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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 2008

FINANCIAL HIGHLIGHTS

- Annual revenue increased 732.3% year-on-year to RMB3,050 million.
- Gross profit for the year increased 783.1% to RMB2,520 million.
- Total gross profit margin grew to 82.6%, representing an increase of 4.7 percentage point.
- Profit attributable to the shareholders amounted to a record high of RMB1,903 million for the year, representing a significant growth of 613.6% as compared to the previous year.
- Earnings per share increased significantly from RMB1.57 cents to RMB10.82 cents.
- Proposed final dividend per share amounted to RMB7.62 cents (equivalent to approximately HKD8.65 cents), representing a pay-out ratio of 80%.

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 2008 with comparative figures for the previous financial year as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	<i>Note</i>	2008 RMB'000	2007 RMB'000
Revenue	2	3,050,281	366,495
Cost of sales	3	<u>(530,196)</u>	<u>(81,138)</u>
Gross profit		2,520,085	285,357
Other operating income	4	61,827	54,237
Administrative expenses		(108,888)	(12,892)
Other operating expenses		<u>(73,578)</u>	<u>(34,032)</u>
Profit from operations		<u>2,399,446</u>	<u>292,670</u>
Finance income		19,046	3,131
Finance expenses		<u>(12,534)</u>	<u>(17,835)</u>
Net finance income/(expense)	6	<u>6,512</u>	<u>(14,704)</u>
Profit before income tax		2,405,958	277,966
Income tax	7	<u>(502,940)</u>	<u>(11,291)</u>
Profit for the year		<u>1,903,018</u>	<u>266,675</u>
Attributable to equity shareholders of the Company		<u>1,903,018</u>	<u>266,675</u>
Dividends payable to equity shareholders of the Company attributable to the year:			
Final dividend proposed after the balance sheet date	8	<u>1,524,000</u>	<u>257,212</u>
Basic and diluted earnings per share (RMB cents)	9	<u>10.82</u>	<u>1.57</u>

CONSOLIDATED BALANCE SHEET

At 31 December 2008

	<i>Note</i>	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Non-current assets			
Property and equipment		358,025	35,231
Investment properties		934,667	455,187
Land use rights		16,951	48,389
Bank deposits		28,617	156,487
Total non-current assets		<u>1,338,260</u>	<u>695,294</u>
Current assets			
Inventories		129,000	–
Trade and other receivables	10	2,541,886	396,979
Bank deposits		100,437	50,218
Cash and cash equivalents		3,233,578	1,517,447
Total current assets		<u>6,004,901</u>	<u>1,964,644</u>
Current liabilities			
Bank loans		–	19,184
Trade and other payables	11	531,294	723,684
Taxation		371,789	13,443
Total current liabilities		<u>903,083</u>	<u>756,311</u>
Net current assets		<u>5,101,818</u>	<u>1,208,333</u>
Total assets less current liabilities		<u>6,440,078</u>	<u>1,903,627</u>
Non-current liabilities			
Deposits		1,668	12,013
Deferred tax liabilities		74,741	–
Total non-current liabilities		<u>76,409</u>	<u>12,013</u>
Net assets		<u>6,363,669</u>	<u>1,891,614</u>
Capital and reserves			
Share capital	12	26,455	17
Reserves		6,337,214	1,891,597
Total equity attributable to the equity shareholders of the Company		<u>6,363,669</u>	<u>1,891,614</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.

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 the following new Interpretations and an amendment to IFRSs that are first effective for the current accounting period of the Group:

- IFRIC 11, IFRS 2 – Group and treasury share transactions
- IFRIC 12, Service concession arrangements
- IFRIC 14, IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction
- Amendments to IAS 39, Financial instruments: Recognition and measurement and IFRS 7, Financial instruments: Disclosures – Reclassification of financial assets

These IFRS developments have had no material impact on the Group's financial statements as either they were consistent with accounting policies already adopted by the Group or they were not relevant to the Group's operations.

