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 2010

FINANCIAL HIGHLIGHTS

Revenue increased by 3.6% to approximately RMB849.3 million

Gross profit decreased by 6.2% to approximately RMB111.3 million

Profit for the year attributable to the owners of the Company amounted to approximately RMB11.5 million

Basic earnings per share was approximately RMB1.11 cents

Final dividend of RMB0.33 cent 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 2010 as follows:

CONSOLIDATED STATEMENT OF THE COMPREHENSIVE INCOME

For the year ended 31 December 2010

		Year ended 31 December	
		2010	**2009**
	Notes	*RMB'000*	*RMB'000*
Revenue	*4*	849,265	819,381
Cost of inventories sold		(605,232)	(576,418)
		244,033	242,963
Other operating income	*5*	71,202	62,761
Distribution costs		(261,461)	(254,225)
Administrative expenses		(32,345)	(27,496)
Other operating expenses		(4,400)	(40,918)
Profit/(Loss) before income tax	*6*	17,029	(16,915)
Income tax expense	*7*	(5,535)	(4,224)
Profit/(Loss) for the year		11,494	(21,139)
Total comprehensive income for the year		11,494	(21,139)
Dividends	*8*	3,424	–
Earnings/(Loss) per share for profit/(loss) attributable to the owners of the Company during the year	*9*		
– Basic (RMB cents)		1.11	(2.04)
– Diluted (RMB cents)		N/A	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

		As at 31 December	
		2010	**2009**
	Notes	*RMB'000*	*RMB'000*
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		149,147	138,611
Intangible asset		16,516	18,805
Deposits paid and prepayments		30,796	34,133
		196,459	191,549
Current assets			
Inventories and consumables	*10*	117,845	130,167
Trade receivables	*11*	2,107	3,716
Deposits paid, prepayments and other receivables		41,745	46,024
Financial asset at fair value through profit or loss		10,043	–
Cash and bank balances		288,052	270,614
		459,792	450,521
Current liabilities			
Trade payables	*12*	196,116	176,122
Coupon liabilities, deposits received, other payables and accruals		69,849	83,531
Amount due to a director		738	738
Provision for tax		746	4,072
		267,449	264,463
Net current assets		192,343	186,058
Total assets less current liabilities		388,802	377,607
Non-current liabilities			
Deferred tax liabilities		2,087	2,386
Net assets		386,715	375,221
EQUITY ATTRIBUTABLE TO THE OWNERS OF THE COMPANY			
Share capital	*13*	10,125	10,125
Reserves		376,590	365,096
Total equity		386,715	375,221

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 certain financial instruments which are stated at fair value.

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

(a) Adoption of new/revised HKFRSs – effective 1 January 2010

In current year, 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 2010:

HKFRSs (Amendments)	Improvements to HKFRSs
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKFRS 3 (Revised)	Business Combinations

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.

HKFRS 3 (Revised) – Business Combinations

Changes in HKFRS 3 include the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes impact the amount of goodwill and the results in the period that an acquisition occurs and future results. The adoption of revised HKFRS 3 has had no impact to the financial statements as there has been no business combination transaction during the year.

HKAS 27(Revised) – Consolidated and Separate Financial Statements

The revised HKAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners, accordingly, such transactions are recognised within equity. When control is lost and any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The adoption of revised HKAS 27 has had no impact on the current year.

(b) New/revised HKFRSs that have been issued but not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

HKFRSs (Amendments)	Improvements to HKFRSs 2010[1&2]
Amendments to HK(IFRIC) – Interpretation 14	Prepayments of a Minimum Funding Requirement[2]
HK(IFRIC) – Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments[1]
HKAS 24 (Revised)	Related Party Disclosures[2]
Amendments to HKFRS 7	Disclosure – Transfers of Financial Assets[3]
HKFRS 9	Financial Instruments[4]

1 Effective for annual periods beginning on or after 1 July 2010
2 Effective for annual periods beginning on or after 1 January 2011
3 Effective for annual periods beginning on or after 1 July 2011
4 Effective for annual periods beginning on or after 1 January 2013

HKAS 24 Revised Related party disclosures

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government.

