HENGXIN
恒芯中國

Heng Xin China Holdings Limited
恒芯中國控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 8046)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 31 DECEMBER 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.

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 GEM of the Stock Exchange (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 revenue of approximately HK$421.1 million for the six months ended 31 December 2011, representing an increase of approximately 32.4% when compared with that of the same period in 2010. Overall, both revenue and net profit of the second quarter exceeded that of the corresponding quarter in the previous financial year.

- The Group recorded an unaudited profit attributable to the equity holders of the Company of approximately HK$121.2 million for the six months ended 31 December 2011, representing an increase of approximately 53.9% when compared with that of the same period in 2010. The profit attributable to the equity holders of the Company amounted to approximately HK$59.6 million for the current three-month period ended 31 December 2011, representing a slight decrease of approximately 3.3% compared to approximately HK$61.6 million in the previous quarter.

- Basic earnings per share of the Company was approximately HK4.87 cents for the six months ended 31 December 2011, representing an increase of approximately 6.3% when compared to HK4.58 cents of the same period in 2010.

- The Board does not recommend the payment of an interim dividend for the six months ended 31 December 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 six months ended 31 December 2011 together with the comparative unaudited figures for the corresponding periods in 2010.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Three months ended 31 December		**Six months ended 31 December**	
		2011	2010	**2011**	2010
		(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	Note	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue	*3*	**245,710**	235,787	**421,135**	318,164
Cost of sales		**(178,859)**	(162,232)	**(239,104)**	(204,017)
Gross profit		**66,851**	73,555	**182,031**	114,147
Other income	*3*	**32,757**	6,559	**32,812**	8,056
Selling and marketing expenses		**(14,762)**	(1,242)	**(17,389)**	(2,449)
Other operating expenses		**(19,847)**	(11,375)	**(42,572)**	(20,611)
Finance costs	*4*	**(3,661)**	(4,437)	**(7,307)**	(8,862)
Profit before taxation	*5*	**61,338**	63,060	**147,575**	90,281
Taxation	*6*	**(1,756)**	(6,837)	**(26,347)**	(6,837)
Profit for the period		**59,582**	56,223	**121,228**	83,444
Other comprehensive income:					
Exchange differences on translating foreign operations		**2,985**	10,777	**23,378**	17,344
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**62,567**	67,000	**144,606**	100,788
Profit attributable to:					
Owners of the Company		**59,582**	53,612	**121,228**	78,783
Non-controlling interest		**—**	2,611	**—**	4,661
		59,582	56,223	**121,228**	83,444
Total comprehensive income attributable to:					
Owners of the Company		**62,567**	63,830	**144,606**	95,159
Non-controlling interests		**—**	3,170	**—**	5,629
		62,567	67,000	**144,606**	100,788
Earnings per share (expressed in HK cent)	*7*				
— basic		**2.40**	2.88	**4.87**	4.58
— diluted		**2.36**	2.36	**4.74**	3.85
Dividends	*8*	**—**	—	**—**	—

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2011 (Unaudited) *HK$'000*	As at 30 June 2011 (Audited) *HK$'000*
Non-current assets			
Property, plant and equipment	*9*	**212,418**	123,215
Goodwill		**753,146**	753,146
Intangible assets	*10*	**153,920**	77,772
Deposits for acquisition of property, plant and equipment		**33,188**	32,739
Trade receivables	*11*	**—**	57,807
		1,152,672	1,044,679
Current assets			
Inventories		**57,217**	7,098
Bills receivables		**14,136**	—
Trade receivables	*11*	**612,269**	509,956
Prepayment, deposits and other receivables		**602,222**	260,062
Financial assets at fair value through profit or loss		**4,380**	8,550
Amount due from a related company		**—**	50,257
Cash and cash equivalents		**152,615**	288,477
		1,442,839	1,124,400
Current liabilities			
Trade payables	*12*	**171,692**	125,164
Other payables and accruals		**243,334**	29,098
Promissory note		**8,000**	8,000
Obligation under finance lease		**391**	375
Other borrowings		**—**	12,041
Tax payables		**67,823**	41,675
		491,240	216,353
Net current assets		**951,599**	908,047
Total assets less current liabilities		**2,104,271**	1,952,726
Non-current liabilities			
Obligation under finance lease		**311**	511
Deferred tax liabilities		**1,983**	1,983
Convertible notes	*13*	**271,643**	264,504
		273,937	266,998
NET ASSETS		**1,830,334**	1,685,728
Capital and reserves			
Share capital		**24,871**	24,871
Reserves		**1,805,463**	1,660,857
TOTAL EQUITY		**1,830,334**	1,685,728

