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)

ANNUAL RESULTS ANNOUNCEMENT
For the year ended 30 June 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 of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

* *For identification purposes only*

HIGHLIGHTS

- The Group recorded a consolidated turnover of approximately HK$676.6 million for the year ended 30 June 2011, representing an increase of approximately 3.6% when compared with that of approximately HK$653.3 million for the corresponding period in 2010.
- The Group recorded a profit attributable to the shareholders of the Company of approximately HK$201.9 million for the year ended 30 June 2011 as compared to approximately HK$181.0 million in the previous financial year, representing an increase of about 11.5%.
- Basic earnings per share of the Company was approximately HK9.50 cents for the year ended 30 June 2011 as compared to approximately HK11.50 cents for the last financial year, representing a decrease of approximately 17.4%.
- The Group has achieved remarkable results in terms of business scale and service quality of the cable digital television business, realized impressive economic efficiency and laid a solid foundation for the sustainable growth of this new business.
- With new opportunities constantly availing for the Group and the Group's improved cash position, the challenge will be to prioritise and allocate its resources efficiently to maximise value for its shareholders.
- The Board does not recommend the payment of a final dividend in respect of the year ended 30 June 2011.

STATEMENT FROM CHIEF EXECUTIVE OFFICER

On behalf of the board of Directors (the "Board") of Heng Xin China Holdings Limited (the "Company"), I am pleased to present the annual report of the Company and its subsidiaries (collectively the "Group") for the financial year ended 30 June 2011.

Financial Performance

For the financial year ended 30 June 2011, the Group recorded a consolidated turnover of approximately HK$676.6 million (2010: HK$653.3 million) and a profit attributable to equity holders of the Company of approximately HK$201.9 million (2010: HK$181.0 million). The basic earnings per share was approximately HK9.50 cents, compared to approximately HK11.50 cents of the last financial year. The directors do not recommend the payment of a final dividend in respect of the year ended 30 June 2011.

Business Review and Future Prospects

During this financial year, the Group continued to devote its effort to strengthen the growth of, and optimize the development plan for, our core and newly developed businesses. The Group increased resources on market exploration, and increased investment and enhanced operation in digital television broadcast industry in the PRC, in particular the three networks integration business in cable digital television. Although revenue will come more significantly in future years judging from the business contracts the Group has entered into, it has achieved remarkable results.

As for the cable digital television industry, in response to the three networks integration policy in digital television broadcast industry in the PRC and huge market demand, the Group continued to strengthen the growth of its business in contracted regions during this financial year, while putting great effort in exploring new markets, improving the service quality of our cable digital television business, exploring and developing products with our own core technology, fully carrying out the role as business operator, adding more value added services in operation, and establishing our customer base and strategic partnership in the industrial chain of such segment. The Group has achieved remarkable results in terms of business scale and service quality of the segment, realized impressive economic efficiency and laid a solid foundation for the sustainable growth of this new business.

As for the wireless digital television industry, the Group has continued to strengthen its system and equipment integration business in contracted regions, further increasing the scale of its integration business in transmission ends and terminal equipment in the wireless digital television market of the regions, improving our current business operation model, consolidating and enhancing our partnerships with other operators and in the industry chain, thereby creating favourable conditions for continuous growth of our business operation in this segment.

As a reputable and large-scale designer and supplier for wireless audio basebands and information security technology products, during this financial year the Group continued to consolidate its existing customer base and advantages in products and technology, put great effort in exploring new markets, enhance our market share, strengthen further the research and development of our own core technology products, and their application and promotion in the fields concerned. We caught up with market development, and provided advanced products and quality services to the users, thereby creating a solid and established customer base, and favourable conditions for sustainable growth.

The Group has been following and adapting to the development and demand of the market in Mainland China. We have grasped the huge business opportunities, and adhered to the philosophy of market, customer, technology, service and earnings-oriented development. We aim to grow bigger, stronger, and better in our principal businesses, maintain and enhance the Group's core competitiveness, build up the strength and solid base for the sustainable growth of the Group.

By paying attention to and coping with the domestic development and demand of the broadcasting digital television industry on an ongoing basis, the Group is able to further grab a foothold and penetrate in the markets of wireless digital television and digital cable television, in particular the business in three network integration, improve the digital television business in the contracted regions, expand into new markets, strengthen further the research and development and promotion of the application of the technology and products in this field, upgrade the overall service quality and the scale of operation of the digital television business, in particular the three network integration of the digital cable television, and achieve a greater and better economies of scale in order to maintain the Group's competitive advantage in the digital television broadcasting industry.

The Group will continue to maintain and enhance its technological advantages and leading position in the areas of wireless audio baseband integrated circuits and multimedia transmission as well as information security technology products, identify new markets and increase its market share and bring in new sources of growth in revenue.

Capitalizing on the vast domestic business opportunities in the PRC, the Group's clear market positioning, aggressive market expansion, effective business operation model, sophisticated experience in business development and long-term established partners relationship and customer base, will enable the Group to achieve a more sustainable competitive edges for the business development with the greatest economic benefits, which the Board expects will bring about long-term and greater benefits to the Group.

Finally, on behalf of the Board, I would like to take this opportunity to extend our sincere gratitude to our customers, business partners and shareholders for their continuous and valuable support to the Group. I would also like to express my heartfelt appreciation to all our dedicated staff for their hard work and efforts that have contributed to the sustained growth of the Group over the year.

RESULTS

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2011

	Notes	**2011** *HK$'000*	2010 *HK$'000*
Revenue	*3*	**676,624**	653,260
Cost of sales		**(363,402)**	(390,222)
Gross profit		**313,222**	263,038
Other income		**29,622**	1,050
Selling and marketing expenses		**(4,796)**	(4,007)
Other operating expenses		**(87,376)**	(44,657)
Finance costs		**(16,303)**	(11,049)
Profit before taxation		**234,369**	204,375
Taxation	*4*	**(27,766)**	(8,730)
Profit for the year	*5*	**206,603**	195,645
Other comprehensive income			
Exchange differences on translating foreign operations		**37,922**	4,424
Total comprehensive income for the year		**244,525**	200,069
Profit attributable to:			
Owners of the Company		**201,942**	181,042
Non-controlling interests		**4,661**	14,603
		206,603	195,645
Total comprehensive income attributable to:			
Owners of the Company		**238,898**	185,221
Non-controlling interests		**5,627**	14,848
		244,525	200,069
EARNINGS PER SHARE	*6*		
Basic		**9.50 cents**	11.50 cents
Diluted		**8.53 cents**	10.28 cents

Consolidated Statement of Financial Position
At 30 June 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current assets			
Property, plant and equipment		**123,215**	7,187
Goodwill		**753,146**	753,146
Intangible assets		**77,772**	34,107
Deposits for acquisition of property, plant and equipment		**32,739**	—
Trade receivables	8	**57,807**	227,804
		1,044,679	1,022,244
Current assets			
Inventories		**7,098**	2,889
Trade receivables	8	**509,956**	452,126
Prepayments, deposits and other receivables		**260,062**	29,348
Financial assets at fair value through profit or loss		**8,550**	—
Amount due from a related company		**50,257**	1,993
Cash and cash equivalents		**288,477**	65,401
		1,124,400	551,757
Current liabilities			
Trade payables	9	**125,164**	223,689
Other payables and accruals	9	**29,098**	38,173
Promissory note		**8,000**	—
Obligations under finance leases		**375**	345
Other borrowings		**12,041**	30,000
Tax payables		**41,675**	14,329
		216,353	306,536
Net current assets		**908,047**	245,221
Total assets less current liabilities		**1,952,726**	1,267,465
Non-current liabilities			
Obligations under finance leases		**511**	886
Deferred tax liabilities		**1,983**	2,267
Convertible notes payable		**264,504**	176,694
		266,998	179,847
Net assets		**1,685,728**	1,087,618
Capital and reserves			
Share capital	10	**24,871**	15,639
Reserves		**1,660,857**	1,042,404
		1,685,728	1,058,043
Non-controlling interests		**—**	29,575
Total equity		**1,685,728**	1,087,618