Amendments to HKFRS 7 Disclosure – Transfer of financial assets

The amendments to HKFRS 7 improve the derecognition disclosure requirements for transfer transactions of financial assets and allow users of financial statements to better understand the possible effects of any risks that may remain with the entity on transferred assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

HKFRS 9 Financial instruments

The standard is effective for accounting periods beginning on or after 1st 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.

The Group is in the process of making an assessment of the potential impact of these new/revised HKFRSs and the directors so far concluded that the application of these new/revised HKFRSs will have no material impact on the Group's financial statements.

4. REVENUE AND SEGMENT INFORMATION

	Year ended 31 December	
	2010	**2009**
	RMB'000	*RMB'000*
Revenue		
Sales of goods	713,981	688,617
Commissions from concessionaire sales	93,870	93,402
Rental income from sub-leasing of shop premises	38,896	30,959
Wholesale of consumables	2,518	6,403
	849,265	819,381

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	
	2010	**2009**
	RMB'000	*RMB'000*
Interest income	3,715	4,943
Government grants	2,193	338
Gain on financial asset at fair value through profit or loss	43	–
Administration and management fee income from suppliers	41,711	40,952
Others	23,540	16,528
	71,202	62,761

6. PROFIT/(LOSS) BEFORE INCOME TAX

	Year ended 31 December	
	2010	**2009**
	RMB'000	*RMB'000*
Profit/(Loss) before income tax is arrived at after charging:		
Cost of inventories sold recognised as expense	605,232	576,418
Auditors' remuneration	736	727
Amortisation of intangible asset	2,289	4,310
Net exchange loss	23	13
Depreciation of property, plant and equipment	48,257	33,025
Loss on disposal of property, plant and equipment	1,314	110
Operating lease rentals in respect of land and buildings	72,798	67,415
Obsolete inventories written-off	238	514
Inventories loss	550	765
Impairment losses on intangible asset**	–	28,631
Impairment losses on property, plant and equipment**	3,900	8,498
Provision for closure costs**	–	5,000
Rental deposits paid written-off**	–	1,309
Staff costs, including directors' emoluments		
Salaries and other benefits	71,470	69,525
Contributions to pension schemes	8,310	6,171
	79,780	75,696
and crediting:		
Reversal of operating lease rental**	–	2,520
Sub-letting of properties		
– Base rents	34,258	27,024
– Contingent rents*	4,638	3,935
Gross rental income	38,896	30,959
Less: Outgoings	(14,498)	(16,947)
Net rental income	24,398	14,012

Notes:

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

** The Group has closed down two loss-making stores in December 2009 and January 2010. The intangible assets, property, plant and equipment of these two stores were fully impaired. These impairment losses, provision for closure costs, write-off of rental deposits and reversal of operating lease payable (being the difference between the cash rental expenses and the effective rental expenses of these stores for the previous periods) have been charged to other operating expenses for the years ended 31 December 2010 and 2009.

7. INCOME TAX EXPENSE

	Year ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
Current tax		
PRC enterprise income tax – current year	5,834	8,318
Deferred tax	(299)	(4,094)
	5,535	4,224

The Group is not subject to any taxation under the jurisdiction of the Cayman Islands and British Virgin Islands during the year (2009: 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 (2009: 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 (2009: 25%).

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

	Year ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
Profit/(Loss) before income tax	17,029	(16,915)
Tax on profit/(loss) before taxation, calculated at the rates applicable to profits/(loss) in the tax jurisdictions concerned	4,336	(4,166)
Tax benefit of a PRC subsidiary	(1,074)	(1,313)
Tax effect of non-deductible expenses	4,053	12,643
Tax effect of non-taxable income	(4,297)	(4,428)
Tax effect of tax loss not recognised	2,541	1,563
Others	(24)	(75)
Income tax expense	5,535	4,224

8. DIVIDENDS

	Year ended 31 December	
	2010	**2009**
	RMB'000	*RMB'000*
Final dividend of RMB0.33 cent per ordinary share for the year ended 31 December 2010 (2009: Nil)	3,424	–

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. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the profit/(loss) attributable to the owners of the Company of approximately RMB11,494,000 (2009: loss of approximately RMB21,139,000) and the weighted average number of approximately 1,037,500,002 (2009: 1,037,500,000) ordinary shares in issue during the year.

