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HENGXIN TECHNOLOGY LTD.
亨鑫科技有限公司*

(carrying on business in Hong Kong as HX Singapore Ltd.)
(incorporated in Republic of Singapore with limited liability)
(Stock Code: 1085)

DISCLOSEABLE TRANSACTION
IN RELATION TO ACQUISITION OF 51% EQUITY INTEREST
IN TARGET COMPANIES

Financial adviser to the Company



THE ACQUISITION

The Board is pleased to announce that on 5 May 2022 (after trading hours of the Stock Exchange), the Purchaser (an indirect wholly-owned subsidiary of the Company) and the Vendor entered into the Equity Purchase Agreement pursuant to which the Purchaser has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell the Sale Equity, representing 51% equity interest in each of the Target Companies, at the Consideration of RMB225 million in cash.

Upon Completion, the Purchaser will hold 51% equity interest in each of the Target Companies. Every company in the Target Group will become an indirect non-wholly-owned subsidiary of the Company and their financial results will be consolidated into the financial statements of the Company.

LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio (as defined in Rule 14.07 of the Listing Rules) in respect of the Acquisition exceeds 5% but is less than 25%, the Acquisition constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As the Completion is conditional upon fulfilment or waiver (as the case may be) of the conditions precedent to the Equity Purchase Agreement, the Acquisition may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the equity securities of the Company.

INTRODUCTION

The Board is pleased to announce that on 5 May 2022 (after trading hours of the Stock Exchange), the Purchaser and the Vendor entered into the Equity Purchase Agreement pursuant to which the Purchaser has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell the Sale Equity at the Consideration of RMB225 million.

THE EQUITY PURCHASE AGREEMENT

The principal terms of the Equity Purchase Agreement are summarized below:

Date

5 May 2022

Parties

- (1) the Purchaser; and
- (2) the Vendor

Equity interests to be acquired

Pursuant to the Equity Purchase Agreement, the Purchaser has conditionally agreed to purchase and the Vendor has conditionally agreed to sell the Sale Equity at the Consideration of RMB225 million. The Sale Equity represents 51% equity interest in each of the Target Companies as at the date of the Equity Purchase Agreement and immediately before the Completion.

Consideration

The Consideration is RMB225,000,000, which shall be payable by the Purchaser to the Vendor in cash in accordance with the following manner:

- (i) RMB180,000,000, representing 80% of the Consideration, shall be paid to the Vendor's designated account within 15 Business Days after all conditions precedent set out in the Equity Purchase Agreement are fulfilled or waived (as the case may be); and

- (ii) RMB45,000,000, representing 20% of the Consideration, shall be paid to Vendor's designated account within 15 Business Days after (a) the release of the Company's annual report for the year ending 31 December 2022; and (b) both the Purchaser and the Vendor have confirmed the 2022 Profit Guarantee (as defined below) has been achieved.

The Consideration payable by the Purchaser will be satisfied by cash from the internal resources of the Group.

Basis of the Consideration

The Consideration was determined after arm's length negotiations between the parties to the Equity Purchase Agreement by taking into consideration various factors, including but not limited to (i) historical financial performance of the Target Companies; (ii) a valuation made by an independent valuer in respect of the 100% equity interest of the Target Companies with aggregated market value of approximately RMB498.4 million as at 31 December 2021 under market approach, which is mainly based on Target Companies' expected revenue for 2022 and the forward price to sales ratio of comparable companies; (iii) the business development opportunities and prospects of the Target Companies; (iv) the profit guarantee of the Target Companies as set out in the Equity Purchase Agreement; and (v) the benefits to be derived by the Group upon Completion as described under the section headed "REASONS AND BENEFITS OF THE ACQUISITION" in this announcement.

Conditions Precedent

Completion is conditional upon fulfillment or waiver (as decided by the Purchaser) of, among other things, the following conditions precedent:

- (i) the Transaction Documents have been duly executed, delivered and become effective; and each party signing the Transaction Documents has fulfilled the relevant procedures such as internal approvals and authorizations of the corresponding shareholders' meeting of the parties and their respective direct or indirect parent companies (if required) and the board of directors, approvals by competent authorities (if required) in accordance with its constitution and the requirements of applicable laws and regulations;
- (ii) the representations and warranties made by the Vendor and the Target Companies in the Equity Purchase Agreement are true, accurate, complete and not misleading. The obligations, commitments and covenants set forth in the Equity Purchase Agreement which are to be performed by the Target Group or the Vendor on or before the Completion Date have been performed;
- (iii) the Vendor has established a legal and valid account with a designated financial institution recognized by the Purchaser and the seal related to such account has been deposited with the Purchaser or Purchaser's designated third party or joint custody and the supervisory measures are approved by the Purchaser;

