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HONG LONG HOLDINGS LIMITED

鴻隆控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1383)

ISSUE OF CONVERTIBLE NOTES UNDER GENERAL MANDATE

ISSUE OF CONVERTIBLE NOTES

On 20 January 2012 after trading hours of the Stock Exchange, the Company and the Subscriber entered into the Subscription Agreement in respect of the issue of the Convertible Notes in the principal amount of HK\$30 million. Completion of the Subscription is subject to the conditions as set out in the paragraph headed "Conditions precedent" below. Detailed terms of the Convertible Notes are set out in the paragraph headed "Principal terms of the Convertible Notes".

The net proceeds from the Convertible Notes of approximately HK\$29 million will be used for the general working capital of the Group.

As at the date of this announcement, the Company has a total of 1,846,007,076 Shares. Assuming full conversion of the Convertible Notes at the initial Conversion Price of HK\$0.1228 per Share, a total of 244,299,674 Conversion Shares will be allotted and issued, representing (1) approximately 13.23% of the issued share capital of the Company as at the date of this announcement; and (2) approximately 11.69% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares.

The Conversion Shares falling to be allotted and issued upon exercise of the conversion rights attached to the Convertible Notes will be issued under the General Mandate.

The Company will apply to the Listing Committee for the listing of, and permission to deal in the Conversion Shares. No listing of the Convertible Notes will be sought on the Stock Exchange or any other stock exchange.

SUBSCRIPTION AGREEMENT

1) Parties and Date

Date: 20 January 2012

Issuer: the Company

Subscriber: Magicmount Holdings Limited

Magicmount Holdings Limited, the Subscriber, incorporated in the British Virgin Islands and is principally engaged in investment holding. As at the date of this announcement, to the best of the knowledge, information and belief of the Directors and having made all reasonable enquires, each of the Subscriber, its ultimate beneficial owners and their respective associates is an Independent Third Party.

2) Principal terms of the Convertible Notes

The principal terms of the Convertible Notes are arrived at after arm's length negotiations between the Company and the Subscriber and are summarised as follows:

Principal amount: HK\$30,000,000

Interest rate: the Convertible Notes shall carry an interest of 0.1% per annum

Maturity date: Unless previously redeemed, repurchased and cancelled or converted, any outstanding Convertible Notes shall be redeemed on the date falling on the first anniversary of the date of issue of the Convertible Notes.

Ranking: The Convertible Notes constitute general and unsecured obligations of the Company and rank equally among themselves and pari passu with all other present and future unsecured and unsubordinated obligations of the Company.

- Conversion: The Noteholder will have the right to convert the whole or part of the principal amount of the Convertible Notes into Conversion Shares in amounts of not less than a whole multiple of HK\$100,000 on each conversion.
- Mandatory Conversion: Unless previously converted or redeemed and subject as provided herein, the Noteholder(s) shall convert the entire outstanding principal amount under the Convertible Notes into the Conversion Shares at the Conversion Price if the Closing Price of each Share is HK\$0.1228 (or such price as adjusted as a result of consolidation, subdivision or reclassification of the Shares and in accordance with the adjustments set out in the Conditions) or more for 30 consecutive Trading Days (the “**30-day Period**”) and shall deem to automatically exercise the conversion rights attached to the entire outstanding principal amount under the Convertible Notes at 5:00 p.m. on the last day of the 30-day Period. No further notice is required from the Company to the Noteholder(s) or vice versa.
- Conversion period: The Noteholders shall have the right to convert the whole or part of the principal amount of the Convertible Notes into Conversion Shares at any time and from time to time, from the date of issue of the Convertible Notes up to and including the date which is 7 days prior to the Maturity Date at the then prevailing conversion price.
- Conversion Price: The Conversion Price is initially HK\$0.1228 per Share, subject to adjustment for, among other matters, subdivision or consolidation of Shares, rights issue, extraordinary stock or cash distribution, and other dilutive events (which are the standard anti-dilution adjustment).
- Voting: The Subscriber will not be entitled to attend or vote at any general meeting of the Company by reason only of it being the Noteholder.
- Transfer: With the prior notification to the Company, the Convertible Notes may be transferable to any person provided that no transfer or assignment of the Convertible Notes shall be made to any other connected person of the Company without prior written consent of the Company.