No diluted earnings/(loss) per share has been presented for the years ended 31 December 2009 and 2010 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	
	2010	**2009**
	RMB'000	*RMB'000*
Merchandise for resale	107,213	117,979
Low value consumables	10,632	12,188
	117,845	130,167

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	
	2010	**2009**
	RMB'000	*RMB'000*
Within 30 days	1,867	1,898
31 – 60 days	52	913
61 – 180 days	–	761
181 – 365 days	66	144
Over 1 year	122	–
	2,107	3,716

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	
	2010	**2009**
	RMB'000	*RMB'000*
Within 30 days	148,705	139,159
31–60 days	27,083	27,105
61–180 days	15,953	9,632
181–365 days	2,148	226
Over 1 year	2,227	–
	196,116	176,122

13. SHARE CAPITAL

	2010 Number of shares *('000)*	*RMB'000*	**2009** 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

In 2010, with the challenge from the complicated external economic environment and the unprecedent occurrence of worldwide disasters, China economy can still maintain a considerable growth of 10.3%. China's retail industry sustained its healthy development, with ever-rising income per capita and purchasing power.

In 2010, the GDP of the PRC exceeded RMB39 trillion, reaching RMB39,798.3 billion, representing an increase of 10.3% over last year. This rate was higher than most of the major countries or region around the world, and surpassed Japan as the second largest economic in the world. Total retail sales of consumer goods amounted to approximately RMB15,455.4 billion, representing an increase of 18.4% as compared with the corresponding period last year. Among which, the total commodity retail sales was RMB13,691.8 billion, representing a growth of 18.5% over last year.

In 2010, the realized aggregate output of the Guangdong Province amounted to RMB4,547.2 billion, representing an increase of 12.2% as compared with the corresponding period last year; total retail sales of consumer goods reached RMB1,741.4 billion, representing an increase of 17.3% as compared with the corresponding period last year, amongst which the sales in wholesale and retail sectors was RMB1,552.1 billion, representing a growth of 17.7% over last year. The aggregate output of the Guangdong Province accounted for 10.5% of the GDP of the PRC. In 2010, the realized aggregate output of Shenzhen amounted to RMB951.0 billion, representing an increase of 12.0% as compared with the corresponding period last year. Total retail sales of consumer goods amounted to approximately RMB300.0 billion, representing an increase of 17.2% as compared with the corresponding period last year. In 2010, the realized aggregate output of Dongguan amounted to RMB424.6 billion, representing an increase of 10.3% as compared with the corresponding period last year. Total retail sales of consumer goods amounted to approximately RMB110.8 billion, representing an increase of 15.9% as compared with the corresponding period last year. Among which, the total sales in wholesale and retail sectors was RMB100.5 billion, representing an increase of 16.6% over last year.

In 2010, the realized aggregate output of the Zhuang Autonomous Region of Guangxi amounted to RMB950.2 billion, representing an increase of 14.2% as compared with the corresponding period last year; total retail sales of consumer goods reached RMB327.1 billion, representing an increase of 19.0% as compared with the corresponding period last year. Among which, the total sales in wholesale and retail sectors was RMB296.6 billion, representing an increase of 18.8% over last year. The aggregate output of the Zhuang Autonomous Region of Guangxi accounted for 2.2% of the GDP of the PRC. In 2010, total realized retail sales of consumer goods of Nanning City amounted to RMB90.5 billion, representing an increase of 20.0% as compared with the corresponding period last year.

