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If you are in any doubt about this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Jiahua Stores Holdings Limited (the "Company"), you should at once hand this circular and the enclosed form of proxy to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for onward transmission to the purchaser or the transferee.

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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)

**DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION
TO THE LONG-TERM LEASE AGREEMENT;
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser to the Independent Board Committee and
the Independent Shareholders**



紅日資本有限公司
RED SUN CAPITAL LIMITED

Capitalised terms used on this cover shall have the same meanings as those defined in this circular, unless the content requires otherwise.

A letter from the Board is set out on pages 5 to 13 of this circular. A letter from the Independent Board Committee to the Independent Shareholders is set out on page 14 of this circular. A letter from the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 15 to 34 of this circular.

A notice convening the EGM to be held at 4/F., Jiahua Ming Yuan, 2146 Xinhua Road, Baoan Central District, Shenzhen, the PRC on Tuesday, 11 January 2022 at 2:30 p.m., is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for use at the EGM is also enclosed. Such form of proxy is also published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (<http://www.szbjh.com>).

Whether or not you are able to attend the EGM in person, you are requested to complete and sign the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the EGM if they so wish and in such event, the form of proxy shall be deemed to be revoked.

PRECAUTIONARY MEASURES FOR THE EGM

Please see page 1 of this circular for measures being taken to try to prevent and control the spread of the Novel Coronavirus (COVID-19) at the EGM, including:

- compulsory body temperature checks
- wearing of a surgical face mask for each attendee is a must
- no distribution of corporate gift or refreshment
- maintenance of appropriate distancing and spacing

Any person who does not comply with the precautionary measures or is subject to any government prescribed quarantine may be denied entry into the meeting venue. The Company reminds Shareholders that they may appoint the chairman of the meeting as their proxy to vote on the relevant resolution(s) at the meeting as an alternative to attending the meeting in person.

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PRECAUTIONARY MEASURES AT THE EGM

Depending on the ongoing development of Novel Coronavirus (COVID-19) pandemic, the Company will implement the following preventive measures at the EGM to protect all attendees from the risk of infection and all attendees are expected to comply with the following:

- (i) Compulsory body temperature checks will be conducted on every attendee at the entrance of the EGM venue. Any person with a body temperature of over 37.3 degrees Celsius will be denied entry into the EGM venue or be required to leave the EGM venue.
- (ii) All attendees may be asked whether (a) they have travelled outside of the PRC within the 14-day period immediately before the EGM; and (b) they have been subject to any government prescribed quarantine or have close contact with any person under quarantine. Anyone who responds positively to any of these questions will be denied entry into the meeting venue or be required to leave the meeting venue.
- (iii) Every attendee is required to wear surgical face mask inside the EGM venue at all times, and to maintain a safe distance between seats.
- (iv) Every attendee shall submit a complete health declaration form before entering the EGM venue. No refreshments will be served and there will be no corporate gifts.
- (v) The Company reserves the right to deny entry into the EGM venue or requires any person to leave the EGM venue at any time before and during the EGM in order to ensure the safety of the attendees at the EGM.

To the extent permitted under the laws of PRC, the Company reserves the right to limit the number of attendees at the EGM venue. The number of attendees allowed in the EGM venue is subject to the requirements and restrictions under relevant rules and regulations of the PRC. Shareholders who would like to physically attend the EGM will be admitted to the EGM venue on a “first-come-first-served” basis. In the interest of all Shareholders’ health and safety, the Company reminds all Shareholders that physical attendance in person at the EGM is not necessary for the purpose of exercising voting rights. As an alternative, by using forms of proxy with voting instructions inserted, Shareholders may appoint the chairman of the EGM as their proxy to vote on the relevant resolutions at the EGM instead of attending the EGM in person.

DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

“Annual Cap”	The proposed maximum aggregate annual monetary sums of the transactions during the term of the Car Parking Fee Agreements
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“BJH Department Store”	Department stores operated by the Company in the PRC
“Company”	Jiahua Stores Holdings Limited (佳華百貨控股有限公司) (Stock Code: 00602), an exempted company incorporated in the Cayman Islands on 4 September 2006 and the issued shares of which are listed on the Main Board of the Stock Exchange
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be convened and to approve the Long-Term Lease Agreement and the transactions thereunder
“Existing Lease Agreement”	the existing lease agreement dated 6 November 2006 entered into between the Landlord and the Tenant in respect of the leasing of the Premises
“Group”	the Company and its subsidiaries
“HKFRS”	the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
“HKFRS 16”	HKFRS 16 Leases issued by the Hong Kong Institute of Certified Public Accountants
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China

DEFINITIONS

“Independent Board Committee”	an independent board committee of the Board comprising all the independent non-executive Directors, formed for the purpose of advising the Independent Shareholders in relation to the Long-Term Lease Agreement and the transaction contemplated thereunder
“Independent Financial Adviser” or “Red Sun”	Red Sun Capital Limited, a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and the independent financial adviser that has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Long-Term Lease Agreement and the transactions contemplated thereunder
“Independent Shareholders”	Shareholders other than Mr. Zhuang and his associates
“Jiahua Group”	Shenzhen Baijiahua Group Company Limited (深圳市百佳華集團有限公司), a company incorporated in the PRC with limited liability, which is held as to 90% by Mr. Zhuang and 10% by Mrs. Zhuang as at the Latest Practicable Date
“Latest Practicable Date”	16 December 2021, being the latest practicable date prior to the printing of this circular for ascertaining certain information for the purpose of inclusion in this circular
“Landlord”	Shenzhen Jiahua Real Estate Development Company Limited (深圳市佳華房地產開發有限公司), a company incorporated in the PRC, which is held as to 18% by Mrs. Zhuang and 82% by Jiahua Group as at the Latest Practicable Date
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long-Term Lease Agreement”	The long-term lease agreement to be entered into between the Landlord and the Tenant in respect of the leasing of the Premises
“Mr. Zhuang”	Mr. Zhuang Lu Kun, an executive Director

DEFINITIONS

“Mrs. Zhuang”	Mrs. Zhuang Su Lan, spouse of Mr. Zhuang
“PRC”	the People’s Republic of China, which for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Premises”	深圳市寶安區石岩鎮石岩大道西側佳華豪苑大廈(工業區)1棟商場01層 (Level 1 of Commercial Podium, Jiahua Hao Yuan, Western Shiyan Avenue, Shiyan Street, Baoan District, Shenzhen, Guangdong Province, the PRC)
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	Shares of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tenant”	Shenzhen Baijiahua Department Stores Company Limited (深圳市百佳華百貨有限公司), a company incorporated in the PRC, a wholly-owned subsidiary of the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.



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)

Executive Directors:

Mr. Zhuang Lu Kun (*Chairman*)

Mr. Zhuang Pei Zhong

Mr. Zhuang Xiao Xiong

Independent non-executive Directors:

Mr. Chin Kam Cheung

Mr. Sun Ju Yi

Mr. Ai Ji

Registered office:

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Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

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business in Hong Kong:*

Suite 715, 7th Floor

Ocean Centre, Harbour City

5 Canton Road

Tsimshatsui

Kowloon

Hong Kong

22 December 2021

To the Shareholders,

Dear Sirs or Madams,

**DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION
TO THE LONG-TERM LEASE AGREEMENT**

1. INTRODUCTION

Reference is made to the announcement of the Company dated 15 November 2021 in relation to the entering into the Long-Term Lease Agreement.

On 15 November 2021 (after trading hours), the Tenant entered into the Long-Term Lease Agreement with the Landlord with a term commencing from 16 November 2021 to 15 October 2031 (both days inclusive) to renew the Existing Lease Agreement which has been expired by 15 November 2021 for the operation of the Group's retail store.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with information regarding the resolutions proposed at the EGM in relation to (i) further details of the Long-Term Lease Agreement and the transactions contemplated thereunder; (ii) a letter setting out the opinions and recommendations from the Independent Board Committee to the Independent Shareholders regarding the Long-Term Lease Agreement; (iii) the advice provided by the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders regarding the Long-Term Lease Agreement; and (iv) a notice convening the EGM.

2. THE LONG-TERM LEASE AGREEMENT

Parties:	The Landlord as the landlord of the Premises The Tenant as the tenant of the Premises
Premises:	Level 1 of Commercial Podium, Jiahua Hao Yuan, Western Shiyan Avenue, Shiyan Street, Baoan District, Shenzhen, Guangdong Province, the PRC (深圳市寶安區石岩鎮石岩大道西側佳華豪苑大廈(工業區)1棟商場01層) with a total of area of 5,851.50 sq.m.
Term:	9 years and 11 months commencing from 16 November 2021 to 15 October 2031 (both days inclusive)
Rent:	An initial monthly rent of RMB296,861.50 per month (approximately RMB50.73 per sq.m. per month), with a 5% increment on the monthly rent for every 3 years Monthly rent is payable before the 10th of each month
Deposit:	A rental deposit of RMB593,723 payable by the Tenant to the Landlord 5 days after the execution of the Long-Term Lease Agreement

LETTER FROM THE BOARD

Usage:	For commercial purposes
Sub-let:	The Landlord allows the Tenant to sub-lease part of the Premises to other parties provided that the term is within the lease term of the Long-Term Lease Agreement
Termination:	<p>The Long-Term Lease Agreement may be terminated among other things, the mutual agreement between the Tenant and the Landlord</p> <p>Should the Long-Term Lease Agreement be terminated by the Tenant as a result of the compliance of the Listing Rules, the Tenant would not be responsible for any damages or payable to the Landlord</p>
Condition precedent:	Effective of the Long-Term Lease Agreement is conditional upon the Company having fulfilled its obligations under the Listing Rules, including but not limited to obtaining approval from the Independent Shareholders

Saved as the conditions precedent above, the Long-Term Lease Agreement is not subject to any other conditions precedent. As at the Latest Practicable Date, none of the condition precedent of the Long-Term Lease Agreement has been fulfilled.

When determining the basis of the 5% increment on the monthly rent for every 3 years, the Company have taken into consideration the terms of the lease agreements entered into by the Group with independent third parties in relation to the leasing out of the Group's investment properties and noted that increment clauses were also incorporated to such lease agreements.