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

2. REVENUE

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Lease income	182,085	176,505
Transfer of operation rights	<u>2,868,196</u>	<u>189,990</u>
	<u><u>3,050,281</u></u>	<u><u>366,495</u></u>

Given the Group is mainly engaged in underground shopping mall leasing business and the operations of the Group are all in the PRC, no business or geographical segment information 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.

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Lease income	33,305	37,992
Transfer of operation rights	<u>496,891</u>	<u>43,146</u>
	<u>530,196</u>	<u>81,138</u>

4. OTHER OPERATING INCOME

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Revenue from property management and relevant service	51,174	50,579
Net (loss)/gain on sales of property and equipment	(31)	3,658
Waived bank loan	<u>10,684</u>	<u>–</u>
	<u>61,827</u>	<u>54,237</u>

5. PROFIT BEFORE INCOME TAX-OTHER ITEMS

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Auditors' remuneration – audit	3,500	75
Repairs and maintenance	7,750	4,752
Utility charges	7,798	8,599
Depreciation of property and equipment	1,489	1,458
Operating lease charges	7,214	478
Penalty	1,782	–
Rentals receivable from investment properties less direct outgoings of RMB2,257,000 (2007: RMB3,341,000)	<u>(179,828)</u>	<u>(173,164)</u>

6. NET FINANCE INCOME/(EXPENSE)

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Finance income		
– Interest income on bank deposits	19,046	3,131
Finance expenses		
– Interest expenses	–	(17,771)
– Net foreign exchange loss	(12,434)	–
– Bank charges and others	<u>(100)</u>	<u>(64)</u>
	<u>6,512</u>	<u>(14,704)</u>

7. INCOME TAX

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Current tax		
Provision for the year		
– PRC Enterprise Income Tax	428,199	11,291
Deferred tax		
– Origination of temporary difference	<u>74,741</u>	<u>–</u>
	<u>502,940</u>	<u>11,291</u>

- (i) In 2007, the provision for PRC Enterprise Income Tax for the Group's subsidiaries in the PRC is based on the applicable income tax rate of 27% (24% represents the state income tax rate and 3% represents the local income tax rate) of the taxable income as determined in accordance with the relevant income tax rules and regulations of the PRC. The Group's subsidiaries, Harbin Renhe Century, Harbin Baorong Public Facilities Co., Ltd., ("Harbin Baorong") and Guangzhou Renhe are entitled to the exemption of local income tax for the years from 2006 to 2015, from 2002 to 2011, and from 2006 to 2010, respectively.
- (ii) According to the Tax Regulation of Foreign Investment on Civil Air Defence Project, (No.121 1997 Caishuizi), Harbin Renhe Century and Guangzhou Renhe 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.
- (iii) 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.
- (iv) According to the Implementation Rules of the Corporate Income Tax Law, the overseas investor to the 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%.
- (v) 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.
- (vi) 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. DIVIDEND

(a) Dividends attributable to the year

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Final dividend proposed after the balance sheet date of RMB7.62 cents per ordinary share	1,524,000	–
Dividends declared before the Listing	–	257,212
	<u>1,524,000</u>	<u>257,212</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

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Dividends paid during the year	<u>257,212</u>	–

9. BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share at 31 December 2008 was based on the profit attributable to ordinary equity shareholders of the Company of RMB1,903,018,000 (2007: RMB266,675,000) and a weighted average number of ordinary shares outstanding of 17,581,967,000 (2007: 17,000,000,000), calculated as follows:

Weighted average number of ordinary shares

	<i>Note</i>	2008 <i>'000</i>	2007 <i>'000</i>
Issued ordinary shares at 1 January	(i)	17,000,000	17,000,000
Effect of shares issued under the Global Offering		<u>581,967</u>	–
Weighted average number of ordinary shares at 31 December		<u>17,581,967</u>	<u>17,000,000</u>

During the years ended 31 December 2008 and 2007, diluted earnings per share are calculated on the same basis as basic earnings per share. The share options granted did not have dilutive effect as at 31 December 2008.

