佳華百貨控股有限公司

# Jiahua Stores Holdings Limited

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

**(stock code: 602)**

## FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

### FINANCIAL HIGHLIGHTS

Revenue increased by 12.7% to RMB935.1 million

Gross profit increased by 13.0% to RMB105.8 million

Profit for the year attributable to the Company's equity holders decreased by 69.2% to RMB24.4 million

Basic earnings per share was RMB2.35 cents

Proposed final dividend of RMB1.17 cents is recommended

**ANNUAL RESULTS**

The board (the "Board") of directors (the "Directors") of Jiahua Stores Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to the "Group") for the year ended 31 December 2008 as follows:

**CONSOLIDATED INCOME STATEMENT**
*For the year ended 31 December 2008*

| | | Year ended 31 December | |
|---|---|---|---|
| | | **2008** | **2007** |
| | *Notes* | *RMB'000* | *RMB'000* |
| Revenue | *4* | 935,067 | 829,848 |
| Cost of inventories sold | | (727,278) | (630,466) |
| | | 207,789 | 199,382 |
| Other operating income | *5* | 100,973 | 109,084 |
| Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost of acquisition | | – | 34,453 |
| Distribution costs | | (236,710) | (208,948) |
| Administrative expenses | | (36,970) | (43,372) |
| Other operating expenses | | (2,441) | – |
| Profit before income tax | *6* | 32,641 | 90,599 |
| Income tax expense | *7* | (8,290) | (11,482) |
| Profit for the year attributable to the Company's equity holders | | 24,351 | 79,117 |
| Dividends | *8* | 12,139 | 22,153 |
| Earnings per share | *9* | | |
| – Basic (RMB cents) | | 2.35 | 8.53 |
| – Diluted (RMB cents) | | N/A | 8.52 |

**CONSOLIDATED BALANCE SHEET**
*As at 31 December 2008*

| | | As at 31 December | |
|---|---|---|---|
| | | **2008** | **2007** |
| | *Notes* | *RMB'000* | *RMB'000* |
| ASSETS AND LIABILITIES | | | |
| Non-current assets | | | |
| Property, plant and equipment | | 114,136 | 85,764 |
| Intangible asset | | 51,746 | 56,488 |
| Deposits paid and prepayments | | 26,277 | 9,388 |
| | | 192,159 | 151,640 |
| Current assets | | | |
| Inventories and consumables | *10* | 114,583 | 104,549 |
| Trade receivables | *11* | 5,253 | 1,478 |
| Deposits paid, prepayments and other receivables | | 47,647 | 55,088 |
| Amount due from a related party | | – | 140 |
| Cash and bank balances | | 281,031 | 300,339 |
| | | 448,514 | 461,594 |
| Current liabilities | | | |
| Trade payables | *12* | 161,562 | 146,299 |
| Coupon liabilities, deposits received, other payables and accruals | | 60,387 | 48,187 |
| Amount due to a director | | 738 | 738 |
| Provision for tax | | 3,007 | 4,888 |
| | | 225,694 | 200,112 |
| Net current assets | | 222,820 | 261,482 |
| Total assets less current liabilities | | 414,979 | 413,122 |
| Non-current liabilities | | | |
| Deferred tax liabilities | | 6,480 | 7,200 |
| Net assets | | 408,499 | 405,922 |
| EQUITY ATTRIBUTABLE TO THE COMPANY'S EQUITY HOLDERS | | | |
| Share capital | *13* | 10,125 | 10,125 |
| Reserves | | 398,374 | 395,797 |
| Total equity | | 408,499 | 405,922 |

# NOTES TO THE FINANCIAL STATEMENTS:

## 1. GENERAL INFORMATION

Jiahua Stores Holdings Limited ("the Company") was incorporated in the Cayman Islands on 4 September 2006 as an exempted company with limited liability. The address of the Company's registered office and principal place of business are located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and 301 on 3rd Floor, Block 1, Baijiahua Building, Hedong Road, Xixiang Town, Baoan District, Shenzhen, Guangdong Province, the People's Republic of China (the "PRC") respectively. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are management of retail stores and wholesale of consumables in the PRC.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collectively includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The consolidated financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

## 2. BASIS OF PREPARATION

The financial statements have been prepared on the historical cost basis except for the revaluation of certain financial assets and liabilities at initial recognition.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates.

## 3. ADOPTION OF NEW AND REVISED HKFRSs

In the current year, the Company and its subsidiaries (collectively know as the "Group") has applied for the first time the following new standards, amendments and interpretations (the "new HKFRSs") issued by the HKICPA, which are relevant to and effective for the Group's financial statements during the year.

| | |
|---|---|
| HK (IFRIC) – Int 11 | HKFRS 2 – Group and Treasury Share Transactions |
| HKAS 39 (Amendments) | Reclassification of Financial Assets |

The new HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented. Accordingly, no prior period adjustment is required.

