HL GROUP 恒力房地產集團

恒力房地產發展(集團)有限公司
HENGLI PROPERTIES DEVELOPMENT (GROUP) LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 169)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010

The Board of Directors of Hengli Properties Development (Group) Limited (the "Company") announces the consolidated financial results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2010 as follows:—

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2010

	Notes	**2010** *HK$'000*	2009 *HK$'000*
Turnover	*3*	**174,379**	426,086
Cost of properties sold	*5(c)*	**(102,816)**	(294,902)
		71,563	131,184
Other revenue and net income	*3*	**25,685**	29,256
Valuation gain on investment properties		**9,152**	44,497
Selling expenses		**(18,882)**	(24,278)
Administrative expenses		**(36,353)**	(29,738)
Reversal of write down of properties under development		**—**	125,000
Profit from operations		**51,165**	275,921
Finance costs	*5(a)*	**(120,689)**	(129,375)
(Loss)/profit before taxation	*5*	**(69,524)**	146,546
Income tax expense	*6(a)*	**(10,256)**	(63,070)
(Loss)/profit for the year		**(79,780)**	83,476
Attributable to:			
Equity shareholders of the Company		**(102,911)**	11,217
Non-controlling interests		**23,131**	72,259
(Loss)/profit for the year		**(79,780)**	83,476
(Loss)/earnings per share			
Basic	*8*	**($0.09)**	$0.01
Diluted		**N/A**	N/A

CONSOLIDATED BALANCE SHEET
At 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Non-current assets			
Investment properties		**101,771**	88,105
Property, plant and equipment		**18,540**	18,255
Prepaid lease payments		**28,492**	28,509
Goodwill		**99,861**	95,782
Available-for-sale investment		**2,368**	2,272
Loan to a director		**—**	295,129
Deferred tax assets		**4,397**	8,838
		255,429	536,890
Current assets			
Properties under development		**4,090,776**	3,571,790
Properties held for sales		**108,229**	167,440
Deposits for land use right purchase		**222,554**	—
Trade and other receivables	*9*	**93,216**	31,420
Loan to a director		**324,543**	—
Tax prepayments		**54,736**	4,549
Restricted bank deposits		**344,637**	198,508
Cash at bank and in hand		**209,835**	137,977
		5,448,526	4,111,684
Current liabilities			
Trade and other payables	*10*	**374,261**	383,938
Receipts in advance		**1,082,012**	394,353
Promissory notes		**—**	60,000
Bank loans		**1,264,082**	207,313
Current taxation		**80,082**	87,322
		2,800,437	1,132,926
Net current assets		**2,648,089**	2,978,758
Total assets less current liabilities		**2,903,518**	3,515,648

CONSOLIDATED BALANCE SHEET *(Continued)*
At 31 December 2010

	Notes	**2010** **HK$'000**	2009 HK$'000
Non-current liabilities			
Bank loans		**167,584**	994,705
Convertible bonds		**1,368,839**	1,267,706
Deferred tax liabilities		**956,717**	977,037
		2,493,140	3,239,448
NET ASSETS		**410,378**	276,200
CAPITAL AND RESERVES			
Share capital		**111,851**	111,851
Accumulated losses		**(484,779)**	(381,868)
Other reserves		**595,259**	386,925
Total equity attributable to equity shareholders of the Company		**222,331**	116,908
Non-controlling interests		**188,047**	159,292
TOTAL EQUITY		**410,378**	276,200

