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 2012

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 a consolidated revenue of approximately HK$612.5 million for the year ended 30 June 2012, representing a decrease of approximately 9.5% when compared with that of approximately HK$676.6 million for the corresponding period in 2011.
- The Group recorded a profit attributable to the shareholders of the Company of approximately HK$152.9 million for the year ended 30 June 2012 as compared to approximately HK$201.9 million in the previous financial year, representing a decrease of about 24.3%.
- Basic earnings per share of the Company was approximately HK6.12 cents for the year ended 30 June 2012 as compared to approximately HK9.50 cents for the last financial year, representing a decrease of approximately 35.6%.
- The Group has achieved satisfactory 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 business.
- The Board does not recommend the payment of a final dividend in respect of the year ended 30 June 2012.

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 2012.

FINANCIAL PERFORMANCE

For the financial year ended 30 June 2012, the Group recorded a consolidated revenue of approximately HK$612.5 million (2011: HK$676.6 million) and a profit attributable to equity holders of the Company of approximately HK$152.9 million (2011: HK$201.9 million). The basic earnings per share was approximately HK6.12 cents, compared to approximately HK9.50 cents of the last financial year. The directors do not recommend the payment of any dividend for the year ended 30 June 2012 (2011: Nil).

BUSINESS REVIEW AND FUTURE PROSPECTS

During the financial year ended 30 June 2012, based on the progress of its business development and in response to the market condition, the Group continued to devote its effort to consolidate and drive the growth of its principal businesses according to its established development strategic plan, and optimize the development pattern for those principal businesses. The Group continued to put more resources on market exploration of, and increase its investment in, digital television broadcast industry in the PRC, in particular the three networks integration business in cable digital television, laying a foundation for sustainable growth and achieving remarkable results.

As for the wireless digital television industry, based on the progress of its business development and in response to the market condition, the Group focused on implementing the structural optimization and adjustment for the wireless digital terrestrial television network equipment integration business to enhance the after-sale services for system and equipment integration business in contracted region, laying a foundation for the business optimization and adjustment for the business segment. In addition, the Group endeavored in strengthening and promoting value added services for the wireless digital television business, and signed agreements on the operation of regional wireless digital television value added services and cooperation with the operators for the provision of value added services for regional wireless digital television business in contracted regions, thereby creating favourable conditions for the growth of such business.

As for the cable digital television industry, the Group continued to implement its strategic development plan to adapt to the three networks integration policy in digital television broadcast industry and meet the huge market demand in the PRC. The Group put great effort in driving the growth of its business in contracted regions during the financial year ended 30 June 2012, continued to improve the quality of the service of our cable digital television business, provided system solutions for the cable digital television two-way conversion business, actively promoted research, development and sales of its products, continued to consolidate our customer base and strategic partnership in the industrial chain of such segment, and established our position as an operator of television broadcasting integrated businesses. The Group has realized impressive economic efficiency of the segment and laid a solid foundation for the sustainable growth of the Group.

As a reputable and large-scale designer and supplier for wireless audio baseband integrated circuits and information security technology products, during the financial year ended 30 June 2012, the Group continued to consolidate its existing customer base and our cutting-edge products and technology, put great effort in exploring new domestic and overseas markets, increase our market shares, and strengthen the in-depth 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 always follows and adapts to the development and demand of the market in Mainland China. We have grasped the huge business opportunities, and formulated our development strategies based on our philosophy of market, customer, technology, service and earnings-oriented development. We aim to grow bigger, stronger, and better in, as well as adjust and optimize the structure of, 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 will be able to further grab a foothold and penetrate in the markets of wireless digital television and digital cable television value-added services businesses, continue to improve the digital television business in the contracted regions, expand into new markets, keep strengthening the research and development and promotion of the application of the technology and products in this field, upgrade the overall quality of its services and the scale of operation of the digital television business, 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 shares and bring in new sources of growth in revenue.

Looking onward, the Group will continue to capitalize on the vast domestic demand in the PRC and formulate a strategic plan for sustainable development. With clear market positioning and aggressive market expansion, the Group has established an effective business operation model, and gained sophisticated experience in business development, long-term partnership and customer base, which will enable the Group to achieve a more sustainable competitive edges for the business development with the greatest economic benefits. The Board expects that this 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 our dedicated staff members 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 2012

	Notes	**2012**	2011
		HK$'000	*HK$'000*
Revenue	*3*	**612,460**	676,624
Cost of sales		**(354,630)**	(363,402)
Gross profit		**257,830**	313,222
Other income		**62,049**	29,622
Selling and marketing expenses		**(7,502)**	(4,796)
Other operating expenses		**(131,199)**	(87,376)
Finance costs		**(14,201)**	(16,303)
Profit before taxation		**166,977**	234,369
Taxation	*4*	**(14,073)**	(27,766)
Profit for the year	*5*	**152,904**	206,603
Other comprehensive income			
Exchange differences on translating foreign operations		**21,631**	37,922
Total comprehensive income for the year		**174,535**	244,525
Profit attributable to:			
Owners of the Company		**152,904**	201,942
Non-controlling interests		**—**	4,661
		152,904	206,603
Total comprehensive income attributable to:			
Owners of the Company		**174,535**	238,898
Non-controlling interests		**—**	5,627
		174,535	244,525
EARNINGS PER SHARE	*6*		
Basic		**6.12 cents**	9.50 cents
Diluted		**6.12 cents**	8.53 cents