Consolidated Statement of Changes in Equity

For the year ended 30 June 2011

	Attributable to owners of the Company										
	Share capital *HK$'000*	Share premium *HK$'000*	Capital reserve *HK$'000*	Exchange fluctuation reserve *HK$'000*	Other reserve *HK$'000*	Share option reserve *HK$'000*	Convertible notes reserve *HK$'000*	Retained earnings *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'000*
At 1 July 2009	13,857	396,560	702	(274)	—	4,512	—	61,667	477,024	9,429	486,453
Total comprehensive income for the year	—	—	—	4,179	—	—	—	181,042	185,221	14,848	200,069
Issue of convertible notes	—	—	—	—	—	—	300,800	—	300,800	—	300,800
Issue of new shares	1,000	69,000	—	—	—	—	—	—	70,000	—	70,000
Share issue expenses	—	(2,041)	—	—	—	—	—	—	(2,041)	—	(2,041)
Recognition of share-based payments	—	—	—	—	—	650	—	—	650	—	650
Share options exercised	782	27,853	—	—	—	(3,270)	—	—	25,365	—	25,365
Release upon cancel of vested share options	—	—	—	—	—	(196)	—	196	—	—	—
Release upon deregistration of a subsidiary	—	—	599	—	—	—	—	(599)	—	—	—
Reserves arising from capital injection to non-wholly owned subsidiaries	—	—	1,024	—	—	—	—	—	1,024	5,298	6,322
At 30 June 2010	15,639	491,372	2,325	3,905	—	1,696	300,800	242,306	1,058,043	29,575	1,087,618
Total comprehensive income for the year	—	—	—	36,956	—	—	—	201,942	238,898	5,627	244,525
Issue of new shares	2,000	148,000	—	—	—	—	—	—	150,000	—	150,000
Share issue expenses	—	(2,296)	—	—	—	—	—	—	(2,296)	—	(2,296)
Issue of convertible notes	—	—	—	—	—	—	14,917	—	14,917	—	14,917
Conversion of convertible notes	4,854	288,059	—	—	—	—	(181,463)	—	111,450	—	111,450
Recognition of share-based payments	—	—	—	—	—	11,000	—	—	11,000	—	11,000
Share options exercised	987	69,339	—	—	—	(1,481)	—	—	68,845	—	68,845
Bonus issue of shares as final dividend	610	(610)	—	—	—	—	—	—	—	—	—
Acquisition of additional interests in subsidiaries	781	114,082	—	—	(79,992)	—	—	—	34,871	(35,202)	(331)
At 30 June 2011	24,871	1,107,946	2,325	40,861	(79,992)	11,215	134,254	444,248	1,685,728	—	1,685,728

Notes:

1. General Information

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company. The consolidated financial statements have been reviewed by the Company's audit committee.

The principal activity of the Company is investment holding. The principal activities of the Group are engaged in wireless digital terrestrial television network equipment integrated business, digital cable television 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

In the current year, the Group has applied the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKFRSs (Amendments)	Improvements to HKFRSs 2010 except for the improvements that are effective for annual periods beginning on or after 1 January 2011
HKAS 32 (Amendment)	Classification of Rights Issues
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transaction
HK(IFRIC) — Int 19	Extinguishing Financial Liabilities with Equity Instruments
HK — Int 5	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

The adoption of the new and revised HKFRSs had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

The Group has not early applied the following new and revised standards, amendments and interpretations that have been issued but are not yet effective.

HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[1]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[2]
HKAS 19 (Revised 2011)	Employee Benefits[3]
HKAS 24 (Revised 2009)	Related Party Disclosures[4]
HKAS 27 (Revised 2011)	Separate Financial Statements[3]
HKAS 28 (Revised 2011)	Investments in Associates and Joint Ventures[3]
HKFRSs (Amendments)	Improvements to HKFRSs 2010 that are effective for annual period beginning on or after 1 January 2011[4]
HKFRS 7 (Amendments)	Disclosures — Transfer of Financial Assets[5]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[3]
HKFRS 11	Joint Arrangements[3]
HKFRS 12	Disclosure of Interests in Other Entities[3]
HKFRS 13	Fair Value Measurement[3]
HK(IFRIC) — INT 14 (Amendments)	Prepayments of a Minimum Funding Requirement[4]

[1] Effective for annual periods beginning on or after 1 July 2012
[2] Effective for annual periods beginning on or after 1 January 2012
[3] Effective for annual periods beginning on or after 1 January 2013
[4] Effective for annual periods beginning on or after 1 January 2011
[5] Effective for annual periods beginning on or after 1 July 2011

HKFRS 9 "Financial Instruments" (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 "Financial Instruments" (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for financial year ended 30 June 2014 and that the application of the new Standard may affect the classification and measurement in respect of the Group's financial assets and financial liabilities.

HKAS 24 "Related Party Disclosures" (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities.

The disclosure exemptions introduced in HKAS 24 (as revised in 2009) for government-related entities do not affect the Group because the Group is not a government-related entity. However, disclosures regarding related party transactions and balances in these consolidated financial statements may be affected when the revised version of the Standard is applied in future accounting periods because counterparties that do not currently meet the definition of a related party under the current HKAS 24 may come within the scope of the revised Standard.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

3. Revenue and segment information

The chief operating decision-maker has been identified as the Executive Directors. The Executive Directors review the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on the reports reviewed by the Executive Directors.

The Executive Directors consider the performance of the Group from the perspective of the nature of products and services. The chief operating decision-maker assesses the performance of the operating segments based on a measure of segment profit/(loss) without allocation of finance costs which is consistent with that in the accounts.

The segment information for the year ended and as at 30 June 2011 is as follows:

	Wireless digital terrestrial television network equipment integration *HK$'000*	Digital cable television business *HK$'000*	Encrypted integrated circuits *HK$'000*	Wireless digital audio integrated circuits *HK$'000*	Total *HK$'000*
Revenue					
Segment revenue from external customers	56,684	167,058	265,063	187,819	676,624
Segment results	16,257	95,012	144,218	36,252	291,739
Unallocated income					12,096
Unallocated expenses					(53,163)
Finance costs					(16,303)
Profit before taxation					234,369
Taxation					(27,766)
Profit for the year					206,603
Assets					
Segment assets	384,914	488,697	740,590	463,775	2,077,976
Unallocated assets					91,103
Consolidated total assets					2,169,079
Liabilities					
Segment liabilities	26,133	41,087	75,829	63,598	206,647
Unallocated liabilities					276,704
Consolidated total liabilities					483,351
Other information					
Capital expenditure	4,280	134,726	11,317	11,033	161,356
Unallocated capital expenditure					101
Total capital expenditure					161,457
Depreciation	34	2,039	183	1,078	3,334
Unallocated depreciation					753
Total depreciation					4,087
Impairment loss on trade receivables	—	—	12,285	569	12,854

The segment information for the year ended and as at 30 June 2010 is as follows:

	Wireless digital terrestrial television network equipment integration *HK$'000*	Digital cable television business *HK$'000*	Encrypted integrated circuits *HK$'000*	Wireless digital audio integrated circuits *HK$'000*	Total *HK$'000*
Revenue					
Segment revenue from external customers	333,205	103,654	108,118	108,283	653,260
Segment results	95,686	32,620	88,120	26,068	242,494
Unallocated income					1,050
Unallocated expenses					(28,120)
Finance costs					(11,049)
Profit before taxation					204,375
Taxation					(8,730)
Profit for the year					195,645
Assets					
Segment assets	629,383	205,002	185,145	534,548	1,554,078
Unallocated assets					19,923
Consolidated total assets					1,574,001
Liabilities					
Segment liabilities	112,450	48,032	41,892	72,759	275,133
Unallocated liabilities					211,250
Consolidated total liabilities					486,383
Other information					
Capital expenditure	8,898	2,167	2,224	8,619	21,908
Unallocated capital expenditure					3,329
Total capital expenditure					25,237
Depreciation	237	8	23	759	1,027
Unallocated depreciation					804
Total depreciation					1,831

Geographical information

The Group's revenue from external customers and information about non-current assets by geographical location of the customers and assets respectively are detailed below.

	Revenue from external customers		**Non-current assets**	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**115,277**	59,552	**83,975**	55,982
The PRC	**561,347**	593,708	**960,704**	966,262
	676,624	653,260	**1,044,679**	1,022,244

4. Taxation

	2011	2010
	HK$'000	*HK$'000*
Current tax:		
Hong Kong		
— charge for the year	**1,987**	—
— underprovision in prior year	**—**	310
Overseas		
— charge for the year	**26,164**	8,721
— underprovision in prior year	**2**	169
Deferred tax:		
Overseas		
— credit for the year	**(387)**	(470)
	27,766	8,730

The provision for Hong Kong profits tax for 2011 is calculated at 16.5% (2010: 16.5%) of the estimated assessable profits for the year.

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

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

The tax charge for the year can be reconciled to the profit per the consolidated statement of comprehensive income as follows:

	2011	2010
	HK$'000	*HK$'000*
Profit before taxation	**234,369**	204,375
Tax at applicable tax rate	**53,432**	52,334
Profits exempted from income tax	**(36,104)**	(46,005)
Tax effect of non-deductible expenses	**15,908**	2,913
Tax effect of non-taxable income	**(6,235)**	(2,989)
Tax allowance for capital expenditure	**(316)**	(535)
Underprovision in prior year	**2**	479
Tax effect of tax losses not recognised	**1,683**	2,533
Utilisation of tax losses not previously recognised	**(604)**	—
Taxation charge	**27,766**	8,730

5. Profit for the year

Profit for the year has been arrived at after charging:

	2011	2010
	HK$'000	*HK$'000*
Auditor's remuneration	**806**	701
Cost of inventories recognised as expense	**357,297**	380,958
Depreciation		
— owned assets	**3,701**	1,445
— assets under finance leases	**386**	386
Exchange loss	**2,363**	128
Impairment loss		
— intangible assets	**3,814**	2,790
— other receivables	**2,168**	—
— trade receivables	**12,854**	—
Loss on disposal of property, plant and equipment	**24**	—
Loss on fair value changes of financial assets at fair value through profit or loss	**1,950**	—
Operating lease charges		
— office premises	**3,913**	4,460
— property, plant and equipment	**624**	878
— staff quarters	**652**	618
Research and development costs	**4,298**	2,911
Staff costs (including directors' emoluments)		
— salaries and allowances	**16,311**	12,024
— pension scheme contributions	**717**	370
— share-based payment expenses	**10,330**	—
Write down of inventories	**582**	—

6. Earnings per Share

(a) Basic

The calculation of basic earnings per share is based on the consolidated profit attributable to the owners of the Company of HK$201,942,000 (2010: HK$181,042,000) and weighted average number of 2,125,119,000 (2010 (restated): 1,574,419,000) ordinary shares in issue during the year.

(b) Diluted

The calculation of diluted earnings per share for the year is based on the adjusted profit attributable to the owners of the Company of HK$217,119,000 (2010: HK$190,236,000) and the weighted average number of ordinary shares of 2,544,654,000 (2010 (restated): 1,850,057,000) outstanding during the year, after adjusting for the effects of all dilutive potential ordinary shares.

The adjusted profit attributable to the owners of the Company is calculated based on the profit attributable to the owners of the Company for the year of HK$201,942,000 (2010: HK$181,042,000) as used in the calculation of basic earnings per share plus effective interest expenses on convertible notes of HK$15,177,000 (2010: HK$9,194,000).

The weighted average number of ordinary shares used in the calculation of diluted earnings per share is calculated based on the weighted average of 2,125,119,000 (2010 (restated): 1,574,419,000) ordinary shares in issue during the year as used in the calculation of basic earnings per share plus the weighted average of 17,249,000 (2010: 26,668,000) ordinary shares deemed to be issued at no consideration as if all the Company's share options had been exercised and the weighted average of 402,286,000 (2010: 248,970,000) ordinary shares deemed to be issued at no consideration as if all the Company's convertible notes had been converted.

The calculation of the diluted earnings per share did not assume the exercise of some of the Company's outstanding share options, convertible notes and warrants as their exercise prices were higher than the average market price of the Company's shares for the year.

The weighted average number of ordinary shares adopted in the calculation of the basic and diluted earnings per share for the year ended 30 June 2010 has been adjusted to reflect the impact of the bonus issue.

7. Dividend

The Board does not recommend the payment of a final dividend for the year ended 30 June 2011 (2010: one bonus share at par for every thirty (30) existing shares of the Company held to shareholders).

8. Trade Receivables

	2011	2010
	HK$'000	*HK$'000*
Trade receivables	**580,971**	679,930
Less: allowance for doubtful debts	**(13,208)**	—
	567,763	679,930
Less: portion classified as current assets	**(509,956)**	(452,126)
Non-current portion	**57,807**	227,804

The ageing analysis of trade receivables was as follows:

	2011	2010
	HK$'000	*HK$'000*
0 — 30 days	**149,841**	203,795
31 — 90 days	**40,512**	19,150
91 — 180 days	**88,664**	83,641
Over 180 days	**301,954**	373,344
	580,971	679,930

The ageing analysis of trade receivables (net of allowance for doubtful debts) that were past due but not impaired are as follows:

	2011	2010
	HK$'000	*HK$'000*
0 — 30 days	**50,738**	68,728
31 — 90 days	**72,636**	11,153
91 — 180 days	**51,302**	6,016
Over 180 days	**81,816**	15,957
	256,492	101,854

Given the project phases for the major customer of the Group in the wireless digital terrestrial television system integration and digitisation span three to five years, corresponding to the infrastructure related upgrades at the provincial level, the credit term granted to the major customer is within three years from the date of delivery. Accordingly, HK$57,807,000 (2010: HK$227,804,000) is expected to be recovered or settled in more than twelve months from the end of the reporting period. Except this customer, the Group allows an average credit period of 180 days to its trade customers.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record maintained with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

The following is the movement in the allowance for bad and doubtful debts:

	2011	2010
	HK$'000	*HK$'000*
At beginning of year	**—**	—
Impairment loss recognised	**12,854**	—
Exchange realignment	**354**	—
At end of year	**13,208**	—

9. Trade Payables, Other Payables and Accruals

	2011	2010
	HK$'000	*HK$'000*
Trade payables	**125,164**	223,689
Other payables and accruals	**22,331**	35,481
Receipts in advance	**6,767**	2,692
	154,262	261,862

