



**HENGXIN**  
恒 芯 中 國

# **Heng Xin China Holdings Limited** **恒 芯 中 國 控 股 有 限 公 司 \***

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 8046)

## **THIRD QUARTERLY RESULTS ANNOUNCEMENT**

**For the nine months ended 31 March 2011**

### **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

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

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

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*This announcement, for which the directors of Heng Xin China Holdings Limited (the “Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) for the purpose of giving information with regard to Heng Xin China Holdings Limited. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.*

\* For identification purposes only

## HIGHLIGHTS

- The Group recorded an unaudited turnover of approximately HK\$521.7 million for the nine months ended 31 March 2011, representing an increase of approximately 14.5% when compared with that of the corresponding period in 2010.
- The Group recorded an unaudited profit attributable to the equity holders of the Company of approximately HK\$151.5 million for the nine months ended 31 March 2011, representing an increase of approximately 7.6% as compared to approximately HK\$140.8 million for the corresponding period in 2010.
- Stable progress for its network construction project and greater than expected revenue growth for the digital cable television operational business in rural areas were achieved.
- Earnings per share of the Company was approximately HK\$0.0769 for the nine months ended 31 March 2011, representing a decrease of approximately 18.1% as compared to approximately HK\$0.0939 for the corresponding period in 2010.
- The Board does not recommend the payment of an interim dividend for the nine months ended 31 March 2011.

## RESULTS

The board of Directors (the “Board”) of Heng Xin China Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the three months and nine months ended 31 March 2011 together with the comparative unaudited figures for the corresponding periods in 2010.

	Note	Three months ended 31 March		Nine months ended 31 March	
		2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Turnover	3	203,542	115,331	521,706	455,681
Cost of sales		(122,664)	(48,365)	(326,681)	(263,536)
<b>Gross profit</b>		<b>80,878</b>	66,966	<b>195,025</b>	192,145
Other income	3	17,788	22	25,844	568
Selling and marketing expenses		(1,178)	(611)	(3,627)	(2,975)
Other operating expenses		(17,710)	(8,009)	(38,321)	(28,688)
<b>Profit from operations</b>		<b>79,778</b>	58,368	<b>178,921</b>	161,050
Finance costs	4	(3,766)	(3,792)	(12,628)	(7,551)
<b>Profit before taxation</b>	5	<b>76,012</b>	54,576	<b>166,293</b>	153,499
Taxation	6	(7,991)	(98)	(14,828)	(951)
<b>Profit for the period</b>		<b>68,021</b>	54,478	<b>151,465</b>	152,548
<b>Other comprehensive income</b>					
Exchange differences on translating foreign operations		5,179	675	22,523	1,240
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>73,200</b>	55,153	<b>173,988</b>	153,788
<b>Profit attributable to:</b>					
Equity holders of the Company		68,021	50,043	151,465	140,813
Non-controlling interests		—	4,435	—	11,735
Profit for the period		<b>68,021</b>	54,478	<b>151,465</b>	152,548
<b>Total comprehensive income attributable to:</b>					
Equity holders of the Company		73,200	50,683	173,988	141,990
Non-controlling interests		—	4,470	—	11,798
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>73,200</b>	55,153	<b>173,988</b>	153,788
Earnings per share attributable to equity holders of the Company	7				
— basic		<b>2.74 cents</b>	3.26 cents	<b>7.69 cents</b>	9.39 cents
— diluted		<b>2.59 cents</b>	3.26 cents	<b>6.67 cents</b>	9.38 cents
Dividends	8	—	—	—	—

*Notes:*

## **1. General information**

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

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

The principal activities of the Group are 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.

## **2. Basis of preparation and accounting policies**

The unaudited consolidated financial statements for the nine months ended 31 March 2011 have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of the GEM Listing Rules.

The unaudited consolidated financial statements have been prepared on the historical cost basis except for the financial instruments, which are measured at fair value. The accounting policies and methods of computation used in the preparation of the unaudited consolidated financial statements are consistent with those used in the annual financial statements for the year ended 30 June 2010. These unaudited consolidated financial statements should be read in conjunction with the Company’s annual report for the year ended 30 June 2010. Those new accounting standards, amendments to accounting standards and interpretations which are mandatory for financial year ending 30 June 2011 have no material impact on the Group.

The unaudited consolidated financial statements have not been audited by the auditors of the Company, but have been reviewed by the Company’s audit committee and were approved for issue by the Board.

