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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 2010

The Board of directors (the “**Board**”) of Renhe Commercial Holdings Company Limited (the “**Company**”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “**Group**” or “**Renhe Commercial**”) for the year ended 31 December 2010 with comparative figures for the previous financial year as follows:

#### CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
Revenue	2	1,142,084	4,162,943
Cost of sales	3	(448,666)	(1,059,117)
<b>Gross profit</b>		<b>693,418</b>	<b>3,103,826</b>
Other income	4	4,122,570	1,965,772
Administrative expenses		(340,706)	(253,442)
Other operating expenses		(236,037)	(144,869)
<b>Profit from operations</b>		<b>4,239,245</b>	<b>4,671,287</b>
Finance income		37,658	11,858
Finance expenses		(329,524)	(4,643)
Net finance (expenses)/ income	6	(291,866)	7,215
<b>Profit before income tax</b>	5	<b>3,947,379</b>	<b>4,678,502</b>
Income tax	7	(103,902)	(640,934)
<b>Profit for the year</b>		<b>3,843,477</b>	<b>4,037,568</b>
<b>Attributable to equity shareholders of the Company</b>		<b>3,843,477</b>	<b>4,037,568</b>
<b>Dividends payable to equity shareholders of the Company attributable to the year:</b>			
Final dividend proposed after the balance sheet date	8	1,584,000	2,019,600
<b>Basic and diluted earnings per share (RMB cents)</b>	9	<b>17.47</b>	<b>19.29</b>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
<b>Profit for the year</b>	<u>3,843,477</u>	<u>4,037,568</u>
<b>Other comprehensive income for the year</b> (after tax and reclassification adjustments)		
Exchange differences on translation of financial statements of foreign operations	<u>(91,368)</u>	<u>7,232</u>
<b>Total comprehensive income for the year</b>	<u><u>3,752,109</u></u>	<u><u>4,044,800</u></u>
<b>Attributable to equity shareholders of the Company</b>	<u><u>3,752,109</u></u>	<u><u>4,044,800</u></u>

# CONSOLIDATED BALANCE SHEET

At 31 December 2010

	<i>Note</i>	<b>2010</b> <i>RMB'000</i>	<b>2009</b> <i>RMB'000</i>
<b>Non-current assets</b>			
Property and equipment		<b>398,292</b>	252,671
Investment properties		<b>2,238,915</b>	2,100,956
Land use rights		<b>67,296</b>	8,119
Other assets		<b>1,425,320</b>	778,039
Deferred tax assets		<b>26,115</b>	–
<b>Total non-current assets</b>		<b>4,155,938</b>	3,139,785
<b>Current assets</b>			
Inventories		<b>796,762</b>	121,265
Trade and other receivables	<i>10</i>	<b>7,455,660</b>	5,440,822
Cash at bank and on hand		<b>8,819,006</b>	4,904,426
<b>Total current assets</b>		<b>17,071,428</b>	10,466,513
<b>Current liabilities</b>			
Trade and other payables	<i>11</i>	<b>1,541,603</b>	1,126,637
Taxation		<b>68,294</b>	383,132
<b>Total current liabilities</b>		<b>1,609,897</b>	1,509,769
<b>Net current assets</b>		<b>15,461,531</b>	8,956,744
<b>Total assets less current liabilities</b>		<b>19,617,469</b>	12,096,529
<b>Non-current liabilities</b>			
Interest-bearing borrowings	<i>12</i>	<b>5,808,456</b>	–
Deferred tax liabilities		–	30,000
<b>Total non-current liabilities</b>		<b>5,808,456</b>	30,000
<b>Net assets</b>		<b>13,809,013</b>	12,066,529
<b>Capital and reserves</b>			
Share capital	<i>13</i>	<b>193,884</b>	193,884
Reserves		<b>13,615,129</b>	11,872,645
<b>Total equity attributable to the equity shareholders of the Company</b>		<b>13,809,013</b>	12,066,529

Notes:

## 1. STATEMENT OF COMPLIANCE

These 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. These 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. 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 are reflected in these financial statements.