At the date of authorisation of these financial statements, the following new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

| | |
|---|---|
| HKAS 1 (Revised) | Presentation of Financial Statements [2] |
| HKAS 23 (Revised) | Borrowing Cost [2] |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements [3] |
| HKAS 32, HKAS 39 & HKFRS 7 (Amendment) | Puttable Financial Instruments and Obligations Arising on Liquidation [2] |
| HKAS 39 (Amendment) | Eligible Hedged Items [3] |
| HKAS 39 (Amendment) | Embedded Derivatives [5] |
| HKFRS 1 (Revised) | First-time Adoption of Hong Kong Financial Reporting Standards [3] |
| HKFRS 1 & HKAS 27 (Amendments) | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or an Associate [2] |
| HKFRS 2 (Amendment) | Share-based Payment – Vesting Conditions and Cancellations [2] |
| HKFRS 3 (Revised) | Business Combinations [3] |
| HKFRS 7 (Amendment) | Improving Disclosures about Financial Instruments [2] |
| HKFRS 8 | Operating Segments [2] |
| HK(IFRIC) – Int 2 | Members' Shares in Cooperative Entities and Similar Instruments – Consequential Amendments Arising from HKAS 32 (Revised) [2] |
| HK(IFRIC) – Int 9 | Reassessment of Embedded Derivatives [5] |
| HK(IFRIC) – Int 13 | Customer Loyalty Programmes [1] |
| HK(IFRIC) – Int 15 | Agreements for the Construction of Real Estate [2] |
| HK(IFRIC) – Int 16 | Hedges of a Net Investment in a Foreign Operation [4] |
| HK(IFRIC) – Int 17 | Distributions of Non-cash Assets to Owners [3] |
| HK(IFRIC) – Int 18 | Transfer of Assets from Customers [3] |
| Various | Annual Improvements to HKFRS 2008 [6] |

*Notes:*

1 Effective for annual periods beginning on or after 1 July 2008
2 Effective for annual periods beginning on or after 1 January 2009
3 Effective for annual periods beginning on or after 1 July 2009
4 Effective for annual periods beginning on or after 1 October 2008
5 Effective for annual periods ending on or after 30 June 2009
6 Generally effective for annual periods beginning on or after 1 January 2009 unless otherwise stated in the specific HKFRS

The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement.

Among these new standards and interpretations, HKAS 1 (revised) "Presentation of Financial Statements" is expected to materially change the presentation of the Group's financial statements. The amendments affect the presentation of owner changes in equity and introduce a statement of comprehensive income. The Group will have the option of presenting items of income and expense and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of other comprehensive income). This amendment does not affect the financial position or results of the Group but will give rise to additional disclosures.

In addition, HKFRS 8 "Operating Segments" may result in new or amended disclosures. The directors are in the process of identifying reportable operating segments as defined in HKFRS 8.

The directors of the Company are currently assessing the impact of other new HKFRSs upon initial application. So far, the directors have preliminarily concluded that the initial application of these HKFRSs is unlikely to have a significant impact on the Group's results and financial position.

## 4. REVENUE AND SEGMENT INFORMATION

| | Year ended 31 December 2008 *RMB'000* | 2007 *RMB'000* |
|---|---|---|
| Revenue – Turnover | | |
| Sales of goods | 822,062 | 724,110 |
| Commissions from concessionaire sales | 77,248 | 83,679 |
| Rental income from sub-leasing of shop premises | 24,704 | 22,059 |
| Wholesale of consumables | 11,053 | – |
| | 935,067 | 829,848 |

Revenue, which is also the Group's turnover, represents invoiced value of goods sold, net of value added tax ("VAT"), after allowances for returns and discounts; and the value of services rendered. Operation and management of retail stores and wholesale of consumables are the business segments of the Group. No business segment analysis is presented as less than 10% of the Group's revenue and operating profit is attributable to the wholesale of consumables. No geographical segment analysis is presented as less than 10% of the Group's revenue and operating profit is attributable to markets located outside the PRC. Accordingly, no separate business and geographic segment information is presented.

## 5. OTHER OPERATING INCOME

| | Year ended 31 December 2008 *RMB'000* | 2007 *RMB'000* |
|---|---|---|
| Imputed interest income | – | 800 |
| Interest income | 6,430 | 18,094 |
| Government grants | 284 | 1,530 |
| Compensation from insurer | 2,441 | – |
| Income from suppliers | | |
| – Administration and management fee income | 29,907 | 24,071 |
| – Products entrance fee income | 21,037 | 19,676 |
| – Promotion income | 7,809 | 12,168 |
| – Sponsorship income | 8,033 | 7,507 |
| – Store display income | 5,998 | 7,697 |
| Others | 19,034 | 17,541 |
| | 100,973 | 109,084 |

