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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 2009

FINANCIAL HIGHLIGHTS

- Annual revenue increased 36.5% year-on-year to RMB4,163 million.
- Gross profit for the year increased 23.2% to RMB3,104 million.
- Profit attributable to the equity shareholders amounted to a record high of RMB4,038 million for the year, representing a significant growth of 112.2% as compared to the previous year.
- Earnings per share increased significantly from RMB10.82 cents to RMB19.29 cents.
- Proposed final dividend per share amounted to RMB9.18 cents (equivalent to approximately HKD10.44 cents), representing a pay-out ratio of 50%.

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 2009 with comparative figures for the previous financial year as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2009

	<i>Note</i>	2009 RMB'000	2008 RMB'000
Revenue	2	4,162,943	3,050,281
Cost of sales	3	<u>(1,059,117)</u>	<u>(530,196)</u>
Gross profit		3,103,826	2,520,085
Other income	4	1,965,772	61,827
Administrative expenses		(253,442)	(108,888)
Other operating expenses		<u>(144,869)</u>	<u>(73,578)</u>
Profit from operations		<u>4,671,287</u>	<u>2,399,446</u>
Finance income		11,858	19,046
Finance expenses		<u>(4,643)</u>	<u>(12,534)</u>
Net finance income	6	<u>7,215</u>	<u>6,512</u>
Profit before income tax	5	4,678,502	2,405,958
Income tax	7	<u>(640,934)</u>	<u>(502,940)</u>
Profit for the year		<u>4,037,568</u>	<u>1,903,018</u>
Attributable to equity shareholders of the Company		<u>4,037,568</u>	<u>1,903,018</u>
Dividends payable to equity shareholders of the Company attributable to the year:			
Final dividend proposed after the balance sheet date	8	<u>2,019,600</u>	<u>1,524,000</u>
Basic and diluted earnings per share (RMB cents)	9	<u>19.29</u>	<u>10.82</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Profit for the year	<u>4,037,568</u>	<u>1,903,018</u>
Other comprehensive income for the year (after tax and reclassification adjustments)		
Exchange differences on translation of financial statements of foreign operations	<u>7,232</u>	<u>(68,480)</u>
Total comprehensive income for the year	<u><u>4,044,800</u></u>	<u><u>1,834,538</u></u>
Attributable to equity shareholders of the Company	<u><u>4,044,800</u></u>	<u><u>1,834,538</u></u>

CONSOLIDATED BALANCE SHEET

At 31 December 2009

	<i>Note</i>	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Non-current assets			
Property and equipment		252,671	358,025
Investment properties		2,100,956	934,667
Land use rights		8,119	16,951
Other assets		<u>778,039</u>	<u>517,851</u>
Total non-current assets		<u>3,139,785</u>	<u>1,827,494</u>
Current assets			
Inventories		121,265	129,000
Trade and other receivables	10	5,440,822	2,153,089
Cash at bank and on hand		<u>4,904,426</u>	<u>3,233,578</u>
Total current assets		<u>10,466,513</u>	<u>5,515,667</u>
Current liabilities			
Trade and other payables	11	1,126,637	531,294
Taxation		<u>383,132</u>	<u>371,789</u>
Total current liabilities		<u>1,509,769</u>	<u>903,083</u>
Net current assets		<u>8,956,744</u>	<u>4,612,584</u>
Total assets less current liabilities		<u>12,096,529</u>	<u>6,440,078</u>
Non-current liabilities			
Other payables		–	1,668
Deferred tax liabilities		<u>30,000</u>	<u>74,741</u>
Total non-current liabilities		<u>30,000</u>	<u>76,409</u>
Net assets		<u>12,066,529</u>	<u>6,363,669</u>
Capital and reserves			
Share capital	12	193,884	176,253
Reserves		<u>11,872,645</u>	<u>6,187,416</u>
Total equity attributable to the equity shareholders of the Company		<u>12,066,529</u>	<u>6,363,669</u>

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 one new IFRS, a number of amendments to IFRSs and 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 8, *Operating segments*
- IAS 1, *Presentation of financial statements* (revised 2007)
- Improvements to IFRSs (2008)
- Amendments to IAS 27, *Consolidated and separate financial statements – cost of an investment in a subsidiary, jointly controlled entity or associate*
- Amendments to IFRS 7, *Financial instruments: Disclosures – improving disclosures about financial instruments*
- Amendments to IFRS 2, *Share-based payment – vesting conditions and cancellations*
- IFRIC 15, *Agreements for the construction of real estate*

