佳華百貨控股有限公司

Jiahua Stores Holdings Limited

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 00602)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2009

FINANCIAL HIGHLIGHTS

Revenue decreased by 12.4% to approximately RMB819.4 million

Gross profit increased by 12.1% to approximately RMB118.6 million

Loss for the year attributable to the owners of the Company amounted to approximately RMB21.1 million

Basic loss per share was approximately RMB2.04 cents

No final dividend 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 2009 as follows:

CONSOLIDATED STATEMENT OF THE COMPREHENSIVE INCOME

For the year ended 31 December 2009

		Year ended 31 December	
		2009	**2008**
	Notes	*RMB'000*	*RMB'000*
Revenue	*4*	819,381	935,067
Cost of inventories sold		(576,418)	(727,278)
		242,963	207,789
Other operating income	*5*	62,761	100,973
Distribution costs		(254,225)	(236,710)
Administrative expenses		(27,496)	(36,970)
Other operating expenses		(40,918)	(2,441)
(Loss)/Profit before income tax	*6*	(16,915)	32,641
Income tax expense	*7*	(4,224)	(8,290)
(Loss)/Profit for the year		(21,139)	24,351
Other comprehensive income			
Exchange loss on translation of financial statements of foreign operations		–	(1,707)
Total comprehensive income for the year		(21,139)	22,644
Dividends	*8*	–	12,139
(Loss)/Earnings per share for (loss)/profit attributable to the owners of the Company during the year	*9*		
– Basic (RMB cents)		(2.04)	2.35
– Diluted (RMB cents)		N/A	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2009

	Notes	**As at 31 December 2009** *RMB'000*	**2008** *RMB'000*
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		138,611	114,136
Intangible asset		18,805	51,746
Deposits paid and prepayments		34,133	26,277
		191,549	192,159
Current assets			
Inventories and consumables	*10*	130,167	114,583
Trade receivables	*11*	3,716	5,253
Deposits paid, prepayments and other receivables		46,024	47,647
Cash and bank balances		270,614	281,031
		450,521	448,514
Current liabilities			
Trade payables	*12*	176,122	161,562
Coupon liabilities, deposits received, other payables and accruals		83,531	60,387
Amount due to a director		738	738
Provision for tax		4,072	3,007
		264,463	225,694
Net current assets		186,058	222,820
Total assets less current liabilities		377,607	414,979
Non-current liabilities			
Deferred tax liabilities		2,386	6,480
Net assets		375,221	408,499
EQUITY ATTRIBUTABLE TO THE OWNERS OF THE COMPANY			
Share capital	*13*	10,125	10,125
Reserves		365,096	398,374
Total equity		375,221	408,499

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.

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 AMENDED STANDARDS

In current year, the Company and its subsidiaries (collectively known 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 for the annual period beginning on 1 January 2009:

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 27 (Amendments)	Cost of An Investment in a Subsidiary, Jointly Controlled Entity or an Associate
HKFRS 2 (Amendments)	Share-based Payment – Vesting Conditions and Cancellations
HKFRS 7 (Amendments)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK (IFRIC) – 13	Customer Loyalty Programme
Various	Annual Improvements to HKFRSs 2008

Other than as noted below, the adoption of 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.

HKAS 1 (Revised 2007) Presentation of financial statements

The adoption of HKAS 1 (Revised 2007) makes certain changes to the format and titles of the primary financial statements and to the presentation of some items within these statements. It also gives rise to additional disclosures. The measurement and recognition of the Group's assets, liabilities, income and expenses is unchanged. HKAS 1 affects the presentation of owner changes in equity and introduces a 'Statement of comprehensive income'. The Group has applied changes to its accounting policies on presentation of financial statements and segment reporting retrospectively. However, the changes to the comparatives have not affected the consolidated or company statement of financial position at 1 January 2008 and accordingly this statement is not presented.