The terms of the Long-Term Lease Agreement (including the rent) were determined after arm's length negotiations between the parties, with reference to standard terms of the lease agreements adopted for lease of similar properties and taking into account the initial market rental of the Premises (which was endorsed by a fair rent letter dated 15 November 2021 prepared by Valor Appraisal & Advisory Limited, an independent professional property valuer that such monthly rent as of the date of the valuation certificate is reasonable in the market and on normal commercial terms).

LETTER FROM THE BOARD

3. METHODS AND PROCEDURES ADOPTED BY THE COMPANY TO DETERMINE THE PRICING AND TERMS OF THE LONG-TERM LEASE AGREEMENT

The Group would perform due diligence on properties prior to leasing them so as to ensure that the landlord is the real owner and has the right to lease the property in accordance with the PRC laws, rules and regulations.

The Company had conducted due diligence on the relevant premises before entering into the Lease Agreement and has already conducted due diligence on the relevant premises under the Long-Term Lease Agreement. The Directors were satisfied that the relevant parties have the authority to enter into the respective Long-Term Lease Agreement and have the right to lease such premises in accordance with the PRC laws, rules and regulations.

The terms of the Long-Term Lease Agreement (including the monthly rent) were determined after arm's length negotiations between the Group and the respective lessors with reference to the prevailing market price of similar properties in the vicinity.

In determining whether the rents under the Long-Term Lease Agreement were comparative to market level of similar properties in the locality, prior to entering into any property lease agreement, an independent professional valuer will be appointed by the Group to conduct relevant market research and to form an opinion that the rent charged in the relevant lease agreement will be in line with market price.

4. FINANCIAL INFORMATION OF THE PREMISES AND FINANCIAL EFFECTS OF THE LONG-TERM LEASE AGREEMENT OF THE GROUP

Pursuant to HKFRS16, the right to use the Premises leased under the Long-Term Lease Agreement will be recognised as a right-of-use asset. Upon commencement of the lease, the value of the right-of-use asset would be calculated with reference to the aggregated present value of the fixed lease payments as discounted by a discount rate which is the theoretical incremental borrowing rate of the Company of 9.31% as at the date of the announcement dated 15 November 2021. Along with the recognition of the estimated value of the right-of-use asset of approximately RMB24.3 million, an estimated lease liability amounted to approximately RMB24.3 million will be recognized by the Group. The right-of-use asset and lease liability will be recognized at the discount rate prevailing at the point of recognition.

LETTER FROM THE BOARD

Set out below is the unaudited profit and loss statements of identifiable net income stream attributable to the Premises for the two years ended 31 December 2019 and 2020:

	For the year ended	
	31 December	
	2019	2020
	RMB'000	RMB'000
Revenue	105,946	81,401
Profit before income tax expenses	22,111	23,409
Profit after income tax expenses	16,583	17,557

5. REASONS FOR AND BENEFITS OF ENTERING INTO THE LONG-TERM LEASE AGREEMENT

The Group had been leasing the Premises for more than 15 years from the Landlord for the operation of the Group's Shiyan retail store. Given the Existing Lease Agreement entered into with the Landlord in relation the Premises expired on 15 November 2021, the Group intended to continue to lease the Premises for the continuous operation of the Shiyan retail store in Shenzhen.

In view of such, the Directors (including the independent non-executive Directors) are of the view that the transactions contemplated under the Long-Term Lease Agreement are conducted (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms; and that (iii) the terms contemplated under the Long-Term Lease Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

6. LISTING RULES IMPLICATIONS

Pursuant to HKFRS 16, the entering into the Long-Term Lease Agreement as a lessee will require the Group to recognise the right to use the Premises as a right-of-use asset of an estimated aggregate value of approximately RMB24.3 million. Thus, the entering into the Long-Term Lease Agreement and the transactions contemplated thereunder will be regarded as acquisition of asset by the Group. As all applicable percentages taking into account the right to use the Premises as acquisition of the right-of-use assets is below 25%, the Long-Term Lease Agreement and the transactions contemplated thereunder constitute a discloseable transaction for the Company under Chapter 14 of the Listing Rules and are subject to reporting and announcement requirements under Chapter 14 of the Listing Rules.

LETTER FROM THE BOARD

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, as at the date of this circular, Mr. Zhuang, the controlling Shareholder, executive Director and Chairman of the Company is interested in 535,485,000 Shares representing approximately 51.61% of the total issued Shares and is a connected person of the Company. As the Landlord is a company beneficially owned by Mr. Zhuang and Mrs. Zhuang, his spouse, the Landlord is therefore also a connected person of the Company under the Listing Rules. Accordingly, the entering into the Long-Term Lease Agreement constitutes a connected transaction of the Company. As the total lease payment in respect of the Long-Term Lease Agreement is more than HK\$10 million, the entering into the Long-Term Lease Agreement is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As Mr. Zhuang and Mr. Zhuang Xiao Xiong are connected persons and have material interest in the transaction stipulated in the Long-Term Lease Agreement, they have abstained from voting on the board resolutions.

An Independent Board Committee has been formed to advise the Independent Shareholders in connection with the terms of the Long-Term Lease Agreement, and Red Sun has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the same matters.

The EGM will be convened and held for the Independent Shareholders to consider and, if thought fit, approve the Long-Term Lease Agreement and the transactions contemplated thereunder. In view of the interest of Mr. Zhuang and Mrs. Zhuang in the Landlord, Mr. Zhuang, Mrs. Zhuang and their respective associates (including Mr. Zhuang Xiao Xiong, son of Mr. Zhuang and Mrs. Zhuang, Ms. Chen Li Jun, daughter-in-law of Mr. Zhuang and Mrs. Zhuang, and Ms. Zhuang Xiao Yun, daughter of Mr. Zhuang and Mrs. Zhuang) will abstain from voting in relation to the resolution(s) to approve the Long-Term Lease Agreement at the EGM.

Save for the aforesaid and to the Directors' best knowledge, information and belief and having made all reasonable enquiries, as at the Latest Practicable Date, no other Shareholder has a material interest in the Long-Term Lease Agreement and therefore no other Shareholder is required to abstain from voting on the resolution approving the Long-Term Lease Agreement and the transactions contemplated thereunder at the EGM.

7. INFORMATION ON THE GROUP

The Group is principally engaged in property investment and operation and management of retail stores in the PRC. The Group commenced tapping into the operation of shopping mall in 2017 by opening its first shopping mall in Shenzhen. As at the Latest Practicable Date, there were 8 retail stores and 2 shopping malls under the Group's operation.

LETTER FROM THE BOARD

8. INFORMATION ON THE PREMISES, THE TENANT AND THE LANDLORD

The Premises

The Premises is located in Level 1 of Commercial Podium, Jiahua Hao Yuan, Western Shiyan Avenue, Shiyan Street, Baoan District, Shenzhen, Guangdong Province, the PRC and is occupied by the Group to operate the Shiyan store, a branch of BJH Department Store since 2007. The Premises was developed by the Landlord in 2004 at a total cost of approximately RMB14.8 million. The Premises will be recognized as a right-of-use asset with estimated value of approximately RMB24.3 million as assessed by an independent professional valuer on 15 November 2021.

The Tenant

The Tenant is wholly-owned subsidiary of the Company and is principally engaged in operation and management of retail stores in the PRC respectively.

The Landlord

The Landlord is principally engaged in property development and property management in the PRC. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, the Landlord is held as to 18% by Mrs. Zhuang and 82% by Jiahua Group which is held as to 90% by Mr. Zhuang and 10% by Mrs. Zhuang as at the Latest Practicable Date.

9. EGM

A notice convening the EGM to be held at 4/F., Jiahua Ming Yuan, 2146 Xinhua Road, Baoan Central District, Shenzhen, the PRC on Tuesday, 11 January 2022 at 2:30 p.m., is set out on pages EGM-1 to EGM-2 of this circular.

A form of proxy for use at the EGM is enclosed with this circular and such form of proxy is also published on the websites of Hong Kong Exchange and Clearing Limited (www.hkexnews.hk) and the Company (www.szbjh.com). To be valid, the form of proxy must be completed and signed in accordance with the instructions printed thereon and deposited, together with the power of attorney or other authority (if any) under which it is signed or a certified copy of such power or authority to the Company's branch share registrar in Tricor Investor Services Limited of Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting if you so wish and in such event, the instrument appointing a proxy shall be deemed to be revoked. A Shareholder being a depositor whose name appears in the Depository Register is entitled to appoint a proxy to attend and vote in his/her stead. A proxy need not be a member of the Company.

LETTER FROM THE BOARD

10. RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 14 of this circular and the letter of advice to the Independent Board Committee and the Independent Shareholders set out on pages 15 to 34 of this circular in connection with the transactions contemplated under the Long-Term Lease Agreement and the principal factors and reasons considered by the Independent Financial Adviser in arriving at such advice. Mr. Zhuang and Mr. Zhuang Xiao Xiong, who have material interests in the Long-Term Lease Agreement and the transactions contemplated thereunder, have abstained from voting on the Board resolutions approving the Long-Term Lease Agreement and the transactions contemplated thereunder.

Accordingly, the Independent Board Committee, having taken into account the advice of Independent Financial Adviser, considers that the Long-Term Lease Agreement was entered into in the ordinary and usual course of business of the Group and on normal commercial terms. In addition, the Independent Board Committee considers that the Long-Term Lease Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution to approve the Long-Term Lease Agreement, the transactions contemplated under it at the EGM. The Board (including the independent non-executive Directors) also recommends the Independent Shareholders to vote in favour of the resolution to approve the Long-Term Lease Agreement and the transactions contemplated thereunder at the EGM as set out in the notice of EGM.

11. VOTING BY POLL

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Therefore, the resolution put to the vote at the EGM will be taken by way of poll. The chairman of the EGM will explain the detailed procedures for conducting a poll at the commencement of the EGM.

After the conclusion of the EGM, the poll results will be published on the respective websites of the Stock Exchange and the Company.

LETTER FROM THE BOARD

12. ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the Appendixes to this circular.

Yours faithfully,
For and on behalf of the Board
Jiahua Stores Holdings Limited
Mr. Zhuang Lu Kun
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the letter of advice from the Independent Board Committee to the Independent Shareholders, which has been prepared for the purpose of this circular.



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)

22 December 2021

To: the Independent Shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE LONG-TERM LEASE AGREEMENT

We refer to the circular of the Company dated 22 December 2021 (the “**Circular**”) of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used herein.