Consolidated Statement of Financial Position
At 30 June 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment		**232,352**	123,215
Goodwill		**753,146**	753,146
Intangible assets		**123,543**	77,772
Deposits for acquisition of non-current assets		**97,594**	32,739
Trade receivables	*8*	**—**	57,807
		1,206,635	1,044,679
Current assets			
Inventories		**174,406**	7,098
Trade receivables	*8*	**447,951**	509,956
Prepayments, deposits and other receivables		**375,748**	260,062
Financial assets at fair value through profit or loss		**2,610**	8,550
Amount due from a related company		**—**	50,257
Restricted bank deposits		**1,731**	—
Cash and cash equivalents		**149,044**	288,477
		1,151,490	1,124,400
Current liabilities			
Trade payables	*9*	**50,562**	125,164
Other payables and accruals		**12,833**	22,331
Receipts in advance		**34,159**	6,767
Promissory note		**2,000**	8,000
Obligations under finance leases		**406**	375
Other borrowings		**—**	12,041
Convertible notes payable		**195,849**	—
Tax payables		**42,484**	41,675
		338,293	216,353
Net current assets		**813,197**	908,047
Total assets less current liabilities		**2,019,832**	1,952,726
Non-current liabilities			
Receipts in advance		**73,644**	—
Obligations under finance leases		**105**	511
Deferred tax liabilities		**2,021**	1,983
Convertible notes payable		**—**	264,504
		75,770	266,998
Net assets		**1,944,062**	1,685,728
Capital and reserves			
Share capital	*10*	**28,086**	24,871
Reserves		**1,915,976**	1,660,857
Total equity		**1,944,062**	1,685,728

Consolidated Statement of Changes in Equity

For the year ended 30 June 2012

	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$'000*	Retained profits *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'000*
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
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
Total comprehensive income for the year	—	—	—	21,631	—	—	—	152,904	174,535	—	174,535
Conversion of convertible notes	3,192	198,811	—	—	—	—	(119,337)	—	82,666	—	82,666
Share issue expenses	—	(3)	—	—	—	—	—	—	(3)	—	(3)
Recognition of share-based payments	—	—	—	—	—	322	—	—	322	—	322
Share options exercised	23	1,006	—	—	—	(215)	—	—	814	—	814
Transfer to retained profits upon expiry of share options	—	—	—	—	—	(670)	—	670	—	—	—
At 30 June 2012	28,086	1,307,760	2,325	62,492	(79,992)	10,652	14,917	597,822	1,944,062	—	1,944,062

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 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

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 2010
HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
HKFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets
HKAS 24 (Revised)	Related Party Disclosures
HK(IFRIC) — Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement

The application of the new and revised HKFRSs in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

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

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2009-2011 cycle[3]
HKFRS 1 (Amendments)	Government Loan[3]
HKFRS 7 (Amendments)	Disclosures — Offsetting Financial Assets and Financial Liabilities[3]
HKFRS 9	Financial Instruments[5]
HKFRS 9 and HKFRS 7 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[5]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities — Transition Guidance[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]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[2]
HKAS 12 (Amendments)	Deferred Tax — Recovery of Underlying Assets[1]
HKAS 32 (Amendments)	Presentation — Offsetting Financial Assets and Financial Liabilities[4]
HKAS 19 (as revised in 2011)	Employee Benefits[3]
HKAS 27 (as revised in 2011)	Separate Financial Statements[3]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[3]
HK(IFRIC) — Int 20	Stripping Costs in the Production Phase of a Surface Mine[3]

1 Effective for annual periods beginning on or after 1 January 2012
2 Effective for annual periods beginning on or after 1 July 2012
3 Effective for annual periods beginning on or after 1 January 2013
4 Effective for annual periods beginning on or after 1 January 2014
5 Effective for annual periods beginning on or after 1 January 2015

The directors of the Company anticipate that the application of these 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 2012 is as follows:

	Digital cable television business HK$'000	Wireless digital television value-added services HK$'000	Encrypted integrated circuits HK$'000	Wireless digital audio integrated circuits HK$'000	Wireless digital terrestrial television network equipment integration HK$'000	Total HK$'000
Revenue						
Segment revenue from external customers	**153,532**	**48,074**	**101,549**	**183,506**	**125,799**	**612,460**
Segment results	**98,663**	**38,884**	**34,277**	**37,366**	**4,024**	**213,214**
Unallocated income						**8,122**
Unallocated expenses						**(40,158)**
Finance costs						**(14,201)**
Profit before taxation						**166,977**
Taxation						**(14,073)**
Profit for the year						**152,904**
Assets						
Segment assets	**670,569**	**103,546**	**466,270**	**488,252**	**585,133**	**2,313,770**
Unallocated assets						**44,355**
Consolidated total assets						**2,358,125**
Liabilities						
Segment liabilities	**11,751**	**77,427**	**13,520**	**51,009**	**16,966**	**170,673**
Unallocated liabilities						**243,390**
Consolidated total liabilities						**414,063**
Other information						
Capital expenditure	**106,488**	**45**	**36,640**	**23,311**	**45,981**	**212,465**
Unallocated capital expenditure						**1,216**
Total capital expenditure						**213,681**
Depreciation	**8,664**	**22**	**194**	**2,812**	**243**	**11,935**
Unallocated depreciation						**1,292**
Total depreciation						**13,227**
Allowance for doubtful debts on trade receivables, net	**—**	**—**	**29,639**	**6,024**	**—**	**35,663**
Allowance for inventories	**—**	**—**	**—**	**1,658**	**—**	**1,658**
Impairment loss on intangible assets	**1,710**	**—**	**2,505**	**—**	**855**	**5,070**
Impairment loss on prepayments, deposits and other receivables	**—**	**—**	**7,941**	**—**	**—**	**7,941**

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

	Digital cable television business *HK$'000*	Encrypted integrated circuits *HK$'000*	Wireless digital audio integrated circuits *HK$'000*	Wireless digital terrestrial television network equipment integration *HK$'000*	Total *HK$'000*
Revenue					
Segment revenue from external customers	167,058	265,063	187,819	56,684	676,624
Segment results	95,012	144,218	36,252	16,257	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	488,697	740,590	463,775	384,914	2,077,976
Unallocated assets					91,103
Consolidated total assets					2,169,079
Liabilities					
Segment liabilities	41,087	75,829	63,598	26,133	206,647
Unallocated liabilities					276,704
Consolidated total liabilities					483,351
Other information					
Capital expenditure	134,726	11,317	11,033	4,280	161,356
Unallocated capital expenditure					101
Total capital expenditure					161,457
Depreciation	2,039	183	1,078	34	3,334
Unallocated depreciation					753
Total depreciation					4,087
Allowance for doubtful debt on trade receivables	—	12,285	569	—	12,854
Allowance for inventories	—	—	582	—	582
Impairment loss on intangible assets	—	2,208	1,547	59	3,814
Impairment loss on prepayments, deposits and other receivables	638	—	1,530	—	2,168

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	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**109,442**	115,277	**56,585**	83,975
The PRC	**503,018**	561,347	**1,150,050**	960,704
	612,460	676,624	**1,206,635**	1,044,679

4. Taxation

	2012	2011
	HK$'000	*HK$'000*
Current tax:		
— Hong Kong	**315**	1,987
— PRC Enterprise Income Tax	**23,651**	26,164
(Over)/Under provision in prior year:		
— PRC Enterprise Income Tax	**(9,893)**	2
Deferred tax:		
— current year	**—**	(387)
	14,073	27,766

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

PRC Enterprise Income Tax is calculated at 25% of the estimated assessable profit for both years. Pursuant to the relevant laws and regulations in the PRC, some of the Company's PRC subsidiaries are entitled to exemption from PRC income tax for the two years commencing from its first profit-making year of operation and thereafter, those subsidiaries will be entitled to a 50% relief from PRC income tax for the following three years.

During the year ended 30 June 2012, one of the Company's PRC subsidiaries is qualified as software and integrated circuit enterprise and is entitled to preferential tax rate of 15% since 1 January 2011.

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

	2012	2011
	HK$'000	*HK$'000*
Profit before taxation	**166,977**	234,369
Tax at applicable tax rate	**33,075**	53,432
Tax effect of expenses not deductible for tax purpose	**23,345**	15,683
Tax effect of income not taxable for tax purpose	**(12,394)**	(6,235)
Tax effect of temporary difference	**20**	(91)
Tax effect of tax losses not recognised	**2,870**	1,683
Utilisation of tax losses previously not recognised	**(11)**	(604)
Effect of tax exemptions granted to PRC subsidiaries	**(22,939)**	(36,104)
(Over)/Under provision in prior year	**(9,893)**	2
Taxation charge	**14,073**	27,766

5. Profit for the year

Profit for the year has been arrived at after charging:

	2012	2011
	HK$'000	*HK$'000*
Allowance for doubtful debt on trade receivables, net	**35,663**	12,854
Allowance for inventories	**1,658**	582
Auditor's remuneration	**908**	806
Cost of inventories recognised as expense	**333,660**	357,297
Depreciation		
— owned assets	**12,841**	3,701
— assets under finance leases	**386**	386
Exchange loss	**2,214**	2,363
Impairment loss on intangible assets	**5,070**	3,814
Impairment loss on prepayments, deposits and other receivables	**7,941**	2,168
Loss on disposal of property, plant and equipment	**858**	24
Loss on fair value changes of financial assets at fair value through profit or loss	**5,940**	1,950
Research and development costs	**6,795**	4,298
Staff costs (including directors' emoluments)		
— salaries and allowances	**22,722**	16,311
— retirement benefits scheme contributions	**2,211**	717
— share-based payment expenses	**322**	10,330

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$152,904,000 (2011: HK$201,942,000) and weighted average number of 2,497,376,000 (2011: 2,125,119,000) 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$152,904,000 (2011: HK$217,119,000) and the weighted average number of ordinary shares of 2,498,388,000 (2011: 2,544,654,000) 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$152,904,000 (2011: HK$201,942,000) as used in the calculation of basic earnings per share plus effective interest expenses on convertible notes of Nil (2011: HK$15,177,000).