### Changes in Accounting Policies

The IASB has issued two revised IFRSs, a number of amendments to IFRSs 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:

- IFRS 3 (revised 2008), *Business Combinations*
- Amendments to IAS 27, *Consolidated and separate financial statements*

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

The IFRS 3 (revised 2008) and amendments to IAS 27 resulted in changes in accounting policy but none of these changes in policy have material impact on the current or comparative periods. Further details of these changes in accounting policy are as follows:

- As a result of the adoption of IFRS 3 (revised 2008), any business combination acquired on or after 1 January 2010 will be recognised in accordance with the new requirements and detailed guidance contained in IFRS 3 (revised 2008). These include the following changes in accounting policies:
  - Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, will be expensed as incurred, whereas previously they were accounted for as part of the cost of the business combination and therefore impacted the amount of goodwill recognised.
  - If the Group holds interests in the acquiree immediately prior to obtaining control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.
  - Contingent consideration will be measured at fair value at the acquisition date. Subsequent changes in the measurement of that contingent consideration unrelated to facts and circumstances that existed at the acquisition date will be recognised in profit or loss, whereas previously these changes were recognised as an adjustment to the cost of the business combination and therefore impacted the amount of goodwill recognised.
  - If the acquiree has accumulated tax losses or other temporary deductible differences and these fail to meet the recognition criteria for deferred tax assets at the date of acquisition, then any subsequent recognition of these assets will be recognised in profit or loss, rather than as an adjustment to goodwill as was previously the policy.

In accordance with the transitional provisions in IFRS 3 (revised 2008), these new accounting policies will be applied prospectively to any business combinations in the current or future periods. The new policy in respect of recognition in the movement of deferred tax assets will also be applied prospectively to accumulated tax losses and other temporary deductible differences acquired in previous business combinations.

- As a result of the adoption of IAS 27 (amended 2008), the following changes in policies will be applied as from 1 January 2010:
  - If the Group acquires an additional interest in a non-wholly owned subsidiary, the transaction will be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no goodwill will be recognised as a result of such transactions. Similarly, if the Group disposes of part of its interest in a subsidiary but still remains control, this transaction will also be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no profit or loss will be recognised as a result of such transactions. Previously the Group treated such transactions as step-up transactions and partial disposal, respectively.
  - If the Group loses control of a subsidiary, the transaction will be accounted for as a disposal of the entire interest in that subsidiary, with any remaining interest retained by the Group being recognised at fair value as if reacquired. Previously such transactions were treated as partial disposal.

In accordance with the transitional provisions in IAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

- In order to be consistent with the above amendments to IFRS 3 and IAS 27, the following policies will be applied as from 1 January 2010:
  - If the Group holds interests in the acquiree immediately prior to obtaining significant influence or joint control, these interests will be treated as if disposed of and reacquired at fair value on the date of obtaining significant influence or joint control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.
  - If the Group loses significant influence or joint control, the transaction will be accounted for as a disposal of the entire interest in that investee, with any remaining interest being recognised at fair value as if reacquired. Previously such transaction were treated as partial disposals.

Consistent with transitional provisions in IFRS 3 and IAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

## 2. REVENUE

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Operating lease	154,336	129,369
Transfer of operation rights	<u>987,748</u>	<u>4,033,574</u>
	<u><b>1,142,084</b></u>	<u><b>4,162,943</b></u>

The Group manages its business in a single segment, namely the underground 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.

The Group's operations are located in the PRC, no geographical segment reporting is presented.

## 3. COST OF SALES

Cost of sales represents mainly the amortisation of land use rights, depreciation of the investment properties and costs of construction of properties relating to the operation rights transferred out during the year.

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Operating lease	72,400	60,057
Transfer of operation rights	<u>376,266</u>	<u>999,060</u>
	<u><b>448,666</b></u>	<u><b>1,059,117</b></u>

## 4. OTHER INCOME

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Revenue from property management and relevant service	69,767	58,978
Net gain on disposal of subsidiaries ( <i>Note (i)</i> )	4,052,905	1,906,800
Net loss on sales of property and equipment	<u>(102)</u>	<u>(6)</u>
	<u><b>4,122,570</b></u>	<u><b>1,965,772</b></u>

(i) **Disposal of subsidiaries**

In November 2010, Fine Genius Enterprises Limited (the “Seller”, a wholly-owned subsidiary of the Company) entered into sale and purchase agreements with four purchasers (the “Purchasers”), pursuant to which, the Seller has agreed to sell and the Purchasers have agreed to purchase the entire shares of five wholly-owned subsidiaries of the Seller registered in British Virgin Islands (the “BVI Subsidiaries”) with a total consideration of HKD4,666,838,000 (RMB equivalent: RMB3,971,151,000). Details are as follows:

<b>Name of Purchasers</b>	<b>Name of BVI Subsidiaries</b>	<b>Consideration (HKD'000)</b>
Goal Gold Group Limited	Perfect Wide Limited	917,000
Crown Joy Enterprises Limited	Bao Xiang Limited	871,924
Crown Joy Enterprises Limited	Qian Sheng Limited	279,304
First Achieve Holdings Limited	Joyous Rise Enterprises Limited	1,511,064
Sky High Business Limited	Yield Fast Investments Limited	<u>1,087,546</u>
		<u><u>4,666,838</u></u>

The BVI Subsidiaries are investment holding companies which indirectly held 100% equity interest of five PRC subsidiaries of the Group. The five PRC subsidiaries are engaged in development, lease and management of underground shopping malls located in Anshan, Liaoning Province; Daqing, Heilongjiang Province; Chengdu, Sichuan Province; Weifang, Shandong Province; and Dalian, Liaoning Province of the PRC, respectively. Upon completion of the sale in December 2010, the Purchasers acquired 100% equity interests in the BVI Subsidiaries and all their subsidiaries.