We have been appointed by the Board to form the Independent Board Committee to consider and advise the Independent Shareholders as to whether, in our opinion, the Long-Term Lease Agreement and the transactions contemplated, thereunder was entered into in the ordinary and usual course of business of the Group on normal commercial terms, and the terms of the Long-Term Lease Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Having considered the terms of the Long-Term Lease Agreement and the advice of Independent Financial Adviser in relation thereto as set out on pages 15 to 34 of this Circular, we are of the opinion that the Long-Term Lease Agreement was entered into in the ordinary and usual course of business of the Group; on normal commercial terms, and the terms of the Long-Term Lease Agreement and the transactions contemplated thereunder are in the interests of the Company and its Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned.

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Long-Term Lease Agreement and the transactions thereunder.

Yours faithfully,
Independent Board Committee

Mr. Chin Kam Cheung

Mr. Sun Ju Yi
Independent Non-executive Director

Mr. Ai Ji

LETTER FROM RED SUN

The following is the text of the letter of advice from Red Sun Capital Limited to the Independent Board Committee and the Independent Shareholders prepared for the purpose of incorporation in this circular in relation to the Discloseable and Connected Transactions.



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RED SUN CAPITAL LIMITED

Unit 3303, 33/F, West Tower, Shun Tak Centre,
168-200 Connaught Road Central, Hong Kong

Tel: (852) 2857 9208

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22 December 2021

To: *The Independent Board Committee and the Independent Shareholders of
Jiahua Stores Holdings Limited*

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE LONG-TERM LEASE AGREEMENT

I. INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the Long-Term Lease Agreement, details of which are set out in the letter from the Board (the “**Letter from the Board**”) of the circular to the Independent Shareholders dated 22 December 2021 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 15 November 2021 (after trading hours), the Tenant entered into the Long-Term Lease Agreement with the Landlord with a term commencing from 16 November 2021 to 15 October 2031 (both days inclusive) to renew the Existing Lease Agreement which has been expired by 15 November 2021 for the operation of the Group’s retail store.

Pursuant to HKFRS 16, the entering into the Long-Term Lease Agreement as a lessee will require the Group to recognise the right to use the Premises as the right-of-use asset of an estimated aggregate value of approximately RMB24.3 million. Thus, the entering into the Long-Term Lease Agreement and the transactions contemplated thereunder will be regarded as acquisition of asset by the Group. As all applicable percentages taking into account the right to use the Premises as acquisition of the right-of-use assets is below 25%, the Long-Term Lease Agreement and the transactions contemplated thereunder constitute a discloseable transaction for the Company under Chapter 14 of the Listing Rules and are subject to reporting and announcement requirements under Chapter 14 of the Listing Rules. In addition, as at the Latest Practicable Date, to the best of the Directors’ knowledge, information and belief and having made all reasonable enquiries, Mr. Zhuang, the controlling Shareholder, executive Director and Chairman of the Company is interested in 535,485,000 Shares representing approximately 51.61% of the total issued Shares and is a connected person of the Company. As the Landlord is a company

LETTER FROM RED SUN

beneficially owned by Mr. Zhuang and Mrs. Zhuang, his spouse, the Landlord is therefore also a connected person of the Company under the Listing Rules. Accordingly, the entering into the Long-Term Lease Agreement constitutes a connected transaction of the Company. As the total lease payment in respect of the Long-Term Lease Agreement is more than HK\$10 million, the entering into the Long-Term Lease Agreement is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

In view of the interest of Mr. Zhuang and Mrs. Zhuang in the Landlord, Mr. Zhuang, Mrs. Zhuang and their respective associates (including Mr. Zhuang Xiao Xiong, son of Mr. Zhuang and Mrs. Zhuang, Ms. Chen Li Jun, daughter-in-law of Mr. Zhuang and Mrs. Zhuang, and Ms. Zhuang Xiao Yun, daughter of Mr. Zhuang and Mrs. Zhuang) will abstain from voting in relation to the resolution(s) to approve the Long-Term Lease Agreement at the EGM.

II. THE INDEPENDENT BOARD COMMITTEE

The Board consists of six Directors, namely Mr. Zhuang Lu Kun (Chairman), Mr. Zhuang Pei Zhong (Chief Financial Officer) and Mr. Zhuang Xiao Xiong as executive Directors, Mr. Chin Kam Cheung, Mr. Sun Ju Yi and Mr. Ai Ji as independent non-executive Directors.

The Independent Board Committee comprising all of the independent non-executive Directors, namely Mr. Chin Kam Cheung, Mr. Sun Ju Yi and Mr. Ai Ji, has been established to advise the Independent Shareholders as to whether the terms of the Long-Term Lease Agreement are on normal commercial terms and in the ordinary and usual course of business of the Group, and are fair and reasonable, and in the interests of the Company and the Independent Shareholders as a whole.

We have been appointed to advise the Independent Board Committee and the Independent Shareholders in these respects and to give our opinion in relation to the Long-Term Lease Agreement, for the Independent Board Committee's consideration when making their recommendation to the Independent Shareholders.

III. OUR INDEPENDENCE

As at the Latest Practicable Date, we were independent from and not connected with the Company and their respective shareholders, directors or chief executives, or any of their respective associates and accordingly, are qualified to give independent advice to the Independent Board Committee and the Independent Shareholders regarding the Long-Term Lease Agreement. In the previous two years we have not acted as a financial adviser to the Company, the Independent Board Committee and the Independent Shareholders of the Company on any transaction.

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Apart from the normal advisory fee paid or payable to us in connection with our appointment as the Independent Financial Adviser, no arrangement exists whereby we have received or will receive any fees or benefits from the Company that could reasonably be regarded as relevant in assessing our independence. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.

IV. BASIS AND ASSUMPTIONS OF THE ADVICE

In formulating our advice to the Independent Board Committee and Independent Shareholders, we have relied solely on the statements, information, opinions, beliefs and representations for matters relating to the Group and management contained in the Circular and the information and representations provided to us by the Group and/or its senior management (the “**Management**”) and/or the Directors. We have assumed that all such statements, information, opinions, beliefs and representations contained or referred to in the Circular (including this letter) or otherwise provided or made or given by the Group and/or the Management and/or the Directors and for which it is/they are solely responsible were true and accurate, and valid and complete in all material respects at the time they were made and given and continue to be true and accurate, and valid and complete in all material respects as at the date of the Circular. We have assumed that all the opinions, beliefs and representations for matters relating to the Group made or provided by the Management and/or the Directors contained in the Circular have been reasonably made after due and careful enquiry. We have also sought and obtained confirmation from the Company and/or the Management and/or the Directors that no material facts have been omitted from the information provided and referred to in the Circular.

We consider that we have been provided with sufficient information and documents to enable us to reach an informed view and the Management has assured us no material information has been withheld from us to allow us to reasonably rely on the information provided so as to provide a reasonable basis for our advice. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions, beliefs and representations provided to us by the Group and/or the Management and/or the Directors and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the business and affairs of the Company and their respective shareholder(s) and subsidiaries or affiliates, and their respective histories, experience and track records, or the prospects of the markets in which they respectively operate.

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V. PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendations to the Independent Board Committee and the Independent Shareholders, we have taken into consideration the following principal factors and reasons:

1. Background information of the Group

As disclosed in the Letter from the Board, the Group is principally engaged in property investment and operation and management of retail stores in the PRC.

Set out below is the summary of the Group's (i) audited consolidated statements of profit or loss and comprehensive income and consolidated statements of financial position for the years ended 31 December 2019 and 2020 as set out in the annual report of the Group for the year ended 31 December 2020 (the "2020 Annual Report"); and (ii) unaudited consolidated financial results of the Group for the six months ended 30 June 2020 and 2021 as set out in the interim report of the Group for the six months ended 30 June 2021 (the "2021 Interim Report"):

Summary of consolidated statements of profit or loss and comprehensive income

	For the year ended		For the six months ended	
	31 December		30 June	
	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000
	(Audited)	(Audited)	(Unaudited)	(Unaudited)
Revenue				
– Operation and management of retail stores and other related businesses	638,441	422,052	221,600	243,715
– Provision of financing services	6,888	6,005	3,032	3,283
Total Revenue	645,329	428,057	224,632	246,998
Loss before tax	(49,771)	(193,527)	(50,233)	(29,253)
Loss attributable to owners of the Company	(52,342)	(194,461)	(51,371)	(30,364)

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For the six months ended 30 June 2021 compared to the six months ended 30 June 2020

For the six months ended 30 June 2021, the revenue increased by approximately RMB22.4 million or approximately 10.0%, from approximately RMB224.6 million for the six months ended 30 June 2020 to approximately RMB247.0 million for the six months ended 30 June 2021.

As set out in the 2021 Interim Report, revenue from operation and management of retail stores and other related businesses increased to approximately RMB243.7 million for the six months ended 30 June 2021 from approximately RMB221.6 million for the corresponding period of 2020, representing a period-on-period increase of approximately 10.0%. The increase was mainly attributable to (i) increase in sales of goods by online and offline business and (ii) increase in rental income from investment properties. Besides, revenue from provision of financing services increased to approximately RMB3.3 million for the six months ended 30 June 2021 from approximately RMB3.0 million for the corresponding period of 2020, representing a period-on-period increase of approximately 10.0%. The increase was mainly attributable to the increase in business from a major customer.

It is noted that loss attributable to owners of the Company decreased by approximately RMB21.0 million or approximately 40.9%, from approximately RMB51.4 million for the six months ended 30 June 2020 to approximately RMB30.4 million for the six months ended 30 June 2021. Such decrease was mainly attributable to the decrease in other operating expenses in relation to the fixed asset write-off expenses and the fixed asset disposal loss incurred in the corresponding period of 2020 as set out in the 2021 Interim Report.

For the year ended 31 December 2020 compared to the year ended 31 December 2019

For the year ended 31 December 2020, the revenue of the Group decreased by approximately RMB217.2 million or approximately 33.7%, from approximately RMB645.3 million for the year ended 31 December 2019 to approximately RMB428.1 million for the year ended 31 December 2020.

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As disclosed in the 2020 Annual Report, revenue from operation and management of retail stores and other related businesses decreased from approximately RMB638.4 million for the year ended 31 December 2019 to approximately RMB422.1 million for the year ended 31 December 2020. Such decrease was mainly attributable to (i) decrease in sales of goods due to reduced customer flow in stores based on the imposed measures in relation to the outbreak of COVID-19 pandemic and (ii) decrease in rental income from investment properties due to early termination of two tenancies. Besides, revenue from provision of financing services decreased to approximately RMB6.0 million for the year ended 31 December 2020 from approximately RMB6.9 million for the year ended 31 December 2019, representing a decrease of approximately 13.0%. The decrease was mainly attributable to the decrease in business of the major customer which has been affected by the COVID-19 pandemic.