The weighted average number of ordinary shares used in the calculation of diluted earnings per share is calculated based on the weighted average of 2,497,376,000 (2011: 2,125,119,000) ordinary shares in issue during the year as used in the calculation of basic earnings per share plus the weighted average of 1,012,000 (2011: 17,249,000) 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 Nil (2011: 402,286,000) 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.

7. Dividend

The Board of the Company does not recommend the payment of a final dividend for the year ended 30 June 2012 (2011: Nil).

8. Trade Receivables

	2012	2011
	HK$'000	*HK$'000*
Trade receivables	**497,245**	580,971
Less: allowance for doubtful debts	**(49,294)**	(13,208)
	447,951	567,763
Less: portion classified as current assets	**(447,951)**	(509,956)
Non-current portion	**—**	57,807

The ageing analysis of trade receivables (net of allowance for doubtful debts) was as follows:

	2012	2011
	HK$'000	*HK$'000*
Within 30 days	**75,721**	149,841
31 — 90 days	**41,693**	40,512
91 — 180 days	**90,327**	88,664
Over 180 days	**240,210**	288,746
	447,951	567,763

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

	2012	2011
	HK$'000	*HK$'000*
Within 30 days	**23,955**	50,738
31 — 90 days	**111,878**	72,636
91 — 180 days	**38,992**	51,302
Over 180 days	**190,774**	81,816
	365,599	256,492

The Group generally allows credit periods ranging from 30 days to 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:

	2012	2011
	HK$'000	*HK$'000*
At beginning of year	**13,208**	—
Impairment loss recognised	**48,364**	12,854
Amounts recovered during the year	**(12,701)**	—
Exchange realignment	**423**	354
At end of year	**49,294**	13,208

At the end of the reporting period, the Group has determined trade receivables of HK$48,364,000 (2011: HK$12,854,000) as individual impaired. The impaired trade receivables are due from the individual customers which are in default or delinquency of payments.

9. Trade Payables

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

	2012	2011
	HK$'000	*HK$'000*
Within 30 days	**2,553**	76,058
31 to 60 days	**3,261**	7,936
61 to 90 days	**4,246**	14,138
Over 90 days	**40,502**	27,032
	50,562	125,164

10. Share Capital

	2012		2011	
	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	**2,487,092**	**24,871**	1,563,903	15,639
Issue of shares upon placing	**—**	**—**	200,000	2,000
Issue of shares upon conversion of convertible notes	**319,225**	**3,192**	485,410	4,854
Issue of shares upon exercise of share options	**2,273**	**23**	98,717	987
Issue of bonus shares	**—**	**—**	60,923	610
Issue of shares for additional interest in subsidiaries	**—**	**—**	78,139	781
At end of year	**2,808,590**	**28,086**	2,487,092	24,871

EXTRACT FROM INDEPENDENT AUDITOR'S REPORT

The audit opinion on the consolidated financial statements of the Group for the year ended 30 June 2012 has been qualified and is extracted as follows:

"Basis for disclaimer of opinion

(a) Scope limitation on recoverability of trade receivables

Included in the Group's trade receivables of HK$447,951,000 as at 30 June 2012 were trade receivables from two debtors of HK$178,783,000 which had been overdue and for which HK$73,644,000 subsequent settlement had been noted up to the date of this report. We were unable to obtain sufficient appropriate audit evidence we consider necessary in order to assess whether the remaining trade receivables of HK$105,139,000 could be recovered in full or to determine the amount of impairment, if any. There were no practical alternative audit procedures that we could perform to satisfy ourselves as to any impairment loss had been occurred against these trade receivables as at 30 June 2012.

(b) Scope limitation on recoverability of prepayments, deposits and other receivables

Included in the Group's prepayments, deposits and other receivables of HK$375,748,000 as at 30 June 2012 were advance to two suppliers of HK$128,833,000 and other receivables from a debtor of HK$28,353,000 and for which no subsequent delivery of goods or settlement has been noted up to the date of this report respectively. In respect of the advance payment made to suppliers, the directors of the Company have advised that the goods are ready for delivery and currently pending the instruction of the customers. Nevertheless, we were unable to obtain sufficient appropriate audit evidence we consider necessary in order to assess whether all these outstanding balances could be recovered in full or to determine the amount of impairment, if any. There were no practical alternative audit procedures that we could perform to satisfy ourselves as to any impairment loss had been occurred against these balances as at 30 June 2012.