Total consolidated net assets of the BVI subsidiaries as at 31 December 2010 were as follows:

	<b>2010 RMB'000</b>
<b>Net assets disposed of:</b>	
Property and equipment	9,414
Investment properties	1,175,154
Land use rights	37,548
Trade and other receivables	364,796
Cash and cash equivalent	530,179
Trade and other payables	<u>(2,198,845)</u>
	(81,754)
Net gain on disposal	<u>4,052,905</u>
	<u><u>3,971,151</u></u>

## 5. PROFIT BEFORE INCOME TAX-OTHER ITEMS

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Depreciation		
– investment properties	72,173	57,086
– property and equipment	22,692	8,208
Amortisation-land use rights	227	407
Advertisement expenses	69,765	53,109
Repairs and maintenance	57,147	30,216
Utility charges	23,516	15,669
Operating lease charges	22,311	18,741
Auditors' remuneration		
– audit services	7,861	7,032
– tax services	150	–
Rentals receivable from investment properties less direct outgoings of RMB25,180,000 (2009: RMB13,675,000)	<b>(129,156)</b>	<b>(115,694)</b>

## 6. NET FINANCE (EXPENSES)/INCOME

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Finance income		
– Interest income on bank deposits	<u>37,658</u>	<u>11,858</u>
Finance expenses		
– Interest expenses <sup>(i)</sup>	(314,267)	–
Less: interest expenses capitalised into investment properties*	<u>58,540</u>	<u>–</u>
	<b>(255,727)</b>	<b>–</b>
– Net foreign exchange loss	(73,670)	(4,560)
– Bank charges and others	<u>(127)</u>	<u>(83)</u>
	<u><b>(329,524)</b></u>	<u><b>(4,643)</b></u>
	<u><b>(291,866)</b></u>	<u><b>7,215</b></u>

\* The borrowing costs have been capitalised at a rate of 12.52% per annum (2009: Nil).

<sup>(i)</sup> In 2010, the Company issued senior notes with total principal amount of USD900,000,000 with effective interest rates of 12.52%, 13.72% and 13.67%. The senior notes' nominal interests rates are 11.75% and 13% per annum. Details of the senior notes are set out in Note 12.

## 7. INCOME TAX

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
<b>Current tax</b>		
Provision for the year		
– PRC Enterprise Income Tax	160,017	685,675
<b>Deferred tax</b>		
– Reversal and origination of temporary difference	<u>(56,115)</u>	<u>(44,741)</u>
	<u><b>103,902</b></u>	<u><b>640,934</b></u>

- (i) According to the Tax Regulation of Foreign Investment on Aerial Defence Project, (No.121 [1997] Caishuizi), Harbin Renhe Century Public Facilities Co., Ltd. and Guangzhou Renhe New World Public Facilities Co., Ltd. are entitled to a tax holiday of full exemption of the state income tax for 2006 and 2007, and a tax holiday of 50% reduction in the state income tax rate for the years from 2008 to 2010.
- (ii) According to the Corporate Income Tax Law of the People's Republic of China, from 1 January 2008, the statutory income tax rate applicable to the Group's subsidiaries in the PRC is 25%. The Group's subsidiaries in the PRC that have not fully utilised their five-year tax holiday (i.e. two-year exemption and subsequent three-year 50% reduction of the applicable tax rate), will be allowed to continue to receive the benefits of the tax holiday.
- (iii) 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%.

In 2010, 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 2010, the Group is in the process of obtaining such approvals.

- (iv) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.
- (v) 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.