It is noted that loss attributable to owners of the Company increased by approximately RMB142.2 million or approximately 271.9%, from approximately RMB52.3 million for year ended 31 December 2019 to approximately RMB194.5 million for year ended 31 December 2020. Such increase was mainly attributable to the provision of impairment loss on existing loss making stores or shopping malls, and the written off of assets upon closure of three stores during the year as set out in the 2020 Annual Report.

Summary of consolidated statement of financial position

	As at 31 December		As at 30 June
	2019	2020	2021
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
	(Audited)	(Audited)	(Unaudited)
Total assets	1,505.6	1,192.1	1,127.3
Total liabilities	971.7	852.7	818.2
Net assets	533.9	339.4	309.1

Financial position of the Group as at 30 June 2021 compared to 31 December 2020

The Group's total assets decreased by approximately RMB64.8 million or approximately 5.4% from approximately RMB1,192.1 million as at 31 December 2020 to approximately RMB1,127.3 million as at 30 June 2021. Such decrease was primarily attributable to the decrease in right-of-use assets from approximately RMB437.4 million as at 31 December 2020 to approximately RMB398.0 million as at 30 June 2021. As at 30 June 2021, assets of the Group mainly comprised of right-of-use assets of approximately RMB398.0 million, investment properties of approximately RMB284.6 million and property, plant and equipment of approximately RMB216.4 million, which accounted for approximately 35.3%, 25.2% and 19.2% of the total assets, respectively.

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The Group's total liabilities decreased by approximately RMB34.5 million or approximately 4.0%, from approximately RMB852.7 million as at 31 December 2020 to approximately RMB818.2 million as at 30 June 2021. Such decrease was mainly attributable to the decrease in deposits received, other payables and accruals of approximately RMB31.1 million from approximately RMB119.6 million as at 31 December 2020 to approximately RMB88.5 million as at 30 June 2021. As at 30 June 2021, liabilities of the Group mainly comprised of lease liabilities of approximately RMB506.2 million, deposits received, other payables and accruals of approximately RMB88.5 million and trade payables of approximately RMB79.1 million, which accounted for approximately 61.9%, 10.8% and 9.7% of the total liabilities, respectively.

Financial position of the Group as at 31 December 2020 compared to 31 December 2019

The Group's total assets decreased by approximately RMB313.5 million or approximately 20.8% from approximately RMB1,505.6 million as at 31 December 2019 to approximately RMB1,192.1 million as at 31 December 2020. Such decrease was primarily attributable to the decrease in right-of-use assets from approximately RMB643.8 million as at 31 December 2019 to approximately RMB437.4 million as at 31 December 2020. As at 31 December 2020, assets of the Group mainly comprised of right-of-use assets of approximately RMB437.4 million, investment properties of approximately RMB284.6 million and property, plant and equipment of approximately RMB217.2 million, which accounted for approximately 36.7%, 23.9% and 18.2% of the total assets, respectively.

The Group's total liabilities decreased by approximately RMB119.0 million or approximately 12.2%, from approximately RMB971.7 million as at 31 December 2019 to approximately RMB852.7 million as at 31 December 2020. Such decrease was mainly attributable to the decrease in lease liabilities of approximately RMB143.0 million from approximately RMB681.8 million as at 31 December 2019 to approximately RMB538.8 million as at 31 December 2020. As at 31 December 2020, liabilities of the Group mainly comprised of lease liabilities of approximately RMB538.8 million, deposits received, other payables and accruals of approximately RMB119.6 million and trade payables of approximately RMB75.1 million, which accounted for approximately 63.2%, 14.0% and 8.8% of the total liabilities, respectively.

2. Background information on the retail industry in the PRC

As set out on the website of the National Bureau of Statistics of the PRC (<http://data.stats.gov.cn>), notwithstanding that the year-on-year growth in gross domestic product ("GDP") for the PRC in 2020 was approximately 2.3% which is substantially lower than that of 2019 at 6.0%, due to the adverse impacts under the COVID-19 pandemic, the PRC economy has been recovering at a high rate and recorded a period-on-period growth in GDP of approximately 9.8% for the nine months ended 30 September 2021 compared to the correspondence prior year period, based on preliminary data published by the National Bureau of Statistics of the PRC.

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Moreover, pursuant to the Fourteenth Five Year Plan, the PRC government has announced the target urbanisation rate of the resident population* (常住人口城鎮化) for the next five years from 2021 is approximately 65.0%. In this connection, the PRC government promoted urbanisation in the PRC through, among others, (i) accelerate the agricultural population urbanisation (加快農業轉移人口城鎮化) by implementing two main strategies, namely further reform of the household registration system* (深化戶籍制度改革) and improvement on the system for promoting urbanisation of agricultural population* (健全促進農業轉移人口城鎮化的機制); and (ii) improve urbanisation layout* (完善城鎮化空間佈局) by implementing five strategies, namely promote integrated development of conurbations* (推動城市群一體化發展), construct modernised metropolitan areas* (建設現代化都市圈), optimise and enhance functions of central urban areas in mega-sized-cities* (優化提升超大城市中心城區功能), improve habitability and employability in large and medium-sized cities* (完善大中城市宜居宜業功能) and promote urbanisation construction with counties/cities as major carriers* (推進以縣城為重要載體的城鎮化建設). The Premises is located in the outer skirt of central Shenzhen area. It has nevertheless shown a positive inflow of population from core districts in Shenzhen due to the commencement of operation of city train facilitating the citywide transportation.

Furthermore, according to a survey conducted by McKinsey & Company on Chinese consumer sentiment during the coronavirus in May 2021¹, almost all consumers have already returned to normal out-of-home activities, 65% of respondents selected “go to a shopping mall” as their out-of-home activities done in the past 2 weeks, which is beneficial to the retail market. Further based on an industry research by the China Commerce Association for General Merchandise published in November 2021², the total retail sales of consumer goods increased by 4.9% as compared with the corresponding period from previous year. The average growth rate of two-year retail sales of department stores speeds up by 0.3%, showing the consumer market continued to recover.

In light of the aforementioned, we concur with the Management that it is beneficial to the PRC property market as well as the retail market in PRC urban areas especially for the Premises which is located in the first tier city of Shenzhen. We concur with the Management that the emerging and growing of middle-income class consumers along with their spending power will be a substantial driving force on the development of the property market as well as the retail market in the PRC and the Premises and will provide reasonable income to the Group in the future.

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1. <https://www.mckinsey.com/business-functions/marketing-and-sales/our-insights/survey-chinese-consumer-sentiment-during-the-coronavirus-crisis>
 2. <http://www.ccagm.org.cn/bg-yj/6701.html>

3. Reasons for and benefits of entering into the Long-Term Lease Agreement

The Group is principally engaged in property investment and operation and management of retail stores in the PRC. The Group commenced tapping into the operation of shopping mall in 2017 by opening its first shopping mall in Shenzhen.

As stated in the Letter from the Board, the Group had been leasing the Premises for more than 15 years from the Landlord for the operation of the Group's Shiyuan retail store. Given the Existing Lease Agreement entered into with the Landlord in relation to the Premises expired on 15 November 2021, the Group intended to continue to lease the Premises for the continuous operation of the Shiyuan retail store in Shenzhen.

The terms of the Long-Term Lease Agreement (including the rent) were determined after arm's length negotiations between the parties, with reference to standard terms of the lease agreements adopted for lease of similar properties and taking into account the initial market rental of the Premises which was endorsed by a fair rent letter dated 15 November 2021 prepared by Valor Appraisal & Advisory Limited, an independent professional property valuer (the "Valuer") that such monthly rent as of the date of the valuation certificate is reasonable in the market and on normal commercial terms.

In view of such, the Directors (excluding the independent non-executive Directors) are of the view that the transactions contemplated under the Long-Term Lease Agreement were conducted (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms; and that (iii) the terms contemplated under the Long-Term Lease Agreement are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

In order to assess the fairness and reasonableness of the Long-Term Lease Agreement, we have conducted relevant research in relation to the Baoan District in Shenzhen, where the Premises locates.

According to the Shenzhen Statistical Yearbook 2020 dated 31 December 2020 edited by Shenzhen Statistics Bureau and NBS Survey Office in Shenzhen, in 2019, Baoan District was the largest region in Shenzhen, with a total area of approximately 396.61 square kilometres, had population in 2019 of approximately 3.34 million, increased by approximately 2.5% as compared to approximately 3.26 million in 2018. Furthermore, the annual GDP of Baoan District was approximately RMB384.7 billion in 2020, slightly decreased by approximately 0.2% as compared with approximately RMB385.3 billion in 2019 as the economy was temporarily and adversely affected by the outbreak of COVID-19 pandemic. However, the economy has since continued to recover and Baoan District recorded a period-on-period growth in GDP of approximately 20.7% for the six months ended 30 June 2021 compared to the correspondence prior year period, based on preliminary data published by the local Government of Baoan District on 13 August 2021.

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In addition, according to a plan issued by the Baoan District Development and Reform Bureau* (寶安區發展和改革局) in the first quarter of 2021, the “Baoan District Major Project Plan in 2021*” (寶安區2021年重大專案計劃). As mentioned in the plan, there would be 153 major projects, with a total investment of approximately RMB306.7 billion and target to complete approximately RMB32.2 billion in 2021. In addition, 124 preliminary projects were announced, with a total investment of approximately RMB178.9 billion. As further mentioned in a notice by the Baoan Development and Reform Commission* (寶安發改委), it is necessary to accelerate the realization of Baoan District to become the (i) new international modern city centre; and (ii) world-class electronic information industry cluster, thus further increase the number of companies and population.

In view of the large scale and long term project plan which is expected to bring advantage and drive the demand for department stores, we concur with the Management that the Group will benefit from the plan as mentioned above.