- (iv) the resolutions or similar documents in respect of the Acquisition have been validly executed and consented to by Mr. Peng Yinan and Mr. Gao Xi (both are ultimate beneficial owners of the Vendor) and their respective spouses, and such documents are recognized by the Purchaser;
- (v) Written documents evidencing that a shareholder holding 10% of Shanghai Zhangyu, XinXi (Ningbo) Equity Investment Partnership (Limited Partnership)* (鑫璽(寧波)股權投資合夥企業(有限合夥)) has agreed in writing to the Acquisition and waived its pre-emptive rights, and such written consent is recognized by the Purchaser;
- (vi) Shanghai Zhangyu, Nanjing Zhangyu and Wuxi Sihai have each provided their modified rules or systems for their business operation activities, and such rules or systems have been approved by the internal authority of the respective entities and recognized by the Purchaser;
- (vii) the Vendor has reached a written agreement with the Purchaser regarding the relevant entities, including Shanghai Zhangyu, Nanjing Zhangyu and Wuxi Sihai, in relation to the removal, assignment and/or arrangement of the legal representatives, the board of directors (and directors), the board of supervisors (and supervisors) and senior management of each entity after the Acquisition;
- (viii) the Target Group has entered into labor contracts, confidentiality agreements, intellectual property rights vesting agreements and non-competition agreements with all key employees and management shareholders of the Target Group on the terms and conditions approved by the Purchaser;
- (ix) the Target Companies and its shareholders have executed all necessary written documents for the purpose of filing the change of registration with the competent registration authority for the Acquisition in form and substance satisfactory to the Purchaser;
- (x) the absence of one or more events (including the absence of any event of default under the Equity Purchase Agreement) prior to the Completion Date that would have a material adverse effect and no evidence of the occurrence of such event(s) that could have a material adverse effect;
- (xi) the Vendor has sent to the Purchaser a notice of payment containing information about the Vendor's designated collection account in accordance with the relevant agreement; and
- (xii) the Vendor and the Target Companies have delivered a completion satisfaction letter in the form as specified in the Equity Purchase Agreement confirming the conditions precedent set out in the Equity Purchase Agreement have been satisfied.

Completion

The Completion shall take place on the Completion Date upon all the conditions precedent set out in the Equity Purchase Agreement are satisfied or waived (as the case may be).

Upon the Completion, the Company will indirectly hold 51% equity interest in each of the Target Companies. Every company in the Target Group will become an indirect non-wholly-owned subsidiary of the Company, and their financial results will be consolidated into the financial statements of the Company.

Profit guarantee

The Vendor has guaranteed to the Purchaser that the aggregate audited net profit after tax (excluding non-recurring income) of the Target Group for the year ending 31 December 2022 shall be no less than RMB40 million (“**2022 Profit Guarantee**”) and the aggregate audited net profit after tax (excluding non-recurring income) of the Target Group for the two years ending 31 December 2022 and 31 December 2023 shall be no less than RMB115 million (“**2022 & 2023 Profit Guarantee**”) (collectively referred to as the “**Profit Guarantee**”).

In the event that the Target Companies fail to achieve the Profit Guarantee, Vendor shall compensate to Purchaser in accordance with the following:

- (a) In the event that the aggregate audited net profit after tax (excluding non-recurring income) of the Target Group for the year ending 31 December 2022 (“**2022 Actual Profit**”) is less than RMB30 million, the Purchaser shall have the right to request the Vendor to repurchase the Sale Equity at the Consideration and pay an interest on the amount of the Consideration received from the Purchaser within 30 days upon request plus an annualized interest rate of 8% as required. Following such repurchase, the Purchaser shall not be obliged to pay the remaining balance of the Consideration (if any).
- (b) In the event that the 2022 Actual Profit is more than RMB30 million but less than RMB40 million, the Vendor shall compensate the Purchaser with a compensation amount (“**Compensation Amount A**”) calculated in accordance to the following formula:

Compensation Amount A = (2022 Profit Guarantee minus 2022 Actual Profit) × implied price to earnings ratio of 11.03 times × 51%

- (c) In the event that the aggregate audited net profit after tax of the Target Group for the two years ending 31 December 2022 and 31 December 2023 (“**2022 & 2023 Actual Profit**”) is less than RMB86.25 million, the Purchaser shall have the right to request the Vendor to repurchase the Sale Equity at the Consideration and pay an interest at the annualized rate of 8% on the amount of the Consideration received from the Purchaser within 30 days upon request.