- (i) The number of shares at the beginning of the years ended 31 December 2008 and 2007 includes 1,843,000 shares in issue and 16,998,157,000 ordinary shares to be issued pursuant to the capitalisation issue as if the shares were outstanding throughout the period.

10. TRADE AND OTHER RECEIVABLES

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Trade receivables	1,834,008	6,045
Prepayments and deposits for construction work and purchase of equipment	689,234	771
Other receivables	25,014	17,734
Amounts due from related parties	—	378,799
	<u>2,548,256</u>	<u>403,349</u>
Less: allowance for doubtful debts	6,370	6,370
	<u><u>2,541,886</u></u>	<u><u>396,979</u></u>

The balance of trade and other receivables are expected to be settled or recovered within one year.

(i) Ageing analysis and impairment of trade and other receivables

The balances of trade and other receivables are neither past due nor impaired except for certain receivables amounting to RMB6,370,000 which are past due for more than one year and full impairment is provided.

(ii) 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 mortgage loans obtained by buyers from commercial banks. As at 31 December 2008, certain buyers were in the process of obtaining such mortgage loans.

As at 31 March 2009, RMB285,460,000 of trade receivables have been collected and the directors of the Company are of the opinion that the remaining balance of trade receivables is collectible once the mortgage loans are obtained from banks and no impairment is considered necessary.

(iii) Credit policy

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>	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Receipts in advance	<i>(i)</i>	124,715	548,016
Construction payables	<i>(ii)</i>	129,496	48,527
Other taxes payable	<i>(iii)</i>	134,230	8,280
Deposits	<i>(iv)</i>	67,815	53,358
Salary and welfare expenses payable		33,645	3,938
Professional service fee payables		17,885	–
Dividends payable		–	23,879
Amounts due to related parties		–	29,342
Others		23,508	8,344
		<u>531,294</u>	<u>723,684</u>

(i) As at 31 December 2008 and 2007, the amount of receipts in advance expected to be recognised as income after more than one year are RMB29,094,000 and RMB61,109,000, respectively.

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

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Due within one year	123,625	44,665
Overdue	5,871	3,862
	<u>129,496</u>	<u>48,527</u>

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

(iv) These 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

	2008		2007	
	Number of shares (in thousands)	RMB in thousands	Number of shares (in thousands)	RMB in thousands
Authorised:				
Ordinary shares of HKD0.01 each	40,000,000		37,645	
Non-redeemable preference share HKD0.01 each	—		355	
	<u>40,000,000</u>		<u>38,000</u>	
Issued and fully paid:				
At 1 January	1,843	17	—	—
Capitalisation issue	16,998,157	—	1,615	15
Shares issued under the Global Offering	<u>3,000,000</u>	<u>26,438</u>	<u>228</u>	<u>2</u>
At 31 December	<u>20,000,000</u>	<u>26,455</u>	<u>1,843</u>	<u>17</u>