## 6. PROFIT BEFORE INCOME TAX

| | Year ended 31 December 2008 *RMB'000* | 2007 *RMB'000* |
|---|---|---|
| Profit before income tax is arrived at after charging: | | |
| Cost of inventories sold recognised as expense | 727,278 | 630,466 |
| Amortisation of intangible asset | 4,742 | 2,114 |
| Net exchange loss | 7,629 | 10,406 |
| Depreciation of property, plant and equipment | 26,988 | 19,780 |
| Loss on disposal of property, plant and equipment | – | 32 |
| Operating lease rentals in respect of land and buildings | 55,268 | 47,755 |
| Obsolete inventories written-off | 139 | 1,092 |
| Inventories loss | 1,825 | 2,726 |
| Loss on natural disaster* | 2,441 | – |
| Staff costs, including directors' emoluments | | |
| Salaries and other benefits | 73,070 | 59,927 |
| Contributions to pension schemes | 5,613 | 3,897 |
| Share-based payment expenditure | 2,086 | 5,193 |
| | 80,769 | 69,017 |
| Share-based payment expenditure to a consultant | – | 167 |
| Listing expenses | – | 3,037 |
| and crediting: | | |
| Gain on disposal of property, plant and equipment | 2 | – |
| Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost of acquisition | – | 34,453 |
| Sub-letting of properties | | |
| – Base rents | 20,033 | 18,232 |
| – Contingent rents** | 4,671 | 3,827 |
| Gross rental income | 24,704 | 22,059 |
| *Less:* Outgoings | (11,075) | (9,460) |
| Net rental income | 13,629 | 12,599 |

*Note*:

* Loss on natural disaster incurred for the year was recognised in the consolidated income statement as "other operating expense".

** Contingent rents are calculated based on a percentage of the relevant sales of the tenants pursuant to the rental agreements.

## 7. INCOME TAX EXPENSE

| | Year ended 31 December | |
|---|---|---|
| | **2008** | **2007** |
| | *RMB'000* | *RMB'000* |
| Current tax | | |
| PRC enterprise income tax – current year | 9,010 | 11,782 |
| Deferred tax | (720) | (300) |
| | 8,290 | 11,482 |

The Group is not subject to any taxation under the jurisdiction of the Cayman Islands and British Virgin Islands during the year (2007: Nil).

No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profit in Hong Kong for the year (2007: Nil).

PRC enterprise income tax of a subsidiary of the Company, Shenzhen Baijiahua Department Stores Company Limited ("BJH Department Stores") which was established in the PRC and which is situated in the Shenzhen (i.e. a Special Economic Zone), has been provided at the preferential enterprise income tax rate of 15% (except the branches not located in Shenzhen) on the estimated assessable profits during the year ended 31 December 2007. Pursuant to the new PRC enterprise income tax law ("EIT law") passed by the Tenth National People's Congress on 16 March 2007, the new enterprise income tax rates for domestic and foreign enterprises are unified at 25% effective from 1 January 2008. Pursuant to the EIT law Article 57 and Guofa [2007] No.39, the new tax rates of BJH Department Stores (including the head office and the branches located in Shenzhen) whose business registration has been completed on or before 16 March 2007 and situated in the Shenzhen (i.e. a Special Economic Zone) is eligible for grandfathering treatments with a gradual increase in tax rate from 15% to 25% over a five-year period (i.e. at 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012).

Other subsidiaries of the Company established in the PRC were subject to PRC enterprise income tax at the rate of 25% for the year under the income tax rules and regulations of the PRC (2007: 33%).

Reconciliation between tax expense and accounting profit at applicable tax rates:

| | Year ended 31 December | |
|---|---|---|
| | **2008** | **2007** |
| | *RMB'000* | *RMB'000* |
| Profit before income tax | 32,641 | 90,599 |
| Tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned | 8,117 | 13,590 |
| Tax benefit of a PRC subsidiary | (3,557) | (1,717) |
| Tax effect of non-deductible expenses | 4,450 | 4,719 |
| Tax effect of non-taxable income | (1,182) | (8,777) |
| Tax effect of tax loss not recognised | 801 | 2,870 |
| Others | (339) | 797 |
| Income tax expense | 8,290 | 11,482 |

## 8. DIVIDENDS

| | Year ended 31 December | |
|---|---|---|
| | **2008** | **2007** |
| | *RMB'000* | *RMB'000* |
| Final dividend for the year ended 31 December 2008 of RMB1.17 cents (2007: RMB2.14 cents) per ordinary share | 12,139 | 22,153 |

The final dividend proposed after the balance sheet date has not been recognised as a liability at the respective balance sheet date, but reflected as an appropriation of retained profits for that year.

## 9. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to the Company's equity holders for the year of approximately RMB24,351,000 (2007: RMB79,117,000) and on the weighted average number of approximately 1,037,500,000 (2007: 927,842,000) ordinary shares in issue during the year.

No diluted earnings per share has been presented for the year ended 31 December 2008 as the exercise price of the Company's outstanding options were higher than the average market price for the year.

The calculation of the diluted earnings per share for the year ended 31 December 2007 was based on the profit attributable to the Company's equity holders for the year of approximately RMB79,117,000 and approximately 928,280,000 ordinary shares, being the 927,842,000 ordinary shares as used in the calculation of basic earnings per share plus the weighted average of 438,000 ordinary shares deemed to be issued on the deemed exercise of share options under the share option scheme.