An aged analysis of the trade payables as at the end of the reporting period is as follows:

	2011	2010
	HK$'000	*HK$'000*
Within 30 days	**76,058**	145,688
31 to 60 days	**7,936**	507
61 to 90 days	**14,138**	314
Over 90 days	**27,032**	77,180
	125,164	223,689

10. Share Capital

	2011		2010	
	Number of share		Number of share	
	'000	***HK$'000***	*'000*	*HK$'000*
Authorised:				
Ordinary shares of HK$0.01 each	**10,000,000**	**100,000**	10,000,000	100,000
Issued and fully paid:				
At beginning of year	**1,563,903**	**15,639**	1,385,683	13,857
Issue of shares upon placing *(note (i))*	**200,000**	**2,000**	100,000	1,000
Issue of shares upon conversion of convertible notes	**485,410**	**4,854**	—	—
Issue of shares upon exercise of share options	**98,717**	**987**	78,220	782
Issue of bonus shares *(note (ii))*	**60,923**	**610**	—	—
Issue of shares for additional interest in subsidiaries *(note (iii))*	**78,139**	**781**	—	—
At end of year	**2,487,092**	**24,871**	1,563,903	15,639

Notes:

(i) On 14 September 2010, the Company, Team Effort Investments Limited ("Team Effort") and DBS Asia Capital Limited (the "Placing Agent") entered into a placing agreement pursuant to which Team Effort has agreed to place, and the Placing Agent has agreed to procure not less than six placees, on a best effort basis, for the purchase of up to 200,000,000 shares of the Company at the placing price of HK$0.75 per placing shares ("Placing").

On the same date, the Company and Team Effort entered into a "top-up" subscription agreement pursuant to which Team Effort has agreed to subscribe for such number of subscription shares which is equivalent to the number of shares actually placed under the Placing, being a maximum number of 200,000,000 subscription shares at the subscription price of HK$0.75 per subscription share (the "Subscription"). Details of these transactions are set out in the Company's announcement dated 14 September 2010. The Placing and the Subscription was completed on 16 September 2010 and 24 September 2010 respectively. A total of 200,000,000 new shares were issued and approximately HK$148 million was raised for the general working capital of the Company and its subsidiaries.

(ii) As a result of the ordinary resolution resolved at the annual general meeting of the Company on 9 November 2010, bonus issue of share of one new share for every thirty existing shares held by the shareholders at the record date of 9 November 2010 was issued to the shareholders as final dividend for the financial year ended 30 June 2010. A total of 60,923,000 ordinary shares were issued as bonus shares. Details of the bonus issue are set out in the Company's circular dated 11 October 2010.

(iii) On 7 December 2010, Star Hub Investments Limited, a wholly-owned subsidiary of the Company (as the Purchaser) and Wealtheme Limited (as the Vendor) entered into a sale and purchase agreement, pursuant to which the Purchaser conditionally agree to acquire and the Vendor conditionally agree to dispose of the entire issued share capital of Wisest Yield, for a consideration of approximately HK$105,000,000 (the "Acquisition"). The Acquisition was completed on 30 December 2010 and the consideration was satisfied by the issue of 78,139,000 ordinary shares of the Company. Details are set out in the announcement of the Company dated 7 December 2010 and 30 December 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

I. THE GROUP

The Group saw a big step forward in overall development and business transformation for this financial year as compared with that for last financial year. Thanks to the contribution of all members of the Group, the Group has not only reached the business target but also maintained technological reserve.

II. BUSINESS REVIEW

During the year under review, the Group has been focusing on the following core technologies and/or business areas:

Digital cable television two-way conversion equipment and services, and value added services

With the experience in the of wireless television business and riding on the national "three networks integration" policies introduced by the State Council in January 2010, the Group aggressively extended solutions on the conversion of digital cable television projects and has achieved a great leap in research and development, design, production and sales. This new business began in April 2010. Since then a number of breakthrough has been achieved. In April 2010, the Group and 江西南昌廣播電視網絡傳輸中心 (Nanchangxian Radio and Television Network Transmission Centre) in Jiangxi province, entered into a cooperation agreement for network construction in Jiangxi province with Nanchang county, the most economically booming county in Jiangxi province, as a pilot city. It also entered into an agreement with 安徽廣電信息網絡股份有限公司 (Anhui Radio and Television Information Network Co., Ltd) for the similar network construction in Anhui province. The first phase of the two-way network construction in four cities of Anhui, namely Huainan, Huaibei, Bozhou and Suzhou, has already commenced. In August of the same year, through technology planning and a tender for the equipment selection, the two-way network construction of "three networks integration" in pilot cities has also kicked off.

Following the introduction of the "Twelfth Five-Year Development Plan" in the PRC, the construction of new rural area and the development of culture industry will become the prime mission and backbone industry of the country respectively. As a response to the national policy and to adapt to the social and economic development in the PRC, the Group entered into a cooperation agreement with 河北廣電信息網絡集團股份有限公司 (Hebei Television Broadcasts and Information Network Group Co., Ltd "HBTN") for the progressive development of 3 million rural subscribers in 3 years following the progress of the construction of new rural area in Hebei province. During the cooperation period of 15 years, for each successful solicitation by the HBTN of a digital television subscriber with the basic monthly fee per subscriber not lower than RMB15, the Group will contribute equipment worthy of RMB550 per subscriber and share 50% to 80% of the revenues from basic subscription fees and the future income from value-added services. The signing of this cooperation agreement would lead the Group to become a comprehensive television operator with revenue from basic subscription fees and the value-added business. Since early 2011, due to the realisation of revenue from basic subscription fees of television broadcasting, the Group began to record a stable cash inflow and will also record higher income from the value-added business of television broadcasting.

Thus the Group has already obtained the operation rights on the development and basic business of the 3 million cable digital television subscribers in Hebei, and 5.5 million two-way value-added business of digital television subscribers in Jiangxi and Anhui. For the financial year 2010/2011, the Group has transformed remarkably to new business recording good results. Since the beginning of 2011, the Group has indulged in network construction for nearly half a year, and now completed the two-way network conversion for the first 200,000 subscribers, basic network construction for 500,000 subscribers, and installation of 6,000 public display panels.

The business cooperation model of the two-way network construction of "three networks integration" is that while contributing in the equipment for the two-way network construction, the Group works with the local television broadcast operators on the operation of the "three networks integration" business during a period ranging from 12 to 15 years, and shares approximately 40% to 70% of the revenues. Through this unique way of cooperation between both parties, the Group has become the only overseas-listed operator in PRC television broadcast. With the support of the "three networks integration" policy and the progress of the business, the television broadcast network will ultimately become the fourth largest integrated operator in the PRC, after China Unicom, China Telecom and China Mobile, gaining substantial revenue in the future. According to the requirement of the national policy, the construction period of "three networks integration" by television broadcast will end by 2013. The specific details of implementation and business requirements of the businesses of television broadcast and telecommunication will gradually be introduced. Hence the mature period (period of high revenue) of the "three networks integration" business will be the years after 2013.

Upon the completion of the first phase of the two-way network construction in Anhui province ten months after its commencement, the Group saw its initial achievement to have solicited 200,000 subscribers for the network construction of "three networks integration". Consequently, the Group entered into a series of cooperation agreements with the value-added service providers for electronic payment, distance health care, distance education and advertising, indicating the full operation of its value-added business.