IFRS 8, the amendments to IAS 27 and IFRS 2 and Interpretation IFRIC 15 have had no material impact on the Group's financial statements as the amendments and interpretations were consistent with policies already adopted by the Group. In addition, the amendments to IFRS 7 do not contain any additional disclosure requirements specifically applicable to the financial statements. The impact of the remainder of these developments is as follows:

- As a result of the adoption of IAS 1, *Presentation of financial statements* (revised 2007), details of changes in equity during the year arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the year, or otherwise in a new primary statement, the consolidated statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.
- The "Improvements to IFRSs (2008)" comprise a number of minor and non-urgent amendments to a range of IFRSs which the IASB has issued as an omnibus batch of amendments. Of these, the following amendment has resulted in changes to the Group's accounting policies:
 - As a result of amendments to IAS 40, *Investment property*, investment property that is under construction is recorded and measured as investment property, which was previously recorded as property and equipment. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively and previous periods have not been restated.

2. REVENUE

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Operating lease	129,369	182,085
Transfer of operation rights	<u>4,033,574</u>	<u>2,868,196</u>
	<u><u>4,162,943</u></u>	<u><u>3,050,281</u></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.

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Operating lease	60,057	33,305
Transfer of operation rights	<u>999,060</u>	<u>496,891</u>
	<u><u>1,059,117</u></u>	<u><u>530,196</u></u>

4. OTHER INCOME

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Revenue from property management and relevant service	58,978	51,174
Net gain on disposal of subsidiaries (<i>Note (i)</i>)	1,906,800	–
Net loss on sales of property and equipment	(6)	(31)
Waived bank loan	<u>–</u>	<u>10,684</u>
	<u><u>1,965,772</u></u>	<u><u>61,827</u></u>

(i) Disposal of subsidiaries

On 18 December 2009, Fine Genius Enterprises Limited (the “**Seller**”, a wholly-owned subsidiary of the Company) entered into a sale and purchase agreement with First Achieve Holdings Limited (the “**Purchaser**”, third party of the Group), pursuant to which the Seller has agreed to sell and the Purchaser has agreed to purchase the entire share of Victory Faith Group Limited (“**Victory Faith**”, a wholly-owned subsidiary of the Seller) for a total consideration of HKD2,765,431,818 (equivalent to RMB2,434,907,000).

Victory Faith is an investment holding company which indirectly held 100% equity interest in Zhengzhou Renhe New World Investment Management Co., Ltd. (“**Zhengzhou Renhe**”) via a Hong Kong investment holding company, Star Legend Group Limited (“**Star Legend**”), a wholly-owned subsidiary of Victory Faith. Upon completion of the sale in December 2009, the Purchaser acquired 100% equity interests in Victory Faith, Star Legend and Zhengzhou Renhe. Zhengzhou Renhe is engaged in development, lease and management of an underground shopping mall located in Zhengzhou, Henan province of the PRC.

5. PROFIT BEFORE INCOME TAX-OTHER ITEMS

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Depreciation		
– Investment properties	57,086	32,275
– Property and equipment	8,208	1,489
Amortisation – land use rights	407	1,030
Advertisement expenses	53,109	1,417
Repairs and maintenance	30,216	7,750
Utility charges	15,669	7,798
Operating lease charges	18,741	7,214
Auditors' remuneration – audit services	7,032	3,500
Rentals receivable from investment properties less direct outgoings of RMB13,675,000 (2008: RMB2,257,000)	(115,694)	(179,828)

6. NET FINANCE INCOME

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Finance income		
– Interest income on bank deposits	11,858	19,046
Finance expenses		
– Net foreign exchange loss	(4,560)	(12,434)
– Bank charges and others	(83)	(100)
	<u>7,215</u>	<u>6,512</u>