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 December 2010

	2010	2009
	HK$'000	*HK$'000*
Operating activities		
Cash generated from operations	**87,304**	62,579
Tax paid	**(87,356)**	(12,574)
Net cash (used in)/generated from operating activities	**(52)**	50,005
Investing activities		
Payment for the purchase of property, plant and equipment	**(58)**	(1,208)
Proceeds from sale of property, plant and equipment	**261**	839
Dividends received from available-for-sale investment	**478**	610
Interest received	**5,160**	833
Increase in restricted bank deposits	**(146,129)**	(198,508)
Net cash used in investing activities	**(140,288)**	(197,434)
Financing activities		
Issue of shares net of directly attributable expenses	**108,025**	—
Interest paid	**(67,332)**	(58,352)
Advances from non-controlling of subsidiaries	**4,325**	287
Repayment of promissory notes	**(60,000)**	(50,000)
Proceeds from new bank loans	**306,806**	479,734
Repayment of bank loans	**(77,158)**	(171,194)
Dividends paid to non-controlling of a subsidiary	**(4,771)**	(2,728)
Net cash generated from financing activities	**209,895**	197,747
Net increase in cash and cash equivalents	**69,555**	50,318
Cash and cash equivalents at 1 January	**137,977**	88,915
Effect of foreign exchange rate changes	**2,303**	(1,256)
Cash and cash equivalents at 31 December	**209,835**	137,977

Notes:

1. GENERAL INFORMATION

Hengli Properties Development (Group) Limited (the "Company") is a limited liability company incorporated and domiciled in Bermuda. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda and, its principal place of business is in the People's Republic of China (the "PRC"). The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "SEHK").

The principal activities of the Company and its subsidiaries (the "Group") are property development and investment.

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the SEHK (the "Listing Rules").

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued two revised HKFRSs, a number of amendments to HKFRSs and two new Interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 3 (revised 2008), *Business combinations*
- Amendments to HKAS 27, *Consolidated and separate financial statements*
- Amendments to HKFRS 5, *Non-current assets held for sale and discontinued operations — plan to sell the controlling interest in a subsidiary*
- Amendments to HKAS 39, *Financial instruments: Recognition and measurement — eligible hedged items*
- Improvements to HKFRSs (2009)
- HK(IFRIC) 17, *Distributions of non-cash assets to owners*
- HK (Int) 5, *Presentation of Financial Statements — Classification by the Borrower of a Term Loan that contains a Repayment on Demand Clause*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The amendment to HKFRSs (2009) and issuance of HK (Int) 5 have had no material impact on the Group's financial statements as the amendment and the Interpretation's conclusions were consistent with policies already adopted by the Group.

3. TURNOVER AND OTHER REVENUE AND NET INCOME

Turnover and other revenue and net income recognised during the year are as follows:

	2010	2009
	HK$'000	*HK$'000*
Turnover		
Sales of properties	**170,502**	423,838
Rental income from investment properties	**3,877**	2,248
	174,379	426,086
Other revenue and net income		
Interest income from loan to a director	**16,593**	20,093
Other interest income	**5,160**	833
Net foreign exchange (loss)/gain	**(577)**	702
Dividend income	**478**	610
Others	**4,031**	7,018
	25,685	29,256

4. SEGMENT REPORTING

The Group manages its businesses by projects in different region within the PRC. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Projects in Fujian Province: this segment engages in the development of residential and commercial properties for sales and leasing in Fujian Province.

- Projects in Zhejiang Province: this segment engages in the development of residential and commercial properties for sales as well as leasing of properties to earn rental income in Zhejiang Province. On 3 March 2011, the Group entered into an agreement to sell the entire interest in Right Strong Holding Limited. Upon completion of the sale transaction, this segment would be disposed of.

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of investments in financial assets and other corporate assets. Segment liabilities include current liabilities, bank borrowings managed directly by the segments and deferred tax liabilities.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

4. SEGMENT REPORTING *(Continued)*

(a) Segment results, assets and liabilities *(Continued)*

The measure used for reporting segment profit is "Profit before tax".

	Projects in Fujian Province *HK$'000*	**Projects in Zhejiang Province** *HK$'000*	**Total** *HK$'000*
For the year ended 31 December 2010			
Revenue from external customers	**—**	**174,379**	**174,379**
Reportable segment (loss)/profit	**(24,226)**	**63,906**	**39,680**
At 31 December 2010			
Reportable segment assets	**5,370,361**	**542,714**	**5,913,075**
Reportable segment liabilities	**3,936,417**	**365,231**	**4,301,648**

	Projects in Fujian Province *HK$'000*	Projects in Zhejiang Province *HK$'000*	Total *HK$'000*
For the year ended 31 December 2009			
Revenue from external customers	—	426,086	426,086
Reportable segment profit	101,551	144,885	246,436
At 31 December 2009			
Reportable segment assets	4,328,106	453,808	4,781,914
Reportable segment liabilities	2,984,493	317,275	3,301,768