## 10. INVENTORIES AND CONSUMABLES

| | As at 31 December | |
|---|---|---|
| | **2008** | **2007** |
| | *RMB'000* | *RMB'000* |
| Merchandise for resale | 102,855 | 96,412 |
| Low value consumables | 11,728 | 8,137 |
| | 114,583 | 104,549 |

## 11. TRADE RECEIVABLES

All of the Group's sales are on cash basis except for certain wholesale of consumables, bulk sale of merchandise to corporate customers and rental income receivables from tenants. The credit terms offered to these customers or tenants are generally for a period of one to three months.

The aging analysis of the trade receivables, based on invoice dates, is as follows:

| | As at 31 December | |
|---|---|---|
| | **2008** | **2007** |
| | *RMB'000* | *RMB'000* |
| Within 30 days | 3,397 | 1,027 |
| 31–60 days | 342 | 211 |
| 61–180 days | 720 | 124 |
| 181–365 days | 707 | 4 |
| Over 1 year | 87 | 112 |
| | 5,253 | 1,478 |

## 12. TRADE PAYABLES

The credit terms granted by suppliers are generally for a period of 30 to 60 days. The aging analysis of the trade payables, based on invoice dates, is as follows:

| | As at 31 December | |
|---|---|---|
| | **2008** | **2007** |
| | *RMB'000* | *RMB'000* |
| Within 30 days | 116,730 | 120,631 |
| 31–60 days | 35,695 | 14,058 |
| 61–180 days | 8,385 | 7,285 |
| 181–365 days | 752 | 3,241 |
| Over 1 year | – | 1,084 |
| | 161,562 | 146,299 |

## 13. SHARE CAPITAL

| | | **2008** | | **2007** | |
|---|---|---|---|---|---|
| | | **Number of shares** | | **Number of shares** | |
| | *Notes* | *('000)* | *RMB'000* | *('000)* | *RMB'000* |
| Authorised : | | | | | |
| Ordinary shares of HK$ 0.01 each | | | | | |
| At the beginning of the year | | 10,000,000 | 97,099 | 39,000 | 390 |
| Increase in authorised share capital | *(a)* | – | – | 9,961,000 | 96,709 |
| At 31 December | | 10,000,000 | 97,099 | 10,000,000 | 97,099 |
| Issued and fully paid : | | | | | |
| Ordinary shares of HK$ 0.01 each | | | | | |
| At the beginning of the year | | 1,037,500 | 10,125 | 1 | – |
| Issue of ordinary shares on reorganisation | *(b)* | – | – | 99,999 | 981 |
| Issue of ordinary shares on capitalisation issue | *(c)* | – | – | 650,000 | 6,342 |
| Issue of ordinary shares by initial public offering | *(d)* | – | – | 250,000 | 2,439 |
| Issue of ordinary shares upon exercise of over-allotment option | *(e)* | – | – | 37,500 | 363 |
| At 31 December | | 1,037,500 | 10,125 | 1,037,500 | 10,125 |

*Notes:*

(a) Pursuant to a written resolution dated 30 April 2007, the shareholders approved, inter alia, an increase in the authorised share capital of the Company from HK$390,000 to HK$100,000,000 by the creation of an additional 9,961,000,000 ordinary shares of par value of HK$0.01 each.

(b) On 30 April 2007, the Company issued and allotted 99,999,000 ordinary shares of HK$0.01 each, credited as fully paid, in consideration for the acquisition of Forever Prosperity International Company Limited upon completion of the reorganisation.

(c) Pursuant to a written resolution dated 30 April 2007 approved by the shareholders, and conditional upon the share premium amount of the Company being credited as a result of the initial public offering, the directors of the Company were authorised to capitalise the amount of HK$6,500,000 (equivalent to approximately RMB6,342,000) from the amount standing to the credit of the share premium account of the Company to pay up in full at par 650,000,000 ordinary shares for allotment and issue to the person(s) whose name(s) appeared on the register of members of the Company at the close of business on 30 April 2007, pro-rata to its/their then existing shareholdings in the Company and the directors were authorised to effect the same and to allot and issue ordinary shares pursuant thereto.

(d) On 18 May 2007, the Company allotted and issued 250,000,000 ordinary shares of HK$0.01 each at a price of HK$1.04 each. A share premium of approximately HK$257,500,000 arose and recorded as share premium of the Company.

(e) On 31 May 2007, the over-allotment option described in the prospectus of the Company dated 8 May 2007 was exercised in full by the lead manager of the Company's initial public offering, in respect of an aggregate of 37,500,000 ordinary shares. The over-allotment shares of 37,500,000 were allotted and issued by the Company at HK$1.04 per ordinary share of HK$0.01 each. A share premium of approximately HK$38,625,000 arose and recorded as share premium of the Company.