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited										
	Attributable to the owners of the Company										
	Share capital *HK$'000*	**Share premium** *HK$'000*	**Capital reserve** *HK$'000*	**Exchange fluctuation reserve** *HK$'000*	**Other reserve** *HK$'000*	**Share options reserve** *HK$'000*	**Convertible notes reserve** *HK$'000*	**Retained earnings** *HK$'000*	**Total** *HK$'000*	**Non-controlling interests** *HK$'000*	**Total equity** *HK$'000*
Balance at 1 July 2010	15,639	491,372	2,325	3,905	—	1,696	300,800	242,306	1,058,043	29,575	1,087,618
Issue of new shares	2,781	252,315	—	—	—	—	—	—	255,096	(34,871)	220,225
Issue of convertible notes	—	—	—	—	—	—	14,917	—	14,917	—	14,917
Conversion of convertible notes	4,854	288,059	—	—	—	—	(181,463)	—	111,450	—	111,450
Bonus issue of shares as final dividend	610	(610)	—	—	—	—	—	—	—	—	—
Share options exercised	920	66,365	—	—	—	(845)	—	—	66,440	—	66,440
Share issue expenses	—	(1,809)	—	—	—	—	—	—	(1,809)	—	(1,809)
Recognition of share-based payments	—	—	—	—	—	669	—	—	669	—	669
Total comprehensive income for the six months ended 31 December 2010	—	—	—	17,344	—	—	—	78,783	96,127	5,629	101,756
Balance at 31 December 2010	24,804	1,095,692	2,325	21,249	—	1,520	134,254	321,089	1,600,933	333	1,601,266
Balance at 1 July 2011	24,871	1,107,946	2,325	40,861	(79,992)	11,215	134,254	444,248	1,685,728	—	1,685,728
Total comprehensive income for the six months ended 31 December 2011	—	—	—	23,378	—	—	—	121,228	144,606	—	144,606
Balance at 31 December 2011	**24,871**	**1,107,946**	**2,325**	**64,239**	**(79,992)**	**11,215**	**134,254**	**565,476**	**1,830,334**	**—**	**1,830,334**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 31 December	
	2011	2010
	Unaudited	Unaudited
	HK$'000	*HK$'000*
Net cash from operating activities	**31,271**	29,952
Net cash used in investing activities	**(165,687)**	(168,532)
Net cash (used in)/from financing activities	**(12,349)**	441,346
Net (decrease)/increase in cash and cash equivalents	**(146,765)**	302,766
Cash and cash equivalents at 1 July	**288,477**	65,401
Effect of foreign exchange rate changes	**10,903**	15,243
Cash and cash equivalents at 31 December	**152,615**	383,410
Analysis of balances of cash and cash equivalents		
Cash at bank and in hand	**152,615**	383,410

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 digital cable television business, wireless digital television value-added services, wireless digital terrestrial television network equipment integrated business, research, design, development on and manufacturing of electronic message security products, integrated circuits, and the integrated circuit solutions and the related services.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited consolidated financial statements for the six months ended 31 December 2011 have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and comply with the applicable disclosure provisions of the GEM Listing Rules.

The unaudited consolidated financial statements have been prepared on the historical cost basis except for the financial instruments, which are measured at fair value. The accounting policies and methods of computation used in the preparation of the unaudited consolidated financial statements are consistent with those used in the annual financial statements for the year ended 30 June 2011. These unaudited consolidated financial statements should be read in conjunction with the Company's annual report for the year ended 30 June 2011. Those new accounting standards, amendments to accounting standards and interpretations which are mandatory for financial year ending 30 June 2012 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.

