佳華百貨控股有限公司
JIAHUA STORES HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)
(Stock Code : 602)

Annual Report 2007

CONTENTS

CORPORATE INFORMATION

STOCK CODE
602

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CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT

INTRODUCTION

We are pleased to present the 2007 annual report, being the first annual report of the Group since its listing on 21 May 2007. With the collaborative efforts of the management of the Company and our staff and the support of our business partners, the Group's results continued to grow, while retail chain outlets also expanded rapidly. In 2007, the annual revenue amounted to RMB829.8 million, representing a growth of 31.6%. The Board of Directors proposed to pay a final dividend of RMB2.14 cents (equivalent to HK2.39 cents) per share to be paid in Hong Kong dollar, representing a dividend yield of 2.4% as at 31 December 2007.

MARKET OVERVIEW

China's economy has been growing steadily in the past decade, and has risen to be the world's fourth largest economy. In 2007, China recorded a GDP of RMB24,661.9 billion, representing a year-on-year increase of 11.4%; and total retail sales of consumer goods for the year reached RMB8.9 trillion, representing a year-on-year increase of 16.8%, with total retail sales of consumer goods surpassing the growth of gross domestic product. The GDP of Guangdong province in 2007 amounted to RMB3,060.6 billion, representing a year-on-year increase of 14.5% and accounting for 12.4% of the overall GDP of China. Total retail sales of consumer goods amounted to RMB1,059.8 billion, representing a year-on-year increase of 16.2% and accounting for 11.9% of the overall GDP of China.

Following China's implementation of the "Eleventh Five-Year Plan", the Chinese Government has adopted various policies and measures to maintain moderate economic growth, which further expanded domestic demand to stimulate economic growth by encouraging consumer spending, therefore further enhancing the consumption structure. With the emergence of middle income class, disposable income of Chinese consumers continued to rise, driving the domestic consumer market to blossom, leading China to become one of the largest and fastest-growing retail markets in the world.

FUTURE PROSPECTS

Looking forward, China's economy will continue to sustain its robust growth and China's capital investment and exports will shift to domestic consumption. Coupled with favourable factors such as the continued appreciation of Renminbi and increasing disposable household income, the retail industry will undoubtedly become a major driving force for future economic development. Expansion of domestic demand will be a major focus for economic development of the PRC Government in 2008.

The Directors believe that both opportunities and challenges await ahead, and the department store retail sector will compete and develop in a more comprehensive and fair market environment. In 2008, the Group will focus on

Shenzhen, Guangdong province and the "Pearl River Delta" as main regions for expansion, and will speed up the opening of store outlets by leasing as well as acquisition of new stores. While accelerating the pace for expansion of its retail outlets, the Group will place more emphasis on the building of human resources, strengthening staff training and attracting talented professionals for corporate development to form a reasonable expertise team, so as to ensure the smooth implementation of the strategic plans of the Group.

On behalf of the Board, I would like to express my sincere appreciation to all staff for their dedication and contribution to the Group, and would like to express my gratitude to all shareholders, business partners, and valuable customers for their utmost support to the Group.

Zhuang Lu Kun
Chairman

Shenzhen, the PRC
16 April 2008

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Zhuang Lu Kun (莊陸坤), aged 47, is the founder, executive Director and the chairman of the Group. He is responsible for the overall management, strategic planning and major decision-making of the Group. Mr. Zhuang has over 10 years of experience in the retail industry. He had served as a council member of 中國商業聯合會 (China General Chamber of Commerce) and a deputy chairman of 深圳市總商會 (Shenzhen Chamber of Commerce). Mr. Zhuang graduated from 廣東行政學院 (Guangdong Administrative and Management College) in the major of modern management in July 1999, and obtained the Master of Business Administration of senior management from the Sun Yat-sen University. He also received the award of 廣東省勞動模範稱號 ("Paragon of Work" of Guangdong province) in May 2003 and the award of 全國關愛員工優秀民營企業家 (Outstanding Staff Care Private Ownership Entrepreneur) in September 2006.

Mr. Shen Da Jin (沈大津), aged 62, is an executive Director of the Group. Mr. Shen received high school education in the PRC. He joined the Group in August 1995 and has over 10 years of experience in the retail industry. He is responsible for overall operation management and corporate development of the Group.

Mr. Zhuang Pei Zhong (莊沛忠), aged 46, is an executive Director and the chief financial officer of the Group. He is responsible for the financial accounting and information technology function of the Group. Mr. Zhuang obtained an undergraduate diploma in financial accounting from Guangdong Radio and Television University (廣東廣播電視大學) in 1990. Mr. Zhuang pursued advanced studies in respect of management in Sun Yat-Sen University (中山大學). Mr. Zhuang joined the Group in August 1995 and has over 10 years of experience in the retail industry.

Mr. Gu Wei Ming (顧衛明), aged 39, is an executive Director and the chief operating officer of the Group. Mr. Gu received high school education in the PRC. He joined the Group in August 1997 and has approximately 10 years of experience in the retail industry. He is responsible for the procurement management of the Group.

Independent non-executive Directors

Mr. Chin Kam Cheung (錢錦祥), CPA (practising), FCMA, aged 51, is a practising accountant in Hong Kong. Mr. Chin is a fellow member of the Chartered Institute of Management Accountants and a member of the Hong Kong Institute of Certified Public Accountants. He has extensive experience in auditing, accounting and financial management.

Dr. Guo Zheng Lin (郭正林), aged 41, is a governor of the Industrial Bank Co. Ltd., Guangxi Nanning Branch. Dr. Guo obtained a doctorate degree in Accounting from South West University of Finance and Economics. Dr. Guo is an independent director of Changyuan Group Ltd. (深圳市長園新材料股份有限公司), a company incorporated in the PRC and whose shares are listed on the Shanghai Stock Exchange.