(b) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

Revenue	**2010** *HK$'000*	2009 *HK$'000*
Reportable segment and consolidated revenue	**174,379**	426,086

(Loss)/profit	**2010** *$'000*	2009 *$'000*
Reportable segment profit	**39,680**	246,436
Unallocated head office and corporate results	**(109,204)**	(99,890)
Consolidated (loss)/profit	**(69,524)**	146,546

4. SEGMENT REPORTING *(Continued)*

(b) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities *(Continued)*

Assets	**2010** **HK$'000**	2009 HK$'000
Reportable segment assets	**5,913,075**	4,781,914
Elimination of inter-segment receivables	**(799,518)**	(525,244)
Unallocated head office and corporate assets	**590,398**	391,904
Consolidated total assets	**5,703,955**	4,648,574

Liabilities	**2010** **HK$'000**	2009 HK$'000
Reportable segment liabilities	**4,301,648**	3,301,768
Elimination of inter-segment payables	**(799,518)**	(525,244)
Unallocated head office and corporate liabilities	**1,791,447**	1,595,850
Consolidated total liabilities	**5,293,577**	4,372,374

5. (LOSS)/PROFIT BEFORE TAXATION

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

	2010 **HK$'000**	2009 HK$'000
(a) Finance costs:		
Interest on bank loans	**66,690**	57,580
Interest on convertible bonds	**101,133**	95,874
Interest on promissory notes	**—**	1,309
Interest expense on other borrowings repayable on demand	**642**	772
Total interest expense on financial liabilities not carried at fair value through profit or loss	**168,465**	155,535
Less: Interest expense capitalised into properties under development*	**(47,776)**	(26,160)
	120,689	129,375

* The borrowing costs have been capitalised at rates ranging from 5.4%-5.88% per annum (2009: 5.4%-7.56% per annum).

5. **(LOSS)/PROFIT BEFORE TAXATION** *(Continued)*

(Loss)/profit before taxation is arrived at after charging/(crediting): *(Continued)*

	2010	2009
	HK$'000	*HK$'000*
(b) Staff costs:		
Contributions to defined contribution retirement plan	**659**	681
Salaries, wages and other benefits	**13,304**	14,113
	13,963	14,794
(c) Other items:		
Depreciation of property, plant and equipment	**1,546**	1,191
Amortisation of prepaid lease payments	**160**	154
Auditor's remuneration	**1,226**	715
Operating lease charges in respect of property, plant and equipment	**365**	174
Gain on disposal of property, plant and equipment	**(109)**	(681)
Revaluation surplus on property, plant and equipment	**(233)**	(78)
Rentals receivable from investment properties less direct outgoings of $223,000 (2009: $173,000) *(note 3)*	**(3,654)**	(2,075)
Cost of properties sold	**102,816**	294,902

6. **INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT**

(a) Taxation in the consolidated income statement represents:

	2010	2009
	HK$'000	*HK$'000*
Current tax		
PRC Corporate Income Tax *(note (ii))*	**12,997**	28,261
PRC Land Appreciation Tax *(note (iii))*	**12,795**	19,915
Over-provision of LAT in respect of prior year	**—**	(20,248)
	25,792	27,928
Deferred tax		
Origination and reversal of temporary differences	**(15,536)**	35,142
	10,256	63,070

(i) No provision for Hong Kong profits tax has been made in the financial statements as the Group did not have assessable profit in Hong Kong for the year.

6. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT *(Continued)*

(a) Taxation in the consolidated income statement represents: *(Continued)*

(ii) PRC Corporate Income Tax

The provision for Corporate Income Tax has been calculated at the applicable tax rates on the estimated assessable profits of the Group's subsidiaries in the PRC as determined in accordance with the relevant income tax rules and regulations of the PRC. The Corporate Income Tax rate applicable to the Group's subsidiaries located in mainland China is 25% (2009: 25%).

