate to allot, issue and deal with up to 365,540,600 Shares, which is equivalent to 20% of the then issued share capital of the Company. During the period from the grant of the Current Issue Mandate to the Latest Practicable Date, the Current Issue Mandate has been utilized as to 268,138,443 Shares (being approximately 73.35% of the limit of the Current Issue Mandate) with only 97,402,157 Shares remaining outstanding as at the Latest Practicable Date.

LETTER FROM CIMB

The Company wishes to seek approval of Shareholders at the SGM to grant the General Mandate to the Directors. Based on the total number of issued Shares as at the Latest Practicable Date (i.e. 2,482,441,991 Shares) and assuming that the Company does not issue and/or repurchase any further Shares prior to the SGM, the General Mandate will allow the Directors to issue and allot up to 496,488,398 new Shares. The General Mandate will, if approved, expire at the earliest of (a) the conclusion of the next annual general meeting of the Company; (b) the end of the period within which the Company is required by the Companies Act or the Bye-Laws to hold its next annual general meeting; and (c) when revoked or varied by an ordinary resolution of the Shareholders in a general meeting prior to the next annual general meeting of the Company.

In accordance with Rule 17.42(A) of the GEM Listing Rules, the granting of the General Mandate will require the approval of the Independent Shareholders by way of poll at the SGM, at which any of the controlling shareholders (as defined in the GEM Listing Rules) and their associates, or where there are no controlling shareholders, the Directors (excluding the independent non executive Directors) and the chief executive and their respective associates shall abstain from voting in favour of the resolution approving the General Mandate. To the best of the Company's information and belief after having made reasonable enquiries, as at the Latest Practicable Date, the Company had no controlling shareholder.

The Independent Board Committee comprising Mr. Leung Wo Ping, Mr. Dong Shi and Mr. Hu Ding Dong, all being the independent non-executive Directors, has been established to advise the Independent Shareholders on the grant of the General Mandate.

BASIS OF OUR OPINION

In formulating our recommendation, we have relied on the information and facts contained or referred to in the Circular. We have assumed that the information and representations contained or referred to in the Circular and all information and representations provided by the Company and the Directors, for which they were solely and wholly responsible, were true and accurate at the time they were made and continue to be so up to the date of the SGM. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. We have also been advised by the Directors and believe that no material facts have been omitted from the Circular.

We consider that we have reviewed sufficient information to reach an informed view and to provide a reasonable basis for our recommendation. We have not, however, conducted an independent verification of the information nor have we conducted any form of in-depth investigation into the businesses and affairs or the prospects of the Company or any of its subsidiaries or associates.

LETTER FROM CIMB

PRINCIPAL FACTORS CONSIDERED

We set out below the principal factors that we have considered in arriving at our opinion in relation to the refreshment of the Current Issue Mandate or the grant of the General Mandate.

1. Background to and reasons for the grant of the General Mandate

At the AGM, among other things, the Directors were granted the Current Issue Mandate to allot, issue and deal with up to 365,540,600 Shares, which is equivalent to 20% of the then issued share capital of the Company. During the period from the date of the AGM to the Latest Practicable Date, the Current Issue Mandate has been utilized as to 268,138,443 Shares (being approximately 73.35% of the 365,540,600 Shares that are allowed to be allotted and issued under the Current Issue Mandate) as a result of (i) the grant to the Consultant of the option to subscribe for 90,000,000 Shares pursuant to the Marketing Services Agreement on 30 November 2010; (ii) the issuance of 78,138,443 new Shares to Wealtheme on 30 December 2010 as payment for the consideration for the acquisition of the Sale Shares by Star Hub; and (iii) the issue of the Bonds to Sandmartin on 28 December 2010 pursuant to which a maximum of 100,000,000 Conversion Shares may be allotted and issued to Sandmartin.

The Company has not refreshed the Current Issue Mandate since the AGM.

On 29 December 2010, the Company and, among others, the Investor entered into the Agreement pursuant to which the Company (i) is granted the Option to require the Investor to subscribe for up to HK\$400 million worth of Shares; and (ii) has agreed to issue to the Investor or its order the Warrants. Given that the Current Issue Mandate is insufficient to cover the new Shares which may fall be allotted and issued upon full exercise of the Option and the Warrants, the Directors will put forward a resolution in the SGM to approve the grant of the Specific Mandate to allot and issue the Option Shares and the Warrants Shares. As stated in the Letter from the Board, the aggregate net proceeds of approximately HK\$572 million that could be raised by the Company if the Option and the Warrants are fully exercised would be utilized for business development, expansion and/or general working capital of the Group.