Mr. Ai Ji (艾及), aged 54, graduated from Hunan Radio and Television University (湖南廣播電視大學) in 1988 with a bachelor's degree in law. Mr. Ai is a practising lawyer in the PRC and is under the employment of Guangdong ShenTianCheng Law Firm (廣東深天成律師事務所). Mr. Ai has worked as a legal counsel and accumulated around 10 years of experience in lawfirms in the PRC.

SENIOR MANAGEMENT

Ms. Liu Yang (劉陽), aged 44, is the manager responsible for office administration and human resources management of the Group. Ms. Liu has over seven years of experience in office administration and human resources management. Ms. Liu obtained an undergraduate diploma in the enterprises management from Liaoning University in 1985.

Mr. Liang Yi Hua (梁毅華), aged 37, completed his study in commerce at the University of Jinan, in 1994. Mr. Liang is a deputy manager responsible for business planning and development of the Group.

Mr. Cai Xiao Wen (蔡小文), aged 43, is a deputy manager responsible for procurement function of the Group. Mr. Cai serves as operation manager, store manager and deputy manager of the procurement centre. Mr. Cai has over 19 years of experience in the retail industry.

Ms. Yuan Shu Hong (袁淑紅), aged 32, is the deputy manager responsible for procurement function of the Group. Ms. Yuan graduated from Changsha Railway Institution in 1995. Ms. Yuan has over 7 years of experience in the retail industry.

Mr. Zhong Hua (鍾華), aged 36, is the deputy manager responsible for information technology development and management of the Group. Mr. Zhong had served as manager and deputy manager of the information center. Mr. Zhong has over 9 years of experience in the information technology of the retail industry.

Mr. Li Quan Lin (李全林), aged 35, obtained a bachelor degree in statistics from Hangzhou College of Commerce in 1997. Mr. Li is the deputy manager responsible for operation management of the Group.

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Ho Yuet Lee, Leo (何悦利), FCCA, CPA, aged 34, is the finance manager of the Group. He is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Ho has 10 years of experience in accounting, auditing and corporate finance.

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

In 2007, China's economy has maintained rapid steady growth. China's retail industry continued to sustain good development momentum in 2007. Income per capita and purchasing power have both continued to rise. In 2007, China's GDP was RMB24,661.9 billion, representing an increase of 11.4% compared with the corresponding period last year; total retail sales of consumer goods reached RMB8.9 trillion, up 16.8% compared with the corresponding period last year, amongst which total sales in wholesale and retail sectors, up 16.7% compared with the corresponding period last year.

In 2007, the GDP of Guangdong province amounted to RMB3,060.6 billion, representing an increase of 14.5% compared with the corresponding period last year; total retail sales of consumer goods amounted to RMB1,059.8 billion, representing an increase of 16.2% compared with the corresponding period last year. The GDP of Guangdong province accounted for 12.4% of the overall GDP of China.

In 2007, the GDP of Shenzhen amounted to RMB676.5 billion, representing an increase of 14.7% compared with the corresponding period last year; total retail sales of consumer goods amounted to RMB167,129 million, representing an increase of 16.2% compared with the corresponding period last year.

China's rapidly growing economy further increased domestic demand and thus stimulated spending, pushing the consumer retail market to grow.

At the same time, income of the Chinese people also grew rapidly, which stimulated consumer demand. The Chinese government exerted great efforts in reinforcing the social security system and to resolve livelihood issues of the Chinese people such as education, medical and housing, so as to enhance the confidence of the Chinese people towards the future, as well as consumer spending. In light of the fast pace of consumption, the retail market has tremendous potentials.

BUSINESS REVIEW

- **Expanding retail outlets, strengthening its edges on regional scale**

  As at 31 December 2007, the Group had 12 outlets under its direct operation with a total gross sales floor area of about 171,000 sq.m. These outlets are mainly situated at economic-developed areas including Shenzhen, Dongguan of Guangdong and Pearl River Delta region. A new shopping mall ("Foshan Outlet") was opened in Foshan, Guangdong and commenced operation on 9 January 2008. Together with the Foshan Outlet, the total number of outlets of the Group will reach 13, with a total gross sales floor areas of about 187,000 sq.m., realizing the advantages of

regional scale. The Group plans to accelerate the pace for expansion of outlets in Shenzhen and the Pearl River Delta region through leasing, and acquisitions of properties, if possible, in the coming few years.

- **Improving internal operation management, enhancing competitiveness**

  The Group has been awarded the ISO9001 certification for its management system in 2004. On this basis, the Group has implemented a series of measures to realign, complement, standardize and improve its management system, thus forming its own operating edges amongst the intensified market competition.

  Precise market positioning and the alignment of its operation model of "supermarket + department store" have enabled the Group to achieve effective operation and enhance its competitiveness.

  The Group has set up an advanced Management Information System to fully utilize information resources and monitor operations of all outlets. Featured with all major capabilities including financial management, sales management, procurement management, inventory management and human resources management, the system can generate various information analysis required for the management of purchase and sales of the Group in a timely manner, providing a scientific basis for decision making.

  The formation of human resources strategies and staff incentive system has facilitated the performance appraisal in different departments of the Group, thus increased working efficiency and reduced operating costs.

- **Continuous optimization of supply chain management platform, exploring the valuable information resources**

  The efficiency of the Group's supply chain management system has been effectively increased. It reduces management costs for vendors and the Group, and increases the working efficiency and quality. Supply chain system can provide functions such as real-time business information, online order form, online settlement and historical data enquiry, thereby speeding up the lead-time and stock turnover of the outlets. It enables the information resources of the Group's business to be linked up with banks and vendors to improve operational efficiency.

- **Strengthening cost control, improving operational efficiency**

  As the robust development of the PRC economy continues, the economic structure further readjusted as well as enhancing spending power, while prices also increased along with various operating costs including prices of materials, rental and labor costs. The Group adheres to its strategy of maintaining operating efficiency through various cost control measures by raising sales, and increasing commission on general merchandises; by maximizing the utilization rate of stores, enhancing turnover per square meter and revenue per employee, formulating position- and performance-based remuneration system, controlling operating expenses according to project-based benchmarks, streamlining procedures. All in all, the Group has maintained its operating cost at a reasonable and appropriate level.