HKAS 27 (Amendments) Cost of an investment in a subsidiary, jointly controlled entity or an associate

The amendment requires the investor to recognise dividends from a subsidiary, jointly controlled entity or associate in profit or loss irrespective the distributions are out of the investee's pre-acquisition or post-acquisition reserves. In prior years, the Company recognised dividends out of pre-acquisition reserves as a recovery of its investment in the subsidiaries, jointly controlled entity or associates (i.e. a reduction of the cost of investment). Only dividends out of post-acquisition reserves were recognised as income in profit or loss.

Under the new accounting policy, if the dividend distribution is excessive, the investment would be tested for impairment according to the Company's accounting policy on impairment of non-financial assets.

The new accounting policy has been applied prospectively as required by these amendments to HKAS 27 and therefore no comparatives have been restated.

There is no impact on the effect of the application of the amendments in respect of the Company's interest in subsidiaries and retained earnings at 31 December 2009 in the separate statement of financial position.

HKFRS 8 Operating segments

The adoption of HKFRS 8 has not affected the identified and reportable operating segments for the Group. However, reported segment information is now based on internal management reporting information that is regularly reviewed by the chief operating decision maker. In the previous annual financial statements, segments were identified by reference to the dominant source and nature of the Group's risks and returns.

HKFRS 7 (Amendments) Improving disclosures about financial instruments

The amendments require additional disclosures for financial instruments which are measured at fair value in the statement of financial position. These fair value measurements are categorised into a three-level fair value hierarchy, which reflects the extent of observable market data used in making the measurements. In addition, the maturity analysis for derivative financial liabilities is disclosed separately and should show remaining contractual maturities for those derivatives where this information is essential for an understanding of the timing of the cash flows. The Group has taken advantage of the transitional provisions in the amendments and has not provided comparative information in respect of the new requirements.

HK(IFRIC) 13 Customer loyalty programmes

This interpretation requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to the award credits and deferred. This is then recognised as revenue over the period that the award credits are redeemed. The Group maintains a loyalty points programme, Jiahua Bonus Card, which allows customers to accumulate points when they purchases products in the Group's retail stores. The points can then be redeemed for free products or cash values on future purchases, subject to a minimum number of points being obtained. The Group's current accounting policy aligns with the requirement of this interpretation, therefore, the adoption of this interpretation did not have any significant impact on the Group's financial statements.

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

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. Information on new and amended HKFRSs that are expected to have impact on the Group's accounting policies is provided below. Certain other new and amended HKFRSs have been issued but are not expected to have a material impact of the Group's financial statements.

HKFRS 3 Business combinations (Revised 2008)

The standard is applicable in reporting periods beginning on or after 1 July 2009 and will be applied prospectively. The new standard still requires the use of the purchase method (now renamed the acquisition method) but introduces material changes to the recognition and measurement of consideration transferred and the acquiree's identifiable assets and liabilities, and the measurement of non-controlling interests (previously known as minority interest) in the acquiree. The new standard is expected to have a significant effect on business combinations occurring in reporting periods beginning on or after 1 July 2009.

HKFRS 9 Financial instruments

The standard is effective for accounting periods beginning on or after 1 January 2013 and addresses the classification and measurement of financial assets. The new standard reduces the number of measurement categories of financial assets and all financial assets will be measured at either amortised cost or fair value based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Fair value gains and losses will be recognised in profit or loss except for those on certain equity investments which will be presented in other comprehensive income. The directors are currently assessing the possible impact of the new standard on the Group's results and financial position in the first year of application.

HKAS 27 Consolidated and separate financial statements (Revised 2008)

The revised standard is effective for accounting periods beginning on or after 1 July 2009 and introduces changes to the accounting requirements for the loss of control of a subsidiary and for changes in the Group's interest in subsidiaries. Total comprehensive income must be attributed to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. The directors do not expect the standard to have a material effect on the Group's financial statements.

