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Renhe Commercial Holdings Company Limited

人和商業控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1387)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

The board of directors (the “**Board**”) of Renhe Commercial Holdings Company Limited (the “**Company**”) announces the audited consolidated results of the Company and its subsidiaries (the “**Group**” or “**Renhe Commercial**”) for the year ended 31 December 2012 with comparative figures for the previous financial year as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

	Note	2012 RMB'000	2011 RMB'000
Revenue	2	688,110	2,244,712
Cost of sales	3	<u>(144,606)</u>	<u>(647,993)</u>
Gross profit		543,504	1,596,719
Net valuation gain on investment properties		2,162,772	6,867,322
Profit on disposal of investment properties		10,234	6,512
Other income	4	121,334	123,691
Administrative expenses		(450,312)	(398,431)
Other operating expenses		<u>(305,391)</u>	<u>(310,123)</u>
Profit from operations		<u>2,082,141</u>	7,885,690
Finance income		25,797	38,773
Finance expenses		<u>(625,139)</u>	<u>(498,066)</u>
Net finance expenses	6	<u><u>(599,342)</u></u>	<u><u>(459,293)</u></u>

CONSOLIDATED INCOME STATEMENT (Continued)*For the year ended 31 December 2012*

	<i>Note</i>	2012 RMB'000	2011 RMB'000
Profit before income tax	5	1,482,799	7,426,397
Income tax	7	<u>(538,243)</u>	<u>(1,987,110)</u>
Profit for the year		<u>944,556</u>	<u>5,439,287</u>
Attributable to:			
Equity shareholders of the Company		895,258	5,270,749
Non-controlling interests		<u>49,298</u>	<u>168,538</u>
Profit for the year		<u>944,556</u>	<u>5,439,287</u>
Basic and diluted earnings per share (RMB cents)	9	<u>4.23</u>	<u>24.61</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Profit for the year	944,556	5,439,287
Other comprehensive income for the year (after tax and reclassification adjustments)		
Exchange differences on translation of financial statements of foreign operations	<u>(25,694)</u>	<u>65,638</u>
Total comprehensive income for the year	<u>918,862</u>	<u>5,504,925</u>
Attributable to:		
Equity shareholders of the Company	869,564	5,336,387
Non-controlling interests	<u>49,298</u>	<u>168,538</u>
Total comprehensive income for the year	<u>918,862</u>	<u>5,504,925</u>

CONSOLIDATED BALANCE SHEET

At 31 December 2012

		31 December 2012	31 December 2011
	Note	RMB'000	RMB'000
Non-current assets			
Property and equipment		567,043	603,083
Investment properties		26,169,476	22,852,789
Intangible asset		11,433	11,350
Goodwill		363,792	363,792
Other assets		1,730,611	2,233,314
Deferred tax assets		168,451	80,255
Trade receivables	10	<u>1,499,918</u>	<u>—</u>
Total non-current assets		<u>30,510,724</u>	<u>26,144,583</u>
Current assets			
Inventories		3,296,215	2,488,101
Trade and other receivables	10	2,612,824	5,341,100
Cash at bank and on hand		<u>1,233,389</u>	<u>2,153,888</u>
Total current assets		<u>7,142,428</u>	<u>9,983,089</u>
Current liabilities			
Interest-bearing borrowings	12(ii)	334,800	555,300
Trade and other payables	11	3,612,993	3,605,615
Taxation		<u>30,520</u>	<u>176,257</u>
Total current liabilities		<u>3,978,313</u>	<u>4,337,172</u>
Net current assets		<u>3,164,115</u>	<u>5,645,917</u>
Total assets less current liabilities		<u>33,674,839</u>	<u>31,790,500</u>
Non-current liabilities			
Interest-bearing borrowings	12(i)	7,247,265	6,855,329
Deferred tax liabilities		<u>4,505,015</u>	<u>3,931,474</u>
Total non-current liabilities		<u>11,752,280</u>	<u>10,786,803</u>
Net assets		<u>21,922,559</u>	<u>21,003,697</u>
Capital and reserves			
Share capital	13	186,376	186,376
Reserves		<u>21,499,507</u>	<u>20,629,943</u>
Total equity attributable to equity shareholders of the Company		21,685,883	20,816,319
Non-controlling interests		<u>236,676</u>	<u>187,378</u>
Total equity		<u>21,922,559</u>	<u>21,003,697</u>

Notes:

1. STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and its interpretations promulgated by the International Accounting Standards Board (IASB) and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. The information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in the financial statements is provided as below.

Changes in Accounting Policies

The IASB has issued several amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- Amendments to IFRS 7, *Financial instruments: Disclosures – Transfers of financial assets*
- Amendments to IAS 12, *Income taxes – Deferred tax: Recovery of underlying assets*

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

Amendments to IFRS 7, Financial instruments: Disclosures

The amendments to IFRS 7 require certain disclosures to be included in the financial statements in respect of transferred financial assets that are not derecognised in their entirety and for any continuing involvement in transferred financial assets that are derecognised in their entirety, irrespective of when the related transfer transaction occurred. However, an entity need not provide the disclosures for the comparative period in the first year of adoption. The Group did not have any significant transfers of financial assets in previous periods or the current period which require disclosure in the current accounting period under the amendments.

