新 澤 控 股 有 限 公 司
# New Heritage Holdings Ltd.

*(Incorporated in the Cayman Islands with limited liability)*

*(HKSE Stock Code: 95)*

## ANNUAL RESULTS
## FOR THE YEAR ENDED 31 DECEMBER 2010

### RESULTS

The board of directors (the "Directors" or the "Board") of New Heritage Holdings Ltd. (the "Company" or "New Heritage") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively known as the "Group") for the year ended 31 December 2010 together with the comparative figures for the previous year as follows:

### CONSOLIDATED INCOME STATEMENT

*for the year ended 31 December 2010*

| | *Notes* | **2010** *HK$'000* | 2009 *HK$'000* |
|---|---|---|---|
| **Revenue** | *4* | **375,526** | 258,865 |
| Cost of sales | | **(297,880)** | (215,930) |
| **Gross profit** | | **77,646** | 42,935 |
| Other income | *4* | **4,965** | 2,164 |
| Selling expenses | | **(16,789)** | (14,936) |
| Administrative expenses | | **(41,648)** | (30,341) |
| Fair value adjustments on investment properties | | **18,883** | 7,360 |
| Gain/(Loss) on disposal of investment properties | | **6,307** | (1,754) |
| Finance costs | *5* | **(18,616)** | (26,252) |
| Share of results of associates | | **13,424** | 6,090 |
| Gain on disposal of available-for-sale financial asset | | **–** | 32,869 |
| **Profit before income tax** | *6* | **44,172** | 18,135 |
| Income tax expense | *7* | **(17,379)** | (6,133) |
| **Profit for the year** | | **26,793** | 12,002 |
| **Profit for the year attributable to:** | | | |
| Owners of the Company | | **18,061** | 15,854 |
| Non-controlling interests | | **8,732** | (3,852) |
| | | **26,793** | 12,002 |
| **Earnings per share attributable to the owners of the Company during the year** | *9* | | |
| | | ***HK cents*** | *HK cents* |
| – Basic | | **1.5** | 1.4 |
| – Diluted | | **1.5** | 1.4 |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*for the year ended 31 December 2010*

| | 2010 | 2009 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **Profit for the year** | **26,793** | 12,002 |
| **Other comprehensive income** | | |
| Exchange gain on translation of financial statements of foreign operations | **24,445** | – |
| Share of exchange gain on translation of financial statements of an associate | **3,041** | – |
| Share of revaluation surplus of associate's hotel property | **4,536** | 5,149 |
| **Other comprehensive income for the year, net of tax** | **32,022** | 5,149 |
| **Total comprehensive income for the year** | **58,815** | 17,151 |
| **Total comprehensive income attributable to:** | | |
| Owners of the Company | **43,645** | 21,003 |
| Non-controlling interests | **15,170** | (3,852) |
| | **58,815** | 17,151 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*as at 31 December 2010*

| | Notes | As at 31 December 2010 HK$'000 | As at 31 December 2009 HK$'000 (restated) | As at 1 January 2009 HK$'000 (restated) |
|---|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | | |
| **Non-current assets** | | | | |
| Goodwill | | **37,048** | 37,048 | 37,048 |
| Property, plant and equipment | | **64,522** | 26,004 | 29,665 |
| Investment properties | | **286,764** | 297,781 | 311,754 |
| Interests in associates | | **124,757** | 110,947 | 123,674 |
| Available-for-sale financial asset | | **–** | – | 43,318 |
| Deferred tax assets | | **1,929** | 1,880 | 1,898 |
| | | **515,020** | 473,660 | 547,357 |
| **Current assets** | | | | |
| Properties held under development | | **521,244** | 541,855 | 657,376 |
| Properties held for sale | | **149,537** | 134,465 | 58,753 |
| Inventories | | **78** | 101 | 121 |
| Accounts receivable | *10* | **41** | 353 | 149 |
| Deposits paid, prepayments and other receivables | | **32,335** | 36,000 | 37,024 |
| Restricted bank deposits | | **18,712** | 8,068 | 9,165 |
| Cash and cash equivalents | | **422,108** | 348,296 | 125,973 |
| | | **1,144,055** | 1,069,138 | 888,561 |
| **Total assets** | | **1,659,075** | 1,542,798 | 1,435,918 |
| **Current liabilities** | | | | |
| Accounts payable | *11* | **87,883** | 38,993 | 55,842 |
| Accruals, deposits received and other payables | | **71,982** | 81,334 | 35,133 |
| Provision for tax | | **5,638** | 9,770 | 10,886 |
| Borrowings | | **285,996** | 187,339 | 106,218 |
| | | **451,499** | 317,436 | 208,079 |
| **Net current assets** | | **692,556** | 751,702 | 680,482 |
| **Total assets less current liabilities** | | **1,207,576** | 1,225,362 | 1,227,839 |
| **Non-current liabilities** | | | | |
| Borrowings | | **148,571** | 250,677 | 270,263 |
| Convertible notes | | **73,672** | 72,942 | 72,212 |
| Deferred tax liabilities | | **36,038** | 30,118 | 30,009 |
| | | **258,281** | 353,737 | 372,484 |
| **Total liabilities** | | **709,780** | 671,173 | 580,563 |
| **NET ASSETS** | | **949,295** | 871,625 | 855,355 |
| **EQUITY** | | | | |
| **Capital and reserves attributable to the Company's owners** | | | | |
| Share capital | | **12,786** | 11,694 | 11,628 |
| Reserves | | **847,357** | 772,197 | 754,075 |
| Proposed final dividend | | **6,393** | 4,678 | – |
| | | **866,536** | 788,569 | 765,703 |
| **Non-controlling interests** | | **82,759** | 83,056 | 89,652 |
| **TOTAL EQUITY** | | **949,295** | 871,625 | 855,355 |

