



鴻隆控股
HONG LONG
Holdings

Hong Long Holdings Limited

鴻隆控股有限公司

(incorporated in the Cayman Islands with limited liability)
(Stock code: 1383)

2006 ANNUAL RESULTS ANNOUNCEMENT

HIGHLIGHTS

- Revenue up 251% to RMB521 million
- Profit up 1,000% to RMB698 million
- Profit (before “Increase of fair value of investment properties” of RMB566 million less “Deferred tax” of RMB85 million) up 279% to RMB218 million
- Basic earnings per share up 1,017% to RMB0.67.
- Basic earnings (before “Increase of fair value of investment properties” of RMB566 million less “Deferred tax” of RMB85 million) per share up 282% to RMB0.21.

The Board of Directors (the “Board”) of Hong Long Holdings Limited (the “company”) is pleased to announce the consolidated results of the company and its subsidiaries (collectively the “group”) for the year ended 31 December 2006.

CONSOLIDATED INCOME STATEMENT

	Note	2006 RMB'000	2005 RMB'000
Turnover	2	521,040	148,541
Cost of sales		(257,881)	(55,957)
Gross profit		263,159	92,584
Gain on disposal of properties under development	3	120,053	—
Other net income	4	2,162	—
Other revenue	5	3,768	3,124
Selling and distribution expenses		(13,140)	(10,028)
General and administrative expenses		(11,871)	(9,765)
Other operating expenses		(2,691)	(3,694)
Profit from operations		361,440	72,221
Increase in fair value of investment properties		566,343	7,250
Change in fair value of derivative component of convertible note		432	—
Finance costs	6(a)	(23,170)	(361)
Profit before taxation	6	905,045	79,110
Income tax	7	(206,779)	(14,814)
Profit for the year		698,266	64,296
Attributable to:			
Equity holders of the company		698,969	63,531
Minority interests		(703)	765
Profit for the year		698,266	64,296
Dividends per share (RMB)	8	Nil	Nil
Basic earnings per share (RMB)	9	0.67	0.06

CONSOLIDATED BALANCE SHEET

	Note	2006 RMB'000	2005 RMB'000
Non-current assets			
Property, plant and equipment		6,145	7,196
Investment properties		1,004,500	54,300
Investment properties under development		—	170,044
		1,010,645	231,540
Current assets			
Inventories		101,992	270,663
Trade and other receivables	10	578,207	298,068
Pledged deposits		27,090	21,834
Cash and cash equivalents		31,540	3,747
		738,829	594,312
Current liabilities			
Short-term bank loans and other borrowings		470,258	37,000
Current portion of long-term bank loans		—	89,200
Derivative component of convertible note		5,998	—
Trade and other payables and accruals	11	183,003	131,056
Receipts in advance		12,540	291,236
Rental and other deposits		10,770	3,842
Taxation payable		135,670	24,559
		818,239	576,893
Net current (liabilities)/assets		(79,410)	17,419
Total assets less current liabilities		931,235	248,959
Non-current liabilities			
Long-term bank loans		—	100,000
Deferred tax liabilities		86,812	1,861
		86,812	101,861
Net assets		844,423	147,098
Equity			
Share capital		80	25,000
Reserves		821,252	97,404
Total equity attributable to equity holders of the company		821,332	122,404
Minority interests		23,091	24,694
Total equity		844,423	147,098

Notes:

1. BASIS OF PREPARATION

The group adopts reverse acquisition accounting, rather than following its legal form, in the preparation of its financial statements for the years ended 31 December 2005 and 2006. The directors consider that Hong Long Properties (Shenzhen) Company Limited, a 100% owned subsidiary of the company, is the accounting parent during the years ended 31 December 2005 and 2006.

These consolidated financial statements are presented in Renminbi (“RMB”), which is the group’s functional currency. All financial information presented in Renminbi has been rounded to the nearest thousand.