(iii) PRC Land Appreciation Tax ("LAT")

All income from sale or transfer of state-owned land use rights, buildings and their attached facilities in the PRC is subject to LAT at progressive rates ranging from 30% to 60% of the appreciation value, which under the applicable regulations is calculated based on the proceeds of sales of properties less deductible expenditures including costs of land use rights, borrowing costs and relevant development expenditure.

(b) Reconciliation between tax expense and accounting (loss)/profit at applicable tax rates:

	2010	2009
	HK$'000	*HK$'000*
(Loss)/profit before taxation	**(69,524)**	146,546
Notional tax calculated at rates applicable to profits in the tax jurisdictions concerned	**(7,798)**	45,385
Tax effect of non-deductible expenses	**19,926**	19,611
Tax effect of non-taxable income	**(605)**	(32,318)
Tax effect of unused tax losses not recognised	**251**	7,186
LAT and corresponding PRC Corporate Income Tax effect	**6,565**	23,206
Tax loss brought forward recognised as deferred tax asset	**(8,396)**	—
Provision for withholding tax in respect of dividends declared	**313**	—
Actual tax expense	**10,256**	63,070

7. DIVIDENDS

The directors do not recommend the declaration of any dividend for the year ended 31 December 2010 (2009: Nil).

8. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the consolidated loss attributable to ordinary equity shareholders of the Company of HK$102,911,000 (2009: profit HK$11,217,000) and the weighted average number ordinary shares of 1,118,507,000 (2009: 1,111,047,000) in issue during the year, calculated as follows:

Weighted average number of ordinary shares:

	2010	2009
	'000	*'000*
Issued ordinary shares at 1 January	**1,118,507**	1,092,507
Effect of exercise of convertible bonds	**—**	18,540
	1,118,507	1,111,047

(b) Diluted earnings per share

The diluted earnings per share for the years ended 31 December 2010 and 2009 are not presented as the potential ordinary shares had anti-dilution effect on earnings per share.

9. TRADE AND OTHER RECEIVABLES

	2010	2009
	$'000	*$'000*
Trade receivables	**2,370**	1,579
Prepayments, other receivables and deposits	**90,716**	29,715
Prepaid lease payments (current portion)	**130**	126
	93,216	31,420

The amount of the Group's deposits and prepayments expected to be recovered or recognised as expense after more than one year is HK$20,419,000 (2009: HK$14,109,000).

Included in prepayments, other receivables and deposits of the Group as at 31 December 2010, is the estimated amount indemnified by certain beneficial owners of the Group in relation to the LAT attributable to sales of properties before the listing of the Company in the SEHK amounted to HK$3,038,000 (2009: HK$3,038,000).

(a) Aging analysis

The aging analysis of trade receivables is as follows:

	2010	2009
	HK$'000	*HK$'000*
Current	**2,370**	1,579

At 31 December 2010, no impairment allowance is necessary in respect of the Group's trade receivables as the management considers that the balances are fully recoverable.

10. TRADE AND OTHER PAYABLES

	2010	2009
	HK$'000	*HK$'000*
Trade payables	**220,514**	191,814
Other creditors and accrued charges	**134,861**	150,750
Amounts due to shareholders	**—**	24,963
Amounts due to non-controlling equity holders	**18,886**	16,411
	374,261	383,938

The amounts due to shareholders and non-controlling equity holders are interest free and repayable on demand or within one year.

The following is the aging analysis of trade payables as of the end of reporting period:

	2010	2009
	HK$'000	*HK$'000*
Due within 3 months or on demand	**108,727**	89,460
Due over 12 months	**111,787**	102,354
	220,514	191,814

The balance due over 12 months mainly represents retention money for construction projects.

All of the other creditors and accrued charges are expected to be settled within one year or are repayable on demand.

11 SUBSEQUENT EVENTS

(a) Proposed sale of Right Strong Limited

On 3 March 2011, the Group entered into a conditional agreement to dispose of the entire equity interest in Right Strong Holdings Limited, subject to adjustment. Upon completion of the transaction, the segment for "Projects in Zhejiang Province" as set out in will be disposed of. For further details, please refer to announcement dated 4 March 2011.