OUTLOOK AND PROSPECTS

Looking ahead, in view of the opportunities arising from the rapid development of the PRC economy and the strong demand for fast moving consumer goods, the Directors are optimistic about the prospects of the Group's business.

The strategic development of the Group in the future is to become a major retail chain enterprise in the PRC. The Group will further strengthen its core competitiveness by improving operating performance and enlarging revenue scale through mergers and acquisitions. The Group will also continue to explore new opportunities for asset building as well as enhancing shareholders' value and profitability.

FINANCIAL REVIEW

1. Revenue

Revenue of the Group increased by 31.6% to approximately RMB829.8 million for the year ended 2007 from approximately RMB630.6 million for the year ended 2006, with momentum from establishment of new store in Shiyan Town in Shenzhen of the PRC and acquisition of businesses from existing retail store chain of Shenzhen Dongfangcheng Department Stores ("Dongfangcheng") in Shenzhen of the PRC.

Our Group has opened a new store in Shiyan Town in Shenzhen of the PRC in January 2007. It brought gross sales floor area of about 5,900 square meter to our Group with total revenue of approximately RMB82.5 million, representing approximately 9.9% of total revenue of the Group.

Our Group has acquired the business of all four outlets of Dongfangcheng during the year. These four outlets are located at the prime location in Nanshan District, Longgang District and Baoan District in Shenzhen, the PRC. They brought about 35,700 square meter additional gross sales floor area to our Group with total revenue of approximately RMB43.4 million, representing approximately 5.2% of total revenue of the Group.

Revenue in 2007 was dominant by sale of goods of approximately RMB724.1 million, representing approximately 87.2% of total revenue, an increase of approximately 32.4% over last year (2006: approximately RMB547.0 million, representing approximately 86.7% of total revenue). Revenue of commission from concessionaire sales amounted to approximately RMB83.7 million, representing approximately 10.1% of total revenue, an increase of approximately 22.4% over last year (2006: approximately RMB68.4 million, representing approximately 10.9% of total revenue). Revenue of rental income from sub-leasing of shop premises amounted to approximately RMB22.0 million, representing approximately 2.7% of total revenue, an increase of approximately 44.7% over last year (2006: approximately RMB15.2 million, representing approximately 2.4% of total revenue).

Sales volume of the 5 largest corporate customers amounted to approximately RMB1.9 million, representing approximately 0.2% of total revenue (2006: approximately RMB2.5 million, representing approximately 0.4% of total revenue).

2. **Gross Profit and Gross Profit Margin**

Gross profit increased by 36.0% to approximately RMB199.4 million for the year ended 2007 from approximately RMB146.6 million for the year ended 2006. Gross profit margin increased by approximately 0.8% to 24.0% in the year ended 2007 compared to 23.2% for the year ended 2006. The percentage of related cost of inventories sold, including principally merchandise for sale, decreased slightly to approximately 76.0% for the year ended 2007 from approximately 76.8% for the year ended 2006.

The increases in gross profit and gross profit margin were mainly attributable to the increase in Group's revenue because of addition of new stores. At the same time, the Group has increased its bargaining power over its suppliers as a result of more bulk purchases.

3. **Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost of acquisition**

This was resulted from the relevant acquisition from Dongfangcheng during the year.

4. **Other operating income**

In 2007, other operating income increased significantly by 39.2% to approximately RMB109.1 million for the year ended 2007 from approximately RMB78.4 million for the year ended 2006. This was mainly attributable to the increase in interest income from proceeds from the listing (the "Listing") of shares of the Company on The Stock Exchange of Hong Kong Limited on 21 May 2007 of approximately RMB18.1 million (2006: approximately RMB0.2 million). Besides, there was a government grants of approximately RMB1.5 million from the local government of Shenzhen upon the successful Listing. In addition, the products entrance fee income from concessionaire has been increased by 62.6% to approximately RMB19.7 million in 2007 from approximately RMB12.1 million in 2006, and the promotion income has been increased by 105.6% to approximately RMB12.2 million in 2007 from approximately RMB5.9 million in 2006 due to the addition of new stores.

5. **Distribution costs**

Distribution costs increased by 58.8% to approximately RMB208.9 million for the year ended 2007 from approximately RMB131.6 million for the year ended 2006. This was mainly attributable to the increase in electricity charge of stores to approximately RMB36.8 million in 2007 from approximately RMB22.3 million in 2006, increase in selling staff salary to approximately RMB48.1 million in 2007 from approximately RMB30.9 million in 2006, and increase in operating lease rentals of stores to approximately RMB49.9 million in 2007 from approximately RMB27.3 million in 2006. These are attributable to the addition of new stores during 2007.

6. **Administrative expenses**

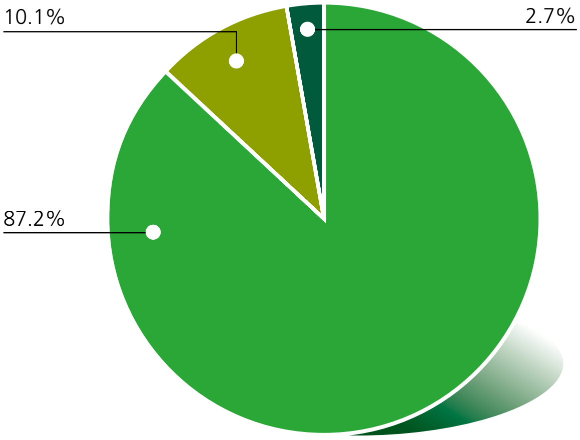
Administrative expenses increased by 56.2% to approximately RMB43.4 million for the year ended 2007 from approximately RMB27.8 million for the year ended 2006. This was mainly attributable to the increase in professional fees incurred in relation to the Listing of approximately RMB3.0 million, increase in net exchange loss brought by the appreciation of RMB against Hong Kong dollar on the cash and bank balance of approximately RMB10.4 million, and increase in share-based payment expenditure for the pre-IPO share option granted to staff and consultant of approximately RMB5.4 million during the year.