Following the establishment of an operation team for the Group's value-added business and the commencement of operation of its business, the Group also entered into a cooperation agreement with 河北廣電移動數字電視有限責任公司 (Hebei Digital Mobile Television Broadcasting Co., Ltd "HDMTV") in Hebei province in July 2011, pursuant to which all of its mobile television broadcasting businesses is contracted to the Group for a period of 15 years, including the operation of advertising display panels on buses, in train stations, airports and outdoors on the condition that Hebei mobile television company will share 20% of the revenue. The Group currently owns 6,000 display panels and will own tens of thousands of outdoor advertising display panels covering 11 cities in the entire Hebei province in the future, contributing a considerable income for the Group's value-added business such as advertising. In August 2011, the Group entered in to a cooperation agreement with Beijing Huaxia Innomedia Technology Co., Ltd. ("Beijing Huaxia") to jointly operate and develop the advertising business and value-added services of the digital mobile television project and 60,000 electronic display panels in Hebei province for a period of 10 years. For the cooperation business, Beijing Huaxia will contribute a cooperation development fee of RMB200 million to accelerate the development of the project and will share 50% gross revenue from the Group out of its profit portion after sharing with HDMTV.

The Group's existing operation right on value-added business covers areas such as Anhui and Nanchang of Jaingxi provinces. The Group has signed contracts on establishment and operation of value-added business for 550 million cable television subscribers. As in Hebei province and Datong of Shanxi province, the Group has signed contracts on establishment and operation of basic television business for 370 million cable television subscribers. In addition, the Group also signed contracts on wireless mobile digital television operation in Hebei province, which includes operation for value-added businesses such as 60,000 advertising display panels in public areas.

The Group's core business direction is to become an integrated operator in television broadcasting business, mainly as an integrated network business operator. As in Hebei province, the Group provides equipment worthy of RMB550 to each digital subscriber for a term of partnership of 15 years and share the gross revenues based on the proportion of 80% for the first 5-years, 60% for the next 5-years and 50% for the third 5-years.

On top of the above, other value-added revenues, such as revenues from advertising and broadband services, are also shared in proportion to net revenues. In areas such as Anhui and Nanchang of Jiangxi, based on the investment for equipment of approximately RMB500 per household, upon the completion of the network construction of "three networks integration", revenues will mainly come from the revenues allocated through value-added business segment excluding basic subscription fees, such as electronic payment, home online games, broadband service, HD television, pay-television and videophone. For instance, in Anhui province, the term of partnership is 12 years, and the Group shares the revenues based on the proportion of 70% for the first three-years, 50% for the next three-years, and 40% for the last six-years. In addition to the above, the Group also shares a portion of revenues from basic subscription fees. The basic subscription fee for the second television set for all household in Anhui province is approximately RMB3 per month for each household, and such income will solely be allocated to the Group. With reference to the financial information and data of other television operators, the Group's value-added revenues will be twice of the basic revenues. As such, through the operation model mentioned above, the Group is able to maintain sufficient cash flow, and will reap the benefit of the huge revenues from value-added business in the future.

With the growth of the Group's business, the Group has established its operation model as a television operator with the construction of television network and the sharing of revenue from basic subscription fees as its principal activities together with profit sharing from network construction of "three networks integration" and revenues from value-added business. At the same time, the Group will also maintain its current cash inflow from the basic subscription fees and consider the profit potential from the future value-added business. Under the direction for this type of business, the Group actively expands into new markets while carrying out network construction in contracted regions. In May 2011, it entered into cooperation agreements with Tianzhen and Yanggao counties of Datong, Shanxi province for pilot sites construction for basic television network, which further expanded the coverage of the construction and operation of television broadcast network.

In summary, the Group's television operation model has the following characteristics:

- By way of project collaboration, the Group contributes the equipment for the collaboration projects but does not hold any equity interest in the television broadcast operators, not involved in the broadcasting contents and the management and operation of the network companies. As such, the Group avoids the restrictions imposed by national policies on foreign investment in equity interests of television operation

- By adopting direct profit sharing, the Group and the local television operators bear the operation costs on their own and directly share the revenues received instead of sharing of net profit to avoid the existing liabilities and financial burdens of these television network companies. The Group is able to achieve sound cash flow and high investment return, as the Group only needs to bear the depreciation expenses of investment in equipment and its own operating costs. Meanwhile, the local network companies are able to achieve the greatest return on equity.

- There are a number of characteristics for the Group's selected areas of collaboration. Firstly, the local network companies have rather high liabilities and are eager to lessen their liabilities through business growth. Secondly, the areas where the television network covers have such characteristics as high population density, low proportion of subscription fees in disposable income per capita, and rapid economic growth. Currently, the regions in central China have these characteristics. Thirdly, cable television network users count for a smaller proportion in these areas, which means there is huge potential for growth. Fourthly, the geographical features of these areas are mainly flatlands and hills, which allows higher investment returns for cable network coverage.

- Business co-operations with the Group bring about new development opportunities and business management mechanisms for local television broadcasting networks in addition to the knowledge on the development of local television broadcasting networks, to which the leaders of television administration at a higher level is looking forward to and which constitute the significant reasons for their aggressive implementation of the co-operations.

Currently, the regions featured as aforesaid are mainly located in the central part of the PRC, for which reason, the Group's business co-operations of cable television operation are focused in such regions as Jiangxi, Anhui, Hebei and Shanxi provinces. Other regions with the characteristics above include Shanxi, Sichuan, Henan, Guangxi, Fujian and Tianjin. It proves that the Group's business development model, with satisfactory sustainability and replicability, in well tuned with the current development of broadcasting in the PRC.

With the rapid development of the businesses of television broadcasting operation, the Group repositioned and accelerated the expansion of its organisational structure. The subsidiaries of the Group engaged in different types of businesses, which complemented and supported each other. On the basis of the roles of subsidiaries, they can be classified into different categories: subsidiaries responsible for basic operation and for construction and maintenance of networks; subsidiaries responsible for value added businesses of market exploration and operation, whose major tasks include cooperation with providers of value added services in order to introduce for operation valuable value added services into the networks constructed by the Group, while integrating the resources for sales for advertising income of end-users invested by the Group on the general market, and subsidiaries responsible for the development of new businesses and products. These subsidiaries develop new products and technologies in accordance with the resources of operating networks as contracted and are currently developing proactively products such as USB for television for terminals of HDMTV as well as terminal products for television installed on vehicles. Apart from the aforesaid subsidiaries, the Group's existing principal businesses include encrypted integrated security circuits and wireless audio broadcasting circuits and products. Through the distinctive roles of and co-operations across different subsidiaries, the Group has been able to maximise synergy and revenues from the operational business of broadcasting television networks and ensure the proper operation of every television broadcasting projects.

Wireless digital terrestrial television network equipment integration business

The wireless digital television market in Hunan and Hubei provinces is booming. During the year ended 30 June 2011, the Group has achieved the largest market share in the supply of transmission ends and terminal equipment in the wireless digital television market in both provinces. The network construction of these two television broadcast operators is still in the initial stage. Upon the optimisation of coverage, the number of users will record a significant growth. In view of the funding constraints of these two television broadcast operators in the coming three years, the Group has well communicated and made agreements of early repayment with its customers. In addition, the Group will also cooperate with its business partners for the collection of its receivables. Up to now, the Group has fully collected its receivable from Hunan Mobile TV.