*Notes:*

## 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The accounting policies are consistent with those as described in the Group's financial statements for the year ended 31 December 2009, except that the Group has adopted a number of new and revised standards and interpretations which are relevant to the Group's operations and are mandatory for the financial year ended 31 December 2010 as detailed in note 2.

## 2. ADOPTION OF NEW AND REVISED HKFRSs – effective 1 January 2010

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs |
| Amendments to HKAS 39 | Eligible Hedged Items |
| Amendments to HKFRS 2 | Share-based Payment – Group Cash-settled Share-based Payment Transactions |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements |
| HKFRS 3 (Revised) | Business Combinations |
| HK(IFRIC) – Interpretation 17 | Distributions of Non-cash Assets to Owners |
| HK Interpretation 5 | Presentation of Financial Statements – Classification by Borrower of a Term Loan that Contains a Repayment on Demand Clause |

Except as explained below, the adoption of these new and revised standards and interpretations has no significant impact on the Group's financial statements.

**HKFRS 3 (Revised) – Business Combinations**
The revised standard introduced major changes to the accounting requirements for business combinations. It retains the major features of the purchase method of accounting, now referred to as the acquisition method. The most significant changes in the revised standard are as follows:

– Acquisition-related costs of the combination are recorded as an expense in the consolidated income statement. Previously, these costs would have been accounted for as part of the cost of the acquisition.

– The assets acquired and liabilities assumed are generally measured at their acquisition date fair value under the revised standard provides an exception and specific measurement rules.

– Any contingent consideration is measured at fair value at the acquisition date. If the contingent consideration arrangement gives rise to a financial liability, any subsequent changes are generally recognised in profit or loss. Previously, contingent consideration was recognised at the acquisition date only if its payment was probable.

The revised standard has been applied prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The Group did not have business combination occurred in the current year and therefore the adoption of the revised standard did not have any impact on the current year's results and financial position.

**HKAS 27 (Revised) – Consolidated and Separate Financial Statements**
The adoption of HKFRS 3 (Revised) required that the HKAS 27 (Revised) is adopted at the same time. The revised standard introduced changes to the accounting requirements for transactions with non-controlling (formerly known as "minority") interests and the loss of control of a subsidiary. Similar to HKFRS 3 (Revised), the adoption of the revised standard is applied prospectively. The Group did not have transactions with non-controlling interests in the current year and did not dispose of any of its equity interests in its subsidiaries. Therefore, the adoption of the revised standard did not have any impact on the current year's results and financial position.

## 2. ADOPTION OF NEW AND REVISED HKFRSs – effective 1 January 2010 *(Continued)*

**HK Interpretation 5 – Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause**

The Interpretation is a clarification of an existing standard, HKAS 1 Presentation of Financial Statements. It sets out the conclusion reached by the HKICPA that a term loan which contains a clause which gives the lender the unconditional right to demand repayment at any time shall be classified as a current liability in accordance with paragraph 69(d) of HKAS 1 irrespective of the probability that the lender will invoke the clause without cause.

In order to comply with the requirements of HK Interpretation 5, the Group has changed its accounting policy on the classification of term loans that contain a repayment on demand clause. Under the new policy, term loans with clauses which give the lender the unconditional right to call the loan at any time are classified as current liabilities in the statement of financial position. Previously such term loans were classified in accordance with the agreed repayment schedule unless the Group had breached any of the loan covenants set out in the agreement as of the end of the reporting period or otherwise had reason to believe that the lender would invoke its rights under the immediate repayment clause within the foreseeable future.

The new accounting policy has been applied retrospectively by re-presenting the opening balances as at 1 January 2009, with consequential reclassification adjustments to comparatives for the year ended 31 December 2009. The reclassification has had no effect on reported profit or loss, total comprehensive income or equity for any period presented.

Effect of adoption of HK Interpretation 5 on the consolidated statement of financial position is as follows:

| | **31 December 2010** | 31 December 2009 | 1 January 2009 |
|---|---|---|---|
| | ***HK$'000*** | *HK$'000* | *HK$'000* |
| **Increase/(Decrease) in** | | | |
| **Current liabilities** | | | |
| Borrowings | **35,242** | 21,327 | 23,569 |
| **Non-current liabilities** | | | |
| Borrowings | **(35,242)** | (21,327) | (23,569) |

As a result of the above retrospective reclassification, an additional consolidated statement of financial position is presented in accordance with HKAS 1 Presentation of Financial Statements.