## MANAGEMENT DISCUSSION AND ANALYSIS

### (A) Industry Overview

The PRC economy maintained a considerable growth of 9% during 2008 amid the impact of global financial tsunami. China's retail industry sustained its good development momentum in 2008, with ever-rising income per capita and purchasing power.

In 2008, the GDP of the PRC exceeded RMB30 trillion, reaching RMB30,067 billion, representing an increase of 9.0% over last year. This rate not only hugely exceeded the average around the world, but also significantly exceeded the growth of major countries and regions. Total retail sales of consumer goods amounted to approximately RMB10,848.7 billion, representing an increase of 21.6% as compared with the corresponding period last year. Among which, the total sales in wholesale and retail sectors was RMB9,119.9 billion, representing a growth of 21.5% over last year.

In 2008, the realized aggregate output of the Guangdong Province amounted to RMB3,569.6 billion, representing an increase of 10.1% as compared with the corresponding period last year; total retail sales of consumer goods reached RMB1,277.2 billion, representing an increase of 20.3% as compared with the corresponding period last year, amongst which the sales in wholesale and retail sectors was RMB1,081.6 billion, representing a growth of 20.8% over last year. The aggregate output of the Guangdong Province accounted for 11.87% of the GDP of the PRC. In 2008, the realized aggregate output of Shenzhen amounted to RMB780.6 billion, representing an increase of 12.1% as compared with the corresponding period last year. Among which, the total sales in wholesale and retail sectors was RMB74.3 billion, representing a growth of 6.9% over last year.

In 2008, the realized aggregate output of the Zhuang Autonomous Region of Guangxi amounted to RMB717.1 billion, representing an increase of 12.8% as compared with the corresponding period last year; total retail sales of consumer goods reached RMB233.8 billion, representing an increase of 23.2% as compared with the corresponding period last year. Among which, the total sales in wholesale and retail sectors was RMB202.1 billion, representing an increase of 23.3% over last year. The aggregate output of the Zhuang Autonomous Region of Guangxi accounted for 2.39% of the GDP of the PRC. In 2008, total realized retail sales of consumer goods of Nanning City amounted to RMB63.1 billion, representing an increase of 22.5% as compared with the corresponding period last year.

The rapid growth of the PRC's economy further stimulated domestic demand and spendings, through which the growth of the consumer retail market gained momentum. Meanwhile, the surge in income of Chinese citizens also boosted consumer demand. The PRC government's substantial efforts in strengthening the social security system and to resolve social issues such as education, medical and housing had significantly enhanced the confidence of Chinese citizens towards the future, which in turns reinforced consumer confidence. In light of the above, the retail market has tremendous potential.

## (B) Business Review

- ***Expand retail network and strengthen our economy of scale in the region***

  As at 31 December 2008, the Group had 14 outlets under its direct operation with a total gross sales floor area of about 196,000 sq.m. These outlets mainly located in Shenzhen, Guangdong and the Pearl River Delta region. The Dashatian Outlet in Guangxi Province commenced business in 1 January 2009, which marked the beginning of the expansion of the Group's retail network out of Guangdong Province towards the rest of the nation. With the recent opening of the Shuyuan Yage Store in Baoan, Shenzhen on 28 March 2009, the total number of outlets of the Group has reached 16, with a total gross sales floor areas of about 200,000 sq.m. The Group pays close attention to the State's regional policy. It will monitor the new situation, capture opportunities and continuously identify new locations to expand its business and networks, in order to establish its regional retail network and enhance its competitive advantage across the region. The Group will also try to accelerate its growth by leasing properties, merger and acquisition (if practicable).

- ***Strengthen internal operation management and enhance competitiveness***

  During 2008, the Group has further improved its internal management, which strengthened its financial budget management and set up a three-tier management structure among the Group, its subsidiaries and outlets. On the other hand, the Group has further improved the appraisal and incentive system on the basis of its existing system to set performance as the most important criteria in assessment. The Group has also devoted efforts to provide trainings for all staff to meet the Company's requirements regarding operation management and development. The Group has strengthened the positioning of shopping centres and enhanced the brand name of various merchandises. The Group has made reasonable reallocation of resources and timely adjustment to its operation in response to market changes. The Group will combine its membership cards with the UnionPay cards of the Bank of China to provide comprehensive benefits to all members. In 2008, our Longhua Store has undergone large scale renovation, reconstruction and refurnishment, which resulted in significant growth in sale as compared with pre-renovation period. In 2009, the Company will commence renovation and reconstruction of its Songgang store, Shajing store and Gongming store to enhance their domestic competitiveness and grades. Through a series of internal management strengthening measures, the Group's ability to handle risk has been strengthened.

- ***Ongoing optimization of information management system to explore the value of information resources***

  Through ongoing optimization of information management system by gradually adding decision making function on top of the existing system, the Company has effective control over operation management. The internal information management system has been further linked up with the internet, which provides real-time information on ordering, verification, sales, settlement, transfer, reconciliation, online procurement and other information feedbacks to facilitate business dealings between the Company and suppliers, banks and customers, which enhances synergies and qualities and the Company's brand image.