7. **Profit for the Year**

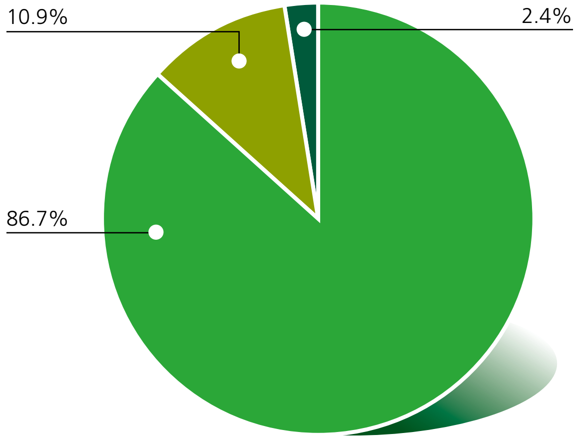
As a result of the above, profit attributable to the Company's equity holders increased significantly by 39.0% to approximately RMB79.1 million for the year ended 2007 from approximately RMB56.9 million for the year ended 2006.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Revenue – Turnover



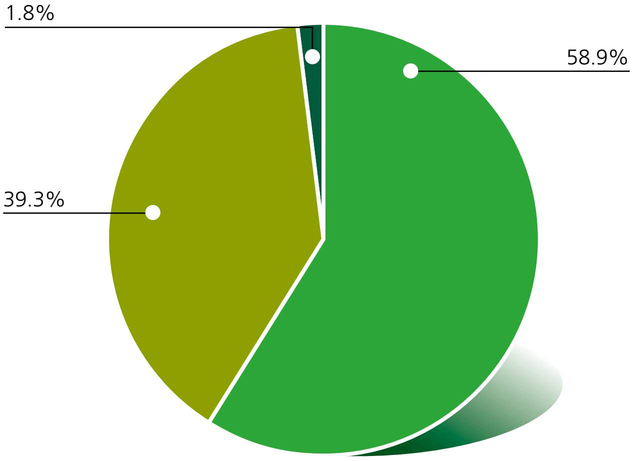
2007



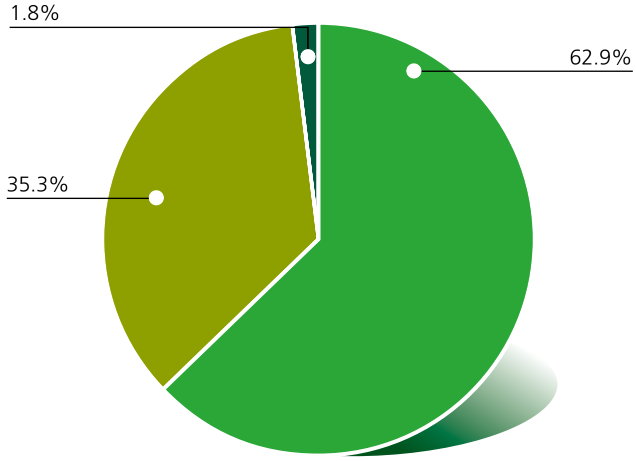
2006

	2007 RMB'000	2006 RMB'000
Sales of goods	724,110	546,963
Commissions from concessionaire sales	83,679	68,440
Rental income from sub-leasing of shop promises	22,059	15,219
	829,848	630,622

Gross Proceeds



2007



2006

	2007 RMB'000	2006 RMB'000
Sales of goods	724,110	546,963
Concessionaire sales	482,376	307,413
Rental income	22,059	15,219
	1,228,545	869,595

NET CURRENT ASSETS AND NET ASSETS

The Group's net current assets as at 31 December 2007 was approximately RMB261.5 million, an increase of 1,244.8% or RMB242.0 million from the balance of RMB19.5 million recorded as at 31 December 2006. Net asset of the Group as at 31 December 2007 rose to RMB405.9 million, an increase of RMB358.1 million or 748.9% over the balance as at 31 December 2006.

SUBSEQUENT EVENTS

Set up of a new subsidiary

Pursuant to a written resolution dated 3 January 2008, a new subsidiary is proposed to be set up under the holding of an existing subsidiary of our Group in the PRC to handle the wholesaling business of the Group.

Save as disclosed above, the Group did not have any other significant subsequent events subsequent to 31 December 2007.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Risk Management

The activities of the Group expose it to a variety of financial risks, including foreign exchange risk, credit risk, interest rate risk and liquidity risk.

(i) Foreign currency risk

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

(ii) Credit risk

The Group has no significant concentrations of credit risk. Most of the sales transactions were settled in cash basis or by credit card payment. The carrying amount of loan and other receivables included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to its financial assets.

(iii) Interest rate risk

The Group's exposure to interest rate risk mainly arises on cash and cash equivalents. The Group has not used any derivative contracts to hedge its exposure to interest rate risk. The Group has not formulated a policy to manage the interest rate risk.

(iv) Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents and have available funding to meet its working capital requirements. The Group's liquidity is dependent upon the cash received from its customers. The directors of the Company are satisfied that the Group will be able to meet in full its financial obligations as and when they fall due in the foreseeable future.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2007, the Group had approximately 3,653 full-time employees in the mainland China and Hong Kong. The Group continues to recruit high calibre individuals and provide continuing education and training for employees to help upgrading their skills and knowledge as well as developing team spirit on an on-going basis. During the Period, total staff costs were approximately RMB69.0 million. Competitive remuneration packages and performance-based bonuses are structured to commensurate with reference to individual responsibilities, qualification, experience and performance.