Information safety technology business

During the year ended 30 June 2011, the focus on the market of telecommunication business was precise environment control for the base stations . As a selected enterprise of China Telecom Group, the Group participated in the construction of telecommunication base stations in Yunnan, Jiangsu, Hebei, Heilongjiang, Henan and Zhejiang provinces. Despite that the turnover was not significant up to date, the Group has entered into a huge telecommunication operators' market with hundreds of billions' turnover every year. With the promotion of three networks integration in telecommunication, the business focus of the three largest operators has shifted to mobile internet and fiber to the home ("FTTH"). The Group's newly developed base environment-controlling products and optical fiber quick connectors completely suits the business modes of these telecom operators. In addition, the Group has been named in centralized purchases of China Unicom and China Telecom Corporation and had already won the bid and commenced the supply to the Jilin branch of China Unicom. The telecommunication business will definitely be a new highlight of the Group in the future.

The system integration project has brought much contribution to such areas as medical services, plant integration, and government's centralized procurement by utilising the Group's leading encryption technology. With the growing coverage and continuous improvement of remote medical projects, the Group will continue to provide systems and equipment, and supporting software to service providers. The Group has been shortlisted and won the bids in several large government procurements such as Beihang University, China Southern Airlines, Xinhua Airlines, and universities, and these projects are progressing well. The Group also managed to gain a larger market share by collaborating with its business partner in large infrastructure tenders.

The satisfactory sales of the Group's self-developed software marks its success in technology development in the past three years. The application markets of account management, network management, precise control, and medical management are expanding. Demand from existing customers maintains a steady growth, and the prospect is optimistic. As the contribution to the technology development of the Group since its establishment, the Group will maintain its strong collaboration with various technology partners such as Tsinghua University, Beijing University of Technology, Beijing Institute of Technology, Beijing University of Posts and Telecommunications to develop new and useful technologies, applications, and functions in such areas as digital video, users management, encrypted algorithm, automation management, information management, cloud computing, and provide advanced, applicable, high-quality, tailor-made technology services to its customers.

Wireless multimedia transmission baseband integrated circuits

During the quarter ended 30 June 2011, the demand from overseas customers in this business segment has further increased as a result of the stronger demand from both domestic and overseas markets. 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. During the financial year, the export market of this segment has improved. The export sales in the fourth quarter of the financial year 2010/2011 has increased substantially compared to those of the first three quarters, and the number of approved projects increased two to three times.

III. PROSPECTS

The business plan of the Group for the future is to develop as the top three operators of television broadcasting integrated businesses in the PRC. The Group will engage in full-scale basic television broadcasting business, television broadcasting value-added business and wireless television broadcasting business as well as satellite business according to the characteristics of the broadcasting television subscribers in different regions in mainland China.

In accordance with the policies of the State Administration of Radio, Film, and Television of the PRC, the broadcasting of all analog televisions shall cease and the digitalisation for broadcasting television networks shall be completed by 2015 for all regions, thereby marking an opportunity for significant development in the Group's history of operation of broadcasting television businesses by 2015. The Group will accelerate the expansion of broadcasting television operational business in the regions where the Group operates. The Group aims to enter into contracts consecutively with two to four provinces for the construction and operation of broadcasting television network integrated businesses in a total of six to eight provinces by 2013. It is expected that the construction of the network with 30 million broadcasting television subscribers would be completed by 2015, bringing tens of billions of revenue to the Group every year.

2012 is a year of continuing success of the Group's broadcasting operational business. The Group will reinforce and properly operate the networks for its contracted broadcasting television subscribers, while building a foundation for achieving the overall objectives of development of the Group. With the current progress of network construction, it is expected that the construction of network for 1.7 million cable basic broadcasting television subscribers and 1.5 million cable value-added broadcasting television subscribers and 30,000 electronic signboard within the contracted regions will be completed by 2012. Moreover, approximately 3 million new broadcasting television subscribers will be entered into contracts in the near future, generating a promising growth in profit and long-term value for the Group. The Group has the philosophy of market-oriented development based on technology with quality services as profit driver. This will assist the Group in maintaining its competitive edges and its sustainability.

For the development of wireless television business, the Group shall explore new markets and at the same time maintain its existing businesses, and actively expand its overseas market share for higher profit while keeping the largest share in the domestic market.

Although facing tense competition, the Group's first own product MOCA obtained network access from the State Administration of Radio, Film and Television and attained wide recognition from different levels of television operators, including Hebei selection, Hubei selection, Sichuan selection, Jiangxi selection, Shanxi selection, Shaanxi selection, Xinjiang selection, Liaoning selection, Heilongjiang Agricultural Reclamation selection. Under the environment of three networks integration, MOCA cable projects are yielding positive results, with orders for 1 million units, sales amount of approximately RMB600 million and expected gross profit margin of 20% in Hubei province in the coming three years. The Group entered into an agreement with value of RMB150 million in Panjin, Liaoning province and the project with the value of RMB tens of millions in Xiuyan, Liaoning province also commenced. It is expected that RMB hundreds of millions of sales from Liaoning province will be recorded in the coming three years. The Group was named as a qualified supplier in the Hebei selection, and is expected to generate RMB80 million of sales within 3 years with gross profit margin of around 18%. The Group won the bid and commenced the supply in Heze and Jining of Shandong Province. The Group won the bids in Sichuan, Xinjian, Heilongjiang with the sales of RMB hundreds of millions in the coming three years and expected gross profit margin of 20%. The Group will be able to achieve revenues from sales of more than RMB1 billion and gross profit of RMB hundreds of millions in the cable television market in three to five years.

For telecommunication business, the Group targets to capture more market shares and create new profit driver, and commenced to arrange its human resources, material resources and financial resources for the development of its own products and the joint production with foreign manufacturers to meet the demand on solution products for mobile internet and FTTH projects from three major telecommunication operators, namely China Mobile, China Telecom and China Unicom. It is expected that this strategy will bring RMB hundreds of millions of sales and considerable gross profit to the Group within three years. In the coming three years, the Group will definitely continue to expand, upgrade and explore the Group's technological know-how gained throughout these years, and to identify customers' new demand and new customers. These are all essential to the sustainable development of the Group.

The wireless digital audio integrated circuit segment will see orders for mass production from new projects in the coming quarter and many enterprises are exploring new profit driver after the crisis. The number of new customers in the export segment has been significantly increased. It is expected that the segment can greatly expand its market share. Among all, Apple accessories project will become a highlight to the Group's business growth. The Group has been planning to explore the domestic market to expand the domestic market share before it suffered from the adverse impact on the export market, and has achieved remarkable results in terms of market shares and sales volume. While commencing its mass production for the projects of two domestic listed companies in the third quarter of 2011, it will be a great start for the domestic sales market. The segment will strive to enter into new consumer and automotive electronics markets in order to bring new profit driver for the Group.

With new opportunities constantly availing for the Group and the Group's improved cash position, the challenge will be to prioritise and allocate its resources efficiently to maximise value for its shareholders.

FINANCIAL REVIEW

For the year ended 30 June 2011, the Group recorded a consolidated turnover of approximately HK$676.6 million, representing an increase of approximately 3.6% as compared to HK$653.3 million in the last financial year. Profit attributable to shareholders of the Company was approximately HK$201.9 million, an increase of approximately 11.5% compared to approximately HK$181.0 million in the last financial year. Basic earnings per share was approximately HK9.50 cents, a decrease of approximately 17.4% compared to approximately HK11.50 cents for the last financial year.

Revenue

During the year ended 30 June 2011, the revenue of the Group was principally derived from the following business segments.