(b) Lease commitment

On 18 January 2011, the Group entered into a lease agreement with a tenant, in which the tenant will rent the entire retail portion of the Hengli City property development project.

(c) Acquisition of land use right

On 15 March 2011, the Group acquired the land use right of a piece of land in Fuzhou through bidding process for a consideration of RMB1,200,000,000.

BUSINESS REVIEW

Turnover of the Group for 2010 amounted to HK$174.4 million, representing a decrease of 59.1% as compared to HK$426.1 million for 2009. Included in turnover for 2010 were sales of developed properties and rental income from property letting. Sales of developed properties amounted to approximately HK$170.5 million (2009: HK$423.8 million). The rental income from investment properties amounted to approximately HK$3.9 million (2009: HK$2.2 million). Gross profit of the Group amounted to approximately HK$71.6 million, a decrease of 45.4% as compared to HK$131.2 million for 2009. The Group's gross profit ratio for the year is 41.0%, an increase of 10.2% as compared to 30.8% for 2009. The increase of gross profit ratio was caused by the rise on selling price of developed properties. Loss attributable to equity shareholders amounted to HK$102.9 million as compared to the profit of HK$11.2 million for 2009. The decrease is mainly attributable to i) decrease in gross profit of HK$59.6 million, ii) no reversal of impairment loss on properties under development in 2010, which amounted to HK$125.0 million in 2009, iii) decrease in gain on changes in fair value of investment properties of HK$35.3 million, iv) decrease in income tax expenses of HK$52.8 million.

During the year, the Group sold residential and commercial properties with a total gross floor area of 17,687 sq.m. (2009: 70,828 sq.m.), representing a decrease of 75% over last year. The rental income form investment properties was derived from the developed properties in Ningbo. The development of a residential property project named 盛世嘉苑一期, with total gross floor area of 70,615 sq.m, located in Chung Xing Road, Jiangbei District, Ningbo was completed in March 2009. The development of a commercial property project named 姚江新都大廈, with total gross floor area of 35,809 sq.m, located in Hongtang Zhong Road, Jiangbei District, Ningbo, was completed in July 2009. Turnover for the year was mainly generated from saleable properties of these two projects as well as properties held for sales developed in previous years such as Fortune Garden and 盛世桃源 in Ningbo. There was no new project completed in year 2010.

The property named Hengli City (恆力城) located in the financial district of Fuzhou, Fujian Province, is still under development. The property is being developed into a residential, office and retail development with a total gross floor area of around 241,600 sq.m. Under the current plan, which has been approved by the building authorities, the property will have upon completion one block of 40-storey office building and three blocks of 46-storey residential buildings, commonly erected on top of 8-storey commercial podium accommodating clubhouse facilities and retail spaces and 3 levels of basement car parking spaces. The project has been launched for pre-sales since September 2009.

The property named Hengli Financial Centre (恆力 • 金融中心) located in the financial district of Fuzhou, Fujian Province, is also under development. This land is used to develop high-end commercial properties with estimated gross floor area of approximately 54,949 sq.m and the construction was commenced in December 2009.

On 2 November 2010, the Group successfully won the bid for a land of approximately 6,875 sq.m. located at south of Yeshan Road (冶山路), originally land of "公正二村", Gulou District, Fuzhou City, Fujian Province, for development of high-end commercial properties named Hengli Prosperity Centre (恆力 • 創富中心) with estimated gross floor area of approximately 51,799 sq.m. The project is estimated to begin construction in June 2011.

Given the proximity of the aforementioned property projects in Fuzhou, the Company is expected to enjoy synergy effect and economies of scale in managing and developing those property projects. The development of these properties will be expected to provide the growth engine for the Group in the next few years.

FINANCIAL REVIEW

Net assets

As at 31 December 2010, the Group recorded total assets and total liabilities of approximately HK$5,704.0 million and HK$5,293.6 million respectively. The Group's net assets value per consolidated balance sheet as at 31 December 2010 increased by approximately HK$134.2 million to approximately HK$410.4 million as compared to approximately HK$276.2 million as at 31 December 2009.