CONTINGENT LIABILITIES

As at 31 December 2007, the Group has no significant contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Retail Stores	**Commence Operation**	**Storey**	**Gross floor area** *(sq. m.)*	**Opera-tion area** *(sq. m.)*	**Avg. # of daily transactions (Supermarket)**		**Avg. # of daily transactions (Department Store)**		**Estimated number of visitors per day**	
					FY06	**FY07**	**FY06**	**FY07**	**FY06**	**FY07**
Xixiang store	Oct 1997	3	8,806	7,987	8,633	8,703	1,868	1,890	14,702	15,630
Shajing store	May 1999	5	20,978	19,862	6,720	7,596	2,937	2,976	13,519	14,567
Songgang store	Jan 2001	5	23,134	19,104	8,231	9,343	4,901	5,184	18,385	19,324
Longhua store	Nov 2001	5	24,549	20,890	7,948	10,142	5,591	5,671	18,955	18,736
Gongming store	Sept 2002	4	21,843	19,573	10,176	11,796	5,407	5,758	21,815	22,762
Zhangmutou store	Aug 2006	6	18,200	13,800	4,530	5,548	2,710	2,797	10,136	10,232
Shatoujiao store	Nov 2006	4	11,110	9,188	4,464	6,083	4,025	4,422	11,885	12,568
Shiyan store	Jan 2007	1	5,852	4,698	N/A	6,371	N/A	1,489	N/A	13,862
Sentosa store	Aug 2007	3	14,401	11,233	N/A	2,839	N/A	664	N/A	4,904
Fanshen store	Aug 2007	2	6,121	5,202	N/A	4,943	N/A	1,156	N/A	8,538
Nanshan store	Aug 2007	3	4,352	3,568	N/A	3,755	N/A	878	N/A	6,487
Buji store	Aug 2007	2	10,800	8,856	N/A	3,241	N/A	758	N/A	5,598

Note: The above-mentioned are unaudited figures and based on internal records

Retail Stores	**Gross proceeds** *(RMB million)*		**Gross proceeds per day** *(RMB '000)*		**Gross proceeds per operation area per day** *(RMB)*		**Avg. value per transaction** *(RMB)*	
	FY06	**FY07**	**FY06**	**FY07**	**FY06**	**FY07**	**FY06**	**FY07**
Xixiang store	97.7	98.2	267.7	269.2	33.5	33.7	29.1	29.3
Shajing store	129.0	136.4	353.4	373.7	17.8	18.8	43.1	44.4
Songgang store	172.7	178.3	473.2	488.6	24.8	25.5	44.7	46.7
Longhua store	199.6	212.9	546.8	583.3	26.2	27.9	47.7	51.3
Gongming store	224.5	272.9	615.1	747.9	31.4	38.2	48.7	56.8
Zhangmutou store	34.0	86.0	267.7	235.7	19.4	17.0	36.6	24.3
Shatoujiao store	12.1	73.3	336.1	200.8	36.5	21.8	43.0	40.3
Shiyan store	N/A	102.1	N/A	279.9	N/A	59.5	N/A	47.0
Sentosa store	N/A	20.5	N/A	135.2	N/A	12.0	N/A	38.0
Fanshen store	N/A	15.3	N/A	106.5	N/A	20.4	N/A	16.0
Nanshan store	N/A	14.4	N/A	100.1	N/A	28.0	N/A	18.1
Buji store	N/A	17.7	N/A	118.9	N/A	13.4	N/A	20.5

Note: The above-mentioned are unaudited figures and based on internal records

REPORT ON CORPORATE GOVERNANCE

The Group fully acknowledges its obligations to its shareholders and investors. Since its listing in 21 May 2007, the Company has been in strict compliance with the applicable legal and regulatory requirements of domestic or foreign securities regulatory authorities and has been devoted to improving the transparency of its corporate governance and the quality of information disclosure. The Group also attaches great importance on communication with its shareholders and strives to ensure the timeliness, completeness and accuracy of its information disclosure to its shareholders and investors and to the protection the interests of investors. The Board has strictly complied with the principles of corporate governance and is dedicated to improving the management quality of the Company and the standard of corporate governance continually in order to protect and enhance value for shareholders. To this end, the Company adopted the principles in the Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules (the "Code") since date of listing with the aim of enhancing the quality of corporate governance of the Group. Such adoption was reflected in the Company's Articles of Association, internal rules and regulations and the corporate governance implementation practices.

The Board is pleased to confirm that, the Company has complied with all provisions of the Code for the period under review and none of the Directors is aware of any information that would reasonably indicate that the Company is not or was not for any time during the period under review in compliance with the provisions of the Code.

BOARD

The Board consists of 7 Directors, of whom four are executive Directors including the chairman of the Board and three of whom are Independent Non-executive Directors. Profiles and particulars of the chairman of the Company and other Directors are set out under the section headed "Biography of Directors and Senior Management". As approved by an ordinary resolution of the annual general meeting on 30 April 2007, the first session of the Board was established and the term of service of each Director (including Independent Non-executive Directors) is three years (two years for Independent Non-executive Directors), which will expire on the date of annual general meeting of the Company to be held in the year 2008. Corresponding to the term of service, all executive Directors have entered into service contracts, which are valid for a term of 3 years (two years for Independent Non-executive Directors) and renewable subject to the applicable laws. The names of Directors referred herein are members of the first session of the Board. The principal responsibilities of the Board include:

– to formulate overall strategies, monitor operating and financial performance and determine proper policies to manage risks exposures arising in the course of achieving the Group's strategic goals;

– to oversee and review the Company's internal control system;

– to be ultimately responsible for the preparation of financial statements of the Company and to assess the Company's performance, financial position and prospects in a balanced, clear and comprehensible way in respect of the interim and annual reports of the Company, other price-sensitive announcements and disclosure of financial information pursuant to the Listing Rules, reports submitted to the regulatory authorities and information disclosure pursuant to legal requirements;

BOARD *(Continued)*

- the executive Directors/management in charge of various aspects of the operations of the Company are responsible for the management of daily operations of the Company. The Board is responsible for setting and handling policies, financial and formulating affairs affecting the overall strategy of the Company, including financial statements, dividends policy, material changes to accounting policies, annual operating budget, material contracts, key finance arrangements, major investments and risk management policies;