## 8. DIVIDENDS

### (a) Dividends attributable to the year

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Final dividend proposed after the balance sheet date of RMB7.20 cents per ordinary share (2009: RMB9.18 cents)	<u>1,584,000</u>	<u>2,019,600</u>

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

### (b) Dividends attributable to the previous financial year, approved and paid during the year

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB9.18 cents per share (2009: RMB7.62 cents)	<u>2,019,600</u>	<u>1,524,000</u>

## 9. BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share at 31 December 2010 was based on the profit attributable to ordinary equity shareholders of the Company of RMB3,843,477,000 (2009: RMB4,037,568,000) and a weighted average number of ordinary shares outstanding of 22,000,000,000 (2009: 20,926,027,000), calculated as follows:

### Weighted average number of ordinary shares

	2010 <i>'000</i>	2009 <i>'000</i>
Issued ordinary shares at 1 January	22,000,000	20,000,000
Effect of shares issuance	<u>–</u>	<u>926,027</u>
Weighted average number of ordinary shares at 31 December	<u>22,000,000</u>	<u>20,926,027</u>

During the years ended 31 December 2010 and 2009, diluted earnings per share are calculated on the same basis as basic earnings per share. The share options exercised did not have dilutive effect as at 31 December 2010.

## 10. TRADE AND OTHER RECEIVABLES

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Trade receivables ( <i>Note (ii)</i> )	1,654,460	2,499,423
Deposits for construction	–	280,000
Receivable from disposal of subsidiaries ( <i>Note (v)</i> )	5,521,314	2,261,637
Bank deposits	10,085	367,761
Others	276,171	38,371
	<u>7,462,030</u>	<u>5,447,192</u>
Less: allowance for doubtful debts	<u>6,370</u>	<u>6,370</u>
	<u><u>7,455,660</u></u>	<u><u>5,440,822</u></u>

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% cash payment upon the purchase from buyers and the remaining 70%, in most cases, would be settled by loans obtained by buyers from commercial banks. As at 31 December 2010, the Group is in the process of arranging loans with banks for the buyers of certain newly developed underground shopping malls.

### (ii) Ageing analysis

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

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Current	520,355	1,885,104
Less than 6 months past due	1,121,559	570,000
More than 6 months past due	12,546	44,319
Amounts past due	<u>1,134,105</u>	<u>614,319</u>
	<u><u>1,654,460</u></u>	<u><u>2,499,423</u></u>

### (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. Based on the assessment of these buyers' credit quality, management believes that no impairment allowance is necessary in respect of the balances.

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Credit evaluations are performed on all customers requiring credit over a certain amount. Given the Group requests the tenants to pay rental and other service fees in advance, the credit risks of rental and service fee receivables are considered low. In respect of the balances of trade receivables due from the buyers of the operation rights, the Group normally arranges bank financing for buyers up to 70% of the total purchase price and provides guarantee to secure repayment obligations of the buyers.

(v) **Receivable from disposal of subsidiaries**

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Consideration receivable from subsidiaries disposed of in:		
– 2010	2,779,807	–
– 2009 (i)	541,022	1,704,435
Other receivables (ii)	<u>2,200,485</u>	<u>557,202</u>
	<u><u>5,521,314</u></u>	<u><u>2,261,637</u></u>

(i) In December 2009, the Group disposed of 100% equity interest in Zhengzhou Renhe New World Investment Management Co., Ltd.'s Hong Kong and British Virgin Islands holding companies at a total consideration of HKD2,765,431,818. Up to 31 December 2010, HKD2,129,629,545 was received. The remaining balance of HKD635,802,273 was overdue as at 31 December 2010 and the Group has been repaid in March 2011.

(ii) Other receivables represent the amounts due from the subsidiaries disposed of at the date of disposal.

**11. TRADE AND OTHER PAYABLES**

	<i>Note</i>	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Receipts in advance	<i>(i)</i>	134,709	167,600
Construction payables	<i>(ii)</i>	500,029	354,523
Other taxes payable	<i>(iii)</i>	10,818	126,316
Deposits	<i>(iv)</i>	408,908	325,358
Salary and welfare expenses payable		61,677	76,519
Professional service fee payables		15,673	7,104
Interest payable		232,282	–
Others		<u>177,507</u>	<u>69,217</u>
		<u><u>1,541,603</u></u>	<u><u>1,126,637</u></u>

(i) As at 31 December 2010, the amount of receipts in advance expected to be recognised as income after more than one year is RMB8,596,000 (2009: RMB32,877,000).

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

	<b>2010</b> <i>RMB'000</i>	2009 <i>RMB'000</i>
Due within one year	<b>497,081</b>	350,270
Overdue	<b>2,948</b>	4,253
	<b>500,029</b>	354,523

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

(iv) These mainly represent rental deposits paid by tenants for the privilege to renew the operating lease contracts upon expiry and to sign new operating lease contracts for the units of the Group's underground 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>Note</i>	<b>2010</b> <i>RMB'000</i>	2009 <i>RMB'000</i>
Senior notes 2015	<i>(i)</i>	<b>1,936,133</b>	—
Senior notes 2016	<i>(ii)</i>	<b>3,872,323</b>	—
		<b>5,808,456</b>	—

All of the interest-bearing borrowings are carried at amortised cost. None of the interest-bearing borrowings is expected to be settled within one year.