- (d) In the event that the 2022 & 2023 Actual Profit is more than RMB86.25 million but less than RMB115 million, the Vendor shall compensate the Purchaser with a compensation amount (“**Compensation Amount B**”) calculated in accordance to the following formula:

$$\text{Compensation Amount B} = (\text{2022 \& 2023 Profit Guarantee minus 2022 \& 2023 Actual Profit}) \times \text{implied price to earnings ratio of 7.67 times} \times 51\%$$

In the avoidance of doubt, the aggregate amount of Compensation Amount A and Compensation Amount B shall not exceed the Consideration. In the event that the Vendor fails to fulfill its payable obligation, the Vendor shall pay a late payment fee at an annualized rate of 10% per day. In addition, Compensation Amount A or Compensation Amount B shall be paid by the Vendor, if applicable, to the Purchaser within 30 days following the issuance of the audited financial statements of the Group for the years ending 31 December 2022 and 31 December 2023, respectively.

Separately, the Vendor has agreed to pledge the remaining equity interest of the Target Companies, representing 49% equity interest in Nanjing Zhangyu and 39% equity interest in Shanghai Zhangyu, to (i) guarantee to the Purchaser the timely fulfilment by the Vendor of the compensation obligation as it becomes due under the Equity Purchase Agreement; and (ii) undertake to the Purchaser that when the Vendor fails to undertake the equity repurchase obligation of the Target Company under the Equity Purchase Agreement, the Purchaser shall have the right to exercise the pledge right and use the proceeds from the disposal of the pledged equity to offset the defaulted debt incurred by the Vendor.

INFORMATION ABOUT THE PARTIES TO THE EQUITY PURCHASE AGREEMENT

Information of the Group and the Company

The Company is an investment holding company. The Group is principally engaged in the research, design, development and manufacture of telecommunications and technological products, production of radio frequency coaxial cables for mobile communications and mobile communications systems exchange equipment.

Information of the Purchaser

The Purchaser is a company established under the PRC laws with limited liability and its principal activity is investment holding. As of the date of this announcement, the Purchaser is an indirect wholly-owned subsidiary of the Company.

Information of the Target Companies

Set out below are the financial information of the Target Companies as extracted from their audited financial statements for the years ended 31 December 2020 and 2021, which were prepared in accordance with International Financial Reporting Standards:

Nanjing Zhangyu

	For the year ended 31 December 2021 RMB'000	For the year ended 31 December 2020 RMB'000
Revenue	45,627	14,000
(Loss)/profit before taxation	(333)	616
(Loss)/profit after taxation	(336)	613

Based on the audited consolidated financial statement of Nanjing Zhangyu, the net assets of Nanjing Zhangyu as at 31 December 2021 were approximately RMB20,690,000.

Nanjing Zhangyu is a company established under the PRC laws with limited liability and principally engaged in the chip design, mass production procurement services and provision of IoT security business. Nanjing Zhangyu holds 80% equity interest in Wuxi Sihai, which is principally engaged in chip design and mass production services and system integration services. The remaining 20% equity interest in Wuxi Sihai is held by a third party independent of the Company and its connected persons.

Shanghai Zhangyu

	For the year ended 31 December 2021 RMB'000	For the year ended 31 December 2020 RMB'000
Revenue	–	475
Profit/(loss) before taxation	1,040	(193)
Profit/(loss) after taxation	725	(114)

Based on the audited consolidated financial statement of Shanghai Zhangyu, the net liabilities of Shanghai Zhangyu as at 31 December 2021 were approximately RMB2,717,000.

Shanghai Zhangyu is a company established under the PRC laws with limited liability and principally engaged in the provision of cyber security and software solution in the financial sector. Shanghai Zhangyu holds the entire equity interest in SZSC, which has not yet commenced business as at the date of this announcement.

Information of the Vendor

The Vendor is a limited partnership established under the laws of the PRC and its principal activity is investment holding. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Vendor and its ultimate beneficial owners are independent third parties not connected with the Company and its connected persons within the meaning of the Listing Rules as at the date of this announcement.

REASONS AND BENEFITS OF THE ACQUISITION

The existing business of the Group is highly dependent on investment in fixed assets in the telecommunications industry of Mainland China. After years of development, it has become difficult to sustain the expansion of fixed asset investment in the telecommunications industry in Mainland China. Coupled with fierce competition within the industry and drastic fluctuations in raw material prices, the Company is facing an increasingly difficult environment with the lack of new development. In this regard, the Company has been actively seeking investment targets and exploring the path of transformation.