DIVIDEND

The Board resolved the proposal to pay the final dividend of RMB7.62 cents (equivalent to approximately HKD8.65 cents) per share for the year ended 31 December 2008 to the shareholders whose names appeared on the register of members of the Company at the close of business on 26 June 2009. The final dividend is expected to be payable to the shareholders on around 15 July 2009 upon approval at the annual general meeting to be held on 11 June 2009. The exchange rate of RMB against HKD is based on the average closing rate of RMB to HKD published by the People's Bank of China at HKD1.00 to RMB0.88093 as at 24 April 2009, for illustration purposes only. The actual exchange rate for dividend payable in Hong Kong dollars will be based on the exchange rate as at the actual dividend payment date.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Tuesday, 23 June 2009 to Friday, 26 June 2009, 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, 22 June 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the review period, the construction, pre-sale and leasing of the Company's new projects as well as the leasing and sales of the original projects achieved desirable progress. In respect of the construction of new projects, the Company completed the development of 94,180 sq.m. of Phase I of Zhengzhou Project. In particular, the Zhengzhou "First Tunnel" only used 23 days to resume the road traffic on the ground and successfully fulfilled our promise to the local government. This created favourable conditions for the Company to develop new projects in the future. Meanwhile, the pre-sale and leasing was satisfactory. It officially started operation by the end of 2008. In respect of the leasing of the original projects, Phase I, II and III of Harbin Project and Phase I of Guangzhou Project all achieved 100% occupancy rate. Currently, the second-hand rental of certain shopping centres such as Phase I of Guangzhou Project is significantly higher than the Company's current rental level, indicating that the average rental level of the Company had room to increase after the expiry of the original lease. In addition, during the period under review, the Company transferred the operation rights of shops with a gross floor area of 73,977 sq.m.. The transfer of operation rights of shops enabled the Company to fully recover construction and development costs, so to efficiently reduce capital cost and ensure that the Company's project development can be conducted continuously and orderly.

After the period under review and prior to the date of this result announcement, the Company managed to transfer the operation rights of the Shenyang "First Tunnel" with a gross floor area of 30,000 sq.m.. at a price of RMB45,000 sq.m.. In addition, the Company obtained the relevant state approval for the Luoyang Project with a gross floor area of 194,840 sq.m..

FINANCIAL REVIEW

Financial Performance

The Group achieved outstanding financial performance for the year ended 31 December 2008 with prominent growth in both turnover and profit attributable to shareholders. The Group's annual revenue increased 732.3% year-on-year to RMB3,050,281,000 in 2008, while profit attributable to shareholders for the year grew vigorously by 613.6% to a record high of RMB1,903,018,000. Earnings per share was RMB10.82 cents, representing a substantial increase of RMB9.25 cents as compared to RMB1.57 cents for the same period last year.

Revenue

The Group's annual revenue grew by 732.3% to RMB3,050,281,000 in 2008 from RMB366,495,000 in 2007, 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 14 times to RMB2,868,196,000.

	2008	2007	Change	
	RMB'000	RMB'000	RMB'000	Percentage
Lease income	182,085	176,505	5,580	3.2%
Transfer of operation rights	2,868,196	189,990	2,678,206	1409.7%
Revenue	<u>3,050,281</u>	<u>366,495</u>	<u>2,683,786</u>	<u>732.3%</u>

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 2008 financial year was RMB2,868,196,000, grew sharply by 1,409.7% as compared to RMB189,990,000 last year, mainly due to increase in transfer of GFA realized and increase in average transfer price during the year. Amongst all, Phase I of Guangzhou Project and Phase I of Zhengzhou Project achieved the most outstanding performance. A total of 28,729 sq.m. was transferred for Phase I of Guangzhou Project and realized an average transfer price of RMB46,786 per sq.m., and Phase I of Zhengzhou Project which commenced operation in late December 2008 recorded a transfer of GFA of 22,792 sq.m. and realized an average transfer price of RMB43,694 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 Company increased by 3.2% to RMB182,085,000 in 2008 from RMB176,505,000 in 2007. As new projects such as Phase I of Zhengzhou Project commenced operation, as at the end of 2008, the leasable area of shopping centres operated by the Company increased significantly compared to 2007. However, since the term of the lease of the new projects only started at the end of 2008, no contribution has been generated to the Company's lease income in 2008. During the period, the Company transferred part of the operation rights of Phase I to Phase III of Harbin Project and Phase I of Guangzhou Project, resulted in a decrease in the weighted average leasable area compared to last year. However, the Company's aggregate lease income still maintained growth, indicating that the average rental of various shopping centres operated by the Company increased substantially. In 2008, the weighted average rental of the Company's shopping centres was RMB2,014 per sq.m., increased by 17.9% from RMB1,708 per sq.m. in 2007. It is expected that the average rental of various shopping centres of the Company will maintain an upward trend.