Amendments to IAS 12, Income taxes

Under IAS 12 deferred tax is required to be measured with reference to the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of the asset(s) in question. In this regard, the amendments to IAS 12 introduced a rebuttable presumption that the carrying amount of investment properties carried at fair value under IAS 40, *Investment property*, will be recovered through sale. This presumption is rebutted on a property-by-property basis if the investment property in question is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. Since the Group's investment properties are located in Mainland China, the Group determined that these properties are held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time and consequently the presumption in the amended IAS 12 is rebutted for these properties. As a result, the Group continues to measure the deferred tax relating to these investment properties using the tax rate that would apply as a result of recovering their value through use.

2. REVENUE

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Operating lease	416,225	356,828
Transfer of operation rights	270,537	1,887,884
Others	1,348	—
	<u>688,110</u>	<u>2,244,712</u>

The Group manages its business in a single segment, namely the shopping mall operating business. The Group's most senior executive management assesses performance and allocates resources on a group basis. Accordingly, no operating segment information is presented.

As the Group's operations are all located in the People's Republic of China (the "PRC"), no geographical segment reporting is presented.

3. COST OF SALES

Cost of sales is composed of costs of properties relating to the operation rights transferred out during the year and costs of trading goods sold.

4. OTHER INCOME

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Revenue from property management and relevant service	98,551	93,904
Government grants	425	21,072
Net gain on liquidation of subsidiaries (i)	22,609	8,762
Loss on disposal of property and equipment	(251)	(47)
	<u>121,334</u>	<u>123,691</u>

(i) During the year ended 31 December 2012, the Group liquidated two PRC subsidiaries and relevant exchange reserve was reclassified to profit or loss upon liquidation.

5. PROFIT BEFORE INCOME TAX

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Depreciation	49,508	29,913
Advertisement expenses	37,555	65,368
Repairs and maintenance	88,909	83,497
Utility charges	46,165	36,543
Operating lease charges	21,980	19,803
Auditors' remuneration		
– audit services	10,019	8,962
– tax services	515	598
Rentals receivable from investment properties		
less direct outgoings of RMB30,871,000 (2011: RMB32,879,000)	(385,354)	(323,949)

6. NET FINANCE EXPENSES

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Finance income		
– Interest income on bank deposits	19,372	38,773
– Income from loan receivable	6,425	–
	<u>25,797</u>	<u>38,773</u>
Finance expenses		
– Interest on interest-bearing borrowings	(884,815)	(799,307)
Less: interest expenses capitalised into investment properties and inventories*	447,590	376,726
	<u>(437,225)</u>	<u>(422,581)</u>
– Discount effect of trade receivables (i)	(200,035)	–
– Net foreign exchange gain/(loss)	19,087	(73,432)
– Bank charges and others	(6,966)	(2,053)
	<u>(625,139)</u>	<u>(498,066)</u>
	<u><u>(599,342)</u></u>	<u><u>(459,293)</u></u>

* The borrowing costs have been capitalised at rates ranging from 7.68% to 13.72% per annum (2011: 6.56% to 13.72% per annum).

(i) Based on the cash payment schedule and the expected date to receive the buyers' bank loans, the impact of discount on trade receivables amounted to RMB200,035,000.

7. INCOME TAX

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Current tax – Provision for the year		
PRC Enterprise Income Tax	51,587	311,230
Land Appreciation Tax	1,311	–
	<u>52,898</u>	<u>311,230</u>
Deferred tax		
Reversal and origination of temporary difference	485,345	1,675,880
	<u>538,243</u>	<u>1,987,110</u>

(i) According to the Corporate Income Tax Law of the PRC, from 1 January 2008, the statutory income tax rate applicable to the Group's subsidiaries in the PRC is 25%.

(ii) According to the Implementation Rules of the Corporate Income Tax Law, the overseas investor to foreign investment enterprises ("FIEs") shall be liable for withholding tax at 10% on the dividend derived from the profits of the year 2008 and thereafter of the FIEs in the PRC. In addition, tax treaties between the PRC and other countries could override the withholding tax rate on dividend if a tax treaty provides a more favourable withholding tax rate. Under the Sino-Hong Kong Double Tax Arrangement, a Hong Kong company will be liable for withholding tax at the rate of 5% for dividend income derived from the PRC if the Hong Kong company holds 25% of equity interests or more of the Chinese company directly. As the holding companies of such FIEs in the Group are Hong Kong companies (the "Group's Hong Kong Holding Companies"), the Group calculated relevant withholding tax based on the withholding tax rate of 5%.

Along with the implementation of Circular of the State Administration of Taxation on How to Understand and Determine “Beneficial Owners” under Tax Conventions (Guo Shui Han [2009] No. 601), the Group’s Hong Kong Holding Companies need to get approval from tax authorities for the determination of “beneficial owners” for the purpose of enjoying withholding tax rate of 5%. As at 31 December 2012, the Group obtained all the approvals for the PRC companies which declared dividends.