### 3. Turnover and revenue

Turnover and revenue recognised by category during the three months and nine months ended 31 March 2011 are as follows:

	Three months ended		Nine months ended	
	31 March		31 March	
	2011	2010	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Turnover				
Wireless digital terrestrial television network equipment integration business	<b>78,785</b>	55,913	<b>176,891</b>	261,342
Digital cable television two-way conversion business	<b>42,543</b>	—	<b>71,557</b>	—
Encrypted integrated circuits and the derived integrated business	<b>14,223</b>	50,063	<b>93,928</b>	126,957
Wireless digital audio products business	<b>67,991</b>	9,355	<b>179,330</b>	67,382
	<b><u>203,542</u></b>	<u>115,331</u>	<b><u>521,706</u></b>	<u>455,681</u>
Other income				
Bank interest income	<b>159</b>	22	<b>236</b>	44
Other interest income	—	—	—	206
Realised gain on trading of listed securities	<b>9,525</b>	—	<b>10,236</b>	—
Sundry income	<b>8,104</b>	—	<b>15,372</b>	318
	<b><u>17,788</u></b>	<u>22</u>	<b><u>25,844</u></b>	<u>568</u>

### 4. Finance costs

	Three months ended		Nine months ended	
	31 March		31 March	
	2011	2010	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Effective interest expenses on convertible notes	<b>3,493</b>	3,213	<b>11,646</b>	6,146
Interest element of finance leases	<b>21</b>	—	<b>67</b>	—
Interest on loan from a shareholder	—	388	<b>354</b>	1,182
Interest on bank loans	<b>252</b>	191	<b>561</b>	223
	<b><u>3,766</u></b>	<u>3,792</u>	<b><u>12,628</u></b>	<u>7,551</u>

## 5. Profit before taxation

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

	Three months ended		Nine months ended	
	31 March		31 March	
	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Cost of inventories sold	120,825	47,540	322,293	260,788
Depreciation	569	526	1,622	1,347
Operating lease charges on				
office premises	676	726	2,473	2,286
Research and development costs	877	354	2,778	2,203
Staff costs (including Directors' remuneration)				
— salaries and allowances	4,281	2,396	11,309	8,111
— pension scheme contributions	16	14	45	34
	<u>120,825</u>	<u>47,540</u>	<u>322,293</u>	<u>260,788</u>

## 6. Taxation

	Three months ended		Nine months ended	
	31 March		31 March	
	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Current tax:				
Hong Kong				
— charge for the period	—	—	—	310
Overseas				
— charge for the period	7,991	98	14,828	641
	<u>7,991</u>	<u>98</u>	<u>14,828</u>	<u>951</u>

The provision for Hong Kong profits tax for the nine months ended 31 March 2011 is calculated at 16.5% (2010: 16.5%) of the estimated assessable profits for the period.

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

In accordance with the approval from the relevant tax authorities, Beijing Jinqiao Hengtai Technology Company Limited ("Beijing Jinqiao") and Beijing Zhongguang Shitong Technology Company Limited ("Beijing Zhongguang"), both wholly owned subsidiaries of the Group operating in the PRC, are entitled to two years' exemption from the PRC corporate income tax ("CIT") followed by three years' 50% relief from the CIT. The years ended 31 December 2008 and 31 December 2010 are the first profit-making year of Beijing Jinqiao and Beijing Zhongguang respectively for the purpose of CIT exemption.

## 7. Earnings per share

### (a) Basic earnings per share

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

	Three months ended 31 March		Nine months ended 31 March	
	2011 (Unaudited)	2010 (Unaudited)	2011 (Unaudited)	2010 (Unaudited)
Profit attributable to the equity holders of the Company (HK\$'000)	<u>68,021</u>	<u>50,043</u>	<u>151,465</u>	<u>140,813</u>
Weighted average number of ordinary shares in issue (thousands)	<u>2,483,493</u>	<u>1,533,587</u>	<u>1,970,528</u>	<u>1,498,955</u>
Basic earnings per share (HK cent)	<u><u>2.74</u></u>	<u><u>3.26</u></u>	<u><u>7.69</u></u>	<u><u>9.39</u></u>