- the management has received clear guidelines and instructions in respect of their authorities, especially under all circumstances to report to the Board and to seek Board's approval prior to making any decision or entering into any commitment on behalf of the Company; and

- to review the responsibilities and authorities delegated to the executive Directors/management on a regular basis and to ensure such arrangements are appropriate. The Board held four meetings during the year. Attendance record of the Directors (including attendance by proxy) is as follows:

Executive Directors **4**

Name	**Attendance**
Mr. Zhuang Lu Kun *(Chairman)*	4/4
Mr. Shen Da Jin	4/4
Mr. Zhuang Pei Zhong	4/4
Mr. Gu Wei Ming	4/4

Independent Non-executive Directors **3**

Name	**Attendance**
Mr. Chin Kam Cheung	4/4
Dr. Guo Zheng Lin	3/4
Mr. Ai Ji	4/4

Note: Except for the above-mentioned regular Board meetings during the year, the Board also held meetings whenever Board's decision on any specific matter is required. All Directors will receive the meeting notice, detailed agenda of the meeting and the relevant information within a reasonable period prior to the meeting.

The members of the Board fully acknowledge their own duties and obligations in treating all shareholders on an equal basis and protecting the interests of all investors. The Company ensures that documents and information relating to the businesses of the Group are provided to Board members on a timely basis. The Independent Non-executive Directors perform their duties in compliance with relevant laws and regulations and safeguard the interests of the Company and its shareholders as a whole. The Company has received confirmation letters from each of the independent non-executive Director in respect of their independence pursuant to Rule 3.13 of the Listing Rules.

COMMITTEES

The monitoring and assessment of certain governance matters are allocated to three committees which operate under written terms of reference. The composition of the committees up to the date of this report is set out in the table below:

Directors	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors			
Mr. Zhuang Lu Kun *(Chairman)*	–	–	–
Mr. Shen Da Jin	–	–	Chairman
Mr. Zhuang Pei Zhong	–	Member	–
Mr. Gu Wei Ming	–	–	Member
Independent Non-executive Directors			
Mr. Chin Kam Cheung	Chairman	Member	Member
Dr. Guo Zheng Lin	Member	Chairman	Member
Mr. Ai Ji	Member	Member	Member

AUDIT COMMITTEE

The Company has established an audit committee on 30 April 2007 with written terms of reference in compliance with the Listing Rules. The audit committee comprises the three Independent Non-executive Directors who together have substantial experience in the fields of accounting, business, corporate governance and regulatory affairs.

The audit committee is responsible for reviewing the accounting principles and practices adopted by the Company as well as substantial exceptional items, internal controls and financial reporting matters, which included a review on the audited annual results for the year ended 31 December 2007.

In addition, the audit committee also monitors the appointment of the Company's external auditor.

The audit committee was established on 30 April 2007 and the first audit committee meeting was held on 11 September 2007.

REMUNERATION COMMITTEE

The Company has established a remuneration committee on 30 April 2007 with written terms of reference in compliance with the Listing Rules. The remuneration committee comprises the three Independent Non-executive Directors and one Executive Directors.

The primary duties of the remuneration committee are to review and determine the terms of remuneration packages, bonuses and other compensation payable to Directors and senior management. In addition, it has responsibility for reviewing and making appropriate recommendations to the Board on the remuneration policy and structure of all the Directors and senior management.

The remuneration committee was established on 30 April 2007, no meeting has been held in 2007.

NOMINATION COMMITTEE

The Company has established a nomination committee on 30 April 2007 with written terms of reference in compliance with the Listing Rules. The nomination committee comprises the three Independent Non-executive Directors and two Executive Directors. The nomination committee is mainly responsible for making recommendations to the Board on appointment of Directors and management of Board succession. The responsibilities of the nomination committee are to determine the criteria for identifying candidates suitably qualified and reviewing nominations for the appointment of Directors to the Board.

Under the Articles of Association of the Company, at least one-third of the Directors shall retire by rotation at the annual general meeting and all newly appointed Directors will have to retire at the next annual general meeting. The retiring Directors are eligible to offer themselves for re-election.

The nomination committee was established on 30 April 2007, no meeting has been held in 2007.

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors hereby confirm their responsibilities for preparing the financial statements of the Company. The Directors confirm that the preparation of the financial statements of the Company complied with the relevant laws and accounting standards and that the Company would publish the financial statements of the Company at the appropriate time. The responsibilities of external auditors to the shareholders are set out on page 35.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS IN APPENDIX 10 OF THE LISTING RULES

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules as its code of conduct for securities transactions of the Directors of the Company. After specific enquiries to the Directors, the Board is pleased to confirm that all the Directors have fully complied with the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules during the period under review.

REMUNERATION OF AUDITORS

The Audit Committee is responsible for considering the appointment of external auditors and reviewing their remuneration. For the year under review, approximately RMB774,000 were payable by the Company to the external auditors as service charge for their audit of the Group's financial statements for the year ended 31 December 2007. For the listing of the Company's shares on The Stock Exchange of Hong Kong Limited, the Group incurred a total of approximately RMB3.6 million for the reporting accountants.

Internal control

The Board has overall responsibility for the system of internal controls of the Company and for reviewing its effectiveness. The Board is committed to implementing an effective and sound internal controls system to safeguard the interest of shareholders and the Group's assets. The Board has delegated to the management the implementation of the system of internal controls and reviewing of all relevant financial, operational, compliance controls and risk management function within an established framework.

During the year, the Company has engaged an external independent professional adviser to assist in performing the review of the effectiveness of its system of internal control. Relevant applicable recommendations made by such consultant last year have been implemented by the Group in stages to further enhance its internal control policies, procedures and practices.

Organisational Structure

The Group has established an organizational structure, which sets out the relevant operating policies and procedures, duties and authorizations.

Authorizations and Controls

Executive directors and senior management have been delegated the relevant authorizations in respect of corporate strategies, policies and contracting liabilities. Budget controls and financial reporting systems are formulated by relevant departments and are subject to review by directors in charge. The Group has formulated relevant procedures to assess, review and approve significant capital and recurrent expenses, while operating results will be compared against the budgets and reported to executive directors on a regular basis.