## 3. SEGMENT INFORMATION

In identifying its operating segments, management generally follows the Group's service lines, which represents the main products and services provided by the Group. The Group has identified the following reportable segments.

| | | |
|---|---|---|
| Property development | : | Property development and sale of properties held for sale |
| Property investment and leasing | : | Property leasing and sale of investment properties |

Each of these operating segments is managed separately as each of these product and service lines requires different resources as well as marketing approaches.

During the year ended 31 December 2010, there have been no changes from prior years in the measurement methods used to determine operating segments and reported segment profit or loss.

Inter-segment sales are charged at prevailing market prices.

| | **2010** | | | |
|---|---|---|---|---|
| | **Property development** *HK$'000* | **Property investment and leasing** *HK$'000* | **Elimination** *HK$'000* | **Total** *HK$'000* |
| Revenue: | | | | |
| From external customers | **364,737** | **10,789** | **–** | **375,526** |
| Inter-segment revenue | **–** | **117** | **(117)** | **–** |
| **Total segment revenue** | **364,737** | **10,906** | **(117)** | **375,526** |
| **Reportable segment profit** | **36,927** | **18,320** | **–** | **55,247** |
| Bank interest income | **2,443** | **103** | **–** | **2,546** |
| Depreciation of property, plant and equipment | **(293)** | **(2,775)** | **–** | **(3,068)** |
| Gain on disposal of investment properties | **–** | **6,307** | **–** | **6,307** |
| Impairment loss on other receivables | **–** | **(554)** | **–** | **(554)** |
| Fair value adjustments on investment properties | **–** | **18,883** | **–** | **18,883** |
| Finance costs | **14,759** | **2,427** | **–** | **17,186** |
| **Reportable segment assets** | **1,050,884** | **356,709** | **–** | **1,407,593** |
| Additions to non-current segment assets during the year | **1,990** | **583** | **–** | **2,573** |

| | 2009 | | | |
|---|---|---|---|---|
| | Property development *HK$'000* | Property investment and leasing *HK$'000* | Elimination *HK$'000* | Total *HK$'000* |
| Revenue: | | | | |
| From external customers | 245,163 | 13,702 | – | 258,865 |
| Inter-segment revenue | – | 117 | (117) | – |
| Total segment revenue | 245,163 | 13,819 | (117) | 258,865 |
| Reportable segment profit | 383 | 2,060 | – | 2,443 |
| Bank interest income | 761 | 80 | – | 841 |
| Depreciation of property, plant and equipment | (129) | (2,781) | – | (2,910) |
| Loss on disposal of investment properties | – | (1,754) | – | (1,754) |
| Fair value adjustments on investment properties | – | 7,360 | – | 7,360 |
| Finance costs | (16,335) | (3,283) | – | (19,618) |
| Reportable segment assets | 966,957 | 360,186 | – | 1,327,143 |
| Additions to non-current segment assets during the year | 73 | 872 | – | 945 |

## 3. SEGMENT INFORMATION *(Continued)*

The total presented for the Group's operating segments reconcile to the Group's key financial figures as presented in the financial statements as follows:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Total segment profit | **55,247** | 2,443 |
| Share of results of associates | **13,424** | 6,090 |
| Gain on disposal of available-for-sale financial asset | **–** | 32,869 |
| Corporate overheads | **(25,494)** | (24,139) |
| Other unallocated income | **995** | 872 |
| Profit before income tax | **44,172** | 18,135 |
| Reportable segment assets | **1,407,593** | 1,327,143 |
| Goodwill | **37,048** | 37,048 |
| Interests in associates | **124,757** | 110,947 |
| Corporate assets | **89,677** | 67,660 |
| Total assets | **1,659,075** | 1,542,798 |

No geographical information is presented as the operations, major customers and assets of the Group are substantially located in the People's Republic of China (the "PRC").

The Group has a large number of customers, and there was no significant revenue derived from specific external customers for the years ended 31 December 2010 and 2009.

## 4. REVENUE AND OTHER INCOME

Revenue, which includes the Group's turnover and other income recognised during the year are as follows:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Revenue** | | |
| Turnover | | |
| Proceeds from sale of properties held for sale | **364,737** | 245,163 |
| Rental income | **10,789** | 13,702 |
| | **375,526** | 258,865 |
| **Other income** | | |
| Interest income | **2,583** | 857 |
| Exchange gain, net | **576** | 111 |
| Others | **1,806** | 1,196 |
| | **4,965** | 2,164 |

## 5. FINANCE COSTS

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interest charges on borrowings which are repayable within five years: | | |
| Bank loans | **12,977** | 10,585 |
| Bank overdrafts | **–** | 53 |
| Other loans | **74** | 647 |
| Imputed interest expense on loans from non-controlling shareholders | **4,450** | 7,208 |
| | **17,501** | 18,493 |
| Interest charges on borrowings which are repayable after five years: | | |
| Bank loans | **3,073** | 3,997 |
| Interest charge on convertible notes | **4,480** | 4,480 |
| Total interest expense on financial liabilities not at fair value through profit or loss | **25,054** | 26,970 |
| Less: Amount capitalised in properties held under development * | **(6,438)** | (718) |
| | **18,616** | 26,252 |

* The finance costs have been capitalised at a rate of 5.81% (2009: 5.76%) per annum.