### (b) Diluted earnings per share

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

	Three months ended 31 March		Nine months ended 31 March	
	2011 (Unaudited)	2010 (Unaudited)	2011 (Unaudited)	2010 (Unaudited)
Profit attributable to the equity holders of the Company (HK\$'000)	<u>68,021</u>	<u>50,043</u>	<u>151,465</u>	<u>140,813</u>
Effective interest expenses on convertible notes (HK\$'000)	<u>3,493</u>	<u>—</u>	<u>11,646</u>	<u>—</u>
Adjusted profit attributable to the equity holders of the Company (HK\$'000)	<u>71,514</u>	<u>50,043</u>	<u>163,111</u>	<u>140,813</u>
Weighted average number of ordinary shares in issue (thousands)	<u>2,483,493</u>	<u>1,533,587</u>	<u>1,970,528</u>	<u>1,498,955</u>
Weighted average number of ordinary shares in issue on the deemed conversion of all convertible notes and exercise of all share options outstanding during the period (thousands)	<u>274,580</u>	<u>2,354</u>	<u>474,635</u>	<u>2,483</u>
	<u>2,758,073</u>	<u>1,535,941</u>	<u>2,445,163</u>	<u>1,501,438</u>
Diluted earnings per share (HK cent)	<u><u>2.59</u></u>	<u><u>3.26</u></u>	<u><u>6.67</u></u>	<u><u>9.38</u></u>

## 8. Interim dividend

The Board does not recommend the payment of an interim dividend for the nine months ended 31 March 2011 (2010: Nil).

## 9. Reserves

	Attributable to the equity holders of the Company						
	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Share options reserve <i>HK\$'000</i>	Convertible notes reserve <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance at 1 July 2009	396,560	702	(274)	4,512	—	61,667	463,167
Issue of new shares	69,000	—	—	—	—	—	69,000
Recognition of equity component of convertible notes issued	—	—	—	—	265,302	—	265,302
Recognition of share-based payments	—	—	—	650	—	—	650
Share options exercised	17,698	—	—	(2,124)	—	—	15,574
Share issue expenses	(2,041)	—	—	—	—	—	(2,041)
Reserves arising from capital injection to a non-wholly owned subsidiary	—	1,025	—	—	—	—	1,025
Total comprehensive income for the nine months ended 31 March 2010	—	—	1,178	—	—	140,813	141,991
<b>Balance at 31 March 2010</b>	<b>481,217</b>	<b>1,727</b>	<b>904</b>	<b>3,038</b>	<b>265,302</b>	<b>202,480</b>	<b>954,668</b>
Balance at 1 July 2010	491,372	2,325	3,905	1,696	300,800	242,306	1,042,404
Issue of new shares	252,315	—	—	—	—	—	252,315
Issue of convertible notes	—	—	—	—	14,917	—	14,917
Conversion of convertible notes	288,059	—	—	—	(181,463)	—	106,596
Bonus issue of shares as final dividend	(610)	—	—	—	—	—	(610)
Share options exercised	69,338	—	—	(1,480)	—	—	67,858
Share issue expenses	(2,295)	—	—	—	—	—	(2,295)
Recognition of share-based payments	—	—	—	669	—	—	669
Total comprehensive income for the nine months ended 31 March 2011	—	—	22,523	—	—	151,465	173,988
<b>Balance at 31 March 2011</b>	<b>1,098,179</b>	<b>2,325</b>	<b>26,428</b>	<b>885</b>	<b>134,254</b>	<b>393,771</b>	<b>1,655,842</b>



## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial review

For the nine months ended 31 March 2011, the Group recorded a consolidated turnover of approximately HK\$521.7 million, representing an increase of approximately 14.5% when compared to approximately HK\$455.7 million for the corresponding period in the last financial year.

Gross profit margin of the Group dropped from approximately 42.2% for the corresponding period of last financial year to approximately 37.4% for the current nine-month period, a drop of approximately 4.8% resulting from the resource costs put into the initial stage of developing the digital cable television two-way conversion business.

Other income amounted to HK\$25.8 million for the nine months ended 31 March 2011, representing an increase of about 42 times when compared to approximately HK\$0.6 million for the corresponding period of the last financial year. The increase is mainly due to the gains realised from the disposal of listed securities held by the Company as part of the Group's cash management and income enhancement initiative.

Other operating expenses amounted to HK\$38.3 million for the nine months ended 31 March 2011, representing an increase of 33.6% when compared to approximately HK\$28.7 million for the corresponding period of the last financial year. The increase is principally due to the expansion of the digital cable television business units and the increase of non-cash effective interest expenses on convertible notes.