- (iii) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (the “BVI”), the Group is not subject to any income tax in the Cayman Islands and the BVI.
- (iv) No provision for Hong Kong Profits Tax has been made as the Group did not earn any income subject to Hong Kong Profits Tax during the year.
- (v) In accordance with the Land Appreciation Tax Law of the PRC, Land Appreciation Tax is levied at the properties developed with legal title by the Group for sale in the PRC. Land Appreciation Tax is charged on the appreciated amount at progressive rates ranged from 30% to 60%.

8. DIVIDENDS

- (i) Dividends payable to equity shareholders of the Company attributable to the year

The directors of the Company do not recommend the payment of a final dividend for the year ended 31 December 2012 (2011: Nil).

- (ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB Nil per ordinary share (2011: RMB7.20 cents per ordinary share)	<u>–</u>	<u>1,522,666</u>

9. BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB895,258,000 (2011: RMB5,270,749,000) and the weighted average of 21,148,132,000 ordinary shares (2011: 21,417,932,000 ordinary shares), calculated as follows:

Weighted average number of ordinary shares

	2012 <i>'000</i>	2011 <i>'000</i>
Issued ordinary shares at 1 January	21,148,132	22,000,000
Effect of shares repurchased	<u>–</u>	<u>(582,068)</u>
Weighted average number of ordinary shares at 31 December	<u>21,148,132</u>	<u>21,417,932</u>

During the years ended 31 December 2012 and 2011, diluted earnings per share are calculated on the same basis as basic earnings per share. The share options did not have dilutive effect as at 31 December 2012.

10. TRADE AND OTHER RECEIVABLES

	<i>Note</i>	2012 RMB'000	2011 <i>RMB'000</i>
Trade receivables	(i)/(ii)	1,896,589	2,394,980
Receivables from disposal of subsidiaries	(v)	1,589,224	2,446,573
Bank deposits		5,835	7,999
Deposits for acquisition		310,000	310,000
Others		317,464	187,918
		4,119,112	5,347,470
Less: allowance for doubtful debts		(6,370)	(6,370)
		4,112,742	5,341,100
Representing:			
– Non-current		1,499,918	–
– Current		2,612,824	5,341,100
		4,112,742	5,341,100

Except as disclosed in Note 10(i) below, the balance of trade and other receivables are expected to be settled or recovered within one year.

(i) Trade receivables arose from the transfer of operation rights

The Group normally requested a 30%-50% cash payment upon the purchase from buyers and the remaining balance would be mainly settled by loans obtained by buyers from commercial banks or by cash. As at 31 December 2012, the Group is in the process of negotiating the cash payment schedule with the buyers or arranging loans with banks for the buyers of the shopping mall units. As at 31 December 2012, the management estimated the receivables will be recovered:

	2012 RMB'000
Within one year	396,671
Over one year	1,499,918
	1,896,589

(ii) Ageing analysis

Included in trade and other receivables are trade receivables with the following ageing analysis as of the balance sheet date:

	2012 RMB'000	2011 <i>RMB'000</i>
Within 6 months	65,281	1,118,224
6 months to 1 year	–	52,079
More than 1 year	1,831,308	1,224,677
	1,896,589	2,394,980

(iii) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

(iv) Trade receivables that are not impaired

All of the trade receivables are neither individually nor collectively considered to be impaired.

Receivables that were past due but not impaired relate to a number of independent buyers of operation rights who are in the process of getting bank loans to finance the payment or have determined to cease applying for bank loans and instead have begun the process of negotiating semi-annual instalment payment schedule with the Group. As at 15 March 2013, the amount of receivables which were agreed to be settled in cash by instalment was RMB1,156,485,000. During the year ended 31 December 2012, the Group re-performed credit evaluations for all buyers who have unsettled receivables. In addition, according to the terms in the operation rights transfer agreement, if the buyers fail to repay the receivables of the Group, the Group is entitled to transfer the operation rights to other buyers to indemnify the loss of the Group. Based on the assessment of these buyers' credit quality and the indemnification the Group is entitled to, the directors of the Company are of the opinion that the trade receivables are collectible and no impairment is considered necessary.

(v) Receivables from disposal of subsidiaries

	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Consideration receivable from subsidiaries disposed of in 2010 (a)	–	857,514
Other receivables (b)	<u>1,589,224</u>	<u>1,589,059</u>
	<u>1,589,224</u>	<u>2,446,573</u>

(a) In 2010, the Group disposed of 100% equity interest of five wholly-owned subsidiaries registered in the BVI at a total consideration of HKD4,666,838,000. Up to 31 December 2012, all the consideration has been settled.