The analysis shows the finance costs of bank borrowings, including term loans which contain a repayment on demand clause, in accordance with the agreed scheduled repayments dates set out in the loan agreements. For the years ended 31 December 2010 and 2009, the interest on bank borrowings which contain a repayment on demand clause amounted to HK$1,355,000 and HK$1,939,000 respectively.

## 6. PROFIT BEFORE INCOME TAX

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit before income tax is arrived at after charging/(crediting): | | |
| Cost of properties held for sale recognised as expense | **295,300** | 212,313 |
| Depreciation of property, plant and equipment | **4,066** | 4,189 |
| Less : amount capitalised in properties held under development | **(34)** | (108) |
| | **4,032** | 4,081 |
| Outgoings in respect of investment properties that generated rental income during the year | **2,580** | 3,618 |
| Operating lease charges in respect of land and buildings | **1,271** | 1,056 |
| Auditor's remuneration | **1,286** | 1,305 |
| Staff costs, including directors' emoluments and retirement benefits cost | **32,296** | 29,076 |
| Less: amount capitalised in properties held under development | **(9,858)** | (11,252) |
| | **22,438** | 17,824 |
| Amount recognised as expense for retirement benefit costs | **1,024** | 2,189 |
| Loss on disposal of property, plant and equipment | **40** | 417 |
| Impairment loss on other receivables | **1,055** | – |
| (Gain)/Loss on disposal of investment properties | **(6,307)** | 1,754 |
| Exchange gain, net | **(576)** | (111) |
| Gain on disposal of available-for-sale financial asset | **–** | (32,869) |

## 7. INCOME TAX EXPENSE

| | | **2010** | 2009 |
|---|---|---|---|
| | *Notes* | ***HK$'000*** | *HK$'000* |
| **Current tax – the PRC** | | | |
| – Corporate income tax | *(a)* | **10,258** | 5,257 |
| – Land appreciation tax ("LAT") | *(b)* | **2,091** | 749 |
| | | **12,349** | 6,006 |
| **Deferred taxation** | | **5,030** | 127 |
| | | **17,379** | 6,133 |

*Notes:*

(a) The PRC corporate income tax is computed according to relevant laws and regulations in the PRC. The applicable income tax rate was 25% for the years ended 31 December 2010 and 2009.

No Hong Kong profits tax has been provided for as the Group had no estimated assessable profits for the year (2009: Nil).

(b) Under the Provisional Rules on LAT Implementation Rules of the PRC implemented on 27 January 1995, all gains from the sales or transfer of land use rights, buildings and their attached facilities in the PRC are subject to LAT at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including cost of land use rights and all property development expenditures.

## 8. DIVIDENDS

Dividends attributable to the year:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Proposed 2010 final dividend of 0.5 HK cents (2009: 0.4 HK cents) per ordinary share | **6,393** | 4,678 |

The final dividend proposed after the years ended 31 December 2010 and 2009 has not been recognised as a liability at the end of the reporting period, but reflected as an appropriation of retained profits for the year.

## 9. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of approximately HK$18,061,000 (2009: HK$15,854,000) and on weighted average of 1,205,341,055 (2009: 1,165,791,312) ordinary shares in issue during the year.

In the calculation of the diluted earnings per share attributable to owners of the Company for the year ended 31 December 2010, the potential shares arising from the conversion of the Company's convertible notes would increase the earnings per share attributable to owners of the Company and was not taken into account as they had an anti-dilutive effect. Therefore, the diluted earnings per share attributable to owners of the Company is based on the profit attributable to owners of the Company of approximately HK$18,061,000 and on weighted average of 1,207,498,688 ordinary shares outstanding during the year ended 31 December 2010, being the weighted average number of ordinary shares of 1,205,341,055 used in basic earnings per share calculation adjusted for the effect of share options issued of 2,157,633.

In the calculation of the diluted earnings per share attributable to owners of the Company for the year ended 31 December 2009, the potential shares arising from the conversion of the Company's convertible notes would increase the earnings per share attributable to owners of the Company and was not taken into account as they had an anti-dilutive effect. Therefore, the diluted earnings per share attributable to owners of the Company is based on the profit attributable to owners of the Company of approximately HK$15,854,000 and on weighted average of 1,167,811,900 ordinary shares outstanding during the year ended 31 December 2009, being the weighted average number of ordinary shares of 1,165,791,312 used in basic earnings per share calculation adjusted for the effect of share options issued of 2,020,588.