China economy was still rapidly growing in the year 2010, while the retail sector was moving on the right track. The Big Three, namely new energy industry, the 3 generation industry and the home appliance in rural area (retailing industry) will be leading another round of economic growth in the country. At the same time, the PRC government is exercising active fiscal monetary policy, pushing and encouraging people spending, and thus accelerating domestic consumption, these will be advantageous to the development of the retailing industry. Looking forward to 2011, the Chinese government will place emphasis on economy, livelihood of the mass, the resulting measures will be beneficial to the retailing industry.

(B) Business Review

As at 31 December 2010, Our Group has directly operated 18 stores with a total operating gross floor area of approximately 220,000 square meters, principally located in the Guangdong (including Shenzhen, Dongguan and Foshan) and Guangxi province.

– ***Adjust store operation to upgrade the shopping image***

During the year, our Group has made large scale adjustments to store operation by renovating the exterior outlook and rearranging the interior layout of our main outlets including Songgang, Gongming, Shajing and Shiyan stores. Besides, we have repositioned the operation target of some of our community outlets including Fanshen, Ronggui, Yangbu and Shuyuan Yage stores. Other than compression to the staff structure, we also simplify the operation flow of these stores. On the selling floor of supermarket, the commodity structure, the brand name mix and the supplier profile have been fully analyzed and optimized according to the actual situation of each store. Besides, products with distinguishing features have been introduced to the stores. All in all, we hope to give a new appearance to customers with upgrade shopping image.

– ***Strengthen management on loss making stores to alleviate the operation burden***

Focusing on the operation of loss making stores, the Group has draw up a number of remedial adjustment plans to lower the level of loss making and to stick to the market positioning. These plans include optimization of sales mix, reallocation of operation floor usage, advancement of facilities utilization, simplification of staff structure, adjustment to store composition and streamlining of store operation flow etc. On the financial budget management, the Group has set up loss control team to formulate plans to retain and minimize the level of store deficit. The team will visit the loss making stores frequently and irregularly, and to set out the profit target of each store based on practical situation.

– ***Enhance operational management on counter sales to increase our operation effectiveness***

We have enhanced the operational management on the counter sales to explore the operation methodology. We use this methodology to build up professional knowledge in doing the counter sales business. As a result, we have found the importance of running the counter sales. In order to increase the operating efficiency, we have fully utilized the unique business model of "department store +supermarket", upgraded the shopping environment in stores, increased counter sales portion in main stores, and imported new brand name with luxurious style. All these contributed to a solid foundation to increase the competitive edge and profit generating capability of the Group.

– ***Commence the procurement function to enhance our logistic efficiency***

By the end of the year 2009, we have commenced the operation of our procurement center located in the Shiyan district of Baoan Shenzhen. The first phrase operation has been started for over a year and gradually back on track. During the year, we have installed the advanced barcode management system with full scope warehouse management ability. The system has automated the receipt, storage and delivery function and increase our processing efficiency, warehouse utilization rate and the stock turnover rate in our stores. Until now, the coverage area includes all stores in the Guangdong province. The existing capacity encompassed processed food, daily use products and dry food etc. We are now preparing for the set up of the second phrase of the procurement center. The expansion will increase the size of our logistic warehouse centre and will be important to our future development.

– ***Expand the direct sourcing from producer for supermarket to increase our pricing competitiveness***

During the year, the direct sourcing from producer has obtained a good start. We have around 10 cooperative plans with the producer at the moment. This helps to lower the purchasing cost. According to the original schedule, we start direct souring from the producer in the vegetable and fruit sectors. The Fuji apple will be our main focus at this stage. Concurrently, we have started site visit and feasibility study on various fruit and vegetable. Looking forward, we will put in the seafood and fresh meat categories. By analyzing the data derived from the direct sourcing on sales, quality and pricing etc, we have obtained valuable supporting to further extend the work on the direct souring.