(b) Other receivables represent the amounts due from the subsidiaries disposed of at the date of disposal. Shares of these five disposed BVI entities were pledged to the Group. In addition, the directors of the buyers provided guarantee to the Group in respect of the repayment. As at the date of this announcement, HKD200 million has been subsequently settled. The Group has been chasing the buyers to settle the remaining balance. However, the buyers have requested for the negotiation of the amount to be paid due to some issues noted in the disposed subsidiaries. The directors of the Company believe the Group has no legal obligation to fulfil the buyers' request and is entitled to enforce its rights under the share pledge agreement and personal guarantee to secure the collection of the receivables. However, the directors of the Company are considering all factors such as legal and commercial in arriving at the plan to deal with these requests.

11. TRADE AND OTHER PAYABLES

	<i>Note</i>	2012 RMB'000	2011 <i>RMB'000</i>
Receipts in advance	<i>(i)</i>	945,028	819,060
Construction payables	<i>(ii)</i>	1,802,342	1,812,306
Other taxes payable	<i>(iii)</i>	19,957	31,661
Deposits	<i>(iv)</i>	575,914	659,555
Amounts due to a related party		936	10,071
Salary and welfare expenses payable		7,757	32,505
Professional service fee payables		14,652	11,530
Interest payable		181,123	179,746
Others		65,284	49,181
		<u>3,612,993</u>	<u>3,605,615</u>

(i) As at 31 December 2012, the amount of receipts in advance expected to be recognised as income after more than one year is RMB63,745,000 (2011: RMB65,868,000).

(ii) The ageing analysis of construction payables at the balance sheet date is as follows:

	2012 RMB'000	2011 <i>RMB'000</i>
Due within one year or on demand	1,802,342	1,808,362
Overdue	—	3,944
	<u>1,802,342</u>	<u>1,812,306</u>

(iii) Other taxes payable mainly represents the payables of business tax, which is 5% of the gross revenue.

(iv) These mainly represent deposits paid by tenants for the privilege to renew the operating lease contracts upon expiry, to sign new operating lease contracts and to sign operation rights transfer contracts for the units of the Group's shopping malls to be opened in the future and deposits collected from customers to secure the execution of the lease agreements.

12. INTEREST-BEARING BORROWINGS

(i) Non-current interest-bearing borrowings comprise:

	<i>Note</i>	2012 RMB'000	2011 <i>RMB'000</i>
Senior notes	<i>(a)</i>		
– Senior Notes 2015		1,856,213	1,850,841
– Senior Notes 2016		3,704,052	3,697,688
Secured bank loans	<i>(b)</i>	1,986,800	1,702,100
		7,547,065	7,250,629
Less: current portion of long-term bank loans	<i>12(ii)</i>	(299,800)	(395,300)
		7,247,265	6,855,329

(a) The Company issued senior notes of aggregate amount of USD900,000,000 in 2010, which will be due in 2015 and 2016 respectively.

On 18 May 2010, the Company issued senior notes of USD300,000,000 (“Senior Notes 2015”). The Senior Notes 2015 bear interest at 11.75% per annum, payable semi-annually in arrears, and will be due in 2015.

On 10 September 2010 and 15 November 2010, the Company issued in aggregation of USD600,000,000 senior notes (“Senior Notes 2016”). The Senior Notes 2016 bear interest at 13% per annum, payable semi-annually in arrears, and will be due in 2016.

The Group’s certain subsidiaries registered in Hong Kong and the BVI have provided guarantee to the Senior Notes 2015 and Senior Notes 2016 issued in 2010. The guarantee will be released upon the full and final payments of Senior Notes.

(b) Secured bank loans represent bank loans borrowed by the PRC subsidiaries bearing interest rates ranging from 6.345% to 8.32% per annum (31 December 2011: 6.56% to 8.32% per annum).

The bank loans are secured by the followings:

- As at 31 December 2012, RMB1,206,800,000 (31 December 2011: RMB1,338,600,000) bank loans are secured by restricted bank deposits and investment properties.
- As at 31 December 2012, RMB280,000,000 (31 December 2011: RMB100,000,000) bank loans are secured by restricted bank deposits and investment properties and jointly guaranteed by certain PRC subsidiaries of the Group.
- As at 31 December 2012, RMB500,000,000 (31 December 2011: RMB263,500,000) bank loans are jointly guaranteed by a director of the Company and certain PRC subsidiaries of the Group.

(ii) The short-term loans and borrowings comprise of:

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Unsecured bank loans	–	160,000
Secured bank loan (a)	35,000	–
Current portion of long-term bank loans (Note 12(i))	<u>299,800</u>	<u>395,300</u>
	<u>334,800</u>	<u>555,300</u>

(a) Secured bank loan represents bank loan borrowed by a PRC subsidiary with principal of RMB35,000,000 bearing interest at 7.89% per annum. The loan is secured by investment properties.