## 10. ACCOUNTS RECEIVABLE

Accounts receivable generally have credit term of 30 to 60 days (2009: 30 to 60 days) and no interest is charged. All accounts receivable are denominated in Renminbi. The ageing analysis of the Group's accounts receivable is as follows:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 30 days | **21** | 284 |
| 31 – 60 days | **–** | 69 |
| 61 – 90 days | **20** | – |
| | **41** | 353 |

## 11. ACCOUNTS PAYABLE

Based on the invoice dates, the ageing analysis of the Group's accounts payable is as follows:

| | | **2010** | 2009 |
|---|---|---|---|
| | *Notes* | ***HK$'000*** | *HK$'000* |
| Within 30 days | | **106** | 317 |
| 31 – 60 days | | **93** | 91 |
| 61 – 90 days | | **93** | 60 |
| 91 – 365 days | | **194** | 308 |
| Over 365 days | | **1,160** | 1,254 |
| Rent received on behalf of landlords | *(a)* | **1,646** | 2,030 |
| Accrued construction cost and other project-related expenses | *(b)* | **86,237** | 36,963 |
| | | **87,883** | 38,993 |

*Notes:*

(a) Rent received on behalf of landlords comprised net rental received from tenants after netting off fee charged to them provided by external service providers.

(b) Included in the above amounts are construction cost and other project-related expense payable amounted to approximately HK$86,237,000 (2009: HK$36,963,000) at 31 December 2010 which were accrued based on the terms of the relevant agreements and the progress of the projects, and were not due for payment at 31 December 2010.

## CHAIRMAN'S STATEMENT

**Results and Dividends**

For the year ended 31 December 2010, New Heritage's revenue rose 45% from the previous year to HK$375.5 million (HK$258.9 million in 2009). Its profit attributable to the owners of the Company rose 14% from the previous year to HK$18.1 million (HK$15.9 million in 2009).

The Board has recommended the payment of a final dividend of 0.5 HK cents per ordinary share (0.4 HK cents in 2009) in cash for the year ended 31 December 2010 to shareholders whose names appear on the Register of Members of the Company on 14 April 2011, and will seek the approval of the Company's shareholders at the forthcoming Annual General Meeting on 14 April 2011 for the payment of this final dividend. The dividend warrants are expected to be dispatched to registered shareholders on or around 28 April 2011.

**Business Review and Outlook**

The Company has achieved its highest annual revenue since listing despite the various unfavourable measures introduced during the course of 2010 to dampen property market speculation in the major cities and municipalities of the PRC. This milestone was due to the successful concurrent sales of its Wuzhong Garden Court, Taihu Garden Court and Lakeside Garden Court projects in 3 distinct markets and market segments within greater Suzhou City. Additionally, its associated company Beijing Landmark Towers Co., Ltd. ("Beijing Landmark") recorded profitable recovery and posted strong contribution.

Looking forward, we believe that the coming few years will present opportunities as well as challenges in the PRC property market. With inflation being a major concern of the government, it is inevitable and believed that interest rates will continue to rise more substantially than has been the case in 2010 and there will be continued pressure on the Renminbi to appreciate against the US dollars. However, demand for properties from consumers will continue to be strong as a hedge against inflation and preserver of personal asset values. There are few proven and less riskier alternative channels for investment of substantial personal wealth in the PRC. Also, the continued urbanisation trend and the rejuvenation of old dilapidated city areas encourage growth and capital flow into the property sector. Secondary and tertiary cities and primary and secondary districts within these cities are all areas that provide supplies of land and good development potential.

New Heritage will position itself to take advantage of the increase of rising property prices by creating and bringing to the market more appealing properties, whilst maintaining a reasonable gearing ratio and satisfactory turnover. We have traditionally focussed our development in secondary cities with great growth potential such as Suzhou and within its primary and secondary districts such as Wuzhong and Wujiang which offer sound fundamentals to attract and establish business operations and social communities. We shall continue to focus on these and other cities and districts both coastal and inland, where we believe the combination of relatively cheaper land in these areas (compared to primary cities) and rising incomes of residents will be positive for our business.

As our Group continuously aims to improve our products, we will also diversify our market deliverables by adding more commercial products to our predominantly residential portfolio. We shall pay even more attention to environmentally friendly building methods and materials as this will be an important factor for buyers and the government as the PRC continues its economic development with an emphasis on sustainability and eco-friendly characteristics.

We have accumulated a good land reserve combination of residential land (both low density and higher density) as well as land for commercial development (office, retail as well as Small Office/Home Office ("SOHO") units) available for the Group's development in the coming few years. Added to this, Beijing Landmark has given our senior management a few decades' presence in the hotel, office and serviced apartment sectors in Beijing and the expected upswings in those sectors in the coming year will contribute positively.

Our development and expansion would not have been possible without the continued support from our strategic partners and our bankers and their ongoing participation for which we are most grateful. May I take this opportunity to thank each of our Board members, staff and colleagues for their dedicated work and commitment throughout the year to bring about better returns to our investors and shareholders.