Based on the initial Conversion Price of HK\$0.1228 per Conversion Share, a total number of 244,299,674 Conversion Shares will be allotted and issued upon exercise of the conversion rights attached to the Convertible Notes in full, which represent: (i) approximately 13.23% of the issued share capital of the Company as at the date of this announcement; (ii) approximately 11.69% of the issued share capital of the Company as to be enlarged by the allotment and issue of the Conversion Shares to be allotted and issued upon the exercise of the conversion rights attaching to the Convertible Notes in full; and (iii) approximately 11.02% of the issued share capital of the Company as to be enlarged by the allotment and issue of the Conversion Shares to be allotted and issued upon the exercise of the conversion rights attaching to the Convertible Notes, the Existing Options and Existing Warrants in full.

The Conversion Shares will rank *pari passu* in all respects with the Shares in issue as at the date of allotment and issue of the Conversion Shares.

No application will be made for listing of, or permission to deal in, the Convertible Notes on the Stock Exchange or any other stock exchange. Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

The initial Conversion Price of HK\$0.1228 per Conversion Share was arrived at after arm's length negotiation between the Company and the Subscriber and represents:

- (i) a discount of 11.01% to the closing price of HK\$0.1380 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 19.95% to the average of the closing prices per Share of HK\$0.1534 for the last five trading days up to and including the Last Trading Day;
- (iii) a discount of approximately 21.33% to the average of the closing prices per Share of HK\$0.1561 for the last ten trading days up to and including the Last Trading Day; and
- (iv) a discount of approximately 91.59% to the net asset value per Share of approximately HK\$1.4594 as at 30 June 2011 (based on the latest published unaudited net assets of the Group published on the Stock Exchange's website)

3) Conditions precedent

Completion is conditional upon the fulfillment (or waiver) of the following conditions precedent:

- (i) all necessary consents and approvals required to be obtained on the part of the Company and the Subscriber in respect of the Subscription Agreement and the transactions contemplated thereunder having been obtained;
- (ii) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the Conversion Shares falling to be issued on the exercise of the conversion rights attached to the Convertible Notes;

- (iii) the compliance of any other requirements under the Listing Rules or otherwise the Stock Exchange which requires compliance in relation to the Subscription Agreement and the transactions contemplated thereunder (including but not limited to the allotment and issue of the Conversion Shares to the holder(s) of the Convertible Notes); and
- (iv) none of the warranties given by the Company under the Subscription Agreement having been breached in any material respect (or, if capable of being remedied, has not been remedied), or is misleading or untrue in any material respect.

If any of the above conditions are not fulfilled or waived at or before 4:00 p.m. (Hong Kong time) on 31 March 2012 or such other date as the Company and the Subscriber may agree, the obligations of the Company and the Subscriber under the Subscription Agreement shall forthwith cease and terminate and neither the Company nor the Subscriber shall have any claim against any other party for costs, damages, compensation or otherwise save for any antecedent breaches.

4) Completion

Completion shall take place on or before the third business day following the date on which the above conditions are fulfilled or waived (or such other date as the parties to the Subscription Agreement may agree).

REASON FOR THE ISSUE OF CONVERTIBLE NOTES AND USE OF PROCEEDS

The Company is an investment holding company. The Group is principally engaged in the development of middle to high range residential and commercial properties in the PRC.

The Directors consider raising funds by issuing Convertible Notes is justifiable considering the recent market conditions which represent an opportunity for the Company to enhance its working capital and strengthen its capital base. The Directors consider that the issue of the Convertible Notes is an appropriate means of raising additional capital for the Company since it will not have an immediate dilution effect on the shareholding of the existing Shareholders and the Convertible Notes bear a relatively low interest rate in comparison with external borrowings.

The initial conversion price of HK\$0.1228 was agreed upon based on the recent closing prices of the Shares as quoted on the Stock Exchange. The Directors consider that the terms of the Subscription Agreement, which were arrived at after arm's length negotiations between the Company and the Subscriber, are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. The net proceeds from the issue of the Convertible Notes of approximately HK\$29 million will be used for the general working capital of the Group.