(i) 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.

(ii) 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 British Virgin Islands 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.

### 13. SHARE CAPITAL

#### Share capital

	2010		2009	
	Number of shares '000	RMB'000	Number of shares '000	RMB'000
<b>Authorised:</b>				
Ordinary shares of HKD0.01 each	<u>40,000,000</u>		<u>40,000,000</u>	
<b>Issued and fully paid:</b>				
At 1 January	22,000,000	193,884	20,000,000	176,253
Share issuance	<u>-</u>	<u>-</u>	<u>2,000,000</u>	<u>17,631</u>
At 31 December	<u>22,000,000</u>	<u>193,884</u>	<u>22,000,000</u>	<u>193,884</u>

#### DIVIDEND

The Board resolved the proposal to pay the final dividend of RMB7.20 cents (equivalent to approximately HKD8.56 cents) per share for the year ended 31 December 2010 to the shareholders whose names appeared on the register of members of the Company at the close of business on 8 July 2011. The final dividend is expected to be payable to the shareholders on around 28 July 2011 upon approval at the annual general meeting to be held on 23 June 2011. The above exchange rate of RMB against HKD is based on the average rate of RMB to HKD published by the People's Bank of China at HKD1.00 to RMB0.84123 as at 22 March 2011, and is for illustration purposes only. The actual exchange rate for dividend payable in Hong Kong dollars will be based on the average rate of RMB to HKD published by the People's Bank of China as at 8 July 2011.

#### CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Tuesday, 5 July 2011 to Friday, 8 July 2011, both dates inclusive, during which period no share transfer shall be registered. In order to qualify for the proposed final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Monday, 4 July 2011.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

During the period review, the Group continued to work towards achieving its long-term goals. The Group further strengthens its leading position in the industry by expanding the scale of the Group's business and geographical coverage. As of the end of 2010, the Group's Gross Floor Area ("GFA") under management, projects under construction and project reserves are all at record high amount. The Group currently has exposure in 30 cities across 19 provinces in China.

#### **GFA under management doubles in a year**

As of 31 December 2010, the Group's GFA under management reaches 732,088 square meter ("sq.m"); more than doubling of 2009's level (1.12 million sq.m as of March 2011). GFA under management is defined as the overall area that the Group manages; including GFA under operation and not sold as well as including area that the Group has sold but continues to provide property management services or advisory services.

In Quarter 2 2010, the Group officially commenced operation for Harbin Youyi Road project (11,890 sq.m GFA) while Harbin Sophia Square project (9,510 sq.m GFA) and Wuhan Hanzheng Street project (69,208 sq.m GFA) were officially opened in Quarter 3 2010. The Group also successfully opened a portion of Harbin Phase 6 (44,410 sq.m GFA) for operation in 2010. Dalian Project, Daqing Project and Weifang Project also commenced operation in Quarter 3 2010 but these projects were subsequently sold. The Group also entirely sold Anshan Phase 1 Project and Chengdu Phase 1 Project in 2010. Nevertheless, the Group has been appointed the property manager and advisor for these sold projects and charges property management and related fees. Moreover, on 12th January 2011, the Group announced the successful acquisition of an under operation project in Wuxi of Jiangsu province. The acquired project has an existing GFA of approximately 390,626sq.m and consists of various shopping complexes with shops specialized in, amongst others, garments, cosmetics, shoes, electrical appliances and leather products.

#### **Projects under construction and project reserves at a record high amount**

The Group currently has 12 projects approved and under construction across 11 cities. This is equivalent to approximately 1.38 million sq.m of construction GFA. During the period review, the Group started construction on 9 new projects across 8 cities in China throughout 2010 as compared to 4 projects across 4 cities in 2009. This is equivalent to approximately 572,443 sq.m of construction GFA. Two projects that were started in 2010; Anshan Phase 1 (49,840 sq.m of GFA) and Chengdu Phase 1 (90,500 sq.m of approved GFA) were subsequently sold entirely during the year. The Group also started construction on Guangdong Dongguan Humen Project Phase 1 (approximately 446,642 sq.m of construction GFA) and Liaoning Shenyang Phase 2 Project (approximately 306,066 sq.m of construction GFA) in March 2011. Construction progress for projects under construction are undergoing as scheduled and projects delivery are targeted as early as Quarter 2 2011 onwards.