3. REVENUE AND SEGMENT INFORMATION

Revenue recognised by category during the three and six months ended 31 December 2011 are as follows:

	Three months ended 31 December		Six months ended 31 December	
	2011	2010	**2011**	2010
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Revenue				
Digital cable television business	**25,232**	—	**73,622**	—
Wireless digital television value-added services	**—**	—	**51,565**	—
Wireless digital terrestrial television network equipment integration business	**125,514**	103,424	**125,514**	127,120
Encrypted integrated circuits and the derived integrated business	**16,770**	51,827	**44,289**	79,705
Wireless digital audio products business	**78,194**	80,536	**126,145**	111,339
	245,710	235,787	**421,135**	318,164
Other income				
Bank interest income	**483**	31	**538**	77
Sundry income	**32,274**	5,817	**32,274**	7,268
Realised gain on trading of listed securities	**—**	711	**—**	711
	32,757	6,559	**32,812**	8,056

The segment results for the six months ended 31 December 2011 are as follows:

	Digital cable television business *HK$'000* (Unaudited)	Wireless digital television value-added services *HK$'000* (Unaudited)	Wireless digital terrestrial television network equipment integration *HK$'000* (Unaudited)	Encrypted integrated circuits *HK$'000* (Unaudited)	Wireless digital audio integrated circuits *HK$'000* (Unaudited)	Total *HK$'000* (Unaudited)
Revenue						
Segment revenue from external customers	**73,622**	**51,565**	**125,514**	**44,289**	**126,145**	**421,135**
Segment results	**43,619**	**42,928**	**(348)**	**49,351**	**39,020**	**174,570**
Unallocated income						**6**
Unallocated expenses						**(19,694)**
Finance costs						**(7,307)**
Profit before taxation						**147,575**
Taxation						**(26,347)**
Profit for the six months ended 31 December 2011						**121,228**

The segment results for the six months ended 31 December 2010 are as follows:

	Wireless digital terrestrial television network equipment integration *HK$'000* (Unaudited)	Encrypted integrated circuits *HK$'000* (Unaudited)	Wireless digital audio integrated circuits *HK$'000* (Unaudited)	Total *HK$'000* (Unaudited)
Revenue				
Segment revenue from external customers	127,120	79,705	111,339	318,164
Segment results	24,651	64,398	15,752	104,801
Unallocated income				8,056
Unallocated expenses				(13,714)
Finance costs				(8,862)
Profit before taxation				90,281
Taxation				(6,837)
Profit for the six months ended 31 December 2010				83,444

4. FINANCE COSTS

	Three months ended 31 December		Six months ended 31 December	
	2011	2010	**2011**	2010
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Effective interest expenses on convertible notes *(note 13)*	**3,570**	4,106	**7,140**	8,153
Interest element of finance leases	**16**	22	**32**	46
Interest on loan from a shareholder	**75**	—	**135**	354
Interest on bank loans	**—**	309	**—**	309
	3,661	4,437	**7,307**	8,862

5. PROFIT FOR THE PERIOD

The Group's profit for the period has been arrived at after charging:

	Three months ended 31 December		Six months ended 31 December	
	2011	2010	**2011**	2010
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cost of inventories recognised as expense	**178,687**	163,270	**238,239**	201,468
Depreciation	**3,129**	429	**4,073**	1,053
Exchange loss	**621**	—	**1,044**	—
Loss on fair value changes of financial assets at fair value through profit or loss	**(90)**	—	**4,170**	—
Operating lease charges				
— equipments and motor vehicles	**1,176**	180	**1,326**	586
— office premises	**1,022**	882	**2,376**	1,797
— staff quarter	**669**	141	**1,327**	261
Research and development costs	**3,754**	1,330	**5,996**	1,901
Staff costs (including Directors' emoluments)				
— salaries and allowances	**4,825**	3,762	**9,435**	7,028
— pension scheme contributions	**115**	15	**235**	29

6. TAXATION

	Three months ended 31 December		Six months ended 31 December	
	2011	2010	**2011**	2010
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Current tax:				
Hong Kong				
— charge for the period	**—**	—	**—**	—
Overseas				
— charge for the period	**1,756**	6,837	**26,347**	6,837
	1,756	6,837	**26,347**	6,837

The provision for Hong Kong profits tax for the six months ended 31 December 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"), 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 were the first profit-making year of Beijing Jinqiao and Beijing Zhongguang for the purpose of CIT exemption respectively.