Having considered that (i) the emerging and growing middle-income class consumers with their growing spending power; (ii) the continue recovery of the retail and consumer market; (iii) project plan of Baoan District as mentioned above; (iv) with an increasing number of companies and population which drive the demand for department stores; and (v) the Long-Term Lease Agreement would maintain the revenue stream of the Company and may generate greater return potential to the Independent Shareholders, we concur with the Directors’ view that the Long-Term Lease Agreement is in the ordinary and usual course of business of the Group, beneficial to the Group’s long-term development in the Baoan District and in the interests of the Company and Independent Shareholders as a whole.

4. Principal terms of the Long-Term Lease Agreement

The following information has been extracted from the Letter from the Board:

Parties:	The Landlord as the landlord of the Premises
	The Tenant as the tenant of the Premises
Premises:	Level 1 of Commercial Podium, Jiahua Hao Yuan, Western Shiyuan Avenue, Shiyuan Street, Baoan District, Shenzhen, Guangdong Province, the PRC (深圳市寶安區石岩鎮石岩大道西側佳華豪苑大廈(工業區)1棟商場01層) with a total of area of 5,851.50 sq.m.
Term:	9 years and 11 months commencing from 16 November 2021 to 15 October 2031 (both days inclusive)

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Rent:	An initial monthly rent of RMB296,861.50 per month (approximately RMB50.73 per sq.m. per month), with a 5% increment on the monthly rent for every 3 years. Monthly rent is payable before the 10th of each month
Deposit:	A rental deposit of RMB593,723 payable by the Tenant to the Landlord 5 days after the execution of the Long-Term Lease Agreement.
Usage:	For commercial purposes
Sub-let:	The Landlord allows the Tenant to sub-lease part of the Premises to other parties provided that the term is within the lease term of the Long-Term Lease Agreement
Termination:	The Long-Term Lease Agreement may be terminated among other things, the mutual agreement between the Tenant and the Landlord. Should the Long-Term Lease Agreement be terminated by the Tenant as a result of the compliance of the Listing Rules, the Tenant would not be responsible for any damages or payable to the Landlord
Condition precedent:	Effective of the Long-Term Lease Agreement is conditional upon the Company having fulfilled its obligations under the Listing Rules, including but not limited to obtaining approval from the Independent Shareholders

5. Our analysis on the Long-Term Lease Agreement

5.1 *Basis of rent and terms*

The monthly rent of the Long-Term Lease Agreement will be RMB296,861.50 (approximately RMB50.73 per square meter per month), with a 5% increment on the monthly rent for every 3 years. The monthly rent was determined after arm's length negotiations between the Landlord and the Tenant with reference to (i) standard terms of the lease agreements adopted for lease of similar properties; and (ii) the initial market rental of the Premises which was endorsed by a fair rent letter dated 15 November 2021 prepared by the Valuer, an independent professional property valuer that such monthly rent as of the date of the valuation certificate is reasonable in the market and on normal commercial terms.

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Having reviewed (i) the fair rent letter as to the monthly rent in the Long-Term Lease Agreement prepared by the Valuer; and (ii) standard terms of the Long-Term Lease Agreement (as compared to the template 《深圳市房屋租賃合同》 issued by the Housing and Construction Bureau of Shenzhen* (深圳市住房和建設局), we are given to understand (i) from the Management and the legal opinion the terms are commonly seen in a lease agreement in Shenzhen and (ii) from the Valuer that the monthly rent of the Long-Term Lease Agreement is more favourable comparing to similar properties in the area.

We have reviewed and enquired the Valuer's qualification and experience in relation to the valuation. The Valuer confirmed that it is an independent third party to the Company. We also obtained and reviewed the terms of the Valuer's engagement, in particular, their scope of work, and noted that it is appropriate to the opinion required to be given and there is no limitation on the scope of work which might adversely impact on the assessment given by them in the fair rent letter.

We have reviewed the fair rent letter issued by the Valuer dated 15 November 2021 and noted that the Valuer has adopted the direct comparison approach by making reference to comparable market rentals as available in the subject locality. This approach rests on the wide acceptance of the market rent as the best indicator and pre-supposes the evidence of relevant rentals in the market place can be extrapolated to similar properties, subject to allowances for variable factors and adjustments such as location, size, etc. In light of the above, we are of the view that the fair rent opinion has been reasonably prepared and is normal in nature without any unusual assumption, and the relevant basis is fair and reasonable.

Furthermore, we have obtained and reviewed one lease agreement for renting of properties for operation of department store between the Group and an independent third party (the "I3P Sample"). The limited sample size was due to the fact that the Group have limited operation of department stores in Shenzhen, other samples from districts outside Shenzhen are not considering to be comparative samples in our opinion since the price and terms could drastically differ from the market norm in the Baoan District comparing to other districts. We have further reviewed the legal opinion regarding (i) the compliance of relevant usage of Premises and (ii) the terms set out in the Long-Term Lease Agreement and are given to understand that the terms in the Long-Term Lease Agreement are normal and not uncommon in the market.

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We note that a 5% increment on the monthly rent for every three years (equivalent to a compound annual growth rate of approximately 1.64%) for the subject property as stipulated in the Long-Term Lease Agreement has been taken into account by the Company. Further to our discussion with the Valuer and the Management, we concur with their view that the consumer price index (“CPI”) released by the National Bureau of Statistics of China and the inflation rate of the PRC should be taken into reference in determining the reasonableness of the 5% increment on the monthly rent for every three years as stated in the terms in the Long-Term Lease Agreement. We therefore reviewed from publicly available information and noted that the CPI increased for approximately 2.1%, 2.9% and 2.5% for 2018, 2019 and 2020, respectively and the inflation rate of the PRC released by the World Bank and noted that the inflation rate of the PRC was approximately 2.1%, 2.9% and 2.4% for 2018, 2019 and 2020, respectively. In light of the above CPI growth rate and the inflation rate, we concur with the Management and the Valuer that the 5% increment for every 3 years is fair and reasonable.

We also discussed with the Management and are given to understand that the Company has a series of internal control procedures to review and approve for the pricing, terms and selection criteria before entering into the Long-Term Lease Agreement including e.g. market comparable research, appointing valuer for valuation, seek for professional advices on the terms i.e. legal opinion. Furthermore, we also obtained internal approval form for the Long-Term Lease Agreement and I3P Sample. We are of the view that the internal approval process adopted was reasonable and effectively implemented.

In light of the aforementioned, we are of the view that the rent and terms of the Long-Term Lease Agreement is on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Independent Shareholders as a whole.

5.2 Basis of determination of duration

The Long-Term Lease Agreement will be from 16 November 2021 to 15 October 2031. The duration of the Long-Term Lease Agreement was determined after arm’s length negotiations between the Tenant and Landlord. A rental deposit of RMB593,723 payable by the Tenant to the Landlord 5 days after the execution of the Long-Term Lease Agreement.

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In assessing the reasonableness for the duration of the Long-Term Lease Agreement to be longer than three years, we have considered the following factors:

- (i) the Group had already made a substantial amount of capital investment on setting up the Shiyuan store, huge amount of relocation and other relevant costs would be incurred if need to be relocated;
- (ii) the term of more than nine years in the Long-Term Lease Agreement can prevent the recurrence of relocation costs and huge initial investment costs in setting up another Shiyuan store;
- (iii) the term of more than nine years in the Long-Term Lease Agreement will allow the Company to secure a favourable location which is currently operating the Shiyuan store;
- (iv) the long-term nature in the Long-Term Lease Agreement is in the interests of the Company given that a shorter duration term, the Company may face the risk of having to identify and locate another similar premises which may hamper the business operation and development of the Group in the future; and
- (v) having reviewed lease agreements entered into by the Group and independent third party for renting of a property for operation of department store, we noted that the leasing terms of the lease agreement are comparable to those of the Long-Term Lease Agreement.

In assessing the leasing term of period of the Long-Term Lease Agreement, except for the I3P Sample which has a leasing term of 10 years, we have carried out independent research and further identified and reviewed a list of 10 comparable transactions (the “**Comparable Transactions**”) involving the leasing of properties as retail stores/department stores which we consider to be exhaustive on our best effort basis. The Comparable Transactions were selected based on the criteria that (i) at least one of the transaction parties involved is listed on the Stock Exchange; (ii) the size transactions were at discloseable level or above; and (iii) the transactions are related to the leasing of retail stores/department stores in the PRC.

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Company name (Stock code)	Date of the announcement	Date of the tenancy agreement	Lease period (Years)	Location
Parkson Retail Group Limited (3368)	12 July 2021	11 July 2021	20	PRC
Parkson Retail Group Limited (3368)	23 December 2020	23 December 2020	15	PRC
New World Department Store China Limited (825)	23 September 2020	(i) 3 September 2008	(i) 10	PRC
		(ii) 5 September 2008	(ii) 10	
Parkson Retail Group Limited (3368)	1 June 2020	1 June 2020	20	PRC
Shirble Department Store Holdings (China) Limited (312)	15 October 2019	15 October 2019	20	PRC
Parkson Retail Group Limited (3368)	14 June 2019	12 June 2019	12	PRC
Parkson Retail Group Limited (3368)	3 April 2019	26 February 2019	10	PRC
Yi Hua Holdings Limited (2213)	13 April 2015	13 April 2015	13	PRC
Yi Hua Holdings Limited (2213)	31 March 2014	31 March 2014	15	PRC
Lifestyle International Holdings Limited (1212)	22 September 2008	26 November 2004	20	PRC

As shown on the results from above, the terms of the Comparable Transactions range from 10 years to 20 years. Accordingly, the duration of the Long-Term Lease Agreement falls within the range of the lease period of the Comparable Transactions.

Having considered the principal factors as stated above, we concur with the Management and the Valuer that the lease term of period of the Long-Term Lease Agreement is normal and not uncommon in the market.

5.3 *The valuation report*

In order to evaluate the basis in determining the market value (value of the right-of-use asset) of the Long-Term Lease Agreement, we have reviewed the valuation report prepared by the Valuer, and have discussed with the Valuer and management of the Company. We noted that the Valuer has considered the market value through income capitalisation approach in valuing the Premises. They have also made reference to the yields achieved in the sales of similar properties in the market. To assess the market rent, the direct comparison method is adopted.

In conducting the valuation of the Premises, the Valuer has also adopted the following assumptions:

- (i) the Premises will be sold on the open market in their existing states without the benefit of a deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangements, which could serve to affect the values of the property interests;
- (ii) transferable land use rights in respect of the Premises for specific terms at nominal annual land use fees have been granted and that any premium payable has already been fully paid;
- (iii) owners of the Premises have enforceable titles to the Premises and have free and uninterrupted rights to use, occupy or assign the Premises for the whole of the respective unexpired terms as granted;
- (iv) the Premises are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect the Premises' values; and
- (v) all information in relation to the Premises which provided to the Valuer are true and accurate.