- ***Strengthen cost and operating cost control to improve operational efficiency***

  Amidst the economic downturn, it becomes more important for us to strengthen cost and operating cost control. During the year under review, the Group has exercised cost control to ensure operational efficiency by monitoring gross profit margins of the purchased commodities and lowering purchase prices. The Group strives to control and lower operating costs through various measures such as optimization of working procedure, cost approval, staffs rationalization as well as negotiation with shopping centers landlords for lower rentals. In 2008, a decreasing trend in the overall operation costs of 8 comparable outlets had been noticed.

## (C) Outlook

Looking forward, China's economy will maintain robust growth and the focus of China's capital investment and exports will shift inwardly to domestic consumption. Coupled with favourable factors such as the continued appreciation of Renminbi and increased disposable household income, the retail industry will undoubtedly become a major driving force for future economic development. Expansion of domestic demand and increase investment in domestic infrastructure will be a major focus of the PRC Government for economic development in 2009.

The Directors believe that both opportunities and challenges await ahead, and the department stores thrive on fair competition with each other in an orderly market. In 2009, the Group will stringently follow the direction of the State policy, emphasizing "stability" for its business development, to establish sales networks by sectors, enhance regional competitive edge and lower operation costs. While accelerating the expansion of its retail outlets, the Group will place more emphasis on the establishment of information system and the building of human resources, recruiting talented professionals, strengthening staff training and review and appraisal systems, so as to ensure the smooth implementation of the strategic plans of the Group.

## (D) Financial Review

### *1. Revenue*

Revenue of the Group increased by 12.7% to approximately RMB935.1 million for the year 2008 from approximately RMB829.8 million for the year 2007, with momentum from (1) opening of new stores in Yanbu Foshan and Ronggui Foshan of the PRC; (2) full year contribution from the four retail stores acquired from Shenzhen Dongfangcheng Department Stores ("Dongfangcheng") in Shenzhen of the PRC, and (3) the commencement of the wholesale business.

(1) Opening of new stores in Yanbu Foshan and Ronggui Foshan of the PRC

Our Group has opened two new stores in Yanbu Foshan and Ronggui Foshan in January and November 2008 respectively. It brought additional sales floor area of about 16,560 and 10,200 square meter to our Group with total revenue of approximately RMB37.5 million and RMB4.7 million in Yanbu Foshan and Ronggui Foshan respectively, representing approximately 4.0% and 0.5% of total revenue of the Group.

(2) Full year contribution from the four retail stores acquired from Dongfangcheng

Our Group has acquired the business from Dongfangcheng, which represented four retail outlets, in August 2007. These four outlets are located at the prime location in Nanshan District, Longgang District and Baoan District in Shenzhen, the PRC. They brought about 35,700 square meter additional sales floor area to our Group. Total revenue for these four stores increased from approximately RMB43.4 million in 2007 to approximately RMB120.8 million in 2008, an increase of 178% over last year, and representing approximately 12.9% of total revenue of the Group.

(3) Commencement of the wholesale business

Our Group has commenced the wholesale business, mainly composed of household appliance, total revenue amounted to approximately RMB11.1 million, representing approximately 1.2% of the total revenue of the Group.

Revenue in 2008 was dominant by sales of goods and wholesale of consumables, with a volume of approximately RMB833.1 million, representing approximately 89.1% of total revenue, an increase of approximately 15.1% over last year (2007: approximately RMB724.1 million, representing approximately 87.2% of total revenue). Revenue of commission from concessionaire sales amounted to approximately RMB77.2 million, representing approximately 8.3% of total revenue, a decrease of approximately 7.7% over last year (2007: approximately RMB83.7 million, representing approximately 10.1% of total revenue). Revenue of rental income from sub-leasing of shop premises amounted to approximately RMB24.7 million, representing approximately 2.6% of total revenue, an increase of approximately 12.0% over last year (2007: approximately RMB22.1 million, representing approximately 2.7% of total revenue).

Sales volume of the 5 largest corporate customers amounted to approximately RMB1.7 million, representing approximately 0.2% of total revenue (2007: approximately RMB1.9 million, representing approximately 0.2% of total revenue).

2. *Gross Profit and Gross Profit Margin from sale of goods and wholesale of consumables*

Gross profit increased by 13.0% to approximately RMB105.8 million for the year ended 2008 from approximately RMB93.6 million for the year ended 2007. Gross profit margin decreased by approximately 0.2% to 12.7% in the year ended 2008 compared to 12.9% for the year ended 2007. The percentage of related cost of inventories sold, including principally merchandise for sale, increased slightly to approximately 87.3% for the year ended 2008 from approximately 87.1% for the year ended 2007.

The increase in gross profit was mainly attributable to the increase in Group's revenue due to opening of new stores and commencement of wholesale business.