(iii) The bank loans are repayable as follows:

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Within one year	334,800	555,300
Between one and two years	361,800	164,800
Between two and five years	974,700	651,500
After five years	<u>350,500</u>	<u>490,500</u>
	<u>2,021,800</u>	<u>1,862,100</u>

13. SHARE CAPITAL

	<u>2012</u>		<u>2011</u>	
	Number of shares '000	<i>RMB'000</i>	Number of shares '000	<i>RMB'000</i>
Authorised:				
Ordinary shares of HKD0.01 each	<u>40,000,000</u>		<u>40,000,000</u>	
Issued and fully paid:				
At 1 January	21,148,132	186,376	22,000,000	193,884
Shares repurchased	<u>–</u>	<u>–</u>	<u>(851,868)</u>	<u>(7,508)</u>
At 31 December	<u>21,148,132</u>	<u>186,376</u>	<u>21,148,132</u>	<u>186,376</u>

DIVIDEND

The Board does not recommend the payment of any dividend in respect of the year ended 31 December 2012 (2011: RMB nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group currently manages 24 malls across 16 cities in China. Gross floor area (“GFA”) under management (includes GFA sold but continue to provide management and advisory services) currently stands at 1.39 million square meters (“sq.m”); leasable GFA stands at 0.77 million sq.m. The Group’s project reserves stand at 4.98 million sq.m. This includes 12 projects under construction, equivalent to 1.45 million sq.m of construction GFA and 20 projects approved and under planning stage, equivalent to 3.54 million sq.m of approved GFA.

Throughout 2012, the Group commenced operation of three underground malls. The Group’s Fushun “The First Tunnel” mall was opened for operation in February 2012. This mall is located beneath Zhongyang Avenue and Dongyi Road of Fushun City, Liaoning Province. This underground shopping mall has a total GFA of approximately 10,596 sq.m. In December 2012, the Group’s Yueyang “The First Tunnel” mall was officially opened for operation. This mall is located beneath Dongmaoling Road and Pedestrian Street, Yueyang City of Hunan Province. This underground shopping mall has a total GFA of approximately 81,780 sq.m. The Group also commenced operation of a mall in Harbin in December 2012. This mall is an extension of the Group’s Harbin Phase 6 project and is located beneath Toulong Street of Harbin City, Heilongjiang Province. This mall has a total GFA of approximately 9,534 sq.m.

Cities	Number of malls	GFA under management	Leasable GFA
Harbin	9	168,081	66,592
Shenyang	1	110,500	73,848
Guangzhou	1	47,554	4,250
Wuhan	1	69,209	20,671
Wuxi	1	423,289	421,099
Handan	1	68,027	32,896
Putian	1	55,084	33,305
Anyang	1	25,310	21,989
Ganzhou	1	59,900	41,137
Fushun	1	10,596	10,596
Yueyang	1	81,780	41,780

Malls sold but continue to provide management and advisory services

Anshan	1	49,840	
Chengdu	1	90,500	
Dalian	1	15,344	
Daqing	1	40,178	
Weifang	1	78,444	
Total	24	1,393,636	768,163

As per the Group’s strategy laid down at the end of 2011, the Group kept expansion to the very minimal. During the period review, the Group did not commenced construction on any new projects.

Project reserves (including projects under construction)

Under construction		Construction GFA – sq.m
1	Chongqing Banan Project Phase 1	60,669
2	Chongqing Dadukou Project Phase 1	40,380
3	Liaoning Jinzhou Project Phase 1	41,163
4	Liaoning Anshan Project Phase 2	118,000
5	Hainan Sanya Project	135,190
6	Liaoning Shenyang Project Phase 2	240,345
7	Guangdong Dongguan Humen Project Phase 1	423,890
8	Hebei Qinhuangdao Project Phase 1	23,282
9	Liaoning Anshan Project Phase 3	18,928
10	Jiangxi Yingtan Project Phase 1	86,000
11	Guangdong Dongguan Humen Project Phase 2	228,000
12	Shandong Yantai Project Phase 1	30,000
	Total	1,445,847
Approved and under planning stage		Approved GFA – sq.m
1	Harbin Project Phase 4	15,738
2	Harbin Project Phase 5	10,000
3	Harbin Project Phase 6	31,500
4	Guangzhou Project Phase 2	48,000
5	Tianjin Project	121,220
6	Tianjin West Station South Plaza Project	100,000
7	Hubei Wuhan Xibei Project	450,000
8	Shenzhen Project	160,000
9	Shandong Qingdao Project	500,000
10	Jiangsu Wuxi Taihu Plaza Project	250,000
11	Hebei Zhangjiakou Project	150,000
12	Jiangxi Yingtan Project Phase 2	69,000
13	Shandong Yantai Project Phase 2	56,000
14	Hebei Qinhuangdao Project Phase 2	96,718
15	Henan Zhengzhou Project Phase 2	350,000
16	Henan Luoyang Project	194,840
17	Anhui Wuhu Project	150,000
18	Yunnan Kunming Project	200,000
19	Jiangxi Nanchang Bayi Tunnel Project	162,000
20	Guizhou Guiyang Project Phase 1	420,000
	Total	3,535,016
	Grand Total	4,980,863

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2012, the Group recorded a consolidated revenue of approximately RMB688.1 million, as compared with RMB2,244.7 million in 2011.

Operating lease income grew by 16.6% to RMB416.2 million in this year as compared to RMB356.8 million last year while revenue from transfer of operation rights dropped by 85.7% to RMB270.5 million from RMB1,887.9 million last year.