7. INCOME TAX

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Current tax		
Provision for the year		
– PRC Enterprise Income Tax	685,675	428,199
Deferred tax		
– Reversal and origination of temporary difference	(44,741)	74,741
	<u>640,934</u>	<u>502,940</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) On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the People's Republic of China ("new tax law") which took effect on 1 January 2008. As a result of the new tax law, 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 withholding tax rate applicable is 5%.
- (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

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Final dividend proposed after the balance sheet date of RMB9.18 cents per ordinary share (2008: RMB7.62 cents)	<u>2,019,600</u>	<u>1,524,000</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

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB7.62 cents per share	<u>1,524,000</u>	<u>257,212</u>

9. BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share at 31 December 2009 was based on the profit attributable to ordinary equity shareholders of the Company of RMB4,037,568,000 (2008: RMB1,903,018,000) and a weighted average number of ordinary shares outstanding of 20,926,027,000 (2008: 17,581,967,000), calculated as follows:

Weighted average number of ordinary shares

	2009 <i>'000</i>	2008 <i>'000</i>
Issued ordinary shares at 1 January	20,000,000	17,000,000
Effect of shares issuance	<u>926,027</u>	<u>581,967</u>
Weighted average number of ordinary shares at 31 December	<u>20,926,027</u>	<u>17,581,967</u>

During the years ended 31 December 2009 and 2008, 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 2009.

10. TRADE AND OTHER RECEIVABLES

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Trade receivables (<i>Note (ii)</i>)	2,499,423	1,834,008
Deposits for construction	280,000	200,000
Receivable from disposal of subsidiaries	1,704,435	–
Bank deposits	367,761	100,437
Others	595,573	25,014
	<u>5,447,192</u>	<u>2,159,459</u>
Less: allowance for doubtful debts	<u>6,370</u>	<u>6,370</u>
	<u><u>5,440,822</u></u>	<u><u>2,153,089</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 2009, 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:

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Current	1,885,104	1,834,008
Less than 6 months past due	570,000	–
More than 6 months past due	44,319	–
Amounts past due	614,319	–
	<u><u>2,499,423</u></u>	<u><u>1,834,008</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.

(v) **Credit policy**

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.

11. TRADE AND OTHER PAYABLES

	<i>Note</i>	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Receipts in advance	(i)	167,600	124,715
Construction payables	(ii)	354,523	129,496
Other taxes payable	(iii)	126,316	134,230
Deposits	(iv)	325,358	67,815
Salary and welfare expenses payable		76,519	33,645
Professional service fee payables		7,104	17,885
Others		69,217	23,508
		<u>1,126,637</u>	<u>531,294</u>

(i) As at 31 December 2009, the amount of receipts in advance expected to be recognised as income after more than one year is RMB32,877,000 (2008: RMB29,094,000).

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

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Due within one year	350,270	123,625
Overdue	4,253	5,871
	<u>354,523</u>	<u>129,496</u>

(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. SHARE CAPITAL

Share capital

	2009		2008	
	Number of shares '000	RMB'000	Number of shares '000	RMB'000
Authorised:				
Ordinary shares of HKD0.01 each	40,000,000		40,000,000	
Issued and fully paid:				
At 1 January	20,000,000	176,253	1,843	17
Capitalisation issue	–	–	16,998,157	149,798
Shares issued under the Global Offering	–	–	3,000,000	26,438
Share issuance	2,000,000	17,631	–	–
At 31 December	22,000,000	193,884	20,000,000	176,253

DIVIDEND

The Board resolved the proposal to pay the final dividend of RMB9.18 cents (equivalent to approximately HKD10.44 cents) per share for the year ended 31 December 2009 to the shareholders whose names appeared on the register of members of the Company at the close of business on 8 July 2010. The final dividend is expected to be payable to the shareholders on around 28 July 2010 upon approval at the annual general meeting to be held on 23 June 2010. 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 RMB0.8795 as at 23 April 2010, 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 2010.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Monday, 5 July 2010 to Thursday, 8 July 2010, 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 Friday, 2 July 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The global economy started the year challenging and only showed some signs of recovery in the second half of 2009. Nevertheless, with the implementation of multiple stimulus measures, coupled with effective fiscal and monetary policies, China's economy recovered ahead of others and recorded a promising 8.7% annual economic growth. Against this challenging and volatile economic backdrop, the Group has adhered to its established strategies to capitalize on its core competitive advantages and has achieved satisfactory operation growth.