Any adjustment found to be necessary in respect of the matters set out above would have a significant and consequential effect on the consolidated financial position of the Group as at 30 June 2012, and the results and cash flows for the year then ended and the related disclosures thereof in the consolidated financial statements.

Disclaimer of opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the consolidated financial statements. In all other respects, in our opinion the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance."

MANAGEMENT DISCUSSION AND ANALYSIS

I. THE GROUP

The Group recorded a decline in its overall results for the financial year ended 30 June 2012 as compared to the overall business results for the financial year ended 30 June 2011. In response to the market structure and based on the overall plan of the Group, the Group has substantially completed the transition from the wireless television operation to the digital cable television operation.

II. BUSINESS REVIEW

For the financial year ended 30 June 2012, the Group has been operating the following major business segments:

Digital cable television business

Based on the progress of its own development, in response to the general market and under the overall business plan of the Group, and capturing the opportunity brought from the "three networks integration" policies, the Group has made a transition from the wireless television operation to the digital cable television operation and actively provided solutions for digital cable television reform projects, achieving a great leap forward in research and development, design, production and sales and establishing its position as an operator of integrated television broadcasting business in the industry.

With the business expansion and active operation during the financial year ended 30 June 2012, the Group has already obtained the operation rights on 12.2 million cable television subscribers in such provinces as Jiangxi, Anhui, Hebei and Shanxi for a term of 12 to 15 years, and the operation rights on the wireless television business in Hebei province. The Group has fully completed its transformation, and has established its position as an operator of television broadcasting integrated businesses in the industry.

The Group has achieved stable progress for its network construction project in the integration of the three networks and greater than expected revenue for the digital cable television operational business in rural areas. The revenues for the year ended 30 June 2012 amounted to approximately HK$153.5 million (around 25% of the total revenue of the Group). The revenue comprised operational revenues from basic subscription and other value added technology as well as market service income arising from the 1,000,000 subscribers of the Hebei rural television network and sales of digital cable television business related products. The basic network construction for approximately 400,000 subscribers of broadcasting television in the rural areas is underway and expected to be completed in 2012.

With the assistance of externally engaged market and technology experts, the Group has made steady progress on the development of client channels for the technology development, products and services, which set up a solid platform for further sales of products in the cable market. The Group won the bid for supply of MOCA products in Ningxia Autonomous Region (throughout the province), and will commence the supply in the next financial year.

The Group's existing operation right on value-added business covers areas such as Anhui and Nanchang of Jiangxi province. The Group has signed contracts on establishment and operation of value-added business for 5.5 million cable television subscribers. In Hebei province and Datong of Shanxi province, the Group has signed contracts on establishment and operation of basic television business for 3.7 million cable television subscribers. The platform construction and testing for the 301 remote medical treatment project have been completed and the sale has already commenced, with contracted units and intended contracted units located in provinces and cities such as Shaanxi, Liaoning, Guangdong and Xinjiang.

The convenience payment project throughout Hebei province cooperated with 河北省一卡通 (Hebei One-Card) and 北京海科融通 (Beijing Haike Rongtong) stepped into the stage of implementation.

Wireless digital television value-added services

The Group has signed contracts for the operation of wireless digital mobile television in Hebei province, under which 60,000 display panels will be installed in public areas and value-added advertising business will be carried out. During the first quarter of 2012, the Group has completed the construction of 1,000 display panels in public areas.

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. During the financial year ended 30 June 2012, 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.

Wireless digital terrestrial television network equipment integration business

Steady progress has been made on the sales of set-top boxes and related products during the year ended 30 June 2012. This business segment made less contribution to the net profit of the Group as a result of relatively substantial impact from the weak market.

All trade receivables from Hubei Chutian CTV Network Co., Ltd. related to this segment (湖北省楚天中視網絡有限責任公司) for the previous financial year were fully recovered. Other than the after-sales service of the wireless television operation, the wireless television platform integration business has been substantially closed in Hunan and Hubei provinces.

Information safety technology business

As a selected enterprise of China Telecom Group, the Group has participated in the construction of telecommunication base stations in Yunnan, Jiangsu, Hebei, Heilongjiang, Henan and Zhejiang provinces in China, leading the Group to enter into a lucrative telecommunication operators' market with consumption capacity of hundreds of billions dollars every year. With the promotion of three networks integration in telecommunication, the business focuses of three largest operators have shifted to mobile internet and fiber to the home ("FTTH"). The Group's newly developed base environment-controlling products and optical fiber quick connectors are completely compatible with the business modes of these telecom operators. In addition, the Group has been listed in the suppliers' lists for centralized procurements of China Unicom and China Telecom Corporation and had already won the bid from, and commenced to make supply, to the Jilin branch of China Unicom. The telecommunication business will definitely be a new profit driver of the Group in the future.