Liquidity and financial ratios

The Group had total cash and bank balances of approximately HK$554.5 million as at 31 December 2010 as compared with HK$336.5 million as at 31 December 2009. As at 31 December 2010, the current ratio was 1.9 as compared with 3.6 as at 31 December 2009. The gearing ratio was 84.6% as at 31 December 2010 as compared with 88.8% as at 31 December 2009. The bank borrowings to equity attributable to equity shareholders of the Company ratio was 643.9% as at 31 December 2010 as compared to 1,028.2% as at 31 December 2009.

Borrowings

The Group had interest bearing bank borrowings of approximately HK$1,431.7 million as at 31 December 2010 (31 December 2009: HK$1,202.0 million), representing an increase of approximately 19.1% over the amount as at 31 December 2009. Borrowings were denominated in Renminbi ("RMB") and Hong Kong dollar ("HK$").

Approximately 88.3% of the borrowings is repayable within one year of which 20% is secured by cash deposit. The rest representing the bank loans repayable after one year of HK$167.6 million. The Company is confident in meeting its loan repayment obligations with its cash and bank deposits and proceeds from pre-sales and sale of its project.

The Group had aggregate net carrying amount of convertible bonds of approximately HK$1,368.8 million (principal amount of approximately HK$2,347.7 million) as at 31 December 2010.

Foreign currency exposure

Other than financing activities of borrowings denominated in HK$, the Group conducts its business almost exclusively in RMB. Thus the Group is exposed to foreign exchange risk arising from the exposure of RMB against HK$. The Directors do not anticipate any significant foreign exchange loss as a result of changes in exchange rate between RMB and HK$ in the foreseeable future. The Directors also consider that there will be sufficient cash resources denominated in both RMB and HK$ for repayment of its borrowings. During the year, the Group did not use any financial instrument for hedging purposes and the Group did not have hedging instrument outstanding as at 31 December 2010.

PLEDGE OF ASSETS

As at 31 December 2010, the Group pledged certain of its investment properties, property, plant and equipment, prepaid lease payments, properties under developments and restricted bank deposits to banks in the PRC to secure the bank loans of approximately HK$1,431.7 million (2009: HK$1,128.1 million) granted by these banks.

The aggregate carrying value of the property, plant and equipment, prepaid lease payments, properties under development and restricted bank deposits as at 31 December 2010 amounted to approximately HK$1.6 million HK$8.1 million, HK$3,648.9 million and HK$344.6 million (31 December 2009: HK$1.5 million, HK$8.2 million, HK$3,130.4 million and HK$198.5 million) respectively.

CONTINGENT LIABILITIES

As at 31 December 2010, the Group provided guarantees of approximately HK$392.7 million (2009: HK$105.2 million) to banks in favor of its customers in respect of the mortgage loans provided by the banks to such customers for purchase of the Group's developed properties. These guarantees provided by the Group to the banks would be released upon receiving the building ownership certificates of the respective properties by the banks from the customers as a pledge for security to the mortgage loan granted. At the balance date, no provision for the Group's obligation under these guarantee contracts has been made as the directors considered that it was not probable that the repayment of these loans would be in default.

The directors consider that in case of default in payments, the net realisable value of the related properties can cover the repayment of the outstanding mortgage principals together with the accrued interest and penalty and therefore no provision has been made in the financial statements for the guarantees.

MATERIAL ACQUISITION AND DISPOSAL

For the year ended 31 December 2010, the Company had no material acquisition or disposal of subsidiaries and affiliated companies.

Subsequent to 31 December, on 3 March 2011 the Company entered into a conditional agreement to dispose of the entire equity interest in Right Strong Holdings Limited, the Company's wholly owned subsidiary, for a consideration of approximately HK$149.9 million (subject to adjustment).

CAPITAL STRUCTURE

On 8 December 2010, the rights issue on the basis of one rights share for every existing share was approved by the independent shareholders of the Company by way of poll at a special general meeting of the Company. The rights issue was completed on 3 January 2011 and 1,118,507,000 shares were issued at the subscription price of HK$0.10 per share on that date.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2010, the Group employed approximately 124 full time staffs in the PRC and Hong Kong.