## MANAGEMENT DISCUSSION AND ANALYSIS

**Review of Operations**

In 2010, the Group continued its focus on property development and investment in Suzhou and Beijing. Cities within and outside Jiangsu Province with high growth potential were actively explored and analysed, with some potential prospects undergoing negotiations.

**Property Development**

During the year under review, the buoyant property market in the first quarter was followed by Central Government measures to dampen excessive price increases in the overheated markets which inevitably also affected general buyers' sentiment. Nevertheless, a significant portion of the Group's sales occurred before such measures came into effect. Furthermore in the markets and districts where we are focused, the government measures were relatively slower in taking effect as homes were generally considered to be more affordable for residents.

The Group's development projects in Suzhou were processed on schedule for the year and sales generally exceeded our targets.

1. **Wuzhong Garden Court**, Wuzhong, Suzhou
Phase 3 of Wuzhong Garden Court, in the form of two 11-storey blocks, comprises 206 SOHO units and 12 retail units with a gross floor area of approximately 10,429 sq.m. and 5,538 sq.m., respectively. All SOHO units were completely sold and approximately 9,962 sq.m. was delivered in 2010, generating revenue of approximately HK$67.3 million in 2010 with the remaining 467 sq.m. to be delivered in 2011. The retail portion secured contracted sales of approximately 3,785 sq.m. which contributed a turnover of approximately HK$36.7 million and will be delivered in the first half of 2011. The remaining retail area of approximately 1,753 sq.m. is also expected to be sold in 2011.

**2.** **Taihu Garden Court,** Guangfu Town, Wuzhong, Suzhou
In Phase 1, 55 townhouse units of gross floor area of approximately 13,475 sq.m. were sold and delivered in 2010, contributing sales of about HK$124.7 million. The remaining unsold 16 units of this phase are expected to be sold in 2011.

Phase 2 construction began August 2010. The gross floor area of this phase is about 24,000 sq.m. with 110 low-density townhouses. It is expected to be completed and delivered at the end of 2011. Pre-sales is scheduled to be launched in the middle of 2011.

The construction of Phase 3 will start in early 2011. This final phase of the project will consist of approximately 84 low-density townhouse units with a total gross floor area of around 20,000 sq.m..

**3.** **Lakeside Garden Court,** Shengze Town, Wujiang, Suzhou
The total site area of this project is about 86,200 sq.m. with a gross floor area of approximately 154,480 sq.m. and is being developed in four phases.

Construction of Phase 1, with a gross floor area of around 40,980 sq.m., was completed at the end of 2010. During the year under review, about 28,800 sq.m. of 4 blocks of high-rise residential buildings was sold and delivered, generating a revenue of approximately HK$172.0 million. A clubhouse together with stipulated community and property management areas was also completed.

Phase 2, comprising another 4 blocks of high-rise apartment towers, commenced construction in mid-2010 and is scheduled for delivery before the end of 2011. The gross floor area in this phase is about 35,900 sq.m.. Pre-selling began at the end of 2010 with strong market response.

The gross floor areas of Phases 3 and 4 will be about 19,400 sq.m. and 58,200 sq.m. respectively. Phase 3 will consist of 86 low-density townhouses while Phase 4 will comprise a further 6 blocks of high-rise residential buildings. Construction on both phases are expected to commence in 2011.

**4.** **Wuzhong Office Building,** Wuzhong, Suzhou
The design configuration of this property will consist of offices, SOHO units and retail space. Permitted gross floor area of the property is around 58,400 sq.m. on a site with an area of approximately 14,600 sq.m.. The local Wuzhong government has confirmed the construction of a subway line into the district to be completed in the next 2 to 3 years, and an exit will be located just outside of this project.

**Property Investment**

The Suzhou subway line to Suzhou New District is expected to be open for use in 2012. This should increase both the value of the Group's retail and residential investment property in Suzhou New District, which is near to one of the subway's exits on Bin He Road.

**1.** **SGV Plaza,** Suzhou New District
During the year under review, this 11,023 sq.m. plaza generated approximately HK$5.0 million rental income with an occupancy rate of 94% as of 31 December 2010. The tenants include chain retailers with a good brand name in Suzhou, making SGV Plaza gradually earned the status of a fashion and food centre on Shi Shan Road, the main road of Suzhou New District CBD.

**2.** **Garden Court Plaza,** Suzhou New District
Garden Court Plaza is a 3-storey retail centre with a gross floor area of around 4,481 sq.m.. During the year under review, occupancy rate was 100%, with an annual rental of about HK$2.4 million. Tenants showed confidence on the retail market by upgrading their shop decoration and product mix. The Group anticipates promising prospects for a rise in rental rates upon lease renewal during 2012-2013 due to the property's close proximity to the new Suzhou subway's Bin He Road exit.