The system integration projects have brought much contribution to such areas as medical services, plant integration, and government's centralized procurement by utilizing 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 won the bids and been shortlisted in several large government procurements such as Beihang University, China Southern Airlines, Xinhua Airlines and University of Technology.

Wireless digital audio products business

During the year ended 30 June 2012, the total revenue generated from this business segment was mainly attributed to those from clients in Mainland. The demand from overseas customers in this business segment further increased as a result of the stronger demand from overseas market in 2012. The number of new customers in the export segment of the Group has been significantly increased. 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.

III. PROSPECTS

The development plan of the Group for the coming five years still focuses on the growth of the four major business segments, namely, digital cable television, wireless digital television value-added services, information safety technology business and wireless digital audio products business. The Group has the philosophy of market-oriented development based on technology with the provision of services as the profit driver. This will assist the Group in maintaining its competitive edges and its sustainability.

The third quarter of 2012 will be a quarter of continuing success for the Group's operation of television broadcasting business. The Group will have to reinforce its service standard to better serve the contracted television broadcasting subscribers in order to lay a foundation for achieving the overall objectives of development of the Group, and more importantly, seek new opportunities for cooperation in other provinces and expand its business considerably in the provinces where cooperation has been established.

Based on the current progress of the network construction of the Group, it shall be expected to complete the construction of a network for approximately 1.4 million basic cable television broadcasting subscribers and 300,000 value-added cable television broadcasting subscribers, and the installation of 12,000 electronic advertising display panels in the contracted regions in 2012. Moreover, the management expects to sign contracts with approximately 3 million new televisions broadcasting subscribers, generating a promising growth in profit and long-term value for the Group.

The Group has won the bid and will deliver 10,000 units of MOCA core network devices and approximately 50,000 units of MOCA terminal in the coming two years. The Group has formed a partnership in Ningxia for entering the MOCA market. In Liaoning, the Group has made a breakthrough in market expansion, having sold devices with aggregated value of millions of dollars, and expects to achieve a further breakthrough in the future. The Group's profit will be significantly benefit from the cooperation of China Mobile and the television broadcasting operators under three networks integration in the future. As low frequency technology was used by the television broadcasting operators in prior years, only high frequency technology can be used under the cooperation of China Mobile and the television broadcasting operators. Therefore, the sales of MOCA will increase to a greater extent.

For the telecommunication business, the Group, aiming at capturing more market shares and building a new profit driver, commenced to arrange its human, material and financial resources for the development of its own products and 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.

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. 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.

In the next three years, the Group will definitely continue to promote, upgrade and develop 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 growth of the Group.

FINANCIAL REVIEW

For the year ended 30 June 2012, the Group recorded a consolidated revenue of approximately HK$612.5 million, representing a decrease of approximately 9% as compared to HK$676.6 million in the last financial year. Profit attributable to shareholders of the Company was approximately HK$152.9 million, a decrease of approximately 24% compared to approximately HK$201.9 million in the last financial year. Basic earnings per share was approximately HK6.12 cents, a decrease of approximately 36% compared to approximately HK9.50 cents for the last financial year.

Revenue

During the year ended 30 June 2012, 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 2012 generated from the digital cable television business amounted to approximately HK$153.5 million (2011: HK$167.1 million) or approximately 25% (2011: 25%) of the total revenue for this financial year, including operational revenues from basic subscription and other value added technology as well as market service income arising from the 1,000,000 subscribers of the Hebei rural television network and sales of digital cable television business related products.

(ii) Wireless digital television value-added services business

Revenue generated from the wireless digital television value-added services business for the year ended 30 June 2012 amounted to approximately HK$48.1 million (2011: Nil) or 8% (2011: Nil) of the total revenue.

(iii) Information safety technology business

The revenue for the year ended 30 June 2012 generated from the encrypted integrated circuits and the derived integrated business amounted to approximately HK$101.5 million (2011: HK$265.1 million) or approximately 17% (2011: 39%) of the total revenue.

(iv) Wireless digital audio products business

The revenue for the year ended 30 June 2012 generated from the wireless digital audio products business and the related technical services amounted to approximately HK$183.5 million (2011: HK$187.8 million) or approximately 30% (2011: 28%) of the total revenue.

(v) Wireless digital terrestrial television network equipment integration business

The revenue for the year ended 30 June 2012 generated from the wireless digital terrestrial television network equipment integration business amounted to approximately HK$125.8 million (2011: HK$56.7 million) or approximately 20% (2011: 8%) of the total revenue.

Gross Profit Margin

Gross profit margin of the Group was approximately 42.1% (2011: 46.3%).

Other Income

Other income amounted to approximately HK$62.0 million (2011: HK$29.6 million). The increase is mainly due to the disposal of certain idle intellectual properties of the Group. Please refer to the "Intangible assets" paragraph below.

Other Operating Expenses

Other operating expenses were approximately HK$131.2 million for the financial year ended 30 June 2012, compared to approximately HK$87.4 million for the financial year ended 30 June 2011. The increase was mainly due to the inclusion of allowance for doubtful debt on trade receivables, net of approximately HK$35.7 million (2011: HK$12.9 million), and increase in loss on fair value changes of financial assets of approximately HK$4.0 million and other office expenses.