The 97,402,157 Shares which remain outstanding under the Current Issue Mandate as at the Latest Practicable Date only represent approximately 3.92% of the issued share capital of the Company of 2,482,441,991 Shares as at the Latest Practicable Date. As stated in the Letter from the Board, the Directors consider that the General Mandate will provide the Board with the flexibility and discretion to issue new Shares to raise funds for its future business development and/or any investment opportunities identified by the Company from time to time. In particular, when future funding needs arise, the Board will be able to respond to the market and such investment opportunities promptly.

LETTER FROM CIMB

In understanding the Company's rationale for refreshment the General Mandate, we have reviewed the Group's annual reports for the past few years. In this regard, we note that the Group has undergone a major business transformation since the financial year ended 30 June 2008 ("FY2008"). In particular, the Group expanded its business from primarily trading of computer parts to become a wireless digital TV equipment integrator and integrated circuits ("IC") designer in China, specializing in advanced encryption ICs, wireless digital audio ICs, and system solutions during the financial year ended 30 June 2009 ("FY2009"). As a result of the business expansion, the Group's turnover increased by ten times from approximately HK\$32.8 million for FY2008 to approximately HK\$339.4 million for FY2009. During the financial year ended 30 June 2010 ("FY2010"), the Group continued to focus on expanding the business of providing advanced encrypted ICs and wireless digital audio ICs and the integrator of its system (equipment) solutions by increasing its capital investment in the digital terrestrial television business and expanding its systems and equipment integration services in the provinces with which contracts had been entered into and establishing partnership relationship in respect of the industry chain. For FY2010, the Group continued to achieve a remarkable turnover growth, recording a turnover of approximately HK\$653.3 million, representing an increase of approximately 92.5% compared to that of approximately HK\$339.4 million for FY2009.

As stated in the Company's annual report for FY2010 ("FY2010 Annual Report"), in anticipation of the huge market demand arising from the central government policy to integrate the three networks of broadcasting digital TV business in China, the Group planned and initiated the market expansion activities for the digital cable television two-way conversion and proceeded with the development of partnership businesses in the contracted regions during FY2010. In particular, in the beginning of 2010, the Group successfully entered into business cooperation agreements with the television operators in Nanchang, Jiangxi and Anhui provinces respectively in relation to the construction and development of digital cable television two-way conversion and value-added business, extending the Group's market reach beyond Hunan and Hubei provinces, which are already covered by the Group. On 26 November 2010, the Group further entered into a cooperation agreement with Hebei Television Broadcasts and Information Network Group Co., Ltd. The Directors advised that the implementation and development of the Group's digital cable television two-way conversion and value-added business require significant capital investment. As stated in the FY2010 Annual Report, building a network of two-way conversion in the scale of millions of users requires approximately RMB400 million, of which part of the funding may be provided by the equipment vendors. In view of its target to achieve a digital cable television value-added business serving ten million subscribers and to cover 6 to 8 provinces for its wireless digital terrestrial television network integration business in the next few years, the Board considers it is of paramount importance for the Company to maintain maximum flexibility in raising funds for its future business development and/or any investment opportunities which may be identified by the Company.

LETTER FROM CIMB

In view of the above and having considered that the grant of the General Mandate and any extension thereof shall (i) provide the Directors with greater autonomy and flexibility to respond to the competitive and rapidly changing capital market in a timely manner; (ii) provide the Company with flexibility to raise additional fund as general working capital or to capture any potential business opportunity as and when it arises; and (iii) offer the Company an opportunity to raise fund by equity financing, which is important to the growth and development of the Group given the nature of equity financing is non-interest bearing and requires no collaterals or pledge of securities, we are of the view that the grant of the General Mandate and any extension thereof are in the interests of the Company and the Shareholders as a whole

2. Other financing alternatives

We understand from the management of the Company that apart from equity financing, the Board will also consider other financing alternatives such as debt financing as possible fund raising method for the Group. However, debt financing shall inevitably lead to interest payment obligations on the Group and it may be subject to lengthy due diligence and negotiations between the Group and the lenders. In addition, the ability of the Group to obtain bank borrowings usually depends on the profitability and financial standing of the Group as well as the then prevailing market and economic conditions. In light of the above, the Directors consider debt financing to be relatively uncertain and time-consuming as compared to equity financing and that it is critical for the Company to have flexibility in accessing various possible equity financing opportunities. The Directors further advised us that they would exercise due and careful consideration when deciding the method of financing for the Group.