New standards and interpretations not yet adopted

Up to the date of issue of these financial statements, the Hong Kong Institute of Certified Public Accountants (“HKICPA”) has issued the following amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2006 and which have not been adopted in these financial statements:

Amendments to HKAS 1	Presentation of financial statements: capital disclosures	Effective for accounting periods beginning on or after
HKFRS 7	Financial instruments: disclosures	1 January 2007
Revised guidance on implementing HKFRS 4		For entities that begin to apply HKFRS 7 on or after 1 January 2007 or choose to apply HKFRS 7 before that date
HKFRS 8	Operating segments	1 January 2009
HK(IFRIC) 7	Applying the restatement approach under IAS 29 financial reporting in hyperinflationary economies	1 March 2006
HK(IFRIC) 8	Scope of HKFRS 2	1 May 2006
HK(IFRIC) 9	Reassessment of embedded derivatives	1 June 2006
HK(IFRIC) 10	Interim financial reporting and impairment	1 November 2006
HK(IFRIC) 11	HKFRS 2 – Group and treasury share transactions	1 March 2007
HK(IFRIC) 12	Service concession arrangements	1 January 2008

The group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application but has so far concluded that these new HKFRSs would not have a significant impact on the group’s results of operations and financial position.

2. REVENUE AND SEGMENT INFORMATION

At 31 December 2006, the group comprises the following main business segments:

- Property development: development and sale of properties
- Property leasing: leasing of investment properties and sub-leased properties and provision of related management service

	Property development RMB'000	Property leasing RMB'000	Inter-segment elimination RMB'000	Consolidated RMB'000
Year ended 31 December 2006				
Revenue from external customers	500,148	20,892	—	521,040
Segment results	355,901	2,924	—	358,825
Unallocated operating income and expenses				2,615
Profit from operations				361,440
Increase in fair value of investment properties	—	566,343	—	566,343
Change in fair value of derivative component of convertible note				432
Finance costs				(23,170)
Profit before taxation				905,045
Income tax				(206,779)
Profit for the year				698,266
Amortisation and depreciation	2,559	417	—	2,976
As at 31 December 2006				
Segment assets	595,125	1,110,570	(75,988)	1,629,707
Unallocated assets				119,767
Total assets				1,749,474
Segment liabilities	207,906	32,365	(75,988)	164,283
Unallocated liabilities				740,768
Total liabilities				905,051
Capital expenditure incurred	279,702	214,113		
		Property development RMB'000	Property leasing RMB'000	Consolidated RMB'000

Year ended 31 December 2005				
Revenue from external customers		129,998	18,543	148,541
Segment results		65,845	5,324	71,169
Unallocated operating income and expenses				1,052
Profit from operations				72,221
Increase in fair value of investment properties		—	7,250	7,250
Finance costs				(361)
Profit before taxation				79,110
Income tax				(14,814)
Profit for the year				64,296
Amortisation and depreciation		2,330	474	2,804
As at 31 December 2005				
Segment assets		433,575	285,761	719,336
Unallocated assets				106,516
Total assets				825,852
Segment liabilities		405,153	8,291	413,444
Unallocated liabilities				265,310
Total liabilities				678,754
Capital expenditure incurred		224,996	118,705	

3. Gain on disposal of properties under development

During the year, the group disposed its properties under development, Hong Long High Technology Industrial Park, for a consideration of RMB328,356,000. During the year, RMB80,000,000 was settled and the remaining consideration of RMB248,356,000 will be settled in three instalments in 2007. A gain of RMB120,053,000 was resulted from the disposal.

4. Other net income

The amount represents net exchange gain.

5. Other revenue

	2006 RMB'000	2005 RMB'000
Commission income	—	1,822
Compensation income	1,390	—
Interest income	1,974	802
Others	404	500
	3,768	3,124

6. Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

	2006 RMB'000	2005 RMB'000
(a) Finance costs		
Interest on bank loans and other borrowings wholly repayable within five years	36,953	15,708
Less: borrowing costs capitalised into: investment properties under development and properties under development for sale *	(13,783)	(15,347)
	23,170	361
* The borrowing costs have been capitalised at a rate of 6.14% – 6.93% per annum (2005: 5.22% – 6.34%).		
(b) Staff costs		
Wages, salaries and other staff costs	4,595	4,298
Including: Retirement scheme contributions	317	218
(c) Other items		
Amortisation of leasehold land	3,041	2,856
Less: amounts capitalised into: – investment properties under development – properties under development for sale	(305) (1,452)	(489) (1,163)
	1,284 1,692	1,204 1,600
Depreciation		
Total amortisation and depreciation	2,976	2,804
Auditors' remuneration	856	182
Net gain on disposal of property, plant and equipment	–	(6)
Operating lease charges in respect of sub-leased properties	10,690	7,695
Cost of inventories sold	246,872	47,963
Rental income from investment properties	(3,405)	(995)
Rental income from sub-leased properties	(17,487)	(17,548)
Gross rental income	(20,892)	(18,543)
Less: direct outgoings #	11,009	7,994
	(9,883) (108)	(10,549) (271)
Contingent rental income		
# Direct outgoings represent operating lease charges in respect of sub-leased properties and management fee expenses.		

7. Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

	2006 RMB'000	2005 RMB'000
Current tax		
Provision for PRC Enterprise Income Tax for the year	43,468	13,726
Land Appreciation Tax for the year	78,360	–
	121,828	13,726
Deferred tax		
Increase in fair value of investment properties	84,951	1,088
	206,779	14,814

No Hong Kong Profits Tax has been provided for as the group has no estimated assessable profits in Hong Kong. Provision for PRC Enterprise Income Tax is computed according to the relevant rules and regulations in the PRC. The applicable income tax rates of the subsidiaries within the group were 15% to 33% throughout the year (2005: 15% to 33%).

Land Appreciation Tax is levied on properties developed by the group for sale, at progressive rates ranging from 30% to 60% on the appreciation of land value, which under the applicable regulations is calculated based on the proceeds of sales of properties less deductible expenditures including lease charges of land use rights, borrowing costs and all property development expenditures.

8. Dividends

No dividend has been approved and declared by the group during the years ended 31 December 2006 and 2005.

9. Basic earnings per share

The calculation of earnings per share for the year ended 31 December 2006 is based on the profit attributable to equity holders of the company of RMB698,969,000 (2005: RMB63,531,000) during the year and the 1,036,100,000 shares in issue as at the date of this results announcement as if the share were in issue throughout the entire years ended 31 December 2005 and 2006. No diluted earnings per share amount has been disclosed as no dilutive events existed during the year.

10. Included in trade and other receivables are trade debtors with the following ageing analysis at 31 December 2006:

	The group 2006 RMB'000	2005 RMB'000
Current or less than 90 days overdue	310,378	7,564
181 to 365 days overdue	–	200
	310,378	7,764

Trade debtors include an amount in relation to the disposal of Hong Long High Technology Industrial Park as set out in note 3.

The group has a defined credit policy. The group reviews the ageing of loans and advances on a regular basis and closely monitor the recoverability of the balances. The group has also arranged bank financing for certain purchasers of properties and provided guarantees to secure repayment obligations of such purchasers.

11. Included in trade and other payables and accruals are trade payables with the following ageing analysis as at 31 December 2006:

	The group 2006 RMB'000	2005 RMB'000
Due within 90 days or on demand	35,868	45,882

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

The group is principally engaged in the development of mid-range residential and commercial properties in Guangdong province, the PRC. The group is also engaged in the property leasing of commercial properties.

Property development

During 2006, the group completed the development of Hong Long Plaza, situated at Baoan district of Shenzhen with total gross floor area of approximately 172,630 square meters. Out of which, almost the entire residential units of approximately 71,860 square meters have been sold. For the retail shops portion, approximately 2,141 square meters have been sold in 2006 and the rest of approximately 3,743 square meters shall be sold in 2007 and approximately 58,513 square meters retained as investment properties for leasing business respectively.

In 2006, the group also disposed of the whole Hong Long High Technology Industrial Park to an independent third party at a profit of approximately RMB120 million. It consisted of gross floor area of approximately 238,000 square meters.

Property leasing

As at 31 December 2006, the group's leasable commercial area amounted to approximately 87,160 square meters following the completion of Hong Long Plaza in late 2006.

Land reserves

The group owned 7 parcels of land, where 6 parcels were situated in Huizhou and 1 parcel was in Meizhou, both in Guangdong Province. The total site area and expected gross floor area is approximately 530,000 and 1,260,000 square meters respectively.