3. *Profit for the Year*

In 2008, profit attributable to equity holders of the Company decreased significantly by 69.2% to approximately RMB24.4 million for the year ended 2008 from approximately RMB79.1 million for the year ended 2007. This was mainly attributable to the absence of gain from the excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost of acquisition of approximately RMB34.5 million in last year. Besides, there was drop in bank interest income which arose from the proceeds from the listing in 2007. Added with the impact in sales of goods, commission from concessionaires and rental income of Longhua store during March to July 2008 for large scale shop renovation and the set up expenses of the new stores in Yanbu Foshan and Ronggui Foshan of the PRC, the net profit of the year has dropped considerably.

Distribution costs increased by 13.3% to approximately RMB236.7 million for the year ended 2008 from approximately RMB208.9 million for the year ended 2007, mainly attributable to increase in depreciation from approximately RMB19.6 million in 2007 to approximately RMB26.7 million in 2008, up by 35.9%, increase in operating lease rental expenses from approximately RMB47.2 million in 2007 to approximately RMB54.7 million in 2008, up by 15.8%, and increase in salaries and allowance from approximately RMB48.4 million in 2007 to approximately RMB58.8 million in 2008, up by 21.4%.

Administrative expenses decreased by 14.8% to approximately RMB37.0 million for the year ended 2008 from approximately RMB43.4 million for the year ended 2007, mainly attributable to absence of listing expenses of approximately RMB3.0 million, decrease of approximately RMB2.8 million of net exchange loss brought by the appreciation of RMB against Hong Kong dollar on the cash and bank balance, and decrease of approximately RMB1.7 million for the share-based payment expenditure for the share option granted to staff.

Other operating expenses related to a lump sum stock loss as a result of the damage from flooding in Dongguan store during the year, of which the corresponding compensation from insurer has been included in other operating income.

4. *Liquidity and Financial Resources*

The Group maintains a stable financial position. As at 31 December 2008, the Group had bank balances and cash of approximately RMB281.0 million (2007: approximately RMB300.3 million). During the year, the Group did not use any financial instruments for any hedging purpose.

No gearing ratio is presented as the Group has no bank loans as at 31 December 2008 (2007: Nil).

5. *Net Current Assets and Net Assets*

The Group's net current assets as at 31 December 2008 was approximately RMB222.8 million, a decrease of 14.8% from the balance of approximately RMB261.5 million recorded as at 31 December 2007.

Net assets rose to approximately RMB408.5 million, representing an increase of approximately RMB2.6 million or 0.6% over the balance as at 31 December 2007.

6. *Exposure to fluctuation in exchange rates*

The Group has operation in the PRC so that the majority of the Group's revenues, expenses and cash flows are denominated in RMB. Assets and liabilities of the Group are mostly denominated in RMB and Hong Kong Dollars. Any significant exchange rate fluctuations of foreign currencies against RMB may have financial impact on the Group.

7. *Capital structure*

During the year, the Company has no change in its capital structure.

8. *Employee Information, Remuneration Policies and Share Option Scheme*

As at 31 December 2008, the Group had 3,511 full-time employees (2007: 3,653). The salaries of the Group's employees were determined by the individual performance, professional qualification, industry experience of the employee and relevant market trends. The management reviews the remuneration policy of the Group on a regular basis and evaluates the working performance of the employees. The remuneration of the employees includes salaries, allowances, year-end bonus, social insurance or mandatory pension etc.

As at 31 December 2008, the number of shares in respect of which options had been granted under the share option scheme (the "Scheme") adopted by the Company and remained outstanding under the Scheme was 28,140,000 shares (2007: 18,910,000), representing 2.71% (2007: 1.82%) of the shares of the Company in issue. For the year ended 31 December 2008, 9,680,000 share options have been granted under the Scheme and 450,000 share options had lapsed as a result of certain employees leaving employment during the year.

9. *Charges on Group Assets*

As at 31 December 2008, the Group has no charge on any of its assets.

10. *Use of Proceeds raised from Listing*

Use of Proceeds from the IPO

The net proceeds raised from the Company's newly issued and listed shares on the Stock Exchange in May 2007 (after deduction of related issuance expenses) amounted to approximately HK$265,000,000. As of 31 December 2008, approximately HK$66,050,000 of the proceeds so raised was used, and the unused proceeds of approximately HK$198,950,000 was deposited with banks, the security of which was adequately ensured.

Details of the used proceeds raised of approximately HK$66,050,000 are set out as follows:

- as to approximately HK$29,000,000 for acquisition of the business of a retail chain in Shenzhen, the PRC;
- as to approximately HK$28,300,000 for opening of new stores in Yanbu Foshan and Ronggui Foshan, the PRC; and
- as to approximately HK$8,750,000 for opening of new store in Nanning Guangxi;

The unused proceeds will be used by the Company for the purposes as set out in the section headed "Future plans and use of proceeds" in the prospectus of the Company dated 8 May 2007.

11. *Contingent Liabilities*

As at 31 December 2008, the Group did not have any significant contingent liabilities.

12. *Capital Expenditure*

For the year ended 31 December 2008, capital expenditures of the Group for property, plant and equipment and intangible asset amounted to approximately RMB55.5 million (2007: RMB111.4 million).