The profit attributable to equity holders of the Company amounted to approximately HK\$151.5 million for the nine months ended 31 March 2011, representing an increase of approximately 7.6% when compared to HK\$140.8 million over the corresponding period in the previous financial year. Basic earnings per share was approximately HK\$0.0769 for the nine months ended 31 March 2011, representing a decrease of approximately 18.1% compared to approximately HK\$0.0939 for the corresponding period of the last year.

As at 31 March 2011, the cash and bank balances of the Group amounted to approximately HK\$194.0 million, representing a decrease of approximately 49.4% when compared to approximately HK\$383.4 million as at 31 December 2010. As at 31 March 2011, the Group has pledged bank deposit of approximately HK\$43.4 million (31 December 2010: HK\$71.5 million) for certain banking facilities. The gearing ratio of the Group, calculated as total borrowings over total assets, was approximately 0.008 (31 March 2010: 0.03).

### Business review

The Company put in enormous efforts in developing its principal businesses during the nine months ended 31 March 2011 and attained satisfactory sales performance.

#### (i) *Wireless digital terrestrial TV network equipment integration business*

Approximately HK\$176.9 million or 33.9% of the total turnover of the Group in the nine months ended 31 March 2011 was derived from the construction projects of the wireless digital terrestrial television operating platform. Steady progress has been made on the sales of set-top boxes and the Group continued to provide network optimisation services for Hunan Mobile TV and Hubei Chutian CTV during the third quarter ended 31 March 2011.

(ii) *Digital cable television two-way conversion equipment and service business*

The Group has achieved stable progress for its network construction project in the integration of the three networks and greater than expected revenue for the digital cable television operational business in rural areas. The revenues in the nine months ended 31 March 2011 amounted to approximately HK\$71.6 million (around 13.7% of the total turnover of the Group), mainly operational revenues from basic subscription and other value added technology as well as market service income arising from the 300,000 subscribers of the Hebei rural television network. The Group is scheduled to have 500,000 subscribers of broadcasting television in the rural areas in the first half of 2011 in order to meet the annual target of 1 million subscribers.

For the network construction for three networks integration, the Company has invested a substantial amount of money on equipment for the two-way network conversion in the pilot cities including Suzhou, Bozhou, Huainan and Huaibei in Anhui province as of 31 March 2011. The two-way network conversion currently covered the first around 200,000 subscribers, including about 20,000 broadband users and 7,000 interactive TV subscribers. It is expected that the network conversion will be completed in the second half of the year, at which time the network will cover about 400,000 subscribers in Anhui province. Currently, the Group has designed various two-way value added business packages and commenced the trial operation of the business. The value added business is expected to bring to the Group significant sustainable operating revenue and profit in the near future.

According to the requirement of Anhui Television Broadcasts, the subscription rate for the basic interactive packages in the regions where the two-way network conversion has been completed should exceed 90%. Further, the two-way value added products in the pilot cities has achieved a steady and sustained increase in their market share and an improved ARPU of the subscribers. Hence, the Group is striving to achieve remarkable revenue in this business segment in the second half of 2011.

(iii) *Encrypted integrated circuits and the derived integrated business*

The turnover for the nine months ended 31 March 2011 generated from the encrypted integrated circuits and the derived integrated business and the related technical services amounted to approximately HK\$93.9 million or approximately 18.0% of the total turnover. During the third quarter ended 31 March 2011, the Group was engaged in the self-production of digital two-way conversion products and has upgraded its G/EPON products, which provided more comprehensive two-way conversion solutions and equipment. Having won the bids directly or indirectly, the Group started to supply goods with its new customer base ever expanding.

For the telecommunication operator business in China, the Group has commenced mass production for the supply of goods and the receivables is gradually collected. In response to the demand from telecommunication customers, the design and research and development of the optical fibre quick connector (OPRun), for which the Group owned its intellectual property right, and its peripheral equipment was completed. OEM manufacturing has been commenced in foundries during the quarter. Meanwhile, technical testings for the operators of the products are underway.

In respect of software development and technical services income, the progress of research and development and time for customers' inspection and acceptance upon delivery were postponed due to the public holidays such as Lunar New Year in China, resulting in a slight decrease in turnover for the quarter compared with the corresponding period last year.