In our discussion with the Valuer, we understand that the valuation was carried on a market basis. Market value is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

LETTER FROM RED SUN

We have discussed with the Valuer on the selection of valuation methodology. Considering the cost approach is used for valuing property with special nature, and rental comparable evidences are generally available, the Valuer therefore has not adopted the cost approach. Given that the property is a leasehold interest for a term of approximately 10 years, comparable sales transaction or information similar to such sales transaction is not available in Baoan District, with such constraint, the Valuer therefore has not adopted the direct comparison approach for the overall valuation.

In valuing the Premises, the Valuer has adopted income capitalisation approach by applying a yield (rate of return or discount rate) to market rent with reference to the yields achieved for similar properties in Shenzhen, the yield was arrived with reference to (i) the approximately 3.9% prime retail yield of properties in Shenzhen from the research report conducted in Q2 2021 by CBRE; and (ii) a 1% premium applied to the prime retail yield by the Valuer with their professional experience and judgement due to the fact that the Premises is located in a non-prime location in Shenzhen. After obtaining the valuation result of the Premises, the Valuer adopted direct comparison method to assess the market rent in order to opine the fairness of the rental fee of the Long-Term Lease Agreement. As discussed with the Valuer, the Directors and the Management, we are of the view that the adoption of such valuation methodology is reasonable.

Furthermore, we have obtained and reviewed the comparables adopted by the Valuer, we have further discussed with the Board, the Management and the Valuer to understand the selection criteria of comparables and given to understand that the market comparables were selected based on (i) the land use of the premises has to be commercial usage; and (ii) the premises must be located in the same town Shiyan* (石岩). Given the geographical location of the Premises is considered a non-prime area in Baoan District, which is also a district located in the outer skirt of Shenzhen, we are of the view that the said selection criteria are reasonable.

LETTER FROM RED SUN

In order to further verify the source of information considered in the valuation, we also conducted our own research on the referencing information to cross check the reasonableness of the parameters considered in the Valuation Report. Regarding the prime retail yield, we have conducted our own research on reports prepared and published by the top five property valuer in the global market from 2019 to 2021 but no relevant information can be identified. We therefore extended our selection criteria of the search scope to investment property yield in key cities in the PRC and their respective prime and non-prime locations and identified three results we consider to be of reasonable comparison on publicly available information. The three results comprised of (i) the yield of approximately 5.4% for retail property market in east China from a report by an internationally reputable property valuer about the Asia pacific real estate in June 2020; (ii) the yield of approximately 5.2% for the retail in Shenzhen from a report of an internationally reputable property valuer about investment property net yields in major cities in the PRC in 2018; and (iii) the yield of approximately 4.0% based on an acquisition of a retail property in Guangzhou completed by a company listed on the Main Board of the Stock Exchange in June 2021.

Considering the fact that the prime retail yield adopted in the Valuation Report falls within the range from approximately 4.0% to approximately 5.4% of the yield of the search results mentioned above, we are of the view that the adoption of such prime retail yield is reasonable.

We have further reviewed the valuation worksheet including referencing information considered and the calculation bases in the Valuation Report provided by the Valuer and compared that with the result of our own research based on similar selection criteria and are not aware of any material difference between the research result and the Valuation.

Accordingly, we are of the view that the referencing information considered in the Valuation Report is true and fair and the comparables selected by the Valuer are fair and reasonable so far as the Company and Independent Shareholders are concerned.

LETTER FROM RED SUN

Besides, we have discussed with the Valuer in relation to their experiences and understood that Mr. Ian Ng, the Associate Director of the Valuer and the person in charge of this valuation, is a professional surveyor with over 10 years of experience in valuation of properties in Hong Kong, Macau and the PRC. Mr. Ng is a Professional Member of The Hong Kong Institute of Surveyors. Given Mr. Ng has plenty of practical experience in the valuation of properties in Hong Kong and the PRC, we are of the view that he is qualified to provide a reliable valuation for the valuation of the Premises. As discussed with the Valuer, they have no prior relationships with the Group or other parties and connected persons to the Long-Term Lease Agreement, and we are of the view that the independence and objectivity of the Valuer is fair and equitable in conducting such valuation. We also reviewed the terms of the engagement for the valuation of the Premises and the scope of work performed by the Valuer is consistent with the market practice and appropriate to give the opinion.

Given the income capitalisation valuation approach in the Valuation Report is commonly adopted and well recognised methodology for valuing properties, and the major assumptions made in connection with the valuation approach are reasonable, and having reviewed the basis of rent and the basis of determination of duration, we concur with the Management and the Valuer, and are of the view, that the basis in determining the market value (value of the right-of-use asset) is fair and reasonable so far as the Company and the Independent Shareholders as a whole are concerned.

LETTER FROM RED SUN

VI. RECOMMENDATION

Having considered the factors as set out in this letter above, in particular,

- (i) the reasons for and benefits of entering into the Long-Term Lease Agreement;
- (ii) the terms of the Long-Term Lease Agreement are fair and reasonable;
- (iii) the long-term duration of more than nine years of the Long-Term Lease Agreement is a normal business practice for the Group; and
- (iv) the basis in determining the estimated value of the right-of-use asset is fair and reasonable,

we are of the view that the entering of the Long-Term Lease Agreement is in the ordinary and usual course of business of the Group, on normal commercial terms, and the terms of the Long-Term Lease Agreement and the transactions contemplated thereunder are in the interests of the Company and its Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, that the Independent Shareholders to vote in favour of the ordinary resolutions to approve the Long-Term Lease Agreement at the EGM.

Yours faithfully

For and on behalf of

Red Sun Capital Limited

Robert Siu

Managing Director

Nicole Ying

Director

Mr. Robert Siu is a licensed person registered with the SFC and a responsible officer of Red Sun Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 20 years of experience in corporate finance industry.

Ms. Nicole Ying is a licensed person registered with the SFC and a responsible officer of Red Sun Capital Limited to carry out type 6 (advising on corporate finance) regulated activities under the SFO and has over 16 years of experience in corporate finance industry.

The following is the text of a valuation report, prepared for the purpose of incorporation in this circular received from Valor Appraisal & Advisory Limited, an independent valuer, in connection with its valuation as at 31 October 2021 of the property interests intended to be acquired by the Group.

Date: 22 December 2021

The Board of Directors
Jiahua Stores Holdings Limited
Suite 715, 7/F, Ocean Centre
5 Canton Road, Tsimshatsui
Kowloon, Hong Kong

Dear Sirs,

INSTRUCTIONS

In accordance with your instructions for us to value a property which Jiahua Stores Holdings Limited (the “**Company**”) and its subsidiaries (hereinafter together referred to as the “**Group**”) intends to acquire in the People’s Republic of China (the “**PRC**”), we confirm that we have carried out property inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the property interests as at 31 October 2021.

This letter which forms part of our valuation report explains the basis and methodologies of valuation, clarifying assumptions, valuation considerations, title investigation and limiting conditions of this valuation.

BASIS OF VALUATION

Our valuation of the property interests represents the market value which we would define as intended to mean “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

VALUATION METHODOLOGY

We have adopted an income capitalisation approach to assess the market value, applying a yield to market rent. To assess the appropriate yield implied in the market, it is estimated with reference to the yields achieved in the sales of similar properties in the market. To assess the market rent, the direct comparison method is adopted.

VALUATION CONSIDERATIONS

In valuing the property interests, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards published by The Hong Kong Institute of Surveyors.

VALUATION ASSUMPTIONS

Our valuations have been made on the assumption that the seller sells the property interests on the open market in their existing states without the benefit of a deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangements, which could serve to affect the values of the property interests.

In undertaking our valuation, we have assumed that, unless otherwise stated, transferable land use rights in respect of the property interests for specific terms at nominal annual land use fees have been granted and that any premium payable has already been fully paid. We have also assumed that the owners of the properties have enforceable titles to the properties and have free and uninterrupted rights to use, occupy or assign the properties for the whole of the respective unexpired terms as granted.

No allowance has been made in our valuation for any outstanding or additional land premium, charges, mortgages or amounts owing on the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

TITLE INVESTIGATION

We have been, in some instances, shown copies of various title documents and other documents relating to the property interests and have made relevant enquiries. We have not examined the original documents to verify the existing title to the property interests and any material encumbrances that might be attached to the property interests or any lease amendments. However, we have relied considerably on the information given by the Company's PRC legal adviser, Guangdong Pinfang Law Firm (廣東品方律師事務所), concerning the validity of Shenzhen Jiahua Real Estate Development Company Limited (the "Landlord") (深圳市佳華房地產開發有限公司)'s title to the property interests located in the PRC.

All legal documents provided by the Company have been used for reference only. No responsibility regarding legal title to the property interests is assumed in this valuation report.

LIMITING CONDITIONS

We have inspected the exterior, and wherever possible, the interior of the properties but no structural survey had been made. In the course of our inspection, we did not note any serious defects. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. Further, no test has been carried out on any of the building services. All dimensions, measurements and areas are only approximates. We have not been able to carry out detailed on-site measurements to verify the site and floor areas of the properties and we have assumed that the areas shown on the copies of documents handed to us are correct.

The site inspection of the property was carried out on 30 October 2021 by Mr. Liang Zhipeng (BBA (Acc)), who has over 5 years' experience in property valuation.

We have relied to a considerable extent on information provided by the Landlord and have accepted advice given to us on such matters, in particular, but not limited to, the sales records, tenure, planning approvals, statutory notices, easements, particulars of occupancy, site and floor areas and all other relevant matters in the identification of the property interests.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Landlord. We have also been advised by the Company and the Landlord that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

Liability in connection with this valuation is limited to the client to whom this valuation is addressed and for the purpose for which it is carried out only. We will accept no liability to any other parties or any other purposes.

This valuation is to be used only for the purpose stated herein, any use or reliance for any other purpose, by you or third parties, is invalid. No reference to our name or our valuation report in whole or in part, in any document you prepare and/or distribute to third parties may be made without written consent.