The Group remunerates its employees based on their performance, experience and prevailing market price while performance bonuses are granted on a discretionary basis. Other employee benefits include insurance and medical cover, subsidised educational and training programs.

OUTLOOK

During 2010, in order to control the overheating and speculation in the residential property market and to ensure the healthy development of the real estate industry, the Chinese government has issued a series of tightening policies including increasing the down payment amount for purchase of the second house and restricting loans for the third house, etc. Furthermore, in December 2010, Shanghai and Chongqing were designated as the pilot cities for collection of property tax, which reflected the government's effort to enforce its control on the residential property market.

Looking into the year of 2011, it is expected that the tightening policies will continue to be enforced, which will further reduce the demand, especially investment demand for residential properties. Compared with the residential property market that is under the government's close monitor, the commercial property market remains nearly unaffected by the policies and may become the major property investment vehicle that attracts tremendous investment. Continuity and speeding up of urbanization throughout the country will provide great prospect for the commercial property market. Therefore, we expect to see a increase in commercial property price.

The long-term development strategy of the Group has been to develop high-end, high yield commercial properties and commercial and residential complex in the second-tier and third-tier cities in the PRC. As at 31 December 2010, the Group had properties under development of approximately HK$3,951 million (at carrying value) in Fuzhou city, consisting of Hengli City (恆力城), which is being developed into a commercial and residential complex, Hengli Financial Centre (恆力 • 金融中心) and Hengli Prosperity Centre (恆力 • 創富中心), which are being developed into high-end commercial properties. Residential, office and parking area of Hengli City is being pre-sold and the sale will continue in 2011 and 2012. On 18 January 2011, the Group entered into a long-term lease agreement to lease the 8-storey commercial podium of Hengli City (恆力城) to Beijing Wangfujing Department Store (Group) Co. Ltd. (北京王府井百貨(集團)股份有限公司), a large retail department store group listed on the Shanghai Stock Exchange. The lease is expected to bring to the Group considerable rental income over the long run. The Group also expects that Hengli Financial Centre (恆力 • 金融中心) and Hengli Prosperity Centre (恆力 • 創富中心) will contribute income from pre-sale from the first half of 2011 and 2012 respectively.

On 15 March 2011, the Group further acquired the land use right of a parcel of land with an area of approximately 42,125 square meters in Fuzhou. The land is near the Group's three aforementioned projects in Fuzhou. The Group plans to develop the land into high-end commercial properties with residential building with an estimated gross floor area of 259,190 sq.m.

Given the proximity of the aforementioned projects in Fuzhou, the Company would likely to enjoy synergy effect and economies of scale in managing and developing those property projects. The development of these properties are expected to provide the growth engine for the Group in the next few years. Going forward, the Group will continue to grasp desirable opportunities in the future to increase its landbank and will further seize opportunities to develop, sell and lease high-end commercial properties in Fujian Province and in other second-tier and third-tier cities in the PRC to provide satisfactory return to the Group.

CORPORATE GOVERNANCE

The Company complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year ended 31 December 2010 except for deviations in (i) the independent non-executive directors of the Company are not appointed for a specific term and (ii) the role of chairman and chief executive officer are performed by the same individual.

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in Appendix 10 to the Rules Governing the Listing of Securities of the Stock Exchange (the "Model Code"). Having made specific enquiry of all directors, all directors confirmed they have complied with the required standard set out in the Model Code/the required standard of dealing and the code of conduct regarding securities transactions by directors adopted by the Company.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing Securities on the Stock Exchange.

The Company considers all of the independent non-executive directors are independent.

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

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2010.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three independent non-executive directors of the Company.

The committee has reviewed the Group's 2010 final results before they were tabled for the Board's review and approval.

By order of the board
Hengli Properties Development (Group) Limited
Chen Chang Wei
Chairman

Hong Kong, 28 March 2011

As at the date of this announcement, Mr. Chen Chang Wei, Ms. Chan Sheung Ni, Ms. Chen Dongxue are the Executive Directors. Ms. Lin Wen Feng, Mr. Ma Ving Lung and Mr. Yip King Keung, Pony are the Independent Non-executive Directors.