4. REVENUE AND SEGMENT INFORMATION

	Year ended 31 December 2009 *RMB'000*	2008 *RMB'000*
Revenue		
Sales of goods	688,617	822,062
Commissions from concessionaire sales	93,402	77,248
Rental income from sub-leasing of shop premises	30,959	24,704
Wholesale of consumables	6,403	11,053
	819,381	935,067

Revenue, which is also the Group's turnover, represents invoiced value of goods sold, net of value added tax, after allowances for returns and discounts; and the value of services rendered. On adoption of HKFRS 8 "Operating Segments", the Group has identified its operating segments and prepared segment information based on the regular internal financial information reported to the Group's executive directors for their decisions about resources allocation to the Group's business components and review of these components' performance. There are two business components/reportable segments in the internal reporting to the executive directors, which are operation and management of retail stores and wholesale of consumables. No operating segment analysis is presented as less than 10% of the Group's revenue, operating result and asset is attributable to the wholesales of consumables.

No separate analysis of segment information by geographical segment is presented as the Group's revenue and non-current assets are principally attributable to a single geographical region, which is the PRC.

5. OTHER OPERATING INCOME

	Year ended 31 December 2009 *RMB'000*	2008 *RMB'000*
Interest income	4,943	6,430
Government grants	338	284
Compensation from insurer	–	2,441
Income from suppliers		
– Administration and management fee income	40,952	29,907
– Products entrance fee income *(Note)*	–	21,037
– Promotion income *(Note)*	–	7,809
– Sponsorship income *(Note)*	–	8,033
– Store display income *(Note)*	–	5,998
Others	16,528	19,034
	62,761	100,973

Note: All contracts with suppliers to receive these income have been renewed at the beginning of the year. With changes from these income to purchase discount, they have effect on the cost of inventories sold and gross profit of the year.

6. (LOSS)/PROFIT BEFORE INCOME TAX

	Year ended 31 December 2009 *RMB'000*	2008 *RMB'000*
(Loss)/Profit before income tax is arrived at after charging:		
Cost of inventories sold recognised as expense	576,418	727,278
Auditors' remuneration	727	836
Amortisation of intangible asset	4,310	4,742
Net exchange loss	13	7,629
Depreciation of property, plant and equipment	33,025	26,988
Loss/(Gain) on disposal of property, plant and equipment	110	(2)
Operating lease rentals in respect of land and buildings	67,415	55,268
Obsolete inventories written-off	514	139
Inventories loss	765	1,825
Loss on natural disaster**	–	2,441
Impairment losses on intangible asset**	28,631	–
Impairment losses on property, plant and equipment**	8,498	–
Provision for closure costs**	5,000	–
Deposits paid written-off**	1,309	–
Staff costs, including directors' emoluments		
Salaries and other benefits	69,525	73,070
Contributions to pension schemes	6,171	5,613
Share-based payment expenditure	–	2,086
	75,696	80,769
and crediting:		
Reversal of operating lease rental**	2,520	–
Sub-letting of properties		
– Base rents	27,024	20,033
– Contingent rents*	3,935	4,671
Gross rental income	30,959	24,704
Less: Outgoings	(16,947)	(11,075)
Net rental income	14,012	13,629

Notes:

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

** Impairment losses on intangible asset and property, plant and equipment, provision for closure costs, deposits paid written-off, and reversal of operating lease rentals arose from the closure of two stores in a subsidiary of the Group have been charged to other operating expenses for the year ended 31 December 2009.

Loss on natural disaster have been charged to other operating expenses for the year ended 31 December 2008.

7. INCOME TAX EXPENSE

	Year ended 31 December 2009 *RMB'000*	2008 *RMB'000*
Current tax		
PRC enterprise income tax – current year	8,318	9,010
Deferred tax	(4,094)	(720)
	4,224	8,290

The Group is not subject to any taxation under the jurisdiction of the Cayman Islands and British Virgin Islands during the year (2008: 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 (2008: 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 (2008: 25%).