The Novel Coronavirus Disease (COVID-19) has impacted on the global financial markets and the real estate market is being impacted by prevailing uncertainty. Our valuation is reported on the basis of material valuation uncertainty. We cannot predict the progress of COVID-19 and its impact on the real estate market. The market condition may change significantly over a relatively short period of time. There may be material difference between our estimation of market value based on the current market and actual transaction price of the property. Given the uncertain impact of COVID-19 on the market, the valuation of the property is recommended to have under frequent review.

EXCHANGE RATE

Unless otherwise stated, all monetary amounts stated in this valuation are in Renminbi (RMB).

“Property Particulars and Opinion of Value” are herewith attached.

Yours faithfully,

For and on behalf of

Valor Appraisal & Advisory Limited

Ian K. F. Ng

MHKIS

Associate Director

Mr. Ian K. F. Ng is a professional surveyor with over 10 years' experience in valuation of properties in HKSAR, Macau SAR and mainland China. Mr. Ng is a Professional Member of The Hong Kong Institute of Surveyors.

PROPERTY PARTICULARS AND OPINION OF VALUE

Property interests intended to be acquired by the Group in the PRC

Property	Description and Tenure	Particular of Occupancy	Market Value in Existing State as at 31 October 2021
Shopping Mall, Level 1 of a Commercial Podium, Jiahua Hao Yuan (Lot No.: A711-0158), Western side of Shiyuan Avenue, Shiyuan Town, Bao'an District, Shenzhen City, Guangdong Province, the PRC (中華人民共和國廣東省深圳市寶安區石岩鎮石岩大道西側佳華豪苑1棟商場01層(宗地號:A711-0158))	<p>The property comprises a shopping mall on Level 1 of a commercial podium of a commercial/residential development completed in 2006.</p> <p>The gross floor area of the property is approximately 5,851.5 sq.m.</p> <p>The property is located at Shiyuan Avenue in Shiyuan Town of Bao'an district. Developments in the vicinity are mainly residential and commercial developments of various ages.</p> <p>The land use rights and building ownership rights of the property for a term of nine years and eleven months are to be acquired by the Group.</p>	The property is currently occupied by the Group for commercial purpose.	RMB31,400,000 (Renminbi Thirty One Million Four Hundred Thousand)

Notes:

- (1) Pursuant to a Certificate of Real Estate Ownership—Shen Fang Di Zi Di No.5000286886 registered on 21 August 2007, the land use rights and the building ownership rights of a shopping mall with a gross floor area of approximately 5,851.5 sq.m. were granted to Shenzhen Jiahua Real Estate Development Company Limited for a term expiring on 27 May 2074 for commercial and finance uses.
- (2) We have been provided with a legal opinion regarding the property interests by the Company's PRC legal adviser, which contains, inter alia, the following:
 - (i) Shenzhen Jiahua Real Estate Development Company Limited legally owns the property and is entitled to transfer the property; and
 - (ii) The property is subject to a mortgage in favour of Industrial and Commercial Bank of China Limited – Shenzhen Bao'an Branch which has given consent letter to Shenzhen Jiahua Real Estate Development Company Limited to transfer the property to the Group for the term of nine years and eleven months.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS

As at the Latest Practicable Date, the interests or short positions of the Directors and the chief executives of the Company in the Shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules to be notified to the Company and the Stock Exchange, were as follows:

Long positions in the Shares and underlying Shares

Name of Director	Capacity	Number of Shares			Approximate percentage of the number of issued Shares
		Personal interest	Family interest	Total	
Mr. Zhuang	Beneficial Owner	467,985,000	67,500,000 (Note 1)	535,485,000	51.61%
Mr. Zhuang Xiao Xiong	Beneficial Owner	75,000,000	-	75,000,000	7.23%

Notes:

- (1) 67,500,000 Shares are held by Mrs. Zhuang Su Lan (“**Mrs. Zhuang**”). Since Mrs. Zhuang is the spouse of Mr. Zhuang, under the SFO, Mr. Zhuang is deemed to be interested in the said Shares held by Mrs. Zhuang.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules to be notified to the Company and the Stock Exchange.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as known to the Directors and the chief executive of the Company, the following persons (other than a Director or a chief executive of a Company) had interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were directly or indirectly, interested in 5% or more the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Long positions in the Shares and underlying Shares

Name of Shareholder	Type of interest	Capacity	Personal/ corporate interest	Family interest	Total	Approximate percentage of the number of issued Shares
Mrs. Zhuang	Personal	Beneficial owner	67,500,000	467,985,000 (Note 1)	535,485,000	51.61%
Ms. Zhuang Xiao Yun	Personal	Beneficial owner	75,000,000 (Note 2)	-	75,000,000	7.23%
Ms. Chen Li Jun	Personal	Beneficial owner	75,000,000 (Note 3)	-	75,000,000	7.23%

Note:

- (1) 467,985,000 Shares are held by Mr. Zhuang. Since Mr. Zhuang is the spouse of Mrs. Zhuang, under the SFO, Mrs. Zhuang is deemed to be interested in the said Shares held by Mr. Zhuang.
- (2) Ms. Zhuang Xiao Yun is the daughter of Mr. Zhuang and Mrs. Zhuang.
- (3) Ms. Chen Li Jun is the daughter-in-law of Mr. Zhuang and Mrs. Zhuang.

Save as disclosed above, the Directors were not aware of any party who, as at the Latest Practicable Date, had interests or short positions in the Shares and underlying Shares, which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

As at the Latest Practicable Date, none of the Directors or the proposed Directors of the Company was a director or employee of a Company (or its subsidiary) which has an interest or a short position in the Shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

4. COMPETING INTEREST

As at the Latest Practicable Date, the Directors were not aware that any of them or any of their respective close Associates had any interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group which would fall to be disclosable under the Listing Rules.

5. MATERIAL CONTRACTS

As at the Latest Practicable Date, save as disclosed below, no material contracts (not being contracts entered into in the ordinary course of business) have been entered into by the members of the Group within the two years immediately preceding the issue of this circular.

- (i) the sales agreement dated 7 December 2020 entered into between 深圳市百佳華網絡科技有限公司 (Shenzhen Baijiahua Network Technology Limited) and 深圳市佳華房地產開發有限公司 (Shenzhen Jiahua Real Estate Development Company Limited) (the “**Landlord**”) in respect of sales of wine;
- (ii) the technical service agreements dated 7 December 2020 entered into between 深圳市百佳華網絡科技有限公司 (Shenzhen Baijiahua Network Technology Limited) and 深圳市佳華房地產開發有限公司 (Shenzhen Jiahua Real Estate Development Company Limited) (the “**Landlord**”), and between 深圳市百佳華網絡科技有限公司 (Shenzhen Baijiahua Network Technology Limited) and 深圳市佳華物業管理有限責任公司 (Shenzhen Jiahua Property Management Limited) (the “**Property Manager**”) in respect of provision of technical service;
- (iii) the facilities and software leasing agreements dated 7 December 2020 entered into between 深圳市百佳華網絡科技有限公司 (Shenzhen Baijiahua Network Technology Limited) and 深圳市佳華房地產開發有限公司 (Shenzhen Jiahua Real Estate Development Company Limited) (the “**Landlord**”), between 深圳市百佳華網絡科技有限公司 (Shenzhen Baijiahua Network Technology Limited) and 深圳市佳華物業管理有限責任公司 (Shenzhen Jiahua Property Management Limited) (the “**Property Manager**”), and between 深圳市百佳華網絡科技有限公司 (Shenzhen Baijiahua Network Technology Limited) and 深圳市百佳華雲著酒店管理有限公司 (Shenzhen Baijiahua OneJee Hotel Management Limited) in respect of facilities and software leasing service.

- (iv) the tenancy agreement dated 31 December 2019 entered into between 深圳市百佳華百貨有限公司 (Shenzhen Baijiahua Department Stores Company Limited) and 深圳市佳華房地產開發有限公司 (Shenzhen Jiahua Real Estate Development Company Limited) (the “**Landlord**”) in respect of rental income for leasing of portion of 4/F., Jiahua Ming Yuan, 2146 Xinhua Road, Baoan Central District, Shenzhen, the PRC;
- (v) the service agreement dated 16 November 2020 entered into between 深圳市百佳華網絡科技有限公司 (Shenzhen Baijiahua Network Technology Limited) and 深圳市百佳華雲著酒店管理有限公司 (Shenzhen Baijiahua Onejee Hotel Management Limited) in respect of provision of hotel service;
- (vi) the technical service agreement dated 8 January 2021 entered into between 深圳市百佳華網絡科技有限公司 (Shenzhen Baijiahua Network Technology Limited) and 深圳市佳華物業管理有限公司 (Shenzhen Jiahua Property Management Limited) (the “**Property Manager**”) in respect of provision of technical service; and
- (vii) the car park fee agreements dated 15 November 2021 in respect of the usage of car parking spaces located in Jiahua Lingyu Plaza Phase II and Jiahua Linghui Plaza Phase II for a term of 3 years entered into between Shenzhen Jiahua Property Management Limited, Shenzhen Baijiahua Commercial Management Limited and Shenzhen Baijiahua Department Stores Company Limited.

6. DIRECTORS’ INTEREST IN ASSETS OR CONTRACTS

As at the Latest Practicable Date, none of the Directors and proposed Directors has, or had any direct or indirect interest in any assets which had been or are proposed to be since 31 December 2020 (being the date to which the latest published audited consolidated financial statements of the Group were made up) acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

Save as disclosed below, as at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting at the date of this circular and which was significant in relation to the business of the Group.

The Company has entered into the following continuing connected transactions under Chapter 14A of the Listing Rules:

A. Rental income received from Jiahua Group

深圳市百佳華集團有限公司 (Shenzhen Baijiahua Group Company Limited) (“**Jiahua Group**”) is owned as to 90% by Mr. Zhuang and 10% by Mrs. Zhuang.

Lease of commercial properties to Jiahua Group

Certain commercial properties are leased to Jiahua Group pursuant to a lease agreement entered into between Shenzhen Baijiahua Department Stores Company Limited and Jiahua Group for commercial purposes.

B. Rental income received from Shenzhen Jiahua Real Estate Development Company Limited

深圳市佳華房地產開發有限公司 (Shenzhen Jiahua Real Estate Development Company Limited) (the “**Landlord**”) is owned as to 18% by Mrs. Zhuang and 82% by Jiahua Group (a company owned as to 90% by Mr. Zhuang and 10% as to Mrs. Zhuang). Since Mrs. Zhuang is the spouse of Mr. Zhuang, she is an associate of Mr. Zhuang. Since Mrs. Zhuang is interested in the equity capital of the Landlord so as to exercise or control the exercise of 30% or more of the voting power at general meetings of the Landlord, the Landlord is an associate of Mr. Zhuang and also a connected person of the Company.