7. EARNINGS PER SHARE

(a) Basic

Basic earnings per share for the three months ended 31 December 2011 is calculated by dividing the consolidated profit attributable to the owners of the Company for the three months ended 31 December 2011 of HK$59,582,000 (2010: HK$53,612,000) by the weighted average number of 2,487,092,000 (2010: 1,863,045,000) ordinary shares in issue during the period.

Basic earnings per share for the six months ended 31 December 2011 is calculated by dividing the consolidated profit attributable to the owners of the Company for the six months ended 31 December 2011 of HK$121,228,000 (2010: HK$78,783,000) by the weighted average number of 2,487,092,000 (2010: 1,721,146,000) ordinary shares in issue during the period.

(b) Diluted earnings per share

Diluted earnings per share for the three months ended 31 December 2011 is calculated by dividing the adjusted profit attributable to the owners of the Company for the three months ended 31 December 2011 of HK$63,153,000 (2010: HK$57,718,000) by the total of the weighted average number of ordinary shares of 2,671,353,000 (2010: 2,447,272,000) outstanding during the period, after adjusting for the effects of all dilutive potential ordinary shares.

The adjusted profit attributable to the owners of the Company for the three months ended 31 December 2011 is calculated based on the profit attributable to the owners of the Company for the period of HK$59,582,000 (2010: HK$53,612,000) as used in the calculation of basic earnings per share plus effective interest expenses on convertible notes of HK$3,570,000 (2010: HK$4,106,000).

Diluted earnings per share for the six months ended 31 December 2011 is calculated by dividing the adjusted profit attributable to the owners of the Company for the six months ended 31 December 2011 of HK$128,369,000 (2010: HK$86,936,000) by the total of the weighted average number of ordinary shares of 2,707,704,000 (2010: 2,256,667,000) outstanding during the period, after adjusting for the effects of all dilutive potential ordinary shares.

The adjusted profit attributable to the owners of the Company for the six months ended 31 December 2011 is calculated based on the profit attributable to the owners of the Company for the period of HK$121,228,000 (2010: HK$78,783,000) as used in the calculation of basic earnings per share plus effective interest expenses on convertible notes of HK$7,140,000 (2010: HK$8,153,000).

The weighted average number of ordinary shares used in the calculation of diluted earnings per share for the three months and six months ended 31 December 2011 is calculated based on the weighted average of 2,487,092,000 (2010: 1,863,045,000) and 2,487,092,000 (2010: 1,721,146,000) ordinary shares in issue during the period as used in the calculation of basic earnings per share plus the weighted average of 1,218,000 (2010: 19,009,000) and 1,498,000 (2010: 22,184,000) 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 183,043,000 (2010: 565,223,000) and 219,115,000 (2010: 513,337,000) ordinary shares deemed to be issued at no consideration as if all the Company's convertible notes had been converted for the three months and six months ended 31 December 2011 respectively.

The calculation of the diluted earnings per share for the three months and six months ended 31 December 2011 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 prices of the Company's shares for the Corresponding period.

8. INTERIM DIVIDEND

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

9. PROPERTY, PLANT AND EQUIPMENT

	31 December 2011	30 June 2011
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Opening net book amount	**123,215**	7,187
Additions	**92,047**	116,815
Disposals	**—**	(65)
Depreciation	**(4,073)**	(4,087)
Exchange realignment	**1,229**	3,365
Closing net book amount	**212,418**	123,215

10. INTANGIBLE ASSETS

	31 December 2011	30 June 2011
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Technology fee and development costs		
Opening net book amount	**77,772**	34,107
Additions	**122,846**	44,642
Disposals	**(48,668)**	—
Impairment	**—**	(3,814)
Exchange realignment	**1,970**	2,837
Closing net book amount	**153,920**	77,772

11. TRADE RECEIVABLES

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

	31 December 2011	30 June 2011
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables	**625,477**	580,971
Less: allowance for doubtful debts	**(13,208)**	(13,208)
	612,269	567,763
Less: portion classified as current assets	**612,269**	(509,956)
Non-current portion	**—**	57,807

The ageing analysis of the trade receivables is as follows:

	31 December 2011	30 June 2011
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0 — 30 days	**192,645**	149,841
31 — 90 days	**50,218**	40,512
91 — 180 days	**83,901**	88,664
Over 180 days	**298,713**	301,954
	625,477	580,971

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

	31 December 2011	30 June 2011
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0 — 30 days	**28,199**	50,738
31 — 90 days	**42,114**	72,636
91 — 180 days	**54,418**	51,302
Over 180 days	**38,167**	81,816
	162,898	256,492

12. TRADE PAYABLES

	31 December 2011	30 June 2011
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade payables	**171,692**	125,164
Other payables and accruals	**16,006**	22,331
Receipts in advance	**227,328**	6,767
	415,026	154,262

The ageing analysis of the trade payables is as follow:

	31 December 2011	30 June 2011
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within 30 days	**112,549**	76,058
31 — 60 days	**9,449**	7,936
61 — 90 days	**13,221**	14,138
Over 90 days	**36,473**	27,032
	171,692	125,164

13. CONVERTIBLE NOTES

(a) Convertible notes with an aggregate amount of HK$264,725,020 issued on 4 December 2009

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

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

The fair value of the liability component, included in the convertible notes, was calculated using a market interest rate for an equivalent non-convertible note. The fair value of the equity conversion component, which is included in shareholders' equity in convertible notes reserve, was valued by the Black-Scholes-Merton option pricing model. Interest expenses on the convertible notes issued are calculated using the effective interest method by applying the effective interest rate of approximately 9.59% to the liability components.

As at 31 December 2011, the outstanding principal amount of such convertible notes was HK$105,024,980.

(b) Convertible notes with an aggregate amount of HK$200,000,000 issued on 28 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.

The fair value of the liability component, included in the convertible notes, was calculated using a market interest rate for an equivalent non-convertible note. The fair value of the equity conversion component, which is included in shareholders' equity in convertible notes reserve, was valued by the Black-Scholes-Merton option pricing model. Interest expenses on the convertible notes issued are calculated using the effective interest method by applying the effective interest rate of approximately 4.234% to the liability components.

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

	HK$'000 (Unaudited)
At 1 July 2011	264,503
Effective interest expenses for the period	7,140
At 31 December 2011	271,643

14. RELATED PARTY TRANSACTIONS

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

	Six months ended 31 December	
	2011	2010
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Sales of goods/services to Beijing Hengtai Technologies Co., Ltd.	**264**	4,392
Purchase of goods/services from Beijing Hengtai Technologies Co., Ltd.	**171,282**	36,911

Note:

Tian Songlin, a director of Beijing Jinqiao Hengtai Technology Company Limited, a wholly-owned subsidiary of the Company, was also a director of Beijing Hengtai Technologies Co., Ltd. up to 13 December 2011.

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

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

	Six months ended 31 December	
	2011	2010
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Short term employee benefits	**1,800**	2,612
Post-employment benefits contribution plans	**6**	12
Total compensation paid to key management personnel	**1,806**	2,624

MANAGEMENT DISCUSSIONS AND ANALYSIS

Financial review

For the six months ended 31 December 2011, the Group recorded a consolidated revenue of approximately HK$421.1 million, representing an increase of approximately 32.4% when compared to approximately HK$318.2 million for the corresponding period in the last financial year. Revenue for the three months ended 31 December 2011 amounted to approximately HK$245.7 million, representing an increase of approximately 40.1% when compared to HK$175.4 million of the preceding quarter.

Gross profit margin of the Group for the period was approximately 43%, an increase of about 7% from the corresponding period of last year.

Other income amounted to approximately HK$32.8 million, an increase of around 307.3% when compared to approximately HK$8.1 million for the corresponding period in the last financial year. The increase is mainly due to the disposal of certain idle intellectual properties of the Group.

Other operating expenses amounted to approximately HK$42.6 million for the six months ended 31 December 2011, representing an increase of 106.5% when compared to HK$20.6 million for the six months ended 31 December 2010.

Finance costs amounted to approximately HK$7.3 million, of which approximately HK$7.1 million represents effective non-cash interest expenses on convertible notes issued by the Company in December 2010 and December 2011 respectively.

The profit attributable to the owners of the Company amounted to approximately HK$121.2 million for the six months ended 31 December 2011, representing an increase of approximately 53.9% compared to approximately HK$78.8 million in the corresponding period in the previous financial year.