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>	Change <i>RMB'000</i>	Change <i>%</i>
Operating lease	416,225	356,828	59,397	16.6
Transfer of operation rights	270,537	1,887,884	(1,617,347)	(85.7)
Others	1,348	–	1,348	100.0
Revenue	<u>688,110</u>	<u>2,244,712</u>	<u>(1,556,602)</u>	(69.3)

Operation Rights Transfer

Revenue generated from transfer of operation rights was recognized when the significant risks and rewards of the operation rights have been transferred to the buyers. Revenue generated from transfer of operations rights during the financial year 2012 was RMB270.5 million, down by 85.7% as compared with RMB1,887.9 million last year. During 2012, the Group has transferred 13,529 sq.m in various projects as compared to 77,719 sq.m in 2011. Transfer in this year mainly comprised 9,062 sq.m of Yueyang Project and 4,069 sq.m of Harbin Project. As the location of the projects were different, the average transfer price of RMB19,997 per sq.m for this year was lower than that of RMB24,291 per sq.m last year.

Operating Lease Income

As we derive all our operating lease income from the lease of space in our shopping centres, our operating lease income for a given period depends primarily on the following factors: (i) the GFA of shops available for leasing during the period; and (ii) the average rental of shops during the period.

Revenue generated from operating lease income for this year increased by 16.6% to RMB416.2 million from RMB356.8 million last year. The increase in operating lease income was mainly attributed to the average increase in rental per sq.m of around 11.4%. In addition, upon opening of the malls in Handan, Putian, Fushun and Ganzhou in late 2011 and 2012, the Group recorded total rental income of RMB20.1 million from these four projects.

Cost of Sales

Cost of sales mainly comprise the cost for the transfer of operation rights amounting to RMB143.4 million which represent either costs of construction of properties or carrying amount of properties relating to the operation rights transferred during the year. Cost of sales decreased to RMB143.4 million this year from RMB648.0 million last year as a result of the decrease in the area of transfer to 13,529 sq.m from 77,719 sq.m last year. The costs of trading goods sold was RMB1.2 million.

Gross Profit

Gross profit decreased to RMB543.5 million in 2012 from RMB1,596.7 million in last year.

Gross margin for the transfer operation rights decreased to 47.0% in 2012 from 65.7% in 2011 as the average transfer price realized decreased to RMB19,997 per sq.m from RMB24,291 per sq.m last year.

Net Valuation Gain on Investment Properties

The net valuation gain on investment properties decreased to RMB2,162.8 million from RMB6,867.3 million in 2011 which was mainly due to less construction work was carried out this year as compared to last year. The net revaluation gain after deducting the related deferred tax and non-controlling interest was RMB1,514.8 million (2011: RMB4,945.5 million).

Other Income

Other income slightly decreased by 1.9% to RMB121.3 million from RMB123.7 million. This mainly comprised of revenue from property management and relevant services.

Administrative Expenses

Administrative expenses increased by 13.0% to RMB450.3 million in 2012 from RMB398.4 million in 2011, which is mainly due to the rise in depreciation, trip expenses and property tax expenses.

Other Operating Expenses

Other operating expenses decreased by 1.5% to RMB305.4 million in 2012 from RMB310.1 million in 2011, principally due to decrease in advertisement expenses after netting off the increase in staff costs and utilities expenses.

Finance Income

Finance income decreased to RMB25.8 million in 2012 from RMB38.8 million in 2011 as a result of decrease in average bank balance.

Finance Expenses

Finance expenses increased to RMB625.1 million in 2012 from RMB498.1 million in 2011. This was mainly attributable to the recording of the discount effect of trade receivables amounting to RMB200.0 million this year. This arose from the re-negotiation of repayment schedule with the buyers of operating rights.

Investment Properties

Investment properties, either completed or under construction, are revalued in accordance with the valuation report prepared by CB Richard Ellis Ltd., a professional firm of professional surveyors. The analysis of investment properties as at 31 December 2012 is as follows:

	2012	2011	Change	Change
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>%</i>
Completed projects	15,095.8	13,281.6	1,814.2	13.7
Projects under construction	11,073.7	9,571.2	1,502.5	15.7
Total	<u>26,169.5</u>	<u>22,852.8</u>	<u>3,316.7</u>	14.5

The total value of investment properties increased by 14.5% to RMB26,169.5 million as at 31 December 2012 from RMB22,852.8 million last year as a result of increase in value of both completed projects and projects under construction. Completed projects increased by 13.7% to RMB15,095.8 million this year from RMB13,281.6 million last year which was mainly attributable to the completion of projects in Fushun, Ganzhou Phase 2 and Yueyang. Projects under construction increased by 15.7% to RMB11,073.7 million from RMB9,571.2 million which was mainly attributable to the projects under construction in Shenyang and Humen.