Lease of commercial properties to the Landlord

Certain commercial properties are leased to the Landlord pursuant to a lease agreement entered into between Shenzhen Baijiahua Department Stores Company Limited and the Landlord for commercial purposes.

C. Lease of two store premises from Jiahua Group

深圳市百佳華集團有限公司 (Shenzhen Baijiahua Group Company Limited) (“**Jiahua Group**”) is owned as to 90% by Mr. Zhuang and 10% by Mrs. Zhuang. The Group leased two store premises from Jiahua Group, details of which are set out as follows:

- (i) Lease of store premises for the Longhua Store between Jiahua Group (as landlord) and Shenzhen Baijiahua Department Stores Company Limited (as tenant); and
- (ii) Lease of store premises for the Songgang Store between Jiahua Group (as landlord) and Shenzhen Baijiahua Department Stores Company Limited (as tenant).

D. Lease of three store premises from the Landlord

深圳市佳華房地產開發有限公司 (Shenzhen Jiahua Real Estate Development Company Limited) (the “**Landlord**”) is owned as to 18% by Mrs. Zhuang and 82% by Jiahua Group (a company owned as to 90% by Mr. Zhuang and 10% as to Mrs. Zhuang). Since Mrs. Zhuang is the spouse of Mr. Zhuang, she is an associate of Mr. Zhuang. Since Mrs. Zhuang is interested in the equity capital of the Landlord so as to exercise or control the exercise of 30% or more of the voting power at general meetings of the Landlord, the Landlord is an associate of Mr. Zhuang and also a connected person of the Company. The Group leased three stores premises from the Landlord, details of which are set out as follows:

- (i) Lease of store premises for the Shuyuan Yage Store between the Landlord (as landlord) and Shenzhen Baijiahua Department Stores Company Limited (as tenant);

- (ii) Lease of store premises for the Bantian shopping mall between the Landlord (as landlord) and Shenzhen Baijiahua Commercial Management Company Limited (“**Baijiahua Commercial Management**”) (as tenant); and
- (iii) Lease of store premises for the Guanlan shopping mall between the Landlord (as landlord) and Baijiahua Commercial Management (as tenant).

E. Car Park usage and car park usage fee payable to Shenzhen Jiahua Property Management Limited

Shenzhen Jiahua Property Management Limited (the “**Property Manager**”), a company incorporated in the PRC, and is held as to 95% and 5% by the Landlord and Jiahua Group respectively.

The Group entered into the Car Park Fee Agreements in respect of the usage of car parking spaces located in Jiahua Lingyu Plaza Phase II and Jiahua Linghui Plaza Phase II for a term of 3 years commencing from 1 January 2022 to 31 December 2024 (both days inclusive).

In the opinion of the Directors (including the Independent Non-Executive Directors), the terms of the continuing connected transactions referred to above are made in the ordinary and usual course of the Group’s business, on an arm’s length basis and on normal commercial terms which are no less favorable than terms available from independent third parties. The Directors (including the Independent Non-executive Directors) confirm that these transactions have been conducted in accordance with the relevant agreements governing the transactions and are of the view that the terms and conditions of these transactions are fair and reasonable and are in the best interests of the Company and the Shareholders as a whole.

7. DIRECTORS’ SERVICE CONTRACTS

Each of the Executive Directors has entered into a service contract with the Company for a term of three years (two years for Independent Non-executive Directors) unless terminated by not less than three months’ (two months’ for Independent Non-executive Directors) written notice of termination served by either the Director or the Company. Each of the service contracts further provides that during the term of the service contract and within two years upon the termination of service, the Executive Director cannot engage in any business which is competing or is likely to compete, either directly or indirectly, with the business of the Company. The appointments are subject to the provisions of retirement and rotation of Directors under the Articles of Association of the Company.

Save as disclosed above, none of the Directors has entered into any service contracts with the Company or any of its subsidiaries (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

8. NO MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading positions of the Group since 31 December 2020, the date to which the latest published combined financial statements of the Group were made up.

9. LITIGATION

As at the Latest Practicable Date, neither the Company nor any member of the Group was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Company or any member of the Group.

10. EXPERTS AND CONSENTS

The followings are the qualifications of the experts who have been named in this circular or have given their respective opinion or advice contained in this circular:

Name	Qualification
Red Sun	A corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Valor Appraisal & Advisory Limited (“ Valor ”)	Professional surveyors and valuers

Each of Red Sun and Valor has given and has not withdrawn its written consent to inclusion of their letter(s) and/or report(s) (as the case maybe) dated 22 December 2021 in this circular and references to its name included herein in the form and context in which it appears.

As at the Latest Practicable Date, each of Red Sun and Valor did not have any shareholding in any Shares or any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any shares in any member of the Group.

As at the Latest Practicable Date, each of Red Sun and Valor did not have any direct or indirect interest in any assets which had been, since 31 December 2020, the date to which the latest published audited consolidated financial statements of the Group were made up, acquired or disposed of by, or leased to any member of the Group, or which were proposed to be acquired or disposed of by or leased to any member of the Group.

11. MISCELLANEOUS

- a) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.
- b) The principal place of business of the Company in Hong Kong is Suite 715, 7th Floor, Ocean Centre, Harbour City, 5 Canton Road, Tsimshatsui, Kowloon, Hong Kong.
- c) The Hong Kong branch share registrar and transfer office of the Company is Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- d) The company secretary of the Company is Mr. Ho Yuet Lee, Leo, a fellow member of the Association of Chartered Certified Accountants, an associate member of the Hong Kong Institute of Certified Public Accountants, an associate member of the Hong Kong Institute of Chartered Secretaries and an associate member of the Chartered Governance Institute. Mr. Ho has over 20 years of experience in accounting, auditing and corporate finance. Mr. Ho has served the Group for over 13 years.
- e) The English text of this circular shall prevail over the Chinese text in case of inconsistency.

12. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.szbj.hk>) for 14 days from the date of this circular:

- a) the Long-Term Lease Agreement;
- b) the property valuation report on the Premises, the text of which is set out in Appendix I to this circular;
- c) the letter from the Independent Board Committee, the text of which is set out on page 14 of this circular;
- d) the letter from the Independent Financial Advisor, the text of which is set out on pages 15 to 34 of this circular; and
- e) each of the consent letters referred to in the paragraph headed "Expert and Consent" in this Appendix.



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)

NOTICE IS HEREBY GIVEN that the an extraordinary general meeting (the “**meeting**”) of Jiahua Stores Holdings Limited (the “**Company**”) will be held at 4/F., Jiahua Ming Yuan, 2146 Xinhua Road, Baoan Central District, Shenzhen, the PRC on Tuesday, 11 January 2022 at 2:30 p.m., for the purpose of considering and, if thought fit, passing (with or without amendments) the following resolution:

AS ORDINARY RESOLUTION

1. “THAT

- (a) the lease agreement (the “**Long-Term Lease Agreement**”) dated 15 November 2021 entered into between Shenzhen Jiahua Real Estate Development Company Limited (深圳市佳華房地產開發有限公司), a company incorporated in the PRC, as landlord and Shenzhen Baijiahua Department Stores Company Limited (深圳市百佳華百貨有限公司), a company incorporated in the PRC, a wholly-owned subsidiary of the Company, as the tenant in relation to the leasing of Level 1 of Commercial Podium, Jiahua Hao Yuan, Western Shiyan Avenue, Shiyan Street, Baoan District, Shenzhen, Guangdong Province, the PRC (深圳市寶安區石岩鎮石岩大道西側佳華豪苑大廈(工業區)1棟商場01層), a copy of which having been produced to the Meeting marked “A” and signed by the chairman of the Meeting for identification purpose, be and is hereby approved, confirmed and ratified and the transactions contemplated thereunder be and are hereby approved;
- (b) any one of the director(s) of the Company (or, any two directors or any one director and the company secretary of the Company, if execution under the common seal of the Company is required) be and he is (or they are) hereby authorised to do and execute (where required, to affix the common seal of the Company) all such acts, matters, deeds, documents and things as he (or they) consider(s) to be necessary, expedient or desirable for the purposes of giving effect to or in connection with the Long-Term Lease Agreement and all transactions contemplated thereunder, and to agree to such variation, amendments or waiver or matters relating thereto (including any variation,

NOTICE OF EGM

amendments or waiver of such documents or any terms thereof, which are not fundamentally different from those as provided in the Long-Term Lease Agreement) as are, in the opinion of such director, in the interest of the Company and its shareholders as a whole.”

Yours faithfully,
For and on behalf of the Board
Jiahua Stores Holdings Limited
Zhuang Lu Kun
Chairman

Shenzhen, the PRC, 22 December 2021

Registered Office:

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal Place of Business in Hong Kong:

Suite 715, 7th Floor
Ocean Centre
5 Canton Road
Tsim Sha Tsui
Kowloon

Notes:

- (1) Any member entitled to attend and vote at the EGM is entitled to appoint one proxy or if he is the holder of two or more shares, more than one proxy to attend and vote instead of him. A proxy need not be a member of the Company. To be valid all forms of proxies together with the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy thereof must be deposited with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not less than 48 hours before the time appointed for the EGM.
- (2) The register of members of the Company will be closed from Friday, 7 January 2022 to Tuesday, 11 January 2022 (both days inclusive). In order to attend and vote at the EGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on Thursday, 6 January 2022.
- (3) The completion and return of a form of proxy will not preclude a member from attending and voting at the EGM in person. If such member attends the EGM in person, his form of proxy will be deemed to have been revoked.
- (4) In the case of a joint holding, any one of such persons may vote at the EGM, either in person or by proxy; but if more than one joint holders are present at the EGM in person or by proxy, the said person whose name stands first on the register of members of the Company in respect of the relevant joint holding shall alone be entitled to vote in respect thereof.
- (5) If a "black" rainstorm warning signal or a tropical cyclone warning signal number 8 or above is in force in Hong Kong at any time between 9:00 a.m. and 4:00 p.m. on 11 January 2022, an announcement will be made in such event to notify the Shareholders of any alternative date for the EGM.