During the period under review, the Group transferred a total of 119,258 sq.m. operation rights from Phase I of Shenyang Project, Phase I, II and VI of Harbin Project, Harbin Youyi Road Project (acquired project), Hanzheng Street Project in Wuhan and Phase I of Guangzhou Project. The Group also sold its entire interest in Phase I of Zhengzhou Project. Meanwhile, 100% occupancy rate is currently achieved at the Group's existing malls, which include Phase I, II and III of Harbin Project, Harbin Renhe Spring, Phase I of Guangzhou Project and Phase I of Shenyang Project. Rents level at existing malls generally recorded an upward trend. In particular, rents at Guangzhou Phase I achieved significant rents reversion upon lease expiry.

During the period under review, the Group made encouraging progress in terms of new project development and project acquisition. Construction of Phase VI of Harbin Project, Hanzheng Street Project in Wuhan, Handan Project in Hebei and Putian Project in Fujian have commenced and progressed according to schedule. In July 2009, the Group announced to acquisition of the operation rights to six underground malls located in areas such as Dalian, Daqing, Harbin and Weifang, at a consideration of RMB834.2 million. Each project is progressing according to schedule.

Meanwhile, the Group's project reserves expanded markedly. In 2009, the Group obtained relevant approvals for the development of six projects with a total approved Gross Floor Area ("GFA") of approximately 1,334,840 sq.m. This include Luoyang Project in Henan Province, which has a total approved GFA of 194,840 sq.m., Wuhu Project in Anhui Province, which has a total approved GFA of 150,000 sq.m., Qingdao Project in Shandong Province, which has a total approved GFA of 500,000 sq.m., Handan Project in Hebei Province, which has a total approved GFA of 100,000 sq.m., Putian Project in Fujian Province, which has a total approved GFA of 190,000 sq.m. and Kunming Project in Yunnan Province, which has a total approved GFA of 200,000 sq.m.

After the period under review and prior to the date of this results announcement, the Group obtained approvals for 5 projects, with a total approved GFA of around 840,000 sq.m. This include Phase I of Banan Project in Chongqing city, which has a total approved GFA of around 70,000 sq.m., Phase I of Dadukou Project in Chongqing city, which has a total approved GFA of 100,000 sq.m., Northwest Lake Project in Wuhan, which has a total approved GFA of 450,000 sq.m., Ganzhou Project in Jiangxi Province, which has a total approved GFA of 170,000 sq.m. and Phase I of Anshan Project in Liaoning Province, which has a total approved GFA of 49,840 sq.m. It is expected that the project reserves of the Group will continue to increase at an accelerating pace, so as to ensure that the annual new construction area of the Group can grow steadily.

The Group is proactive in acquiring projects that are aligned with the Group's overall business strategies, portfolio and also fulfill the Group's investment return criteria. In April 2010, the Group acquired the operation rights to an underground mall with a total GFA of approximately 40,100 sq.m. in Chengdu, Sichuan Province at a consideration of RMB289 million. Concurrently, the Group also obtained the use rights to the underground space adjacent to the underground mall which has a total

GFA of 50,400 sq.m. Construction for Phase I of Chengdu project (both sites combined) is expected to commence in the 2nd quarter of 2010). The underground space operation rights cover Dongyu Street (starts at the East End of South Renmin Road in the west, ends at Shuncheng Street in the east), part of Shuncheng Street (starts at the South End of West Yulong Street in the north, ends at the North End of Dongyu Street in the south), and part of Yanshikou (which is located at the junction of Shuncheng Street, Dongyu Street, East Avenue, Daye Road and Ranfang Street).

FINANCIAL REVIEW

Financial Performance

The Group achieved outstanding financial performance for the year ended 31 December 2009 with prominent growth in both turnover and profit attributable to shareholders. The Group's annual revenue increased 36.5% year-on-year to RMB4,162,943,000 in 2009, while profit attributable to shareholders for the year grew vigorously by 112.2% from 2008 to a record high of RMB4,037,568,000. Basic earnings per share was RMB19.29 cents, representing a substantial increase of RMB8.47 cents as compared to RMB10.82 cents per share for the same period last year.