The Group's projects reserves also reached a record size of 4.46 million sq.m (5.58 million sq.m if include GFA under management); covering 30 major cities in China. In terms of new project approvals, during the period review, the Group obtained a total of 13 new projects across 12 major cities in China; of which the Group has commenced construction on 9 of them in 2010. The remaining four projects that are under planning stage include Hubei Wuhan Xibei project (450,000 sq.m of approved GFA), Jiangsu Wuxi Taihu Plaza project (250,000 sq.m of approved GFA), Hebei Qinhuangdao project (107,571 sq.m of approved GFA) and Shandong Yantai project (86,000 sq.m of approved GFA).

During Quarter 1 2011, the positive momentum continued and the Group obtained two additional projects; Guangdong Dongguan Humen Project (727,400 sq.m GFA) and Shenyang Phase 2 Project (306,066 sq.m GFA). The Dongguan Humen project is one of the largest civil air defense project ever undertaken in China and is located within the proximity of Humen's wholesale fashion apparel and fabric market; one of China's busiest wholesale market. The Shenyang Phase 2 consists of two projects; Zhongjie Project and Taiyuan Street Project. Zhongjie Project (203,466 sq.m of construction GFA) is located underneath Zhongjie Road and surrounding 7 streets of Shenhe district; a location considered Shenyang's oldest commercial district and cultural center. The Taiyuan Street Project (102,600 sq.m of construction GFA) is located underneath Taiyuan Street and surrounding 2 streets of Heping district. Taiyuan Street is one of Shenyang's busiest commercial pedestrian street and one of China's most famous pedestrian streets. The Group has started construction on Phase 1 of Humen project and the entire Shenyang Phase 2 in March 2011. Completion for both projects is expected within 12 months.

#### **Project reserves (including projects under construction)**

	<b>Projects under construction/renovation</b>	<b>Construction GFA – sq.m</b>
1	Hebei Handan	68,880
2	Fujian Putian	50,600
3	Harbin Phase 6	72,630
4	Chongqing Banan Phase 1	57,600
5	Chongqing Dadukou Phase 1	39,068
6	Jiangxi Ganzhou	48,400
7	Henan Anyang	23,568
8	Liaoning Jinzhou Phase 1	51,261
9	Hunan Yueyang	80,206
10	Hainan Sanya	132,000
11	Liaoning Shenyang Phase 2	306,066
12	Guangdong Dongguan Humen Phase 1	446,642
	<b>Total</b>	<b><u><u>1,376,921</u></u></b>

<b>Approved projects</b>		<b>Approved GFA – sq.m</b>
1	Shandong – YanTai	86,000
2	Hebei Qinhuangdao	107,571
3	Guangdong Dongguan Humen Phase 2	280,758
4	Harbin Phase 4	15,738
5	Harbin Phase 5	10,000
6	Guangzhou Phase 2	48,000
7	Tianjin	121,220
8	Hubei Wuhan XibeiHu	450,000
9	Shenzhen	160,000
10	Henan Zhengzhou Phase 2	350,000
11	Jiangsu Wuxi Taihu Plaza	250,000
12	Henan Luoyang	194,840
13	Anhui Wuhu	150,000
14	Shandong Qingdao	500,000
15	Yunnan Kunming	200,000
16	Jiangxi Nanchang Bayi Tunnel	<u>162,000</u>
<b>Total</b>		<b><u><u>3,086,127</u></u></b>
<b>Grand total</b>		<b><u><u>4,463,048</u></u></b>

## FINANCIAL REVIEW

### Revenue

For the year ended 31 December 2010, the Group recorded a consolidated revenue of approximately RMB1,142.1 million as compared to RMB4,162.9 million in 2009.

Lease income increased by 19.3% to RMB154.3 million in this year as compared to RMB129.4 million in last year while revenue from transfer of operation rights dropped by 75.5% to RMB987.7 million from RMB4,033.6 million in last year. In this year, the Group has indirectly transferred the operation rights in five projects through the disposal of the entire share capital of the BVI companies with net gain amounting to RMB4,052.9 million which is recorded as Other Income instead of Revenue.

	<b>2010</b>	2009	Change	Change
	<b>RMB'000</b>	RMB'000	RMB'000	%
Lease income	<b>154,336</b>	129,369	24,967	19.3
Transfer of operation rights	<b>987,748</b>	4,033,574	(3,045,826)	(75.5)
Revenue	<b><u><u>1,142,084</u></u></b>	<u><u>4,162,943</u></u>	<u><u>(3,020,859)</u></u>	(72.6)

## **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 2010 was RMB987.7 million, down by 75.5% as compared with RMB4,033.6 million last year. During 2010, the Group has transferred 36,055 sq.m. in various projects as compared to 119,258 sq.m in 2009. Transfer in this period mainly comprised 22,322 sq.m of Wuhan Hanzheng Street Project and 5,545 sq.m. of Harbin Sophia Acquired Project. As the location of the projects were different, the average transfer price of RMB27,396 per sq.m for this year was lower than that of RMB33,822 per sq.m last year.