(i) Digital cable television business

The revenue for the year ended 30 June 2011 generated from the digital cable television business amounted to approximately HK$167.1 million (2010: HK$103.7 million) or approximately 25% (2010: 16%) of the total revenue for this fiscal year, approximately HK$70.9 million represents revenue generated from the Group's direct operation in the new co-operative business in relation to television broadcasting basic subscription service and approximately HK$102.3 from value added services. (2010: Nil) *(ii) Encrypted integrated circuits and the derived integrated business*

The revenue for the year ended 30 June 2011 generated from the encrypted integrated circuits and the derived integrated business amounted to approximately HK$265.1 million (2010: HK$108.1 million) or approximately 39% (2010: 16%) of the total revenue.

(iii) Wireless digital audio products business

The revenue for the year ended 30 June 2011 generated from the wireless digital audio products business and the related technical services amounted to approximately HK$187.8 million (2010: HK$108.3 million) or approximately 28% (2010: 17%) of the total revenue.

(iv) Wireless digital terrestrial television network equipment integration business

The revenue for the year ended 30 June 2011 generated from the wireless digital terrestrial television network equipment integration business amounted to approximately HK$56.7 million (2010: HK$333.2 million) or approximately 8% (2010: 51%) of the total revenue. Due to the Group's repositioning and emphasis in the more sustainable television broadcoasting operational business in (i) above, business in this segment contracted significantly in the year.

Gross Profit Margin

Gross profit margin of the Group was approximately 46.3% (2010: 40.3%).

Other Income

Other income amounted to approximately HK$29.6 million (2010: HK$1.1 million). The increase is mainly attributable to the fact that gain on disposal of financial assets at fair value through profit or loss of approximately HK$11.0 million and effective interest income from trade receivables of approximately HK$15.5 million were recorded during the financial year.

Other Operating Expenses

Other operating expenses were approximately HK$87.4 million for the financial year ended 30 June 2011, compared to approximately HK$44.7 million for the financial year ended 30 June 2010. The increase is mainly due to the increase of staff costs (see Employee Information below), impairment loss on trade receivables and other office expenses as a result of expansion of the Group.

Finance Costs

Finance costs amounted to approximately HK$16.3 million (2010: HK$11.0 million), of which approximately HK$15.2 million (2010: HK$9.2 million) represents non-cash effective interest expenses on convertible notes issued by the Company before their full conversions.

Trade receivables

Total trade receivables amounted to approximately HK$567.8 million (2010: HK$679.9 million), representing a decrease of approximately 16% compared to the last financial year. The trade receivables and their recoverability resulting from the cooperation of the Group and the provincial television broadcasting operators follow with the business practices of domestic business enterprises.

EMPLOYEE INFORMATION

As at 30 June 2011, the Group had 141 full-time employees in Hong Kong and the PRC (2010: 117). The total employees' remuneration, including that of the Directors, amounted to approximately HK$27.4 million (2010: HK$12.4 million). The increase in staff costs recorded for the financial year was primarily attributable to the inclusion in the accounts of share based payment of approximately HK$10.3 million related to the grant of the share options under the share option scheme of the Company in the current financial year.

The Group continues to provide remuneration packages to employees according to market practices, their experience and performance. Remuneration policy is basically determined with reference to individual performance as well as the financial results of the Group. Remuneration to staff will be revised from time to time when warranted considering the performances of staff. Other benefits include medical insurance scheme and contribution of statutory mandatory provident fund for the employees. The Group also has a share option scheme whereby qualified participants may be granted options to acquire shares of the Company. There has been no major change in staff remuneration policies during the year ended 30 June 2011.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

The Group primarily financed its operations with internally generated cash flows. As at 30 June 2011, the cash and bank balances of the Group amounted to approximately HK$288.5 million (2010: HK$65.4 million). The Renminbi denominated balances of approximately HK$205.5 million (2010: HK$37.8 million) were placed with licensed banks in the PRC and the conversion of these balances into foreign currencies is subject to the rules and regulation of foreign exchange control promulgated by the PRC government.

During the year ended 30 June 2011, the Group has net cash inflow of approximately HK$13.7 million (2010: cash outflow of HK$103.0 million) from its operating activities, net cash outflow of approximately HK$192.5 million (2010: HK$19.2 million) from its investing activities and net cash inflow of approximately HK$396.9 million (2010: HK$94.4 million) from its financing activities.

As at 30 June 2011, the Group had current assets of approximately HK$1,124.4 million (2010: HK$551.8 million), while its current liabilities were approximately HK$216.4 million (2010: HK$306.5 million). The current ratio (current assets to current liabilities) of the Group was approximately 5.20 (2010: 1.8); and its gearing ratio (total borrowings over shareholders' funds) was approximately 0.01 (2010: 0.03).

During the year ended 30 June 2011, an aggregate of 923,189,991 new shares were issued by the Company, of which 200,000,000 from share placement (see below), 60,923,427 from bonus issue as dividend, 98,716,666 from exercise of share options, 78,138,443 as consideration shares for the acquisition of remaining 7% in Beijing Jinqiao Group (see below) and 485,410,455 from conversion of convertible notes (see below).

On 14 September 2010, the Company, Team Effort Investments Limited ("Team Effort") and DBS Asia Capital Limited (the "Placing Agent") entered into another placing agreement pursuant to which Team Effort has agreed to place, and the Placing Agent has agreed to procure not less than six placees, on a best effort basis, for the purchase of up to 200,000,000 shares of the Company at the placing price of HK$0.75 per placing shares (the "Placing"). On the same date, the Company and Team Effort entered into a "top-up" subscription agreement pursuant to which Team Effort has agreed to subscribe for such number of subscription shares which is equivalent to the number of shares actually placed under the Placing, being a maximum number of 200,000,000 subscription shares at the subscription price of HK$0.75 per subscription share (the "Subscription"). Details of these transactions are set out in the Company's announcement dated 14 September 2010. The Placing was completed on 16 September 2010 and the Subscription was completed on 24 September 2010 respectively. Approximately HK$148 million was raised from the Placing for the digital cable television two-way conversion business and the general working capital of the Group.

On 4 December 2009, the Company issued an aggregate of HK$264,725,020 principal amount of zero coupon convertible notes (the "Convertible Notes") pursuant to the terms of the sale and purchase agreements dated 19 June 2008 upon fulfillment of the fourth payment condition of the "Jinqiao Acquisition" and "Maxium Acquisition". Further details are set out in the Company's announcement dated 4 December 2009. On 30 December 2010, an aggregate of HK$159,700,040 principal amount of convertible notes was converted into 485,410,455 ordinary shares of the Company at the adjusted conversion price of HK$0.329 per conversion share. As at 30 June 2011, the outstanding principal amount of such convertible notes was HK$105,024,980.

On 7 December 2010, Star Hub Investments Limited, a wholly-owned subsidiary of the Company (as the Purchaser) and Wealtheme Limited (as the Vendor) entered into a sale and purchase agreement, pursuant to which the Purchaser conditionally agree to acquire and the Vendor conditionally agree to dispose of the entire issued share capital of Wisest Yield, for a consideration of approximately HK$105.0 million (the "Acquisition"). The Acquisition was completed on 30 December 2010 and the consideration was satisfied by the issue of 78,139,000 ordinary shares of the Company. Details are set out in the announcement of the Company dated 7 December 2010 and 30 December 2010.

On 28 December 2010, an aggregate of HK$200,000,000 principal amount of redeemable convertible notes were issued to Sandmartin International Holdings Limited. Further details are set out in the Company's announcement dated 17 December 2010. The notes carry zero coupon and convertible into ordinary shares of the Company at an initial conversion price of HK$2.00 per conversion share (subject to pro-rata adjustments on capital structure changes) at any time during the period commencing from the date immediately after the expiry of six months from the date of issue of convertible notes. Unless previously converted, lapsed or redeemed by the Company, any outstanding convertible notes shall be redeemed on the second anniversary of the issue date of the convertible notes.