– ***Strengthen internal management to promote our corporate image***

Upon rearrangement of staff and organizational structure, we have improved our departmental and staff composition, and increased our work efficiency. The appraisal system has been reviewed and perfected, making the system of reward and punishment more fair and reasonable. As a result, job satisfaction of staff has been increased. On the other hand, we have launched power reduction campaign extensively in both our office and shopping floor to promote the environment protection message. More than that, we have implemented a "paperless office" with the enhancement of computer system. The aim is to minimize wastage and reduce our operation expenses. In order to promote our corporate image to outsiders, we have published an essay collection – "Baijiahua" magazine, to write out the thoughts of every level of staff, creating a feeling of big family and building our corporate image.

(C) Outlook

Looking forward, China's economy will keep on the stable growth from the turning point. Following up with the fiscal and monetary policies, structural adjustment factors on the Macro economic policy, focus on the reduction in emission and social welfare protection by the Chinese government, this will benefit the highly labour intensive servicing industry, including the retailing and wholesaling businesses.

The Directors believe that both opportunities and challenges await ahead, and the retailing industry will compete and develop in a more better and fair market environment.

For the business development aspect, the Group will keep the concept "reorganize the internal resources and develop the retailing business", to strengthen the management, reiterate the competitive strength, upgrade the brand image. The Group will base on Shenzhen, step out the Guangdong province. The economic zone of China, including South China, South West, Central China, Guangxi and Hunan, will be our next development areas.

(D) Financial Review

1. *Revenue*

Revenue of the Group increased by 3.6% to approximately RMB849.3 million for the year 2010 from approximately RMB819.4 million for the year 2009, as a result of the change of operation mode by increasing the portion of counter sales in place of the supermarket area. Moreover, the local economy was gradually recovered from the effect of financial tsunami after the Central government policy of stimulation of domestic demand.

Revenue in 2010 was dominant by sales of merchandise, with a volume of approximately RMB714.0 million, representing approximately 84.1% of total revenue, an increase of approximately 3.7% over last year (2009: approximately RMB688.6 million, representing approximately 84.0% of total revenue). Commission from concessionaire sales amounted to approximately RMB93.9 million, representing approximately 11.0% of total revenue, an increase of approximately 0.5% over last year (2009: approximately RMB93.4 million, representing approximately 11.4% of total revenue). Rental income from sub-leasing of shop premises amounted to approximately RMB38.9 million, representing approximately 4.6% of total revenue, an increase of approximately 25.6% over last year (2009: approximately RMB31.0 million, representing approximately 3.8% of total revenue). Wholesale of consumables amounted to approximately RMB2.5 million, representing approximately 0.3% of total revenue, a decrease of approximately 60.7% over last year (2009: approximately RMB6.4 million, representing approximately 0.8% of total revenue).

Sales volume of the 5 largest corporate customers amounted to approximately RMB1.1 million, representing approximately 0.13% of total revenue (2009: approximately RMB1.2 million, representing approximately 0.15% of total revenue).

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

Gross profit decreased by 6.2% to approximately RMB111.3 million for the year ended 2010 from approximately RMB118.6 million for the year ended 2009. Gross profit margin decreased by approximately 1.6% to 15.5% in the year ended 2010 compared to 17.1% for the year ended 2009. The percentage of related cost of inventories sold, including principally merchandise for resale, increased slightly to approximately 84.5% for the year ended 2010 from approximately 83.0% for the year ended 2009. The decrease in gross profit was mainly attributable to the lowering of sales price in bargain sales after the large scale renovation of main stores.

3. *Profit for the Year*

Profit attributable to the owners of the Company amounted to approximately RMB11.5 million for the year ended 2010 compared with loss of approximately RMB21.1 million for the year ended 2009. This was mainly attributable to the absence of write-off of intangible asset and rental deposits paid in current year for closure of stores. Besides, the sales of some of our main stores, including Shajing, Songgang, Gongming and Shiyan, have been partly affected by the temporary suspension of stores during the year for large scale shop renovation. This increased the amount of depreciation charge. In addition, there were full year rental charges during the year for the new stores opened during 2009 and the beginning of 2010. All in all, the increase in net profit of the year has been indirectly affected.