Reconciliation between tax expense and accounting (loss)/profit at applicable tax rates:

	Year ended 31 December 2009 *RMB'000*	2008 *RMB'000*
(Loss)/Profit before income tax	(16,915)	32,641
Tax on (loss)/profit before taxation, calculated at the rates applicable to (loss)/profits in the tax jurisdictions concerned	(4,166)	8,117
Tax benefit of a PRC subsidiary	(1,313)	(3,557)
Tax effect of non-deductible expenses	12,643	4,450
Tax effect of non-taxable income	(4,428)	(1,182)
Tax effect of tax loss not recognised	1,563	801
Others	(75)	(339)
Income tax expense	4,224	8,290

8. DIVIDENDS

	Year ended 31 December	
	2009	**2008**
	RMB'000	*RMB'000*
No final dividend for the year ended 31 December 2009 (2008: RMB1.17 cents per ordinary share)	–	12,139

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

9. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the (loss)/profit attributable to the owner of the Company of approximately RMB21,139,000 (2008: profit of RMB24,351,000) and the weighted average number of approximately 1,037,500,000 (2008: 1,037,500,000) ordinary shares in issue during the year.

No diluted (loss)/earnings per share has been presented for the years ended 31 December 2008 and 2009 as the exercise price of the Company's outstanding options were higher than the average market price for the years.

10. INVENTORIES AND CONSUMABLES

	As at 31 December	
	2009	**2008**
	RMB'000	*RMB'000*
Merchandise for resale	117,979	102,855
Low value consumables	12,188	11,728
	130,167	114,583

11. TRADE RECEIVABLES

All of the Group's sales are on cash basis except for certain wholesale of consumables, bulk sales 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	
	2009	**2008**
	RMB'000	*RMB'000*
Within 30 days	1,898	3,397
31 – 60 days	913	342
61 – 180 days	761	720
181 – 365 days	144	707
Over 1 year	–	87
	3,716	5,253

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	
	2009	**2008**
	RMB'000	*RMB'000*
Within 30 days	139,159	116,730
31–60 days	27,105	35,695
61–180 days	9,632	8,385
181–365 days	226	752
	176,122	161,562

13. SHARE CAPITAL

	2009		**2008**	
	Number of shares *('000)*	*RMB'000*	**Number of shares** *('000)*	*RMB'000*
Authorised :				
Ordinary shares of HK$ 0.01 each				
At 1 January and 31 December	10,000,000	97,099	10,000,000	97,099
Issued and fully paid :				
Ordinary shares of HK$ 0.01 each				
At 1 January and 31 December	1,037,500	10,125	1,037,500	10,125

MANAGEMENT DISCUSSION AND ANALYSIS

(A) Industry Overview

The PRC economy maintained a considerable growth of 8.7% during 2009 amid the aftermath of the impact of global financial tsunami. China's retail industry sustained its good development momentum in 2009, with ever-rising income per capita and purchasing power.

In 2009, the GDP of the PRC exceeded RMB33 trillion, reaching RMB33,535.3 billion, representing an increase of 8.7% 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 RMB12,534.3 billion, representing an increase of 15.5% as compared with the corresponding period last year. Among which, the total sales in wholesale and retail sectors was RMB10,541.3 billion, representing a growth of 15.6% over last year.

In 2009, the realized aggregate output of the Guangdong Province amounted to RMB3,908.1 billion, representing an increase of 9.5% as compared with the corresponding period last year; total retail sales of consumer goods reached RMB1,489.1 billion, representing an increase of 16.3% as compared with the corresponding period last year, amongst which the sales in wholesale and retail sectors was RMB1,118.1 billion, representing a growth of 16.1% over last year. The aggregate output of the Guangdong Province accounted for 11.6% of the GDP of the PRC. In 2009, the realized aggregate output of Shenzhen amounted to RMB820.1 billion, representing an increase of 10.7% as compared with the corresponding period last year. Total retail sales of consumer goods amounted to approximately RMB259.8 billion, representing an increase of 15.4% as compared with the corresponding period last year. Among which, the total sales in wholesale and retail sectors was RMB86.1 billion, representing a growth of 14.2% over last year.