The Target Companies are engaged in the fields of chip design and mass production procurement services, provision of IoT security and digital technology security, and have considerable product advantages and technological advantages in the industry. These are all rapidly developing and promising fields in Mainland China in recent years, and are encouraged and supported by the national industrial policies. The Board believes that through the Acquisition, the Company can participate in the above emerging high growth industries, share the rapid growth of the Target Companies, cultivate new growth points, promote the transformation of the Company and enhance the long-term value of the Company, which is in the interest of the Shareholders.

The Board notes that the Target Companies are in high-speed development stage and did not record significant profit in the past. Having considered (i) the rapid growth of the integrated circuit as well as cyber security and software solution sectors; (ii) the contracts and agreements that have already been secured by the Target Companies in the first quarter of the year ending 31 December 2022; (iii) the contracts and business projection of Shanghai Zhangyu in relation to the provision of cyber security services to culture assets and equity exchanges in Mainland China; and (iv) the factors that were taken into consideration during the determination of the Consideration, the Board is of the view that the terms of the Equity Purchase Agreement were arrived at after arm's length negotiations among the parties, and are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio (as defined in Rule 14.07 of the Listing Rules) in respect of the Acquisition exceeds 5% but is less than 25%, the Acquisition constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As the Completion is conditional upon fulfilment or waiver (as the case may be) of the conditions precedent to the Equity Purchase Agreement, the Acquisition may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the equity securities of the Company.

DEFINITIONS

In this announcement, the following terms and expressions used herein shall have the following meanings unless the context otherwise requires:

“Acquisition”	the acquisition of the Sale Equity from the Vendor by the Purchaser pursuant to the terms and conditions of the Equity Purchase Agreement
“Board”	the board of Directors
“Business Day(s)”	a day excluding Saturdays, Sundays and statutory holidays in the PRC
“Company”	Hengxin Technology Ltd., a company incorporated in Republic of Singapore with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 1085)
“Completion”	completion of Acquisition in accordance with the Equity Purchase Agreement
“Completion Date”	a date which falls within 3 days after the satisfaction or waiver (where applicable) of the conditions set out in the Equity Purchase Agreement or such later date as may be agreed by the Vendor and the Purchaser
“Consideration”	RMB225,000,000, being the consideration of the Acquisition
“Director(s)”	the director(s) of the Company

“Equity Purchase Agreement”	the conditional equity purchase agreement dated 5 May 2022 and entered into between the Purchaser and the Vendor in respect of the Acquisition
“Group”	the Company and its subsidiaries from time to time
“IoT”	internet of things
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Nanjing Zhangyu”	Nanjing Zhangyu Information Technology Co., Ltd* (南京掌御信息科技有限公司), a company established in the PRC with limited liability
“PRC”	the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Purchaser”	Xin Ke Xin (Suzhou) Technology Co., Ltd.* (鑫科芯 (蘇州) 科技有限公司), a company established under the PRC laws with limited liability and an indirect wholly-owned subsidiary the Company
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Equity”	51% equity interest in Nanjing Zhangyu, and 51% equity interest in Shanghai Zhangyu
“Shanghai Zhangyu”	Shanghai Zhangyu Information Technology Co., Ltd.* (上海掌御信息科技有限公司), a company established in the PRC with limited liability
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“SZSC”	Shanghai Zhangyu Semi-conductor Co., Ltd* (上海掌御半導體有限公司), a company established in the PRC with limited liability and a wholly owned subsidiary of Shanghai Zhangyu
“Target Companies”	collectively, Nanjing Zhangyu and Shanghai Zhangyu

“Target Group”	Target Companies, SZSC and Wuxi Sihai
“Transaction Documents”	collectively, the Equity Purchase Agreement, the articles of association of the Target Companies (if required by the Purchaser) and other agreements or documents relating to the Acquisition
“Vendor”	Xuzhou Jingkan Management Consulting Partnership (Limited Liability Partnership)* (徐州錦瞰管理諮詢合夥企業(有限合夥)), a limited partnership established under the laws of the PRC
“Wuxi Sihai”	Wuxi Sihai Technology Co., Ltd* (無錫思海科技有限公公司), a company established in the PRC with limited liability and 80% owned subsidiary of Nanjing Zhangyu

By Order of the Board
Hengxin Technology Ltd.
Cui Wei
Chairman

Singapore, 5 May 2022

As at the date of this announcement, the executive Directors are Mr. Du Xiping and Dr. Song Haiyan; the non-executive Directors are Mr. Cui Wei and Ms. Zhang Zhong; and the independent non-executive Directors of the Company are Mr. Tam Chi Kwan Michael, Dr. Li Jun and Mr. Pu Hong.

* *For identification purpose only*