13. *Capital Commitments*

As at 31 December 2008, the Group had capital commitments contracted, but not provided for, amounting to approximately RMB2.6 million (2007: RMB4.9 million).

## DIVIDEND

The Board recommends the payment of final dividend for the year ended 31 December 2008 of RMB1.17 cents per ordinary share. This proposal is subject to shareholders' approval at the annual general meeting to be held on Tuesday, 19 May 2009. The proposed final dividends will be paid in Hong Kong dollars, such amount to be calculated by reference to the middle rate published by the People's Bank of China for the conversion of Renminbi to Hong Kong dollars as at 6 April 2009.

## COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to achieve a high standard of corporate governance practice, such that the interests of our shareholders, customers, employees as well as the long term development of the Company can be safeguarded. To this end, the Company has established the Board of Directors (the "Board"), audit committee ("Audit Committee"), remuneration committee ("Remuneration Committee") and nomination committee ("Nomination Committee") ensuring that we are up to the requirements as being diligent, accountable and professional.

The Company has adopted the Code of the Stock Exchange. In the opinion of the Board, the Company had complied with all the code provision of the Code set out in Appendix 14 to the Listing Rules for the year ended 31 December 2008.

## DIRECTORS' SECURITIES TRANSACTIONS

The Board of the Company had adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules as the Company's own code for securities transactions by its Directors. Following specific enquiry made with all Directors, the Company has confirmed that all Directors had been in compliance with the required standard mentioned above for the year ended 31 December 2008.

## ANNUAL GENERAL MEETING

The 2008 Annual General Meeting of the Company will be held on 19 May 2009, Tuesday and the Notice of Annual General Meeting will be published and dispatched in the manner as required by the Listing Rules in due course.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 18 May 2009 to 19 May 2009, both days inclusive, during which period no transfer of Shares can be registered. In order to qualify for the attendance at the annual general meeting on 19 May 2009, Tuesday and for the 2008 Final Dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, located at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:00 p.m. on 15 May 2009, Friday.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the year ended 31 December 2008, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## AUDIT COMMITTEE

An Audit Committee was established by the Company on 30 April 2007 with specific written terms of reference which set out clearly its authority and duties. The Audit Committee currently comprises three Independent Non-executive Directors of the Company, namely, Mr. Chin Kam Cheung (Chairman of the committee), Dr. Guo Zheng Lin and Mr. Ai Ji, is responsible for reviewing and providing supervision on the Group's financial reporting process and internal control systems. The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and the auditing, internal control and financial reporting aspects of the Company including the review of the annual results of the Company for the year ended 31 December 2008.

## REMUNERATION COMMITTEE

A Remuneration Committee was established by the Company on 30 April 2007 with specific written terms of reference which set out clearly its authority and duties. The Remuneration Committee currently comprises one Executive Directors, namely, Mr. Zhuang Pei Zhong, three Independent Non-executive Directors, namely, Mr. Chin Kam Cheung, Dr. Guo Zheng Lin (Chairman of the Committee) and Mr. Ai Ji, is responsible for advising the Board on the remuneration policy and framework and determining the remuneration packages of Directors and senior management with reference to the Company's objectives from time to time.

## NOMINATION COMMITTEE

A Nomination Committee was established by the Company on 30 April 2007 with specific written terms of reference which set out clearly its authority and duties. The Nomination Committee currently comprises one Executive Directors, namely, Mr. Gu Wei Ming (Chairman of the Committee), three Independent Non-executive Directors, namely, Mr. Chin Kam Cheung, Dr. Guo Zheng Lin and Mr. Ai Ji, is responsible for making recommendations to the Board on appointment of Directors and management of the succession of the Board.

## REVIEW OF FINANCIAL STATEMENTS

A meeting of the audit committee was held to review the Group's annual results for the year ended 31 December 2008 before they presented the same to the board of directors of the Company for approval. The audit committee has reviewed with the senior management of the Company the accounting principles and practice adopted by the Group, discussed auditing, financial reporting matters and has reviewed the annual results for the year ended 31 December 2008 before they presented the same to the board of directors of the Company for approval.

## PUBLICATION OF FURTHER INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

The Annual Report of the Company for the year ended 31 December 2008 containing all information required by Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange and dispatched to shareholders in due course.

## ACKNOWLEGMENT

On behalf of the Board, I would like to take this opportunity to express our gratitude to the Board, management, our staff and relevant professional parties for their contribution and dedication.

By Order of the Board
**Jiahua Stores Holdings Limited**
**Zhuang Lu Kun**
*Chairman*

Shenzhen, the PRC, 6 April 2009

*As at the date of this announcement, (a) the executive Directors are Mr. Zhuang Lu Kun, Mr. Zhuang Pei Zhong, Mr. Gu Wei Ming and Mr. Zhuang Xiao Xiong; (b) the independent non-executive Directors are Mr. Chin Kam Cheung, Dr. Guo Zheng Lin and Mr. Ai Ji.*