SHAREHOLDING STRUCTURE

The shareholding structure of the Company as at the date of this announcement and immediately after the full conversion of the Convertible Notes is as follows (assuming there being no other change in the share capital of the Company):

Shareholder	At the date of this announcement		Immediately after the issue and allotment of the Conversion Shares upon full conversion of the Convertible Notes		Immediately after the issue and allotment of the Conversion Shares upon full conversion or subscription of the Convertible Notes, the Existing Options and Existing Warrants (Note 4)	
	<i>No. of Shares</i>	<i>Approximate percentage</i>	<i>No. of Shares</i>	<i>Approximate percentage</i>	<i>No. of Shares</i>	<i>Approximate percentage</i>
Substantial Shareholders:						
Green Auspice Limited (Note 1)	216,536,631	11.73%	216,536,631	10.36%	216,536,631	9.77%
Fame Select Limited (Note 2)	461,502,000	25.00%	461,502,000	22.08%	461,502,000	20.81%
CCBIL (Note3)	120,000,000	6.50%	120,000,000	5.74%	120,000,000	5.41%
Sub-total:	798,038,631	43.23%	798,038,631	38.18%	798,038,631	35.99%
Directors:						
Mr. Zeng Yunshu	5,659,535	0.31%	5,659,535	0.27%	5,659,535	0.26%
Dr. Li Jun	–	0.00%	–	0.00%	1,243,243	0.06%
Mr. Cheung Ngai Lam	–	0.00%	–	0.00%	1,243,243	0.06%
Public Shareholders:						
The Subscriber	–	0.00%	244,299,674	11.69%	244,299,674	11.02%
Other public Shareholders	1,042,308,910	56.46%	1,042,308,910	49.86%	1,166,720,095	52.59%
Total	1,846,007,076	100.00%	2,090,306,750	100.00%	2,217,204,421	100.00%

Notes:

1. These Shares were held by Green Ausprice Limited, a company incorporated in the British Virgin Islands and is wholly and beneficially owned by Ms. Sou Sok Ngo. Ms. Sou Sok Ngo was deemed to be interested in these Shares under the SFO.
2. These Shares were held by Fame Select Limited, a company incorporated in the British Virgin Islands and is beneficially owned as to 50% by Mr. Chau Cheok Wa, the chairman of the Company and an executive Director, and as to 50% by Mr. Cheng Ting Kong, the spouse of Ms. Yeung So Mui, an executive Director. Mr. Chau Cheok Wa and Mr. Cheng Ting Kong were deemed to be interested in these Shares under the SFO.
3. This represents interests held by Central Huijin Investment Limited (“Central Huijin”) through CCB International (Holdings) Limited (“CCBIL”). Central Huijin has 57.10% indirectly interest in China Construction Bank International CCBIL and CCBISL. Central Huijin therefore deemed to be interest in 120,000,000 Shares under the SFO.
4. This scenario is for illustration purpose only. According to the terms and conditions of the Existing Options, Existing Warrants and the Convertible Notes, the holder(s) of the Existing Options, Existing Warrants and the Convertible Notes may only exercise the subscription or conversion rights attaching thereto provided that, among others, the Company will maintain the public float in compliance with the Listing Rules upon subscription or conversion of the Existing Options, Existing Warrants and/or the Convertible Notes.

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS PRIOR TO THE DATE OF THIS ANNOUNCEMENT

Date of announcement	Event	Net proceeds	Intended use of proceeds	Actual use of proceeds
22 November 2011	Issue 615,335,692 new Shares at HK\$0.1 per Share under an open offer on the basis of one offer share for every two Shares held on the record date	Approximately HK\$60.62 million	approximately of HK\$20.62 million for working capital of the Group for the daily operation of the Group’s business and approximately of HK\$40.00 million for settlement of outstanding projects construction cost	HK\$20 million has been used to repay shareholder’s loan and the remaining HK\$40.62 million has been used for settlement of construction cost of outstanding projects

Save as disclosed above, the Company has not conducted any other fund raising activities in the past twelve months before the date of this announcement.

GENERAL MANDATE

The Conversion Shares are to be issued under the General Mandate to allot, issue and deal with Shares granted to the Directors at the annual general meeting of the Company held on 27 May 2011. Under the General Mandate, up to 246,134,276 Shares (being the maximum number of Shares issuable under the General Mandate granted to the Directors) can be issued. The General Mandate has not been previously utilised prior to the date of this announcement. As such, the current General Mandate is sufficient for the issue and allotment of the Conversion Shares. The 244,299,674 Conversion Shares to be allotted and issued will utilise approximately 99.25% of the General Mandate. No separate Shareholders' approval is required for the issue of the Convertible Notes pursuant to the Subscription Agreement.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following words and expressions shall have the meaning ascribed to them below:

“associates”	has the meaning ascribed thereto in the Listing Rules
“Board”	board of the Directors
“Closing Price”	in respect of a Share, the closing price published in the Stock Exchange's daily quotation sheet
“Company”	Hong Long Holdings Limited, a company incorporated in the Cayman Island with limited liability and the issued Shares of which are listed on the main board of the Stock Exchange
“Completion”	completion of the Subscription Agreement
“Conditions”	the terms and conditions endorsed on the Convertible Notes in definitive form as they may from time to time be modified in accordance with their provisions and/or of the Instrument
“connected persons”	has the meaning ascribed thereto in the Listing Rules
“Conversion Price”	the initial conversion price of HK\$0.1228 (subject to adjustment) per Conversion Share upon conversion of the Convertible Notes
“Conversion Shares”	the new Shares which may fall to be allotted and issued upon exercise of the conversion rights attaching to the Convertible Notes

“Convertible Notes”	the 0.1% coupon convertible notes in an aggregate principal amount of HK\$30 million to be issued by the Company to the Subscriber pursuant to the Subscription Agreement and to be created by the Instrument constituting such Convertible Notes, or any part of such principal amount
“Directors”	directors of the Company
“Existing Options”	the 45,897,671 share options granted under the Share Option Scheme entitling the holders thereof to subscribe for 45,897,671 Shares as at the date hereof
“Existing Warrants”	the outstanding 81,000,000 unlisted warrants issued by the Company on 20 September 2007 confirming rights to subscribe up to US\$90,000,000 for Shares, on the basis of an initial subscription price of HK\$3.36 per Share (subject to adjustment) during the exercise period on and after 3 October 2007 and up to and including 2 October 2012
“General Mandate”	the general mandate granted to the Directors at the annual general meeting of the Company held on 27 May 2011, pursuant to which a maximum of 246,134,276 new Shares, being the maximum number of Shares in issued as at the date of the annual general meeting, might be allotted and issued
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party(ies)”	any person(s) or company(ies) and their respective ultimate beneficial owner(s) whom, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are third parties independent of the Company and its connected persons of the Company in accordance with the Listing Rules
“Instrument”	the instrument to be executed by the Company by way of a deed poll constituting the Convertible Notes, together with the schedules (as from time to time altered in accordance with the instrument) and any other document executed in accordance with the instrument (as from time to time so altered) and expressed to be supplemental to the instrument
“Last Trading Day”	19 January 2012, being the last trading day prior to the date of the Subscription Agreement

“Listing Committee”	the listing committee of the Stock Exchange for considering applications for listing and the granting of listing
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Maturity Date”	the date falling the first anniversary of the date of issue of the Convertible Notes
“Noteholder(s)”	holder(s) of the Convertible Note(s)
“SFO”	Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) as amended from time to time
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the issued Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Magicismount Holdings Limited, a company incorporated in the British Virgin Islands with limited liability who and whose ultimate beneficial owner are a Independent Third Parties, being the subscriber under the Subscription Agreement
“Subscription”	the subscription of the Convertible Notes by the Subscriber pursuant to the terms of the Subscription Agreement
“Subscription Agreement”	the subscription agreement dated 20 January 2012 and entered into between the Company and the Subscriber in relation to the subscription and issue of the Convertible Notes
“Trading Day(s)”	any day(s) (other than a Saturday or Sunday) on which the Stock Exchange is open for dealing business, provided that if the Stock Exchange is closed for part of such day, or if no Closing Price in respect of the Shares is published in the Stock Exchange’s daily quotation sheet for one or more consecutive dealing days trading of Shares is suspended on such day(s), such day or days will be disregarded
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

“US\$” United States dollars, the lawful currency of the United States of America

“%” per cent.

By order of the board of
Hong Long Holdings Limited
Chau Cheok Wa
Chairman

Hong Kong, 20 January 2012

As at the date of this announcement, the executive Directors are Mr. CHAU Cheok Wa, Mr. ZENG Yunshu, Mr. LEE Chi Shing Caesar, Ms. YEUNG So Mui, Ms. CHENG Mei Ching, Ms. YEUNG So Lai and Mr. LEUNG Ming Ho Vincent; and the independent non-executive Directors are Dr. LI Jun, Mr. CHEUNG Ngai Lam and Mr. CHEUNG Kwok Yu.