Further development

On 6 April 2007, the group successfully bidded the Yifeng Plaza, which is situated in Luohu district of Shenzhen, through public auction held by Land and Housing Trade Centre (深圳市土地房屋交易中心) in Shenzhen. The floor area of Yifeng Plaza is approximately 70,354 square meters comprising retail shops, office building, residential building and underground car park of approximately 8,858, 46,857, 4,127, and 10,512 square meters respectively. With a view to taking advantage of the continuous economic growth of Shenzhen, the group consider it is an instant opportunity to have a new source of income upon the time when selling the properties after renovation work.

Financial Review

Overall Performance

In 2006, the group sold development properties of approximately 74,000 square meters. The group sustained a relative healthy level of profit margin and financial structure. Basic earnings per share assuming that the 1,0361,000,000 shares in issue as at the date of this results announcement were in issue throughout 2006 and 2005 was RMB0.67 (2005: RMB0.06). Basic earnings (before “Increase of fair value of investment properties” of RMB566 million less “Deferred tax” of RMB85 million) per share, assuming that the 1,036,100,000 shares in issue as at the date of this results announcement were in issue throughout 2006 and 2005 was RMB0.21 (2005: RMB0.06).

Operating Results

The turnover in 2006 was approximately RMB521.0 million (2005: RMB148.5 million). The substantial increase was mainly due to the increase in floor area delivered upon completion of Hong Long Plaza in late 2006. The net profit attributable to the equity holders of the company of approximately RMB699.0 million was comprised of RMB115.6 million, RMB102.0 million and RMB481.4 million for operating profits, gain on disposal of Hong Long High Technology Park and fair value increase in investment properties all after tax respectively.

The gross profit margin in 2006 was about 51% (2005: 62%). The change in gross profit margin was mainly due to the sale mix of properties. In 2005, approximately 11,667 square meters and 2,685 square meters of residential units and retails in Harbour City were sold. While in 2006 approximately 80 square meters of retail shops in Harbor City, 71,860 square meters of residential units and 2,141 square meters of retail shops in Hong Long Plaza were sold. The selling price for retail shops and thus gross margin is much higher than residential units.

One of the key achievements in 2006 was the completion of Hong Long Plaza in late 2006. It strengthened the group's properties portfolio by increasing the leasable floor area of approximately 58,513 square meters and thus the recurrent cash flow earned from property rental income and management fee.

There was no material acquisition and disposal of subsidiaries and associated companies in 2006. Subsequent to the year end, the group acquired the remaining 6.37% equity interest in Shenzhen Hong Long Commercial Management Company Limited (“Hong Long Commercial”) at a consideration of RMB680,000. After this acquisition, Hong Long Commercial became a wholly-owned subsidiary of the group. Hong Long Commercial is the operating arm for property leasing business.

On 2 February 2007, the group exercised its right under an equity transfer agreement dated 8 August 2006 in relation to the acquisition of the further 49% equity interest in Huizhou Yintaida Company Limited for a consideration of RMB85 million. Upon the completion of the registration procedures, Huizhou Yintaida Company Limited will become a wholly-owned subsidiary of the group. The registration procedures are still in progress up to the date of this results announcement.

Liquidity, Financial Resources and Gearing

Cash and cash equivalents as at 31 December 2006 amounted to RMB31.5 million (2005: RMB 3.7 million).

The group had total borrowings of approximately RMB470.3 million as at 31 December 2006 (2005: RMB 226.2 million). The borrowings to be repayable within one year were approximately RMB470.3 million (2005: RMB 126.2 million), and the group's total bank borrowings divided by total assets as at 31 December 2006 was 27% (2005: 27%), which was calculated based on bank loans and other borrowings to total assets.

As at 31 December 2006, the group had current assets of approximately RMB738.8 million (2005: RMB 594.3 million) and current liabilities of approximately RMB818.2 million (2005: RMB 576.9 million).

Subsequent to the year end, the company issued and allotted further shares for corporate reorganization for listing purpose including 66 million shares converted from the Convertible Note (as defined below). As at the date of this results announcement, the issued share capital is HK\$10,361,000.