Basic earnings per share for the six months ended 31 December 2011 was approximately HK4.87 cents, representing an increase of approximately 6.3% compared to HK4.58 cents for the corresponding period of the last year.

Property, plant and equipment amounted to approximately HK$212.4 million as at 31 December 2011, an increase of around 72.4% when compared to HK$123.2 million as at 30 June 2011. The increase was mainly due to the purchases of components, such as underground cable lines, optical transmission equipment and other equipment to enable the delivery of the intended digital cable television services in different target regions and pilot cities, which were purchased from the local television operators and other suppliers selected by the Group.

Intangible assets amounted to approximately HK$153.9 million as at 31 December 2011, an increase of around 97.9% when compared to HK$77.8 million as at 30 June 2011. The increase was mainly due to the purchase of intellectual properties for the Group's wireless digital terrestrial television and encrypted integrated circuits business.

Prepayment, deposits and other receivables amounted to approximately HK$602.2 million as at 31 December 2011, an increase of approximately 131.6% when compared to HK$260.1 million as at 30 June 2011. The increase was mainly due to the RMB100 million not yet received from Beijing Huaxia as explained below, and prepayments to suppliers for purchase of goods and services as a result of the Group's expanding business and increased engagements for implementation of its core digital cable television business in different provinces, including Hebei, Anhui, Jiangxi and Shanxi, in PRC during the period under review. The prepayment was made in the Group's ordinary and usual course of business.

As announced by the Company on 24 August 2011, the Group has entered into a cooperation agreement with 北京華夏力通傳媒科技有限公司 (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 displays in Hebei province ("Hebei Mobile Advertising Business") for 10 years. Amongst others, Beijing Huaxia shall contribute to the Hebei Mobile Advertising Business a cooperation development fee of RMB200 million in two installments on the fifteenth business day and the thirtieth business day from the date of the cooperation agreement to accelerate the development of the project. The Group has received RMB100 million from Beijing Huaxia. The remaining payment of RMB100 million has not yet received as the Group has taken a longer time than originally expected to prepare and plan for the roll out of the new advertising panels. Given that the payment from Beijing Huaxia is to assist the Group in purchasing the new advertising panels, as a result of the delay of the Group's own plan to add the new advertising panels, Beijing Huaxia has corresponding delayed the payment of the remaining RMB100 million to the Group. The delay in rolling out the new advertising display panels does not materially affect the business operations of the Group. The receivable of RMB100 million has been included in prepayment, deposits and other receivables balance.

Business review

In keeping with the quest for longer term sustainable revenue and profits, the Group took time and effort to build a more diversified revenue base with an increased focus in generating recurring operational revenue. This necessitated the Group to re-position and allocate more resources to focus on starting up of such operations for the long term good repositioning process which affects immediate revenue recognition. Moreover, it will be evident that more recurring and operational type of revenues will be achieved in the years to come.

(i) Digital cable television service business

During the period under review, the Group continued to progress with the business development and implementation in the digital cable TV operational and value added business. Revenue for the six months ended 31 December 2011 amounted to approximately HK$73.6 million or 17% of the total revenue. During the fourth quarter of 2011, the basic network construction for 200,000 subscribers was completed, with the capital investment amounted to approximately RMB151 million. Along with the rapid development of television broadcasting operational business, the Group has set up two project units respectively with a new office in Shanxi province and another new preliminary office in Shaanxi province, on top of the original base during the fourth quarter of 2011. It is anticipated this business segment will realise new breakthrough and return in the year of 2012.

(ii) Wireless digital television value-added services

Revenue for the six months ended 31 December 2011 amounted to approximately HK$51.6 million or 12% of the total revenue. During the six months ended 31 December 2011, 河北廣電移動數字電視有限責任公司 (Hebei Digital Mobile Television Broadcasting Company Limited) has transferred the 6,000 existing advertising display panels to the Group. The Group has started to record the advertising income from the advertising display panels.