In 2009, the realized aggregate output of the Zhuang Autonomous Region of Guangxi amounted to RMB770.0 billion, representing an increase of 13.9% as compared with the corresponding period last year; total retail sales of consumer goods reached RMB279.0 billion, representing an increase of 19.3% as compared with the corresponding period last year. Among which, the total sales in wholesale and retail sectors was RMB112.3 billion, representing an increase of 19.6% over last year. The aggregate output of the Zhuang Autonomous Region of Guangxi accounted for 2.3% of the GDP of the PRC. In 2009, total realized retail sales of consumer goods of Nanning City amounted to RMB75.7 billion, representing an increase of 19.8% 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 2009, the Group had 19 outlets under its direct operation with a total gross sales floor area of about 220,000 sq.m. These outlets mainly located in Shenzhen, Guangdong, the Pearl River Delta region and Guangxi. The Dashatian store in Guangxi Province commenced business on 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. The opening of the Shuyuan Yage store and Qianjin store in Baoan, Shenzhen on March and May 2009 respectively, together with the Honghu store and Sanlian store in Shenzhen and Taoyuan store in Guangxi opened in the fourth quarter of the year, less the closure of Shengtaosha store on December 2009, the total number of outlets of the Group has reached 19, with a total gross sales floor areas of about 220,000 sq.m. The Group will keep track on 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 2009, 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 2009, we have started a large scale renovation, reconstruction and refurnishment in Shajin store, Xixiang store and Buji store, which resulted in moderate growth in sale as compared with pre-renovation period. In 2010, the Company will commence renovation and reconstruction of its Songgang store and Gongming store to enhance their domestic competitiveness and grading. 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 2009, a decreasing trend in the overall operation costs of 12 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 2010.

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 2010, 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 decreased by 12.4% to approximately RMB819.4 million for the year 2009 from approximately RMB935.1 million for the year 2008, with the adverse effect from the outside environment brought by the financial tsunami, which resulted in the withdrawal of foreign investment or downscale in the suburban area of Shenzhen. This affected both the wholesale and retail business in the local economy.

Revenue in 2009 was dominant by sales of goods and wholesale of consumables, with a volume of approximately RMB695.0 million, representing approximately 84.8% of total revenue, a decrease of approximately 16.6% over last year (2008: approximately RMB833.1 million, representing approximately 89.1% of total revenue). Revenue of commission from concessionaire sales amounted to approximately RMB93.4 million, representing approximately 11.4% of total revenue, an increase of approximately 21.0% over last year (2008: approximately RMB77.2 million, representing approximately 8.3% of total revenue). Revenue of rental income from sub-leasing of shop premises amounted to approximately RMB31.0 million, representing approximately 3.8% of total revenue, an increase of approximately 25.5% over last year (2008: approximately RMB24.7 million, representing approximately 2.6% of total revenue).

Sales volume of the 5 largest corporate customers amounted to approximately RMB1.2 million, representing approximately 0.15% of total revenue (2008: approximately RMB1.7 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 12.1% to approximately RMB118.6 million for the year ended 2009 from approximately RMB105.8 million for the year ended 2008. Gross profit margin increased by approximately 4.4% to 17.1% in the year ended 2009 compared to 12.7% for the year ended 2008. The percentage of related cost of inventories sold, including principally merchandise for resale, decreased largely to approximately 83.0% for the year ended 2009 from approximately 87.3% for the year ended 2008.

The increase in gross profit was mainly attributable to the change of incentive term in the agreements with suppliers which lowered the cost of sales.

3. *Loss for the Year*

Loss attributable to the owners of the Company amounted to approximately RMB21.1 million for the year ended 2009 compared with profit of approximately RMB24.4 million for the year ended 2008. This was mainly attributable to write-off of intangible asset, property, plant and equipment, rental deposits paid and provision for closure costs in relation to two loss making stores. Added with the impact to sales of goods, commission from concessionaires and rental income of Shajin, Xixiang and Buji stores during May to September 2009 for large scale shop renovation, the net loss of the year has increased considerably.