(iv) *Wireless digital audio products business*

The turnover for the nine months ended 31 March 2011 generated from the wireless digital audio products business and the related technical services amounted to approximately HK\$179.3 million or approximately 34.4% of the total turnover, mainly contributed by the revenues from domestic customers. With the effort of the Group, the turnover from this segment increased significantly when compared to the corresponding period of last year. The number of overseas customers further increased in the third quarter ended 31 March 2011. The Group's market share has been growing correspondingly with the expanding scale of cooperation with the domestic and overseas customers over the past few years. This has provided the Group with an effective protection of high revenue as well as a profit driver in future.

## **Prospects**

Leveraging on the strength in the wireless business, the Group will proactively engage itself in the development of the businesses in basic television operation and three network integration. In the second quarter of 2011, in addition to the steady development in the existing businesses in Anhui and Hebei provinces, the Group will continue to develop other valuable business in basic television services in these provinces and actively discuss with broadcasting television operators in new provinces for cooperation opportunities, striving for new breakthroughs and performance results in near future.

The Group will take the initiative to introduce new two-way cable network business such as HDTV PUSH VOD and HDTV paid channels to strive for revenue increase in two-way business; and strengthen communication with media content providers to reduce the cost of contents and enrich the contents of two-way value added business, in order to increase users' subscription on the Group's service.

The Group plans to initiate cooperation with Hebei Television Broadcasts for the development of the subscribers of the wireless mobile broadcasting television and the advertising business in the next quarter, for which a pilot scheme will be commenced during the end of the second quarter to the beginning of the third quarter in 2011. The Group is looking forward to expanding the integration business in other industries to drive for future growth in profit.

The Group will also attach greater effort to research and development. It plans to acquire several intellectual property rights and the dual software certificates for each of its digital cable business units in the first half of 2011. It will also assist customers in inspection and acceptance upon delivery, so as to provide quality and convenient services and ensure new breakthrough of the Group's revenue. It is expected that the Group's new communication products will be widely applied by operators such as China Telecom and China Unicom in order to generate new income for the Group. The research and development department of the Group has carried out the third time upgrade for EOC product, substantially reducing the cost and improving the performance-price ratio of the products, so as to enhance the competitive edges of the Group's products in the broadcasting television industry.

The nuclear crisis in Japan will have considerable effect on the games order of the Group for the coming quarter. However, the Group's market share in the wireless digital audio products business will expand substantially as the number of new customers of its export sales is expected to largely increase in the coming quarter. The Group has been planning to expand the domestic market share before it suffered from the adverse impact of the export market, and has achieved remarkable results with improvements in market share and sales volume. The commencement of mass production for the projects of two domestic listed companies in the coming quarter will be a great start for the domestic sales market of the wireless digital audio products. The Group will strive to enter into new consumer and automotive electronics markets in order to bring a new and rapid profit driver for the Group.

**DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION**

As at 31 March 2011, the interests and short positions of the Directors, the chief executive of the Company or their respective associates (as defined in the GEM Listing Rules) in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange were as follows:

<b>Name</b>	<b>Position</b>	<b>Capacity</b>	<b>Number of shares</b>	<b>underlying shares (Note)</b>	<b>Approximate percentage of interests in the issued share capital</b>
Mr. Xiao Yan	Chief Executive Officer/Executive Director	Beneficial owner	—	2,273,334	0.09%
Mr. Wu Fred Fong	Chief Financial Officer	Beneficial owner	3,466,666	—	0.14%

*Note:*

The Directors and the chief executive of the Company were granted share options at the exercise price of HK\$0.358 per share (as adjusted) on 18 February 2009. The share options would be exercisable during the period from 18 March 2009 to 17 October 2012. These individuals were deemed to be interested in shares of HK\$0.01 each which would fall to be issued upon exercise of their respective share options of the Company under the share option scheme adopted by the Company on 13 March 2003.

Save as disclosed above, at no time during the nine months ended 31 March 2011 was the Company or any of its subsidiaries a party to any arrangement to enable the Directors and chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or its associated corporation.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 31 March 2011, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital:

### Interests in the shares of the Company

Name of shareholder	Number or attributable number of shares or underlying shares held	Type of interests	Approximate percentage of interests
Choi Chung Lam ( <i>Note 1</i> )	620,690,451 (L)	Interest in controlled corporation	24.96%
Team Effort Investments Limited ( <i>Note 1</i> )	620,690,451 (L)	Beneficial owner	24.96%
Li Haoping ( <i>Note 2</i> )	403,863,306 (L)	Interest in controlled corporation	16.24%
Lomond Group Limited ( <i>Note 2</i> )	357,724,863 (L)	Interest in controlled corporation	14.38%
Easy Mount Enterprises Limited ( <i>Note 2</i> )	319,224,863 (L)	Beneficial owner	12.83%