## **Lease Income**

As we derive all our lease income from the lease of space in our underground shopping centres, our 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 lease income for this year increased by 19.3% to RMB154.3 million from RMB129.4 million last year. The management attributed this increase to around 11.8% increase in average leasable GFA and 6.7% increase in average rental per square meter.

The leasable GFA as of 31 December 2010 increased to 156,956 sq.m as compared to 131,319 sq.m as at last year end. This was due to the commencement of business in our self-owned shops in the Phase I of Wuhan Project, part of Phase 6 of Harbin Project and the Harbin Acquired Projects but offset by the reduction in leasable area as a result of transfer of operations rights in other Projects during the year.

## **Cost of Sales**

Cost of Sales of the Group decreased by 57.6% to RMB448.7 million in 2010 from RMB1,059.1 million, principally due to the drop in the area of operation rights transfer. The principal component of cost of sales for lease income is depreciation of investment properties and amortization of land use rights while the principal component of cost of sales of transfer of operation rights is the cost of construction.

## **Gross Profit**

Gross Profit of the Group dropped by 77.7% to RMB693.4 million in 2010 from RMB3,103.8 million in last year.

Overall gross profit margin decreased to 60.7% in 2010 from 74.6% in 2009. This was mainly attributed to the drop in gross profit margin of operation rights transfer to 61.9% in 2010 from 75.2% in 2009. The significant decrease was caused by the combination of the drop in average transfer price and the increase in cost of construction and acquisition this period.

## **Other Income**

Other income increased significantly by 109.7% to RMB4,122.6 million in 2010 from RMB1,965.8 million in 2009. This is mainly due to the recording of the net gain on disposal of subsidiaries amounted to RMB4,052.9 million this year as compared to RMB1,906.8 million.

During this year, the Group has indirectly transferred the operation rights in five projects through the disposal of the entire share capital of the five BVI wholly-owned subsidiaries. These BVI subsidiaries are investment holding companies which indirectly held 100% equity interest of five PRC subsidiaries of the Group. The five PRC subsidiaries are engaged in development, lease and management of underground shopping malls located in Anshan, Chengdu, Daqing, Dalian and Weifang.

<b>Project</b>	<b>GFA (sq.m)</b>	<b>Gain on disposal (RMB million)</b>
Daqing Project	40,178	791.7
Dalian Project	15,344	247.0
Weifang Project	78,444	937.2
Phase I of Anshan	49,840	779.3
Chengdu Projects	90,500	1,297.7
<b>Total</b>	<b><u>274,306</u></b>	<b><u>4,052.9</u></b>

### **Administrative Expenses**

Administrative expenses increased by 34.4% to RMB340.7 million in 2010 from RMB253.4 million in 2009, which is mainly due to the rise in salary and bonus, depreciation and trip expenses.

### **Other Operating Expenses**

Other operating expenses increased by 62.9% to RMB236.0 million in 2010 from RMB144.9 million in 2009, principally due to rise in staff costs, maintenance costs and advertising and promotion expenses.

### **Finance Income**

Finance income increased to RMB37.7 million in 2010 from RMB11.9 million in 2009 as a result of increase in bank balance.

### **Finance Expense**

Finance expenses increased to RMB329.5 million in 2010 from RMB4.6 million in 2009. The increase mainly comprised the non-capitalized interest expenses of RMB255.7 million arose from the issuance of senior notes with total amount of USD 900,000,000 as well as the RMB73.7 million exchange losses arising from holding and exchange of foreign currency by our subsidiaries in China.

### **Bank Deposits**

The Group's bank deposits represented restricted bank deposits. Our subsidiaries, Guangzhou Renhe, Phase I, Phase II, Phase III of Harbin Project, Heilongjiang Renhe Spring and Wuhan Renhe have entered into agreements with banks with respect to bank loans provided to buyers of operation rights. Guangzhou Renhe, Phase I, Phase II, Phase III of Harbin Project, Heilongjiang Renhe Spring and Wuhan Renhe 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 2009 and 2010, such deposits amounted to approximately RMB458.1 million and RMB151.6 million, respectively.