Revenue

Annual revenue grew by 36.5% to RMB4,162,943,000 in 2009 from RMB3,050,281,000 in 2008, mainly due to significant growth in revenue generated from transfer of operation rights and lease income, of which revenue generated from transfer of operation rights increased significantly by 40.6% to RMB4,033,574,000.

	2009	2008	Increase/(Decrease)	
	RMB'000	RMB'000	RMB'000	Percentage
Lease income	129,369	182,085	(52,716)	(29.0)%
Transfer of operation rights	4,033,574	2,868,196	1,165,378	40.6%
Revenue	4,162,943	3,050,281	1,112,662	36.5%

Operation Rights Transfer

Revenue generated from transfer of operation rights is recognized when the significant risks and rewards of the operation rights have been transferred to buyers. Revenue generated from transfer of operation rights during the 2009 financial year was RMB4,033,574,000, grew sharply by 40.6% as compared to RMB2,868,196,000 last year, mainly due to increase in transfer of GFA realized from 73,977 sq.m. in 2008 to 119,258 sq.m. in 2009. With the completion of the Phase VI of the Harbin Project and the Wuhan Project, the Company recorded a transfer of GFA of 40,748 sq.m. and 26,130 sq.m. respectively. In addition, we have also sold around 6,448 sq.m. of the Harbin Youyi Road Project at an average selling price of RMB29,284 per sq.m. This project was acquired in 2009 at an average cost of RMB9,943 per sq.m.

Lease Income

As we derive all of 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 of the Group decreased by 29.0% to RMB129,369,000 in 2009 from RMB182,085,000 in 2008. As Phase I of Shenyang Project commenced operation around October 2009, the leasable area of the shopping centers as at the end of the year operated by the Group increased significantly as compared to 2008. However, the contribution to the total lease income was not that significant due to the two months effect only. Acquired by the Group in December 2008, the lease income generated from Harbin Renhe Spring Project was RMB18,077,000 as compared to NIL in 2008. Phase I of Zhengzhou Project was disposed of in December 2009 but still have over 11 months contribution to lease income this year. With the further transfer of 8,252 sq.m. of Phase I of Guangzhou Project, the lease income decreased significantly from RMB98,115,000 in 2008 to RMB30,443,000 this year which mainly contributed to the overall drop in lease income this year.

Gross Profit

Gross profit of the Company rose by 23.2% to RMB3,103,826,000 in 2009 from RMB2,520,085,000 in 2008. Gross profit margin was 74.6%, reflecting the profitability of the Group remained strong. This was mainly due to various preferential policies for development of underground areas and lower operating costs enjoyed by the Group.

Overall gross profit margin decreased to 74.6% in 2009 from 82.6% in 2008. This was mainly attributed to the drop in gross profit margin of operation rights transfer to 75.2% in 2009 from 82.7% in 2008 as the average transfer price realized decreased to RMB33,822 per sq.m. from RMB38,772 per sq.m. in 2008.

Administrative Expenses

Administrative expenses increased significantly by 132.8% to RMB253,442,000 in 2009 from RMB108,888,000 in 2008, which is mainly due to the rise in staff salary and bonus to RMB120,192,000 in 2009 from RMB32,796,000 in 2008 as well as increase in consulting fee, entertainment expenses and operating lease charges.

Other Operating Expenses

Other operating expenses increased by 96.9% to RMB144,869,000 in 2009 from RMB73,578,000 in 2008, principally due to rise in staff costs, maintenance costs and advertising and promotion expenses.

Finance Expense

Finance expenses decreased to RMB4,643,000 in 2009 from RMB12,534,000 in 2008. This mainly represented 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 and Phase III of Harbin Project have entered into agreements with banks with respect to bank loans provided to buyers of operation rights. Guangzhou Renhe, Phase I, Phase II and Phase III of Harbin Project 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 2008 and 2009, such deposits amounted to approximately RMB129,054,000 and RMB458,120,000, respectively.

Liquidity and Financial Resources

As at 31 December 2009, total asset of the Group amounted to RMB13,606,298,000 (2008: RMB7,343,161,000). For 2009, our profit attributable to equity holders amounted to RMB4,037,568,000 (2008: RMB1,903,018,000). Our capital base has been strengthened as a result of the proceeds of RMB3,279,329,000 through issuing 2,000,000,000 ordinary shares at HK\$1.86 per share and the satisfactory financial results for the year.