*L: Long Position*

*Notes:*

1. Team Effort Investments Limited is wholly owned by Mr. Choi Chung Lam. Mr. Choi Chung Lam is deemed to be interested in the shares held by Team Effort Investments Limited.
2. The entire issued share capital of Easy Mount Enterprises Limited is owned as to 85% by Lomond Group Limited and 15% by Mr. Ho Wai Jung. Lomond Group Limited and Mr. Li Haoping 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. Mr. Li Haoping is also deemed to be interested in the 38,500,000 shares held by Lomond Group Limited and 46,138,443 shares held by Wealtheme Limited. Both Lomond Group Limited and Wealtheme Limited are wholly owned by Mr. Li Haoping.

Save as disclosed above, as at 31 March 2011, the Directors or chief executives of the Company were not aware of any other person (other than the Directors or chief executives of the Company) who had an interest or short position in the shares or underlying shares of the Company under Section 336 of the SFO.

## EMPLOYEE SHARE OPTION SCHEME

Details of the employee share option scheme (“Share Option Scheme”) approved by the then sole shareholder of the Company on 13 March 2003 were disclosed in the annual report of the Company for the year ended 30 June 2010. The following shows the outstanding positions of the eligible persons as at 31 March 2011 with respect to their share options granted under the scheme:

Participants	Number of Shares <i>(Note)</i>					As of 31 March 2011	Date of Grant	Exercise period	Adjusted Subscription Price
	As of 1 July 2010	Adjusted after bonus issue	Exercised during the period	Cancelled during the period	Lapsed during the period				
Eligible persons	10,700,000	290,000	8,716,666	—	—	2,273,334	18/02/2009 17/03/2012	18/03/2009-	0.358

*Note:*

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

## LITIGATION

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

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

The Company has been advised by its legal adviser that the Plaintiff had no grounds for the Claim and the Company filed its defence on 28 March 2008 and witness statement on 30 July 2009. The trial hearing took place on 24 November 2010 and attempts have been made by the parties subsequently for a global settlement between the parties. However, despite prolonged negotiation between the Plaintiff and the 2nd Defendant, the parties failed to reach a settlement. Hearing for directions was on 14 February 2011 before the Court. However, the parties have been unable to complete settlement within 28 days from the date of the above hearing. On 11 May 2011, the parties have fixed the adjourned trial from 4 January 2012 to 12 January 2012. The Company’s legal adviser’s opinion is that the Company is not liable to the claim of the Plaintiff. The only contention is which party shall bear the costs of the Company in the High Court Action, and in what amount. The Company will keep its shareholders and potential investors informed of any further significant developments.

Save as disclosed above, the Group was not engaged in any litigation or arbitration or claims of material importance which is known to the Directors to be pending or threatened by or against the Group as at 31 March 2011.

## **DIRECTORS' INTEREST IN COMPETING BUSINESS**

None of the Directors or the controlling shareholders of the Company (as defined in the GEM Listing Rules) have any interest in a business, which competes or may compete with the business of the Group or had any other conflict of interests with the Group.

## **AUDIT COMMITTEE**

The Company has established an audit committee with written terms of reference in compliance with Rules 5.28 to 5.29 of the GEM Listing Rules. As at the date of this announcement, the audit committee comprises three independent non-executive Directors, namely, Mr. Leung Wo Ping JP (Chairman), Mr. Dong Shi and Mr. Hu Dingdong.

The duties of the audit committee include reviewing the Group's annual reports and accounts, half-yearly reports and quarterly reports and providing advice and comments thereon to the Board. The audit committee is also responsible for reviewing and supervising the financial reporting process and internal control procedures of the Company, and to review the appointment of external auditors on an annual basis as well as to ensure independence of the continuing auditor.

## **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules as its Code of Conduct for Securities Transactions by Directors throughout the nine months ended 31 March 2011. Having made specific enquiry of all Directors, the Company was not aware of any non-compliance with the required standard of dealings regarding securities transactions by Directors during the nine months ended 31 March 2011.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the nine months ended 31 March 2011.

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

Hong Kong, 13 May 2011

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

*This announcement will remain on the GEM website on the "Latest Company Announcement" page for at least 7 days from the date of its posting and on the website of the Company at [www.hengxinchina.com.hk](http://www.hengxinchina.com.hk).*