Distribution costs slightly increased by 7.4% to approximately RMB254.2 million for the year ended 2009 from approximately RMB236.7 million for the year ended 2008, mainly attributable to the opening of new stores. Depreciation increased from approximately RMB27.0 million in 2008 to approximately RMB33.0 million in 2009, up by 22.2%, operating lease rental expenses increased from approximately RMB55.3 million in 2008 to approximately RMB67.4 million in 2009, up by 21.9%, and salaries and allowance decreased from approximately RMB80.8 million in 2008 to approximately RMB75.7 million in 2009, down by 6.3%.

Administrative expenses decreased by 25.7% to approximately RMB27.5 million for the year ended 2009 from approximately RMB37.0 million for the year ended 2008, mainly attributable to decrease of approximately RMB7.6 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 RMB2.1 million for the share-based payment expenditure for the share option granted to staff.

Other operating expenses related to a lump sum write-off of the intangible assets of approximately RMB28.6 million, fixed assets of approximately RMB8.5 million, rental deposits paid of approximately RMB1.3 million, and provision for closure costs of approximately RMB5.0 million in relation to two loss making stores. Reversal of operating lease rental amounting approximately RMB2.5 million has been grouped with the above expenses.

4. *Liquidity and Financial Resources*

The Group maintains a stable financial position. As at 31 December 2009, the Group had bank balances and cash of approximately RMB270.6 million (2008: approximately RMB281.0 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 2009 (2008: Nil).

5. *Net Current Assets and Net Assets*

The Group's net current assets as at 31 December 2009 was approximately RMB186.1 million, a decrease of 16.5% from the balance of approximately RMB222.8 million recorded as at 31 December 2008.

Net assets slightly down to approximately RMB375.2 million, representing a decrease of approximately RMB33.3 million or 8.2% over the balance as at 31 December 2008.

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 2009, the Group had 3,171 full-time employees (2008: 3,511). 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 2009, 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 25,960,000 shares (2008: 28,140,000), representing 2.50% (2008: 2.71%) of the shares of the Company in issue. For the year ended 31 December 2009, no share options have been granted under the Scheme and 2,180,000 share options had lapsed as a result of certain employees leaving employment during the year.

9. *Charges on Group Assets*

As at 31 December 2009, the Group has no charge on any of its assets.

10. Use of Proceeds raised from Listing

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 2009, approximately HK$120,100,000 of the proceeds so raised was used, and the unused proceeds of approximately HK$144,900,000 was deposited with banks, the security of which was adequately ensured.

Details of the used proceeds raised of approximately HK$120,100,000 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 a new store in Nanning Guangxi;
- as to approximately HK$4,350,000 for opening of two new stores in Xian Baoan;
- as to approximately HK$10,400,000 for opening of a new store in Luohu Shenzhen;
- as to approximately HK$15,800,000 for opening of a new store in Buji Shenzhen;
- as to approximately HK$14,300,000 for opening of another new store in Nanning Guangxi;
- as to approximately HK$9,200,000 for setting up of a procurement centre in Shiyan Shenzhen.

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 2009, the Group did not have any significant contingent liabilities.

12. Capital Expenditure

For the year ended 31 December 2009, capital expenditures of the Group for property, plant and equipment and intangible asset amounted to approximately RMB66.8 million (2008: RMB55.5 million).

13. Capital Commitments

As at 31 December 2009, the Group had capital commitments contracted, but not provided for, amounting to approximately RMB2.6 million (2008: RMB2.6 million).

DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2009 (2008: RMB1.17 cents per ordinary share). This proposal is subject to shareholders' approval at the annual general meeting to be held on Tuesday, 25 May 2010.

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 2009.

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 2009.

ANNUAL GENERAL MEETING

The 2009 Annual General Meeting of the Company will be held on 25 May 2010, 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 24 May 2010 to 25 May 2010, 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 25 May 2010, Tuesday, 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 20 May 2010, Thursday.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the year ended 31 December 2009, 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 2009.

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 2009 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 2009 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 2009 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.

ACKNOWLEDGMENT

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, 8 April 2010

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 nonexecutive Directors are Mr. Chin Kam Cheung, Dr. Guo Zheng Lin and Mr. Ai Ji.