We consider that the grant of the General Mandate and any extension thereof will provide the Company with an additional alternative and it is reasonable for the Company to have the flexibility in deciding the financing methods for its future business development and/or possible investment opportunities. Accordingly, we consider that the grant of the General Mandate and any extension thereof are in the interests of the Company and its Shareholders as a whole.

3. Potential dilution effect to the Shareholders

Based on the 2,482,441,991 Shares in issue as at the Latest Practicable Date and without taking into account the new Shares which may be issued pursuant to the Specific Mandate (if approved by the Shareholders), subject to the passing of the relevant ordinary resolution to approve the grant of the General Mandate at the SGM and assuming that the Company does not issue and/or repurchase any Shares prior to the SGM, the Directors will be authorized to allot and issue up to approximately 496,488,398 new Shares under the refreshed mandate, which represent 20% of the issued share capital of the Company as at the Latest Practicable Date. On such basis, the holding of the Shareholders (including the existing public Shareholders) will be

LETTER FROM CIMB

diluted in proportion to their respective shareholding in the Company by a maximum of approximately 16.67%. On the same basis but assuming that the maximum number of 307,692,307 Option Shares and 95,000,000 Warrants Shares (together, the “Maximum Specific Mandate Shares”) that fall to be issued under the Specific Mandate are issued in full prior to the exercise of the refreshed General Mandate (subject to the Specific Mandate being approved at the SGM), the maximum of 496,488,398 new Shares which may be issued under the refreshed General Mandate (subject to the General Mandate being approved at the SGM) will represent approximately 17.21% of the issued share capital of the Company as at the Latest Practicable Date as enlarged by the Maximum Specific Mandate Shares and the holding of the Shareholders (including the existing public Shareholders) will be diluted in proportion to their respective shareholding in the Company by a maximum of approximately 14.68%.

Considering that the dilution effect of the General Mandate to all Shareholders, with or without taking into account the new Shares to issued under the Specific Mandate, is in proportion to their respective shareholding in the Company and the granting of the General Mandate will provide flexibility to the Company in raising new equity funding in an efficient manner when the Company requires additional financing for its business operations or when the prevailing stock market conditions are favourable for fund raising exercise, we consider the potential maximum dilution effect of approximately 16.67% (or 14.68% after taking into account the Specific Mandate) resulting from the General Mandate acceptable.

RECOMMENDATION

Having considered the principal factors referred to above, we consider that the proposed refreshment of the General Mandate is fair and reasonable and is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the proposed refreshment of the General Mandate.

Yours faithfully,

For and on behalf of

CIMB Securities (HK) Limited

Alex Lau

Head

Corporate Finance

Heidi Cheng

Deputy Head

Corporate Finance

NOTICE OF SPECIAL GENERAL MEETING



HENG XIN CHINA HOLDINGS LIMITED

恒芯中國控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 8046)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the special general meeting of Heng Xin China Holdings Limited (“**Company**”) will be held at 11:00 a.m. on Monday, 14 February 2011 at Mont Blanc Room, Pacific Place Conference Centre, Level 5, One Pacific Place, 88 Queensway, Admiralty, Hong Kong to consider and, if thought fit, approve the following resolutions, each as an ordinary resolution:

ORDINARY RESOLUTIONS

1. **“THAT** subject to and conditional upon The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the Option Shares and the Warrants Shares (as defined below):
 - (a) the agreement dated 29 December 2010 entered into between the Company, GEM Global Yield Fund Limited, GEM Management Limited and Team Effort Investments Limited, a copy of which has been initialed by the chairman of this meeting and for the purpose of identification marked “A” (“**Agreement**”), in relation to the grant of an option to the Company to require GEM Global Yield Fund Limited to subscribe for up to HK\$400 million worth of shares of the Company (“**Shares**”) structured under the equity line of credit as stated under the Agreement (“**Option Shares**”) and the issue to GEM Global Yield Fund Limited or to its order the warrants (“**Warrants**”) by the Company which entitle the holder thereof to subscribe for up to 95 million Shares (“**Warrant Shares**”), and the transactions contemplated thereunder be and are hereby approved;
 - (b) the issue of the Warrants subject to and pursuant to the terms and conditions of the Agreement be and is hereby approved;
 - (c) the allotment and issue of the Option Shares subject to and pursuant to the terms and conditions of the Agreement be and is hereby approved;

* For identification purpose only

NOTICE OF SPECIAL GENERAL MEETING

- (d) the allotment and issue of the Warrant Shares upon the exercise of the Warrants be and is hereby approved;
- (e) the directors of the Company be or a duly authorised committee of the board of directors of the Company be and is/are hereby authorised:
 - (i) to issue the Warrants subject to the and pursuant to the terms and conditions of the Agreement;
 - (ii) to allot and issue the Option Shares and the Warrant Shares subject to and pursuant to the terms and conditions of the Agreement; and
 - (iii) to do and execute all such acts, matters, deeds, documents and things as it/they may consider appropriate, necessary or desirable for or in connection with the Agreement, the issue of the Warrants and the allotment and issue of the Option Shares and the Warrant Shares.”