Finance Costs

Finance costs amounted to approximately HK$14.2 million (2011: HK$16.3 million), of which approximately HK$14.0 million (2011: HK$15.2 million) represented non-cash effective interest expenses on convertible notes issued by the Company before their full conversions.

Property, plant and equipment

Property, plant and equipment amounted to approximately HK$232.4 million (2011: HK$123.2 million), representing an increase of approximately 89% compared to the last financial year. 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

Intangible assets amounted to approximately HK$123.5 million (2011: HK$77.8 million), representing an increase of approximately 59% compared to the last financial year. As the wireless television business of the Group was shrinking, the Group disposed some of its idol proprietary technology and intangible assets developed within this business for higher considerations during the financial year ended 30 June 2012. The income from such transfers amounted to approximately HK$56.7 million (2011: Nil).

Inventories

Inventories amounted to approximately HK$174.4 million (2011: HK$7.1 million), representing an increase of approximately 2,357% compared to the last financial year. The inventories comprised set-top boxes, software and equipment for trading. The increase was due to the shift of sales mix and more inventories were purchased near the financial year end for resale.

Trade receivables

Total trade receivables amounted to approximately HK$448.0 million (2011: HK$567.8 million), representing a decrease of approximately 21% compared to the last financial year. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of individual balance of trade receivables as there has not been a significant change in credit quality and the balances are still considered fully recoverable. However, the management of the Company has provided impairment loss of approximately HK$48.4 million (2011: HK$12.9 million) for individual balance which were in delinquency of payments.

As at 30 June 2012, the trade receivables resulting from the digital cable television business cooperation amounted to approximately RMB120.5 million (equivalent to approximately HK$147.9 million), of which approximately RMB48.0 million (equivalent to approximately HK$58.9 million) was due from provincial television broadcasting operators and RMB 72.5 million (equivalent to approximately HK$89.0 million) was due from the business partner of the provincial television broadcasting operator. Up to the date of this announcement, the Group has received RMB10 million (equivalent to approximately HK$12.3 million) from these receivables.

According to current government policy in China, there is usually only one state-owned broadcasting entity in each province or region that has the authority to operate television broadcasting. Typically such a state-owned broadcasting entity will delegate responsibilities to its subsidiaries or its business partners to perform such work as digital television network construction, conversion, digitalisation and related technical standard setting in the province or region. As such the broadcasting entity has a virtual monopolistic status in the relevant province or region, free from competition from foreign or other domestic television operators. With such special status, these state-owned broadcasting entities benefit from the growth in demand in television digitalisation and value added services in their respective areas. In this industry, the payment terms of the subscribers for the services are predominantly on a cash/pay in advance basis. Taking into consideration the aforesaid special status of the state-owned broadcasting entities in each province or region, the room for expansion of their businesses and their practice of requiring advance cash payment from subscribers, the Directors consider that the risk of bad debts relating to these trade receivables to be extremely low.

The total trade receivable balance of HK$448.0 million included a major customer of the Group with trade receivable balance of approximately RMB88.2 million (equivalent to HK$108.2 million) as at 30 June 2012. The Group also had other receivable from this customer of RMB23.1 million (equivalent to HK$28.4 million), being receivable on sales of intangible assets. This customer has repaid RMB50.0 million (equivalent to HK$61.4 million) during and subsequent to the year ended 30 June 2012 respectively. The directors of the Company do not consider the remaining balance cannot be collected.

Prepayments, deposits and other receivables

Prepayment, deposits and other receivables amounted to approximately HK$375.7 million as at 30 June 2012, an increase of approximately 44% when compared to HK$260.1 million as at 30 June 2011. The increase was mainly due to prepayments to suppliers for purchase of goods and services as a result of the Group's increased engagements for implementation of its businesses during the period under review. The prepayment was made in the Group's ordinary and usual course of business.

The prepayments, deposits and other receivables balance as at 30 June 2012 included advances to two suppliers of the Group of approximately HK$128.8 million. The production of goods had been completed by these suppliers but the deliveries were still pending on the instruction of the customers of the Group. In certain kind of the Group's business, the Group was the integrator which required the Group paid trade deposits in advance to purchase products to fulfill its orders of its customers.

Trade payables

Trade payables amounted to approximately HK$50.6 million as at 30 June 2012, a decrease of approximately 60% when compared to HK$125.2 million as at 30 June 2011.

Other payables and accruals

Other payables and accruals amounted to approximately HK$12.8 million as at 30 June 2012, a decrease of approximately 43% when compared to HK$22.3 million as at 30 June 2011.

Convertible notes

(a) Convertible notes with an aggregate amount of HK$264,725,000 issued on 4 December 2009

On 4 December 2009, an aggregate of HK$264,725,000 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.