In terms of available financial resources as at 31 December 2009, the Group's total available cash at bank and on hand was RMB4,904,426,000. The Group did not have any bank loans or other borrowings.

At the end of 2009, no gearing ratio for the Group has been recorded, which is calculated by dividing the total bank and interest bearing borrowings by total assets.

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 2009, the future capital expenditure for which the Company had contracted but unprovided for and authorized but not yet contracted amounted to approximately RMB1,096.3 million and RMB1,248.8 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 2009 and 2008 amounted to RMB980,236,000 and RMB294,240,000, 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 2009, the Company employed 2,113 staff (2008: 617). 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 2009 was approximately RMB139,101,000 (2008: approximately RMB49,738,000). 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

While economic indicators and experts' analysis are generally painting towards a rosier economic outlook for 2010, the impact of the financial tsunami would take time to recover and uncertainties remain. Nevertheless, in relative terms, the PRC economy looks set to continue to outperform global average and should be able to replicate its phenomenal growth achieved in 2009.

This is however notwithstanding the challenges the PRC economy faced in terms of inflation risk, assets bubbles and structural imbalance. In a bid to ensure healthy and steady economic growth, the PRC Government might potentially tighten its monetary policy to an appropriate level and make certain adjustments to its fiscal policy. This may include taking substantive measures to curb the overheating real estate industry causing even more uncertainties in the real estate market. Meanwhile, the PRC Government could also adjust the economic structure by transforming the export and investment-oriented mode of economic growth into one driven mainly by consumption.

The underground civil air defense projects operated by the Group are not subject to the numerous laws, rules, policies and regulations governing China's real estate industry. The Group believes that real estate related policies introduced by the government will only have immaterial influence to the Group. Meanwhile, as the Group possesses cost advantages, the Group often adopts competitive pricing policies, which leads to rents and selling prices of our malls to be, in general, significantly below those above ground. Our malls are also less likely to be subjected to big price fluctuation as compared to above ground malls and may instead achieved good price and rents growth. Based on our past experience, the Group's operating results can still achieve steady growth even when the real estate market is in times of volatility. On the other hand, numerous policies and measures adopted by the Government in an effort to transform the mode of economic growth may spur consumption and potentially lead to an increase in demand for our malls.

Looking ahead to 2010, the Group will continue to construct a nationwide underground malls network under the brand of “First Tunnel” by leveraging on its leading position in the industry, readily replicable business model, well-developed sales system and quality services. The Group plans to construct a total of 1.5 million sq.m. in 2010 and may transfer around 30% of the shops’ operation rights (in terms of GFA) to recover the construction and development costs. As all of the Group’s projects are located in the prime business districts of different cities and cover a vast area, it is likely that some of the projects may incur delays. This is due to various factors, such as clashes with other municipal projects in the surrounding area, large-scale city events, and reshuffling of government departments personnel. In order to minimize delays, the Group is actively communicating with various local government department to ensure that the target of approximately 1.5 million sq.m. of new construction area can be attained. Year-to-date, the Group has commenced construction work at Phase I of Banan Project in Chongqing, Phase I of Dadukou Project in Chongqing and Phase I of Anshan Project in Liaoning, etc.

The Group believes that a unique and competitive business model, a high-quality and professional management team, a state-of-the-art management concept and an outstanding execution capability are all crucial to the Group’s strategic objectives – to create a nationwide underground malls operational network in the coming years. With urbanization accelerating in the PRC, a recovery from the recent economic turmoil, coupled with significant pent up domestic demand, the Group is optimistic about the prospect of the wholesale and retail markets in the PRC, and is confident of the Group’s future.

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 2009.

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 2009.

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 during the period from the listing date of the Company, 22 October 2008 to 31 December 2009 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 2010. Notice of the Annual General Meeting will be published and despatched to the shareholders in due course.

APPRECIATION

Every accomplishment of Renhe Commercial comes from the relentless efforts from the members of the Board, management and all our staff. I would like to express my gratitude for the efficient decision-making efforts of every director, support and trust from our shareholders and partners, as well as the remarkable team spirit and endeavors of all our management and staff.

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

Hong Kong, 26 April 2010

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*