2. “THAT:

- (a) the general mandate granted to the directors of the Company to allot, issue and deal with the unissued shares of the Company pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 9 November 2010 be and is hereby revoked (without prejudice to any valid exercise of such general mandate prior to the passing of this resolution);
- (b) subject to paragraph (d) below, pursuant to the Rules (“**GEM Listing Rules**”) Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (“**Stock Exchange**”), the exercise by the directors of the Company during the Relevant Period (as defined below) of all the powers of the Company to allot, issue and deal with the unissued Shares and to make or grant offers, agreements and options, including warrants to subscribe for Shares, which might require the exercise of such powers be and the same is hereby generally and unconditionally approved;
- (c) the approval in paragraph (b) above shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options, including warrants to subscribe for Shares, which might require the exercise of such powers after the expiry of the Relevant Period;

NOTICE OF SPECIAL GENERAL MEETING

(d) the aggregate nominal amount of share capital allotted and issued or agreed conditionally or unconditionally to be allotted and issued (whether pursuant to options or otherwise) by the directors of the Company pursuant to the approval in paragraph (b) above, otherwise than pursuant to (i) a Rights Issue (as defined below); or (ii) the exercise of any options granted under the share option scheme of the Company; or (iii) any scrip dividend or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the bye-laws of the Company in force from time to time; or (iv) any issue of Shares upon the exercise of rights of subscription or conversion under the terms of any warrants of the Company or any securities which are convertible into Shares shall not exceed the aggregate of:

(aa) 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this resolution; and

(bb) (if the directors of the Company are so authorised by a separate ordinary resolution of the shareholders of the Company) the aggregate nominal amount of any share capital of the Company purchased by the Company subsequent to the passing of this resolution (up to a maximum equivalent to 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution),

and the authority pursuant to paragraph (b) of this resolution shall be limited accordingly; and

(e) for the purposes of this resolution:

“**Relevant Period**” means the period from the date of the passing of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company, the Companies Act of Bermuda or any other applicable law of Bermuda to be held; or

(iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the directors of the Company by this resolution;

NOTICE OF SPECIAL GENERAL MEETING

“**Rights Issue**” means an offer of Shares, or offer or issue of warrants, options or other securities giving rights to subscribe for Shares open for a period fixed by the directors of the Company to holders of Shares whose names appear on the Company’s register of members on a fixed record date in proportion to their holdings of Shares (subject to such exclusion or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction outside Hong Kong or any recognised regulatory body or any stock exchange outside Hong Kong).”

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

Hong Kong, 20 January 2011

Head office and principal place of business in Hong Kong:

Unit 3, 43/F

Far East Finance Centre

16 Harcourt Road

Hong Kong

As at the date of this notice, the directors of the Company are as follows:

Executive Directors:

Mr. Xiao Yan (*Chief Executive Officer*)

Mr. Feng Yongming

Mr. Li Tao

Non-executive Director:

Mr. Xu Lei

Independent non-executive Directors:

Mr. Leung Wo Ping *JP*

Mr. Dong Shi

Mr. Hu Dingdong

NOTICE OF SPECIAL GENERAL MEETING

Notes:

- (1) A member of the Company entitled to attend and vote at the special general meeting convened by the above notice is entitled to appoint one or more proxy to attend and, subject to the provisions of the bye-laws of the Company, to vote on his/her behalf. A proxy need not be a member of the Company but must be present in person at the special general meeting to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
- (2) In order to be valid, the form of proxy must be deposited together with a power of attorney or other authority, if any, under which it is signed or a certified copy of that power or authority, at the office of the Company's branch registrar in Hong Kong, Union Registrars Limited, 18/F, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong not less than 48 hours before the time for holding the meeting or adjourned meeting.
- (3) Completion and return of an instrument appointing a proxy should not preclude a shareholder of the Company from attending and voting in person at the meeting convened and in such event, the instrument appointing a proxy shall be deemed to be revoked.
- (4) As required under the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, the resolutions will be decided by way of a poll.