Trade and Other Receivables

Trade and other receivables that were recorded as current asset as at 31 December 2012 was RMB2,612.8 million as compared with RMB5,341.1 million as at 31 December 2011. This balance mainly comprised trade receivables of RMB396.7 million arose from the transfer of operating rights which purchasers would obtain bank loan or use cash to settle and receivables of RMB1,589.2 million from disposal of subsidiaries. Up to 15 March 2013, around HKD200 million of the receivables from disposal of subsidiaries has been subsequently settled. In addition, there was an trade receivable booked as non-current asset amounted to RMB1,499.9 million as at 31 December 2012 (Nil as at 31 December 2011) which solely arose from the transfer of operation rights in previous year that the company has re-negotiated repayment schedules with the buyers to settle the outstanding balance within three years.

Bank Deposits

The Group's bank deposits represented restricted bank deposits placed with several banks in PRC, either to assist our buyers of the operations right to obtain bank loan or as a security for our own bank loan.

Some of our subsidiaries in the PRC have entered into agreements with banks with respect to bank loans provided to our buyers of the operations right under which our subsidiaries made deposits as security for repayment of the loans under these agreements. These deposits will be released when the loans are repaid by the buyers. As at 31 December 2012, such deposits amounted to approximately RMB169.3 million (31 December 2011: RMB172.1 million).

In addition, deposits totalling RMB21.1 million was also made as at 31 December 2012 (31 December 2011: 163.6 million) to obtain bank loans for certain PRC subsidiaries.

Liquidity and Financial Resources

As at 31 December 2012, total asset of the Group amounted to RMB37,653.2 million (2011: RMB36,127.7 million). For 2012, profit attributable to equity shareholders of the Company amounted to RMB895.3 million (31 December 2011: RMB5,270.7 million). In 2010, capital base of the Group has been strengthened as a result of net proceeds of RMB5,801.7 million through issuing Senior Notes 2015 of USD300,000,000 on 18 May 2010 and Senior Notes 2016 totalling USD600,000,000 on 10 September 2010 and 15 November 2010. The Senior Notes 2015 bear interest at 11.75% per annum, payable semi-annually in arrears, and will be due in 2015 while the Senior Notes 2016 bear interest at 13% per annum, payable semi-annually in arrears, and will be due in 2016.

In terms of available financial resources as at 31 December 2012, the Group's total available cash at bank and on hand was RMB1,233.4 million (31 December 2011: RMB2,153.9 million). The total restricted bank deposits was RMB190.4 million (31 December 2011: RMB335.6 million).

At the end of 2012, gearing ratio for the Group was 20.1%, which is calculated by dividing the interest bearing borrowings by total assets (31 December 2011: 20.5%).

The Group services its debts primarily with recurring cash flow generated from its operation. Together with the proceeds raised by our initial public offering and the second offering, the Board is confident that the Group has adequate financial resources to meet its future debt repayment and support its working capital and future expansion requirements.

Apart from the senior notes, the Group has bank loans totalling RMB2,021.8 million as at 31 December 2012 (2011: RMB1,862.1 million).

Foreign Exchange Rate Risk

Renminbi is not freely convertible into foreign currencies. All foreign exchange transactions involving Renminbi must take place through People's Bank of China (the "PBOC") or other institutions authorised to buy and sell foreign exchange. The exchange rate adopted for the foreign exchange transactions are the rates of exchange quoted by the PBOC that would be subject to a managed float against an unspecified basket of currencies. Foreign currency payments, including the remittance of earnings outside China, are subject to the availability of foreign currency (which depends on the foreign currency denominated earnings of the Group) or must be arranged through the PBOC with government approval.

All cash and bank balances of the Group denominated in Renminbi were placed in banks in PRC. Renminbi is not freely convertible and the remittance of funds out of the PRC is subject to exchange restriction imposed by the PRC government. All the revenue-generating operations of the Group are transacted in Renminbi. The Group is exposed to foreign currency risk on financing transactions denominated in currencies other than the functional currency of the PRC subsidiaries (Renminbi) and functional currency of the overseas group entities (Hong Kong dollar). Depreciation or appreciation of the Renminbi and Hong Kong dollar against foreign currencies can affect the Group's results. The Group currently does not hedge our foreign exchange risk but may do so in the future.

Capital Commitments

As of 31 December 2012, the future capital expenditure for which the Group had contracted but unprovided for and authorized but not yet contracted amounted to approximately RMB2,628.5 million (31 December 2011: RMB2,604.9 million) and RMB3,650.1 million (31 December 2011: RMB5,582.5 million), respectively.

Contingent Liabilities

Guarantees

The Group has provided guarantees and made deposits to bank to assist the buyers of operation rights to obtain bank loans. The outstanding guarantees as at 31 December 2012 amounted to RMB721.0 million (31 December 2011: RMB1,004.4 million). The guarantees and deposit will be released accordingly along with the repayment of loan principal by the buyers.