Gross Profit

Gross profit of the Company rose by 783.1% to RMB2,520,085,000 in 2008 from RMB285,357,000 in 2007. Gross profit margin was 82.6%, 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 Company.

Administrative Expenses

Administrative expenses increased significantly by 744.6% to RMB108,888,000 in 2008 from RMB12,892,000 in 2007, principally due to the expenses of management incentive scheme for our management personnel of RMB22,326,000 (2007: nil), directors' remuneration of RMB24,791,000 (2007: RMB962,000) included in other operating expenses, donation of RMB5,800,000 (2007: nil) in connection with the Sichuan earthquake and an increase in other administrative expenses such as entertainment and travelling fees.

Other Operating Expenses

Other operating expenses increased by 116.2% to RMB73,578,000 in 2008 from RMB34,032,000 in 2007. The expenses of an incentive scheme for employees amounted to RMB22,490,000 (2007: nil) and an increase in other maintenance and advertising and promotion expenses was recorded.

Finance Expense

Finance expenses decreased to RMB12,534,000 in 2008 from RMB17,835,000 in 2007. Our finance expenses in 2007 were interest expenses for our bank loans while those in 2008 were exchange losses arising from holding and exchange of foreign currency by our subsidiaries in China.

Bank Deposits

Our bank deposits included 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 2007 and 2008, such deposits amounted to approximately RMB206,705,000 and RMB129,054,000, respectively.

Liquidity and Financial Resources

As at 31 December 2008, total asset of the Company amounted to RMB7,343 million (2007: RMB2,660 million). For 2008, our equity/profit attributable to equity holders amounted to RMB1,903 million (2007: RMB267 million). Our capital base has been strengthened considerably as a result of the proceeds raised by our initial public offering on the Stock Exchange on 22 October 2008 of HKD3,390 million and the satisfactory financial results for the year.

In terms of available financial resources as at 31 December 2008, the Company's total available cash and cash equivalents (including current portion of pledged deposits and liquid investments) was RMB3,334 million. The Company did not have any bank loans or other borrowings.

At the end of 2008, no gearing ratio for the Company has been recorded, which is calculated by dividing the total bank and interest bearing borrowings by total assets.

Currency Risk

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 2008, the future capital expenditure for which the Company had contracted but unprovided for and authorized but not yet contracted amounted to approximately RMB317.1 million and RMB139.3 million, respectively.

Contingent Liabilities

(a) 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 2008 and 2007 amounted to RMB294,240,000 and RMB169,003,000, respectively. The guarantees and deposit will be released accordingly along with the repayment of loan principal by the buyers.

(b) Property tax

According to the “Notice of the State Administration of Taxation on Several Issues Concerning the Levy of Property Tax on Foreign Investment Enterprises” (Guo Shui Fa 2000 No. 44), FIEs are exempted from property tax for the civil air defence project since 1 January 2000. According to “the Ministry of Finance and the State Administration of Taxation, Notice on the Levy of Property Taxes Relating to Underground Buildings with Housing Function” (Cai Shui 2005 No. 181, “No. 181”), from 1 January 2006, underground properties are subject to property tax which is levied at 12% of the related income. Currently, there are no specific tax rules or regulations stipulating whether No. 181 does not apply to FIEs and FIEs should be continually exempted from property tax. Given the PRC subsidiaries of the Group are all FIEs, and according to the tax regulations on the exemption of Phase III of Harbin Renhe and Guangzhou Renhe as stipulated in the “Supplementary Provisions of Policies for Encouragement of Foreign Investment in Heilongjiang Province” (Hei Zheng Fa [1991] No.38) and the “Provisions on Collection and Exemption of Property Tax for Foreign Investment Enterprises in Guangdong Province” (Ren Min Zheng Fu Ling [2002] No.75), respectively, the Group therefore has not made any provision for property tax in this respect. If the PRC tax authorities issued any regulations in the future clarifying that the requirements of No. 181 are also applicable to FIEs, the Group needs to make property tax provision accordingly. The estimated potential impact of property tax to be recognised in profit or loss during the year amounted to RMB12,909,000 (2007: RMB6,317,000) and the estimated accumulated potential impact of property tax amounted to RMB33,278,000 as at 31 December 2008 (31 December 2007: RMB20,369,000).