**3.** **SGV Apartments**
In 2010, the Group booked disposals of approximately 4,500 sq.m. of investment apartments with high proceeds of about HK$48.2 million, taking advantage of the buoyant secondary residential market at the beginning of the year. As at the end of 2010, the Group still held approximately 8,580 sq.m. of apartments. Rental revenue for the year under review was approximately HK$3.4 million.

4. **Investment in Beijing Landmark Towers Co., Ltd. ("Beijing Landmark")**

Beijing Landmark contributed HK$13.4 million to the Group in 2010 compared to HK$6.1 million in 2009. Occupancy rates in the office towers increased to almost 100% by the end of the year. Revenue from its hotel rooms, serviced apartments and conference centre also steadily increased throughout the year. With the tourism market in Beijing enjoying a revival and if a global recovery gathers pace, the Nation's Capital will naturally be one of the top travel destinations for business conventions and meetings, and Beijing Landmark is ideally positioned, both in terms of location and facilities.

**PROPERTY MANAGEMENT**

The Group continues to outsource to fully licensed and qualified local property management companies in Suzhou. Owners' associations are established at the appropriate time for each of the Group's projects in accordance with local rules and regulations. This enables us to focus on the development, marketing and sales side of the business and minimises exposure to the labour intensive nature of property management operations and troubleshooting.

**STRATEGIC PARTNERS**

**Spinnaker Capital Group**

Spinnaker Capital Group, a strategic partner of the Group since 2006, remains one of the substantial shareholders of the Company as well as the strategic non-controlling shareholder of two of the Group's projects – Wuzhong Garden Court and Taihu Garden Court.

**Asia Financial Group**

Asia Financial Group ("AFG") has become a 9.615% shareholder of New Heritage Development Limited ("NH Development"), a subsidiary of the Company since 2007. NH Development is the holding company of most of the Group's property project companies in Suzhou. AFG is also the holder of the Company's 5% Convertible Notes.

## FINANCIAL REVIEW

**Revenue**

The Group's revenue mainly comprised of recognised property development sales and leasing revenue from investment properties. The Group's revenue for the year ended 31 December 2010 was approximately HK$375.5 million (2009: HK$258.9 million), representing an increase of 45% as compared with last year. The increase in the Group's revenue was mainly due to the increase in revenue from recognised property development sales.

The revenue from recognised property development sales included the sales of 55 low-density townhouse units in Taihu Garden Court Phase 1, 197 SOHO units in Wuzhong Garden Court Phase 3 and 365 residential apartment units in Lakeside Garden Court Phase 1 of approximately HK$124.7 million, approximately HK$67.3 million and approximately HK$172.0 million respectively. The Group's total gross floor area of development properties sold for the year ended 31 December 2010 was approximately 52,300 sq.m. (2009: 33,400 sq.m.).

Leasing revenue from investment properties for the year ended 31 December 2010 was approximately HK$10.8 million (2009: HK$13.7 million). The leasing revenue generated from the investment properties in Suzhou Garden Villa and two commercial plazas were approximately HK$3.4 million (2009: HK$6.7 million) and approximately HK$7.4 million (2009: HK$7.0 million) respectively.

**Operating Results**

For the year ended 31 December 2010, the Group's gross profit amounted to approximately HK$77.6 million (2009: HK$42.9 million). The increase in gross profit was primarily due to the increase in revenue from property development sales. The gross profit margin for the year ended 31 December 2010 was approximately 21% as compared to approximately 17% last year.

The finance costs for the year amounted to approximately HK$18.6 million as compared to HK$26.3 million last year. The decrease was mainly attributable to the finance costs capitalised to properties held under development for the year of HK$6.4 million (2009: HK$0.7 million), the decrease in interest expense on project financing loans due to the decrease of interest rate in 2010 and also the decrease in imputed interest expense on loans from non-controlling shareholders as a result of reduction of imputed interest rate in 2010. There was a non-cash outflow item of approximately HK$4.5 million (2009: HK$7.2 million) included in the finance costs being the imputed interest expense on loans from non-controlling shareholders.

The valuation on the Group's investment properties as at 31 December 2010 was conducted by an independent property valuer which resulted in a positive fair value adjustment of approximately HK$18.9 million for the year ended 31 December 2010 (2009: HK$7.4 million).

During the year, certain investment properties were sold for a total consideration of approximately HK$48.2 million (2009: HK$20.4 million).

Share of results of associates mainly represented the profit contributed by Beijing Landmark to the Group for the year of approximately HK$13.4 million (2009: HK$6.1 million).

For the year ended 31 December 2010, the profit attributable to the owners of the Company was approximately HK$18.1 million (2009: HK$15.9 million) which represented a basic earnings per share of 1.5 HK cents (2009: 1.4 HK cents).

**Liquidity, Financial Resources and Gearing**
Cash and cash equivalents as at 31 December 2010 amounted to approximately HK$422.1 million (2009: HK$348.3 million).

The Group had total bank borrowings of approximately HK$319.9 million as at 31 December 2010 (2009: HK$290.4 million). Borrowings classified as current liabilities were approximately HK$286.0 million (2009: HK$187.3 million) and the Group's gearing ratio as at 31 December 2010 was approximately 34% (2009: 33%), which was based on total bank borrowings to total equity.