(iii) Wireless digital terrestrial TV network equipment integration business

The shift in the overall direction of the Group's core business from wireless television business to cable television was underway and accordingly, this segment recorded losses of HK$0.3 million during the six months ended 31 December 2011. For the end sales of set-top boxes and related products, the revenue for this quarter was approximately HK$125.5 million or about 30% of the total revenue of the Group, representing a substantial increase as compared to the last quarter. The Group packaged certain of its technological achievements in respect of wireless digital television for transfer and sales, making a profit from idle technology in a total of approximately HK$31.3 million.

(iv) Information safety products business

The revenue for the six months ended 31 December 2011 generated from the information safety products business and the related technical services amounted to approximately HK$44.3 million representing approximately 11% of the total turnover and essentially holding its ground when compared to the corresponding period of last year.

There is an increase in revenue from sales of softwares and technical development services as compared to last quarter. For communication products, as the construction work of operators was being affected by the weather conditions of winter, the delivery of products was thus disrupted. As for the system integration projects, the operations of those which we had won the bids from Beihang University, China Southern Airlines and Xinhua Airlines are progressing well, and higher revenue will be expected when the projects are completed.

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

The Group had strengthened its sales to the government and successfully completed the first contract for large amount purchase by Beijing University of Technology in the short period of time for software products, IP core, data collection products, simulators for research and development. The profit margin of those products was as high as 45%. New hardware and software products were developed for environmental control and energy efficient applications.

(v) Wireless digital audio products business

The revenue for the six months ended 31 December 2011 generated from the wireless digital audio product business and the related technical services amounted to approximately HK$126.1 million or approximately 30% of the total revenue.

The total revenue was mainly attributed to those from clients in Mainland. However, during the fourth quarter of 2011, the demand from overseas customers in this business segment further increased as a result of the stronger demand from overseas market. The Group's market share has been growing correspondingly with the expanding scale of cooperation with the domestic and overseas clients over the past few years. This has secured the Group with high prospects of revenue and profit driver in the future.

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.

2012 is a year of continuing success of the Group's broadcasting operational business. The Group will reinforce, set up and properly operate the networks for its contracted broadcasting television subscribers, while building a foundation for achieving the overall objectives of development of the Company.

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 cable value-added broadcasting television subscribers and 30,000 electronic signboards 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 will rapidly and steadily complete the overall transformation to cable television business, and commence value added business in the cable television and wireless television when conditions permit, in order to generate a relatively stable and long-lasting stream of revenue. However, it is inevitable to see a certain decrease in revenue and profits during the period of transformation.

The Group will continually actively package the idle technology for transfer and sales, and strive to maintain the Group's profit at a promising level during the period of transformation.

The Group will increase the investment in research and development, production and sales services in digital television two-way conversion products, and strive for better economic efficiencies. In addition, the Group will continue to joint or self develop more products so as to generate more profits.

For the wireless digital audio products business, orders for mass production from new projects have been secured in respect of the fourth quarter of 2012, and many enterprises are exploring new profit driver amidst the crisis. The number of new customers in the export segment of the Group has been significantly increased. It is expected that the Group can greatly expand its market share. Among all, Apple accessories project is 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 there is any greater impact on the export market, and has achieved remarkable results in terms of market shares and sales volume, which will be a great start for the domestic sales market. 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.

The Group is in a lead position in the digital TV network integration and services arena. If the conditions are to the Group's favour, financial leverage utilizing low cost funding from the capital market will further enhance the profitability of the Group or allow the Group to take a more aggressive positioning to capture a larger share of the market.

Liquidity and Financial Resources

As at 31 December 2011, the cash and bank balances of the Group amounted to approximately HK$152.6 million (30 June 2011: 288.5 million). The Renminbi denominated balances of HK$107.4 million were placed with licensed banks in the PRC and the conversion of these balances into foreign currencies is subject to the rules and regulation of foreign exchange control promulgated by the PRC government.

During the six months ended 31 December 2011, the Group has net cash inflow from its operating activities of approximately HK$31.3 million, and cash outflow from its investing activities and financing activities of approximately HK$165.7 million and HK$12.3 million respectively.

As at 31 December 2011, the gearing ratio of the Group, calculated as total borrowings over shareholders' funds, was approximately 0.005 (30 June 2011: 0.01).

Exposure to Fluctuations in Exchange Rates and Related Hedges

The Company's revenues and expenses are primarily transacted in Hong Kong dollar and Renminbi. As at 31 December 2011, the Group has no outstanding foreign currency hedge contract.