Following the listing of company on 22 February 2007, the company raised net funds of approximately RMB467 million. It has further improved the financial position of the company.

Management is comfortable that when opportunities of land bank acquisition arise in future and require additional funding, the group is able to utilise its internal reserve and debt financing to satisfy necessary funding requirement. In view of the current gearing position, management also believes that the group is in a good position to obtain debt financing on favourable terms.

Charge on Assets

As at 31 December 2006, bank loan of approximately RMB140 million was secured by the group's certain bank deposits, investment properties and building held for own use of approximately RMB8.0 million, RMB69.5 million and RMB2.7 million respectively.

On 5 October 2006, a wholly owned subsidiary of the company, Access Achievement Limited (“Access”), issued a zero coupon convertible note (“Convertible Note”) and a zero coupon loan note (“Loan Note”) of US\$8 million and US\$17 million respectively. The Convertible Note and Loan Note were secured by the entire issued share capital of Access and the paid-up capital of Hong Long Properties (Shenzhen) Company Limited (“HL Properties”). Pursuant to the relevant deed of release, the 71% of the issued share capital of Access and 71.78% of the paid-up capital of HL Properties” have been released from charge upon partial settlement of US\$8 million in March 2007.

Exposure to Fluctuations in Exchange Rates and Related Hedges

The group's monetary assets, loans and transactions are principally denominated in Renminbi. The appreciation in the currency value of the Renminbi contributed positively to the group's bottom line. The group did not engage in any derivative activities and did not commit to any financial instruments to hedge its balance sheet exposure in 2006.

Contingent Liabilities

Save for the guarantees given to banks for mortgage facilities (at a maximum of RMB370 million) granted to purchasers of the group's properties, the group had no material contingent liabilities as at 31 December 2006.

Treasury Policies and Capital Structure

The group adopts a prudent approach with respect to treasury and funding policies, with a focus on risk management and transactions that are directly related to the underlying business of the group.

Employees

As at 31 December 2006, the group had a staff force of approximately 162. Of this, most were stationed in the Chinese Mainland. The remuneration of employees was in line with the market trend and commensurable to the level of pay in the industry. Remuneration of the group's employees includes basic salaries, bonuses and long-term incentives (such as pre-IPO Share Options and Share Option Scheme as fully disclosed in the Prospectus). Total staff costs incurred in 2006 was up 6.9% to RMB4.6 million.

Prospects

Based on its success in recent years and the listing on 22 February 2007, the group is well position to increase its market share and to become one of the leading property developers in Guangdong Province, the PRC. With China's rapid economic growth, continued rise in people's disposable income and accelerated urbanization, the group expects ample opportunities in China's property market.

The group is well prepared for the various measures imposed by the PRC government on property market. As for the enforcement of Land Appreciation Tax (“LAT”), the group has made full provision in its existing projects and in the budget for coming projects. As for the regulatory issues, the group sees the policies will lead to consolidation amongst smaller and less-competitive developers. The group is able to capitalize on such huge opportunities emerging along with such market adjustments.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The company is committed to the establishment of good corporate practices and procedures. The corporate governance principles of the company emphasise a quality board, transparency and accountability to all shareholders of the company.

Throughout the year ended 31 December 2006, the group has complied with the code provisions set out in Appendix 14, the Code on Corporate Governance Practices, of the Rules Governing the Listing of Securities on the Stock Exchange for the year ended 31 December 2006.

REVIEW OF ACCOUNTS

The audit committee of the company has reviewed the annual results of the company for the year ended 31 December 2006.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The company has not redeemed any of its shares during the year. Neither the company nor any of its subsidiaries has purchased or sold any of the company's shares during the year.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement is published on the Stock Exchange's website at www.hkex.com.hk. The Annual Report will be despatched to shareholders on or around 30 April 2007.

By order of the Board
ZENG Yunshu
Chairman

Hong Kong, 24 April 2007

As at the date of this announcement, the executive directors of the company are ZENG Yunshu, HAN Qinchun, ZENG Sheng, YE Qingdong, OUYANG Junxin, the non-executive directors of the company are ZHANG Huaqiao, CHEN Junyu and the independent non-executive directors are LI Jun, CHEUNG Ngai Lam and LIN Weifang.