**Current, Total and Net Assets**
As at 31 December 2010, the Group had current assets of approximately HK$1,144.1 million (2009: HK$1,069.1 million) and current liabilities of approximately HK$451.5 million (2009: HK$317.4 million) which represented a decrease in net current assets from approximately HK$751.7 million as at 31 December 2009 to approximately HK$692.6 million as at 31 December 2010.

As at 31 December 2010, the Group recorded total assets of approximately HK$1,659.1 million (2009: HK$1,542.8 million) and total liabilities of approximately HK$709.8 million (2009: HK$671.2 million), representing a debt ratio (total liabilities over total assets) of approximately 43% (2009: 44%). Net assets of the Group was approximately HK$949.3 million as at 31 December 2010 (2009: HK$871.6 million).

All land fees for all the land acquired for development by the Group have been fully paid.

The Group is able to utilise its internal reserves and debt financing to meet the funding requirements when opportunities for land acquisition arise.

**Charge on Assets**
As at 31 December 2010, bank loans of approximately HK$308.5 million (2009: HK$246.1 million) were secured by certain of the Group's properties, plant and equipment, investment properties and properties held under development of approximately HK$40.0 million (2009: Nil), approximately HK$146.3 million (2009: HK$141.5 million) and approximately HK$315.7 million (2009: HK$349.2 million) respectively.

**Contingent Liabilities**
The directors of the Company considered that there were no material contingent liabilities as at 31 December 2010.

**Exposure to Fluctuations in Exchange Rates and Related Hedges**
The Group's monetary assets, loans and transactions are principally denominated in Renminbi, Hong Kong dollars and US dollars. During the year under review, there was no significant fluctuation in the exchange rates of these three currencies apart from the appreciation of currency of Renminbi against US dollars and Hong Kong dollars. The Group did not engage in any derivative activities and did not commit to any financial instruments to hedge its statement of financial position exposure for the years ended 31 December 2010 and 2009. Nevertheless, any appreciation in the currency value of Renminbi against Hong Kong dollars will contribute positively to the Group's result.

**Treasury Policies and Capital Structure**
The Group adopts a prudent approach with respect to treasury and funding policies, with a focus on risk management and transactions that are directly related to the underlying business of the Group.

**Employees**
As at 31 December 2010, the Group had a staff roster of 109 (2009: 118), of which 81 (2009: 89) employees were based in the Mainland China and 28 (2009: 29) employees in Hong Kong SAR. The remuneration of employees was in line with the market trends and commensurate to the levels of pay in the industry. Remuneration of the Group's employees includes basic salaries, bonuses and long-term incentives.

## FINAL DIVIDEND

The Board has recommended payment of a final dividend of 0.5 HK cents per ordinary share in cash for the year ended 31 December 2010 to shareholders whose names appear on the register of members of the Company on 14 April 2011. Subject to shareholders' approval at the forthcoming annual general meeting of the Company, the dividend warrants will be dispatched to shareholders of the Company on or around 28 April 2011.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 12 April 2011 to 14 April 2011, both days inclusive, during which period no transfer of shares will be registered.

In order to qualify for the 2010 final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30 p.m. on 11 April 2011.

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

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

Throughout the year ended 31 December 2010, the Group has complied with the code provisions set out in Appendix 14, the Code of Corporate Governance Practices, of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

## COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding directors' securities transactions. The Directors confirmed that they have complied with the required standard as set out in the Model Code for the year ended 31 December 2010.

## REVIEW OF ACCOUNTS

The audit committee of the Company has reviewed the annual results of the Company for the year ended 31 December 2010.

The consolidated financial statements have been audited by the Company's auditor, BDO Limited. The unqualified auditor's report will be included in the 2010 Annual Report to shareholders.

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

The Company has not redeemed any of its shares during the year. Other than the issue of 109,200,000 shares by the Company during the year, neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

## PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT, ANNUAL REPORT AND CIRCULAR

The results announcement is published on the websites of the Company (www.nh-holdings.com) and the Stock Exchange (www.hkex.com.hk). The 2010 Annual Report and a circular together with the notice of Annual General Meeting will be dispatched to shareholders in due course.

## GENERAL INFORMATION

As at the date of this announcement, the Board comprises Mr. TAOCHAIFU Choofuang (Chairman), Mr. TAO Richard (Vice Chairman), Mr. TAO Paul (Managing Director), Mr. KONG Mui Sum Lawrence and Mr. YIM Chun Leung as executive directors and Mr. CHAN Bernard Charnwut as non-executive director and Mr. WONG Gary Ka Wai, Mr. SUN Leland Li Hsun and Mr. CHAN Norman Enrique as independent non-executive directors.

By order of the Board
**New Heritage Holdings Ltd.**
**TAOCHAIFU Choofuang**
*Chairman*

Hong Kong, 16 March 2011