## **Liquidity and Financial Resources**

As at 31 December 2010, total asset of the Group amounted to RMB21,227.4 million (2009: RMB13,606.3 million). For 2010, our profit attributable to equity holders amounted to RMB3,843.5 million (2009: RMB4,037.6 million). Our capital base has been strengthened as a result of net proceeds of RMB5,801.7 million through issuing Senior Notes 2015 of USD 300,000,000 on 18 May 2010 and Senior Notes 2016 totaling USD 600,000,000 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 2010, the Group's total available cash at bank and on hand was RMB8,819.0 million.

At the end of 2010, gearing ratio for the Group was 27.4%, which is calculated by dividing the interest bearing borrowings by total assets (2009: Nil).

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.

## **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 China. Renminbi is not freely convertible and the remittance of earnings to overseas is subject to exchange control promulgated by the Chinese 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 our China's 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 2010, the future capital expenditure for which the Group had contracted but unprovided for and authorized but not yet contracted amounted to approximately RMB1,759.6 million and RMB2,616.9 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 2010 and 2009 amounted to RMB1,431.5 million and RMB980.2 million, respectively. The guarantees and deposit will be released accordingly along with the repayment of loan principal by the buyers.

## **Human Resources**

As at 31 December 2010, the Company employed 2,223 staff (2009: 2,113). The Company'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 2010 was approximately RMB203.7 million (2009: approximately RMB140.3 million). 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, our Controlling Shareholders, through their wholly-owned subsidiary Wealthy Aim Holdings Limited, implemented a management incentive scheme by granting rights to selected employees and other individuals who have made contributions to our Group.

## **PROSPECTS**

Looking ahead to 2011, the Group will continue to solidify its position as one of China's most prominent wholesale and retail center operator as well as the largest underground shopping centers developer in China.

First of all, the Group will be completing and commencing operation for projects already under construction (equivalent to 1.38 million sq.m) across China very soon. The Group expects Hebei Handan project (68,880 sq.m) and Fujian Putian project (50,600 sq.m) to commence operation as early as Quarter 2 2011. The remaining projects will follow suit. The Group expects GFA available for sale, GFA under management as well as rents and related recurring income to start to grow meaningfully in the foreseeable future. Moreover, the Group will strive to replicate its previous turnaround success story (for example: Renhe Harbin Spring – rents level tripling within a year post acquisition in 2008 and occupancy reached 100% from 30-40%) on the recently acquired Wuxi project (390,626 sq.m GFA). The Group expects to derive good financial returns on this project in the foreseeable future.

The Group also expects to obtain and to construct more and better projects in 2011. The Group plans to start construction on 1.50 million sq.m of GFA in 2011. The Group has already started construction on Dongguan Humen Project Phase 1 (446,642 sq.m of constructed GFA) and Shenyang Phase 2 (306,066 sq.m of constructed GFA) in March 2011.

As all of the Group's projects are located in the prime business districts of different cities and cover a vast area, it is possible that some of the projects may incur delays. This is due to various factors, including clashes with other infrastructure projects in the surrounding area, large-scale city events and reshuffling of government departments etc. In order to minimize any construction starts delay, the Group is actively communicating with various government departments to ensure that the target is achieved by year end.

The Group will also continue to transfer a balance amount of operation rights (typically 30% of construction starts area) from existing and new projects to fund the Group's capital expenditure as well as to ensure maximum profitability. The Group's balance sheet is expected to remain very healthy, giving the Group much flexibility to initiate more construction on good projects and also be more selective in terms of the projects the Group sells.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

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 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**") and the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules (the "**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 2010.

## **COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES**

Since listing, the Company had adopted the code provisions as set out in the Code except the roles of the chairman and chief executive officer of the Company have not been segregated as required by the provision A.2.1 of the Code.

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 calibre individuals. The Board currently comprises six executive directors, five non-executive directors and three independent non-executive directors and therefore has a strong independence element in its composition.

## **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 2010 in relation to their securities dealings, if any.

## **ANNUAL GENERAL MEETING**

The Annual General Meeting of the Company is proposed to hold on 23 June 2011. Notice of the Annual General Meeting will be published and despatched to the shareholders in due course.

## **APPRECIATION**

Renhe Commercial owes its every bit of success to members of the board, the management and all other employees. 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, 24 March 2011

*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 and Mr. Lin Zijing as executive directors, Mrs. Hawken Xiuli, Ms. Jiang Mei, Ms. Zhang Xingmei, Mr. Ho Gilbert Chi Hang and Mr. Chi Miao as non-executive directors and Mr. Fan Ren-Da, Anthony, Mr. Wang Shengli and Mr. Wang Yifu as independent non-executive directors.*

\* *For identification purpose only*