During the year ended 30 June 2012, the principal amount of such convertible notes of HK$105,025,000 was converted into 319,225,000 shares of the Company. During the year ended 30 June 2012, all convertible notes related to Jinqiao Acquisition and Maxium Acquisition were converted into the Company's shares.

(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 4.2% to the liability components.

	HK$'000
At 1 July 2011	264,504
Effective interest expenses for the year	14,011
Conversion to shares of the Company	(82,666)
At 30 June 2012	195,849

PROPOSED TRANSFER OF LISTING FROM GEM TO MAIN BOARD

The Company has submitted a formal application to the Stock Exchange on 24 October 2011 for the transfer of listing of the Company's shares from GEM to the Main Board under the transfer of listing arrangement pursuant to the relevant provisions of the GEM Listing Rules and the Main Board Listing Rules (the "Proposed Transfer"). Following the lapse of the application on 24 April 2012, the Company submitted a new application for the Proposed Transfer to the Stock Exchange on 25 May 2012. The new application was returned to the Company by the Stock Exchange on 29 May 2012 in view of an on-going enquiry by the Stock Exchange regarding a discloseable transaction announced by the Company on 7 December 2010. The Company will make further announcement as and when there are material developments in relation to the aforesaid matter.

EMPLOYEE INFORMATION

As at 30 June 2012, the Group had 188 full-time employees in Hong Kong and the PRC (2011: 141). The total employees' remuneration, including that of the Directors, amounted to approximately HK$25.3 million (2011: HK$27.4 million).

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 2012.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

The Group primarily financed its operations with internally generated cash flows. As at 30 June 2012, the cash and bank balances of the Group amounted to approximately HK$149.0 million (2011: HK$288.5 million). The Renminbi denominated balances of approximately HK$128.1 million (2011: HK$205.5 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 2012, the Group has net cash inflow of approximately HK$50.5 million (2011: HK$13.7 million) from its operating activities, net cash outflow of approximately HK$176.0 million (2011: HK$192.5 million) from its investing activities and net cash outflow of approximately HK$17.8 million (2011: inflow of HK$396.9 million) from its financing activities.

As at 30 June 2012, the Group had current assets of approximately HK$1,151.5 million (2011: HK$1,124.4 million), while its current liabilities were approximately HK$338.3 million (2011: HK$216.4 million). The current ratio (current assets to current liabilities) of the Group was approximately 3.40 (2011: 5.20); and its gearing ratio (total borrowings over shareholders' funds) was approximately 0.00 (2011: 0.01).

During the year ended 30 June 2012, an aggregate of 321,498,000 new shares were issued by the Company, of which 2,273,000 shares from exercise of share options, and 319,225,000 shares from conversion of convertible notes.

FOREIGN EXCHANGE EXPOSURE

During the year ended 30 June 2012, the majority of the Group's income and expenses were denominated in Renminbi and Hong Kong dollars. Up to 30 June 2012, 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 2012. 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 2012, the Group did not have any charges on its assets (2011: Nil).

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 Plaintiff discontinued his claim against the Company and filed the notice of discontinuance on 22 November 2011. On 13 March 2012, the Company and the Plaintiff had entered into a consent order whereby the Plaintiff shall pay the Company a total sum of HK$850,000 in full and final settlement of the Company's costs (including interests and thereon) and disbursements. The Company has received the whole sum of HK$850,000 from the Plaintiff in August 2012.

Save as disclosed above, there were no other material outstanding writ and litigation against the Group and/or the Company. As at 30 June 2012, the Group had no other significant contingent liabilities.

ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENT

The Group had no material acquisitions or disposals of subsidiaries or significant investment during the year ended 30 June 2012.

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 2012, 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	Shares	Number of underlying Shares *(Note)*	Approximate percentage of interests in the issued share capital
Mr. Xiao Yan	Beneficial owner	2,273,334	1,500,000	0.13%
Mr. Feng Yongming	Beneficial owner	—	1,500,000	0.05%
Mr. Li Tao	Beneficial owner	—	1,500,000	0.05%
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%

Notes:

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

Save as disclosed above, at no time during the year ended 30 June 2012 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 2012, 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)*	623,542,451 (L)	Interest in controlled corporation	22.20%
Team Effort Investments Limited *(Note)*	623,542,451 (L)	Beneficial owner	22.20%

L: Long Position

Note:

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.

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. The Company has applied the principles set out in the Code on Corporate Governance Practices ("Former CG 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") which was revised and renamed as the Corporate Governance Code and Corporate Governance Report (the "New CG Code") with effect from 1 April 2012.

Except for the deviations from code provision A2.1 which is explained below, the Company was in compliance with all code provisions set out in the Former CG Code during the period from 1 July 2011 to 31 March 2012 and New CG Code during the period from 1 April 2012 to 30 June 2012.

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 report, 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.

Save as the aforesaid and in the opinion of the Directors, the Company has met all code provisions set out in the Former CG code and the New CG Code during the respective applicable periods for the year ended 30 June 2012.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors or any of their associates (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 2012. 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 2012.

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

During the year ended 30 June 2012, 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, 28 September 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.

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.