Human Resources

As at 31 December 2008, the Company employed 617 staff (2007: 700). 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 2008 was approximately RMB49,738,000 (2007: approximately RMB14,037,000). 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.

APPLICATION OF NET GLOBAL OFFERING PROCEEDS

The net proceeds after deduction of related expenses from Global Offering in October 2008 were approximately HKD3,234 million (equivalent to RMB2,850 million). As of 31 December 2008, the net proceeds were utilized as follows:

	Total net proceeds <i>HKD million</i>	Utilized <i>HKD million</i>	Unutilized <i>HKD million</i>
Finance the construction of Phase I of Shenyang Project	400.0	392.9	7.1
Finance the future development of Phase V and VI of Harbin Project, Phase II of Guangzhou Project, Tianjin Project, Shenzhen Project and Nanchang Project	2,757.0	783.9	1,973.1
General working capital purposes	77.0	–	77.0
	<u>3,234.0</u>	<u>1,176.8</u>	<u>2,057.2</u>
Total	<u>3,234.0</u>	<u>1,176.8</u>	<u>2,057.2</u>

The above usages were consistent with the disclosure in the Company's supplemental prospectus dated 14 October 2008. The unutilized net proceeds have been deposited into short-term deposits with licensed banks in Hong Kong or the PRC.

PROSPECTS

Entering into a new year, the Company will be dedicated to establish a nationwide network of wholesale markets under the "First Tunnel" brand based on our leading position in the industry and successful business model. During the coming year, 7 projects are scheduled for completion with a GFA of 778,320 sq.m., including Phase II of Guangzhou Project with an area of 48,000 sq.m., the Tianjin Project with an area of 121,220 sq.m., Phase V of Harbin Project with an area of 10,000 sq.m., Phase VI of Harbin Project with an area of 150,880 sq.m., the Nanchang Project with an area of 162,000 sq.m., the Wuhan Project with an area of 126,220 sq.m. and the Shenzhen Project with an area of 160,000 sq.m.. The Company will continue to adhere to its operation strategies by transferring 20-30% of the operation rights in terms of GFA to recover the overall construction and development costs once and for all, and leasing 70-80% of the shop units to obtain stable rental income with growth potential with an aim to ensure the future continuous, rapid and effective growth of the Company. According to this strategy, the Company intends to transfer approximately 220,000 sq.m. of operation rights in 2009. Although the growth of China's GDP is experiencing a slowdown currently, the demand for shop units of wholesaling apparels, accessories and electronic products remained strong. Our newly developed underground shopping centres are located at the prime commercial areas of China and the demand for the shop units always exceeds supply. It is expected the pre-sale and leasing of our projects will achieve satisfactory results. As such, the Company will maintain a strong cash flow and provide stable capital resources for our existing projects and future development.

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 2008.

AUDIT COMMITTEE

The Company has established an audit committee in accordance with the requirements of the Listing Rules and the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. 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 2008.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Since listing, the Company had adopted the code provisions as set out in the Code on Corporate Governance Practices (the “Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) 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 five executive Directors, six 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 to 31 December 2008 (the “Relevant Period”) in relation to their securities dealings, if any.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company is proposed to hold on Thursday, 11 June 2009. 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, 27 April 2009

As at the date of this announcement, the Board of the Company consists of Mr. Dai Yongge, Mr. Zhang Dabin, Mr. Wang Hongfang, Ms. Wang Chunrong and Mr. Wang Luding as executive directors, Mrs. Hawken Xiuli, Ms. Jiang Mei, Ms. Zhang Xingmei, Mr. Ho Gilbert Chi Hang, Mr. Ho Hsiang-Ming, James 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*