Charge on Group Assets

As at 31 December 2011, the Group did not have any change on its assets.

Contingent Liabilities

As at 31 December 2011, there were no material outstanding writs and litigations against the Group and/or the Company.

Capital Structure

The Company has not issued any new shares during the six months ended 31 December 2011.

Acquisition/Disposal and Significant Investments

The Group had no material acquisition or disposal of subsidiaries during the six months ended 31 December 2011.

Employee Information

As at 31 December 2011, the Group employed a total of 196 (30 June 2010: 141) full-time employees. The Group's remuneration policy remained the same as detailed in the Annual Report for the year ended 30 June 2011.

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

As at 31 December 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	Capacity	shares	Number of underlying shares *(Note)*	Approximate percentage of interests in the issued share capital
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%

Note:

Underlying shares represent share options granted to the Directors and the chief executive of the Company pursuant to the share option scheme adopted by the Company on 13 March 2003.

Save as disclosed above, at no time during the six months ended 31 December 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 December 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 *(Note 1)*	623,690,451 (L)	Interest in controlled corporation	25.08%
Team Effort Investments Limited *(Note 1)*	623,690,451 (L)	Interest in controlled corporation	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 and Mr. Li Haoping ("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. Both Lomond Group and Wealtheme Limited are wholly owned by Mr. Li.

Save as disclosed above, as at 31 December 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 2011. A new employee share option scheme has been approved by the shareholders of the Company in the Company's annual general meeting held on 30 December 2011. Details of which where set out in the Company's circular dated 28 November 2011. The following shows the outstanding positions of the eligible persons as at 31 December 2011 with respect to their share options granted under the scheme:

	Number of Shares *(Note)*								
Participants	**As of 1 July 2011**	**Granted during the period**	**Exercised during the period**	**Cancelled during the period**	**Lapsed during the period**	**As of 31 December 2011**	**Date of grant**	**Exercise period**	**Exercise price per share** *HK$*
Directors									
Mr. Xiao Yan	2,273,334	–	–	–	–	2,273,334	18/02/2009	18/03/2009-17/03/2012	0.358
	1,500,000	–	–	–	–	1,500,000	13/04/2011	14/05/2011-12/03/2013	1.54
Mr. Feng Yongming	1,500,000	–	–	–	–	1,500,000	13/04/2011	14/05/2011-12/03/2013	1.54
Mr. Li Tao	1,500,000	–	–	–	–	1,500,000	13/04/2011	14/05/2011-12/03/2013	1.54
Mr. Xu Lei	800,000	–	–	–	–	800,000	13/04/2011	14/05/2011-12/03/2013	1.54
Mr. Leung Wo Ping	800,000	–	–	–	–	800,000	13/04/2011	14/05/2011-12/03/2013	1.54
Mr. Dong Shi	800,000	–	–	–	–	800,000	13/04/2011	14/05/2011-12/03/2013	1.54
Mr. Hu Dingdong	800,000	–	–	–	–	800,000	13/04/2011	14/05/2011-12/03/2013	1.54
Subtotal	9,973,334	–	–	–	–	9,973,334			
Other participants	22,300,000	–	–	–	–	22,300,000	13/04/2011	14/05/2011-12/03/2013	1.54
Total	32,273,334	–	—	–	–	32,273,334			

Note:

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

LITIGATION

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

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

The Plaintiff discontinued his claim against the Company and filed the notice of discontinuance on 22 November 2011. The Company is now proceeding to recover the legal costs incurred from the Plaintiff.

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

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

AUDIT COMMITTEE

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

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

CORPORATE GOVERNANCE REPORT

Throughout the six months ended 31 December 2011, the Group has applied the principles set out in the Code on Corporate Governance Practices ("HKSE Code") contained in Appendix 15 of the GEM Listing Rules except the code provisions A2.1 and A4.1 stipulated in the following paragraph.

Distinctive Roles of Chairman and Chief Executive Officer

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

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

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules as its Code of Conduct for Securities Transactions by Directors throughout the six months ended 31 December 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 six months ended 31 December 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 six months ended 31 December 2011.

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

Hong Kong, 14 February 2012

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.