On 29 December 2010, the Company entered into the Equity Line of Credit Agreement ("the Credit Agreement") with GEM Global Yield Fund Limited ("GEM Global") and GEM Management Limited ("GEMML"), pursuant to which the Company has been granted an option to require GEM Global to subscribe for up to HK$400 million worth of shares of the Company at the average closing price of the Shares in accordance with and structured under the Equity Line of Credit during the commitment period. Further details are set out in the Company's circular dated on 20 January 2011. On 17 February 2011, the Company issued a promissory note of HK$8,000,000 to GEMML as commitment fee pursuant to the Credit Agreement. The promissory note is interest bearing at 8% per annum and payable on or before 28 December 2011.

FOREIGN EXCHANGE EXPOSURE

During the year ended 30 June 2011, the majority of the Group's income and expenses were denominated in Renminbi and Hong Kong dollars. Up to 30 June 2011, the management of the Company is of the opinion that the Group has insignificant exposure to foreign exchange risk. As a result, the Group did not use any financial instruments for hedging against fluctuation in foreign exchange for the year ended 30 June 2011. Nevertheless, the management of the Company will closely monitor and from time to time reassess the exchange risk exposures of the Group and enter into non-speculative hedging arrangements if considered necessary.

CHARGES ON GROUP ASSETS

As at 30 June 2011, the Group did not have any charge on its assets.

CONTINGENT LIABILITIES

The Company was named as a co-defendant in a writ of summons on 20 December 2007. The plaintiff alleged that the Company:

(i) failed to honour a joint and several guarantee in respect of the liability of the defendants under a forbearance agreement to the extent of HK$25,000,000; and

(ii) failed to honour two cheques dated 30 June 2007 and 31 October 2007 in the sum of HK$2,500,000 each, totaling HK$5,000,000 plus interests and costs given by a former Director (the "2nd Defendant") in his personal capacity out of a bank account which had been by then formally closed by the Company.

The Company filed its defence on 28 March 2008 and witness statement on 30 July 2009. The witness statements had been exchanged. The trial hearing took place on 24 November 2010 and attempts have been made by the plaintiff and the 2nd defendant 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 took place 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 for about 7 days from 4 January 2012. Based on the advice from the Group's legal counsel, 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 Directors are of the view that the Company has a valid defence to the claims and, accordingly, have not made provision for any claim arising from the litigation, other than the related legal and outgoing costs.

Apart from the action against the Company disclosed above, there were no other material outstanding writ and litigation against the Group and/or the Company. As at 30 June 2011, the Group had no other significant contingent liabilities.

ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENT

Apart from the acquisition of the remaining 7% equity interest in the Beijing Jinqiao Group completed on 30 December 2010, the Group had no material acquisitions or disposals of subsidiaries or significant investment during the year ended 30 June 2011. Details of the acquisition are set out in the announcement of the Company dated 7 December 2010.

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

As at 30 June 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:

Name of Directors and the chief executive	Capacity	Number of Shares	Number of underlying Shares	Approximate percentage of interests in the issued share capital *(Note 1)*
Mr. Xiao Yan	Beneficial owner	—	3,773,334	0.15%
Mr. Feng Yongming	Beneficial owner	—	1,500,000	0.06%
Mr. Li Tao	Beneficial owner	—	1,500,000	0.06%
Mr. Xu Lei	Beneficial owner	—	800,000	0.03%
Mr. Leung Wo Ping	Beneficial owner	—	800,000	0.03%
Mr. Dong Shi	Beneficial owner	—	800,000	0.03%
Mr. Hu Dingdong	Beneficial owner	—	800,000	0.03%
Mr. Wu Fred Fong *(Note 2)*	Beneficial owner	3,466,666	1,500,000	0.20%

Notes:

(1) Underlying shares represent share options granted to the Directors and the chief executive of the Company pursuant to share option scheme of the Company.

(2) Mr. Wu Fred Fong has resigned as the chief financial officer of the Company and acts as a consultant of the Company with effect from 18 July 2011.

Save as disclosed above, at no time during the year ended 30 June 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 maintained by the Company pursuant to section 336 of the SFO recorded that, as at 30 June 2011, the following persons (not being a Director, chief executive or substantial shareholder of the Company) had an interest or short position in the Shares, underlying Shares or debentures which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was expected, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of the Company or any other members of the Group or held any option in respect of such capital and recorded in the register kept by the Company pursuant to section 336 of the SFO:

Long positions in shares and underlying 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 *(Note 1)*	623,690,451 (L)	Interest in controlled corporation	25.08%
Team Effort Investments Limited *(Note 1)*	623,690,451 (L)	Beneficial owner	25.08%
Li Haoping *(Note 2)*	403,863,306 (L)	Interest in controlled corporation	16.24%
Lomond Group Limited *(Note 2)*	357,724,863 (L)	Interest in controlled corporation	14.38%
Easy Mount Enterprises Limited *(Note 2)*	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. Easy Mount Enterprises Limited ("Easy Mount") is a company incorporated in the BVI with limited liability. The entire issued share capital of Easy Mount is owned as to 85% by Lomond Group Limited ("Lomond Group") and 15% by Mr. Ho Wai Jung. Lomond Group is wholly owned by Mr. Li Haoping ("Mr. Li"). Lomond Group 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. The convertible notes are part of the consideration issued to Easy Mount upon satisfaction of certain conditions pursuant to a sale and purchase agreement in relation to shares of Star Hub Investments Limited entered by the Company, among others, and Easy Mount on 19 June 2008. The convertible note is transferable provided that each of the transfer shall not be less than HK$5,000,000.00 or its multiples. Mr. Li is also deemed to be interested in the 38,500,000 shares held by Lomond Group and 46,138,443 shares held by Wealtheme Limited. Wealtheme Limited is also wholly owned by Mr. Li.

Save as disclosed above, the Directors or the chief executive of the Company were not aware that there was any person (not being a Director or chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares, underlying Shares or debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was expected, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of the Company or any other members of the Group or held any option in respect of such capital and recorded in the register kept by the Company pursuant to section 336 of the SFO.

CORPORATE GOVERNANCE PRACTICES

The corporate governance principles of the Company emphasize a quality board, sound internal controls, transparency and accountability to all shareholders. Throughout the financial year ended 30 June 2011, the Group has applied the principles set out in the Code on Corporate Governance Practices ("HKSE Code") contained in Appendix 15 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited ("GEM Listing Rules") except the code provision A2.1:

Distinctive Roles of Chairman and Chief Executive Officer

The code provision A2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

Mr. Xiao Yan as the Chief Executive Officer of the Company, supported by the senior management, is responsible for managing the Group's businesses and responsibilities, implementing major strategies, executing the Board decisions and coordinating the daily operations of the Group. Up to the date of this announcement, the Board has not appointed an individual to the post of Chairman. In view of the current operations of the Group, the management considered that there is no imminent need to change the arrangement. Further announcement will be made by the Company with regard to the appointment of a new Chairman of the Company in due course.

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

AUDIT COMMITTEE

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

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

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules as its Code of Conduct for Securities Transactions by Directors throughout the year ended 30 June 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 year ended 30 June 2011.

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

During the year ended 30 June 2011, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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

Hong Kong, 27 September 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.