Distribution costs slightly increased by 2.8% to approximately RMB261.5 million for the year ended 2010 from approximately RMB254.2 million for the year ended 2009, mainly attributable to the renovation of main stores during the year. Depreciation increased from approximately RMB32.7 million in 2009 to approximately RMB47.9 million in 2010, up by 46.5% upon increase in leasehold improvement. Operating lease rental expenses increased from approximately RMB66.8 million in 2009 to approximately RMB71.9 million in 2010, up by 7.6% due to the full year rental charge for stores and procurement centre opened in mid of 2009 and beginning of 2010 during the year, but partially set off by the closure of two loss making stores at the end of 2009 and beginning of 2010, and salaries and allowance increased from approximately RMB54.0 million in 2009 to approximately RMB54.1 million in 2010, up by 0.3%. Nevertheless, with the effective control over utilities usage, electricity charge and water charge have been decreased by 10.9% and 18.9% respectively during the year.

Administrative expenses increased by 17.6% to approximately RMB32.3 million for the year ended 2010 from approximately RMB27.5 million for the year ended 2009, mainly attributable to increase of approximately RMB3.2 million of salaries and allowances due to the implementation of an incentive program and compensation plan to managerial staff.

Other operating expenses related to write-off of the fixed assets of approximately RMB3.9 million and approximately RMB0.5 million for balance of compensation to landlord in relation to two closure stores in last year.

4. *Liquidity and Financial Resources*

The Group maintains a stable financial position. As at 31 December 2010, the Group had bank balances and cash of approximately RMB288.1 million (2009: approximately RMB270.6 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 2010 (2009: Nil).

5. *Net Current Assets and Net Assets*

The Group's net current assets as at 31 December 2010 was approximately RMB192.3 million, an increase of 3.4% from the balance of approximately RMB186.1 million recorded as at 31 December 2009.

Net assets slightly up to approximately RMB386.7 million, representing an increase of approximately RMB11.5 million or 3.1% over the balance as at 31 December 2009.

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*

During the year ended 31 December 2010, the Group had 2,988 full-time employees in average (2009: 3,112 in average). 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 2010, 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 25,639,998 shares (2009: 25,960,000), representing 2.47% (2009: 2.5%) of the shares of the Company in issue. For the year ended 31 December 2010, no share options have been granted under the Scheme and 320,000 share options had lapsed as a result of certain employees leaving employment during the year.

9. *Charges on Group Assets*

As at 31 December 2010, 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 2010, approximately HK$130,970,000 of the proceeds so raised was used, and the unused proceeds of approximately HK$134,030,000 was deposited with banks, the security of which was adequately ensured.

Details of the used proceeds raised of approximately HK$130,970,000 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;
- 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;
- as to approximately HK$6,390,000 for the purchase of transportation equipment; and
- as to approximately HK$4,480,000 for the purchase of office equipment.

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 2010, the Group did not have any significant contingent liabilities.

12. *Capital Expenditure*

For the year ended 31 December 2010, capital expenditures of the Group for property, plant and equipment and intangible asset amounted to approximately RMB65.2 million (2009: RMB66.8 million).

13. *Capital Commitments*

As at 31 December 2010, the Group had capital commitments contracted, but not provided for, amounting to approximately RMB0.9 million (2009: RMB2.6 million).

DIVIDEND

The Board recommends the payment of final dividend for the year ended 31 December 2010 of RMB0.33 cent per ordinary share. This proposal is subject to shareholders' approval at the annual general meeting to be held on 19 May 2011, Thursday. The proposed final dividend 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 18 March 2011.

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 2010.

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 2010.

ANNUAL GENERAL MEETING

The 2010 Annual General Meeting of the Company will be held on 19 May 2011, Thursday 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 16 May 2011 to 19 May 2011, 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 2011, Thursday, and for the 2010 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 13 May 2011, Friday.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the year ended 31 December 2010, 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 2010.

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 2010 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 2010 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 2010 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, 18 March 2011

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.