Human Resources

As at 31 December 2012, the Group employed 3,446 staff (31 December 2011: 4,668). The Group's employees are remunerated according to the nature of job, individual performance and market trends with built-in merit components. Total remuneration for the year ended 31 December 2012 was approximately RMB235.0 million (2011: approximately RMB238.0 million). We have established a training programme that aims to support and encourage members of our management team to continue improving their management skills, including arranging for seminars and their skill and develop their careers. We provide orientation training as well as on-the-job training on a regular basis on various topics, such as internal regulations, computer and management skills, sales skills and career development. Employees in Hong Kong participate in Mandatory Provident Fund scheme, and employees in Mainland China also participate in similar schemes.

In order to reward and motivate our employees, Wealthy Aim Holdings Limited which is previously owned by the Company's controlling shareholder and total shareholdings subsequently transferred to Broad Long Limited, a private company incorporated in the BVI which is in turn wholly-owned by an employee of the Company to streamline the administration and the management of the pre-IPO option scheme, implemented a management incentive scheme by granting rights to selected employees and other individuals who have made contributions to our Group. An option scheme was also adopted by our shareholders at the extraordinary general meeting held on 25 August 2008 to provide an incentive for, amongst others, our employees to work with commitment towards enhancing the value of the Company.

PROSPECTS

The Group believes that China's positive stance and support towards the consumption sector and underground shopping centers development remains intact. Looking ahead to 2013, the Group will continue to focus its resources in consolidating its existing investment properties. The Group will be selective and be opportunistic in terms of commencing construction on new projects. On top of that, the Group will continue to search for more good projects across China; including both new cities and cities in which the Group already has a project.

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

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2012.

AUDIT COMMITTEE

The Company has established an audit committee in accordance with the requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “**Listing Rules**”), the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules during the period from 1 January 2012 to 31 March 2012 (the “**Former Code**”) and the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules during the period from 1 April 2012 to 31 December 2012 (the “**Revised Code**”). The primary duty of the Audit Committee is to review and supervise the financial reporting process and internal control systems of the Group. The audit committee is comprised of three independent non-executive directors. The audit committee has reviewed the audited financial statements of the Group for the year ended 31 December 2012.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Since listing, the Company had adopted the code provisions as set out in the Former Code and the Revised Code, save and except for the following:

Code Provision A.2.1

Mr. Dai Yongge is the Chairman and Chief Executive Officer of the Company. With extensive experience in the management of underground shopping centres, Mr. Dai is responsible for the Group’s overall strategic planning and the management of our business. The Board considers that vesting the roles of chairman and chief executive officer in the same person is beneficial to the business prospects and management of the Group. The balance of power and authority is ensured by the operation of the senior management and the Board, which comprise experienced and high caliber individuals. The Board currently comprises seven executive directors, three non-executive directors and five independent non-executive directors and therefore has a strong independence element in its composition.

Code Provision A.2.7

The Chairman of the Company did not hold any formal meeting with the independent non-executive directors and other non-executive directors due to the busy schedule of the Chairman and the non-executive directors. The Chairman may communicate with the independent non-executive directors and other non-executive directors on a one-to-one or group basis to understand their concerns and to discuss pertinent issues.

Code Provision A.6.7 and E.1.2

The Chairman of the Company and certain independent non-executive directors and other non-executive directors did not attend the Annual General Meeting held on 26 June 2012 due to other business commitments or being overseas. In absence of the Chairman, Mr. Wang Hongfang, an executive director of the Company, acted as the Chairman of the Annual General Meeting. The Board will finalize and inform the date of the Annual General Meeting as earliest as possible to make sure that the Chairman and other non-executive directors (including independent non-executive directors) would attend the Annual General Meeting of the Company in the future.

Save as disclosed above, there has been no deviation from the code provisions on the Former Code and the Revised Code of the Company for the year ended 31 December 2012.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) contained in Appendix 10 to the Listing Rules as the guidelines for the directors’ dealings in the securities of the Company. Upon specific enquiries of all the directors, each of them confirmed that they have complied with the required standards set out in the Model Code for the year ended 31 December 2012 in relation to their securities dealings, if any.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company is proposed to hold on 26 June 2013. Notice of the Annual General Meeting will be published and despatched to the shareholders in due course.

APPRECIATION

Lastly, I would like to thank all members of the Board for their positive inputs, and our shareholders and business partners for their full support and trust in us. I would also like to thank the management and all employees wholeheartedly for their team work and commitment. On behalf of the Board, I sincerely thank various local governments for their support in Renhe Commercial, and contribution towards the success of our projects.

By order of the Board
Renhe Commercial Holdings Company Limited
Dai Yongge
Chairman

Hong Kong, 28 March 2013

As at the date of this announcement, the Board consists of Mr. Dai Yongge, Mr. Zhang Dabin, Mr. Wang Hongfang, Ms. Wang Chunrong, Mr. Wang Luding, Mr. Zhou Jun and Mr. Jin Tao as executive directors, Mrs. Hawken Xiu Li, Ms. Jiang Mei and Ms. Zhang Xingmei as non-executive directors and Mr. Fan Ren-Da, Anthony, Mr. Wang Shengli, Mr. Wang Yifu, Mr. Leung Chung Ki and Mr. Tang Hon Man as independent non-executive directors.

* *For identification purpose only*