Training on Internal Controls

Directors and senior managements participate in internal control training programmes provided by the Group, which are designed to equip them with proper and full knowledge on internal controls, and provide guidance to them to apply internal control systems on a consistent basis.

Accounting System Management

The Group has put in place a comprehensive accounting management system, so as to provide the management with indicators to evaluate its financial and operating performance and financial information for reporting and disclosure purposes. Any deviation from expectation will be analysed and explained, and appropriate steps will be carried out to address issues where necessary. The Group has set up appropriate internal control procedures to ensure full, proper and timely record of accounting and management information, which will be reviewed and inspected on a regular basis to ensure the financial statements are prepared in accordance with generally accepted accounting principles, accounting policies of the Group and applicable laws and regulations.

CONTINUING OPERATION

During the relevant year, there are no uncertain events or conditions that may materially affect the continuing operation of Group on an ongoing concern.

INVESTOR RELATIONS

The Company reports to the shareholders regarding corporate information of the Group on a timely and accurate basis. Printed copies of the 2007 interim report have been sent to all shareholders. The Company places great emphasis on communication with shareholders and investors of the Company and improving the Company's transparency of information disclosure. As such, designated officers are assigned to handle relations with investors and analysts. During the year under review, the Company received a total of 58 fund managers and analysts and answered their inquiries. Site visits to stores and face-to-face meetings were arranged for them so as to enhance their understanding of the Company's operation and also its latest business developments. The Company made disclosures in a faithful, true, accurate, complete and timely manner in strict accordance with the applicable laws and regulations, Articles of Association and Listing Rules. At the same time, the Company places great importance in collecting and analysing various comments and recommendations of analysts and investors on the Company's operations, which would be compiled into reports regularly and adopted selectively in its operations. The Company has set up a website, allowing investors to access updates on the Company's particulars, statutory announcements, management and recent operating affairs. All published annual reports, interim reports, circulars and announcements since the Listing are and will be included in the "Investors Relations" section of the website. The Company persistently adheres to its disclosure principle of honesty and integrity and actively initiates communications with various parties. In particular, it held corporate presentations, press conferences and one-on-one investor meetings following the announcement of interim and annual results and decisions to major investments. The Company also participates in a series of investor relation activities and conducts one-on-one communication with investors on a regular basis.

REPORT OF THE DIRECTORS

The Directors are pleased to present their first annual report together with the audited financial statements of the Company for the year ended 31 December 2007.

GROUP REORGANISATION AND LISTING

The Company was incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on 4 September 2006 and was registered on 2 December 2006 as an oversea company in Hong Kong under Part XI of the Companies Ordinance. For the purpose of the listing of and permission to deal in the Company's shares (the "Shares") on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company has undergone a series of reorganisation to rationalise its group structure (the "Group Reorganisation"). Details of the Group Reorganisation are set out in appendix V to the Prospectus of the Company dated 8 May 2007. The Shares have been listed on the Main Board of the Stock Exchange since 21 May 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of each member of the Company are set out in note 14 to the financial statements. The principal activities of the operating subsidiary of the Company during the year ended 31 December 2007 are operation and management of retail stores.

RESULTS

The results of the Company for the year ended 31 December 2007 are set out in the consolidated income statement on page 37.

DIVIDENDS

The Board of Directors proposed a final dividend of RMB2.14 cents (equivalent to HK2.39 cents) per ordinary share for the year ended 31 December 2007 to shareholders of the Company. This proposal is subject to shareholders' approval at the annual general meeting to be held on Friday, 13 June 2008. The proposed final dividends will be paid in Hong Kong dollars, such amount to be calculated by reference to the middle rate published by the People's Bank of China for the conversion of Renminbi to Hong Kong dollars as at 16 April 2008.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Company during the year are set out in note 11 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 24 to the financial statements.

RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in Consolidated Statement of Changes in Equity and note 25 to the financial statements respectively.

SHARE OPTIONS

Details of the Company's share option scheme and the movements in the share options are set out in note 26 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2007, the Company's distributable reserves amounted to approximately RMB277,218,000 of which approximately RMB22,153,000 was proposed to be the final dividend of the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Associations of the Company or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed or cancelled any of the Company's listed Shares.

SUBSEQUENT EVENT

Details of the subsequent event are set out in note 34 to the financial statements.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors:

Mr. Zhuang Lu Kun	(appointment on 4 September 2006) *(Chairman)*
Mr. Shen Da Jin	(appointment on 30 April 2007)
Mr. Zhunag Pei Zhong	(appointment on 4 September 2006) *(Chief Financial Officer)*
Mr. Gu Wei Ming	(appointment on 30 April 2007) *(Chief Operating Officer)*

Independent Non-executive Directors:

Mr. Chin Kam Cheung	(appointment on 30 April 2007)
Dr. Guo Zheng Lin	(appointment on 30 April 2007)
Mr. Ai Ji	(appointment on 30 April 2007)

Pursuant to Article 86(3) of the articles of association of the Company, Mr. Zhuang Lu Kun, Mr. Shen Da Jin, Mr. Zhuang Pei Zhong, Mr. Gu Wei Ming, Mr. Chin Kam Cheung, Dr. Guo Zheng Lin and Mr. Ai Ji shall retire from office at the forthcoming Annual General Meeting by rotation. All retiring Directors, being eligible, will offer themselves for re-election. The re-election of Directors will be individually voted by Shareholders.

The Board confirmed that the Company has received from each of the Independent Non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules of the Stock Exchange. The Company considers that all of the Independent Non-executive Directors are independent. All of the Independent Non-executive Directors are members of the Company's audit committee, nomination committee and remuneration committee.

BIOGRAPHY OF THE DIRECTORS AND THE SENIOR MANAGEMENT

The biographical details of the Directors and the senior management are set out on pages 6 to 7.

DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors has entered into a service contract with the Company for an initial term of three years (two years for Independent Non-executive Directors) commencing on 21 May 2007 ("Listing Date") 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 year 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)). The Company's policies concerning remuneration of the Executive Directors are as follows:

(i) the amount of remuneration is determined on a case by case basis depending on the relevant Director's experience, responsibility, workload and the time devoted to the Group;

(ii) non-cash benefits may be provided at the discretion of the Board to the relevant Directors under their remuneration package; and

(iii) the Executive Directors may be granted, at the discretion of the Board, the Share Option Scheme adopted by the Company, as part of their remuneration package.

INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in section under "Continuing Connected Transaction" of this report on pages 27 to 30, no Director nor controlling shareholders had a material interest, either directly or indirectly, in any contract of significance to the business of the Company. There is no contract of significance between the Company, its holding company or any of its subsidiaries or its controlling shareholder during the year.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or were in existence during the year.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Share Option Scheme") pursuant to a resolution of the sole shareholder of the Company passed on 30 April 2007. The Share Option Scheme complies with the requirements of the Listing Rules. Certain share options have been granted to the Directors and the employees of the Company under the Share Option Scheme since its adoption and up to 31 December 2007. Details of the outstanding options as at the balance sheet date are set out in note 26 to the financial statements.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2007, the interests or short positions of the Directors and chief executives in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which (a) were required notification 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 any such Director and chief executives is taken or deemed to have taken under such provisions of the SFO); or which (b) were required pursuant to Section 352 of the SFO to be entered into the register maintained by the Company; or which (c) were required, pursuant to Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

(A) Ordinary Shares of HK$0.10 each of the Company

		Number of shares/ Underlying Shares Held			
Name	**Capacity**	**Personal Interest**	**Family Interest**	**Total Interest**	**Percentage of Issued Shares**
Mr. Zhuang Lu Kun (Mr. Zhuang)	Beneficial Owner	607,500,000	67,500,000 *(Note 1)*	675,000,000	65.06%
	Beneficial Owner	1,000,000 *(Note 2)*	–	–	–
Mr. Shen Da Jin	Beneficial Owner	720,000 *(Note 3)*	–	–	–
Mr. Zhuang Pei Zhong	Beneficial Owner	600,000 *(Note 4)*	–	–	–
Mr. Gu Wei Ming	Beneficial Owner	540,000 *(Note 5)*	–	–	–

Notes:

(1) 67,500,000 Shares are be 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.

(2) Pursuant to the Pre-IPO Share Option Scheme, pre-IPO Share Option in relation to 1,000,000 Shares was granted to Mr. Zhuang.

(3) Pursuant to the Pre-IPO Share Option Scheme, pre-IPO Share Option in relation to 720,000 Shares was granted to Mr. Shen Da Jin.

(4) Pursuant to the Pre-IPO Share Option Scheme, pre-IPO Share Option in relation to 600,000 Shares was granted to Mr. Zhuang Pei Zhong.

(5) Pursuant to the Pre-IPO Share Option Scheme, pre-IPO Share Option in relation to 540,000 Shares was granted to Mr. Gu Wei Ming.

All the interests disclosed above represent long position in the shares and underlying shares of the Company.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS *(Continued)*

(B) Share Options

At the shareholders' meeting of the Company held on 30 April 2007, written resolution was passed by the then shareholders to approve the adoption of a pre-IPO Share Option Scheme (the "pre-IPO Share Option Scheme"). The Board was authorised to grant options to selected grantees of the Group, to subscribe for the shares in the Company ("Shares"). The number of underlying shares available under the pre-IPO Share Option Scheme shall not, in aggregate, exceed 19,210,000 Shares. All options shall be unvested options upon grant and unvested options shall vest automatically subject to selected grantees continuing to be a participant and in accordance with the provisions in the pre-IPO Share Option Scheme. The exercise price of the options shall be equal to the Offer Price under the IPO and at a consideration of HK$1.00 given by each grantee to the Company for the granting thereof. Each of the grantees to whom options have been granted under the pre-IPO Share Option Scheme will be entitled to exercise the options granted under the scheme at any time during the five years from the expiry of 6 months from the Listing Date on 21 May 2007.

Details of outstanding options for the underlying shares of the Company at the beginning and at the end of the Period which have been granted under the pre-IPO Share Option Scheme are as follows:

Options to subscribe for Shares

Name/Category of Participants	Outstanding options at the beginning of the year	Number of options granted during the year	Number of options exercised during the year	Number of options lapsed during the year	Outstanding options at the end of the year	Date of grant *(Note a)*	Exercise Period	Exercise price per Share *HK$*
Directors								
Mr. Zhuang Lu Kun	–	1,000,000	–	–	1,000,000	30/4/2007	21/11/2007 to 20/11/2012	1.04
Mr. Shen Da Jin	–	720,000	–	–	720,000	30/4/2007	21/11/2007 to 20/11/2012	1.04
Mr. Zhuang Pei Zhong	–	600,000	–	–	600,000	30/4/2007	21/11/2007 to 20/11/2012	1.04
Mr. Gu Wei Ming	–	540,000	–	–	540,000	30/4/2007	21/11/2007 to 20/11/2012	1.04

Save as disclosed above, none of the Company's Directors, chief executive and their associates, had any interests or short positions in the shares and underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to section 352 of the SFO at the date of this report.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, their respective spouses or minor children to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2007, according to the register kept by the Company pursuant to Section 336 of the SFO, and so far as was known to any Director, the following persons (other than the interests of certain Directors disclosed under the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or any associated Corporation" above), had an interest or short position in the shares and 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:

Name	Type of interest	Capacity	Personal/ corporate interest	Family interest	Total	Percentage of issued share capital
Mr. Zhuang Xiao Xiong	Personal	Beneficial owner	75,000,000	–	75,000,000	7.23%
			1,000,000 *(Note 1)*	–	–	–
Mrs. Zhuang	Personal	Beneficial owner	67,500,000	607,500,000 *(Note 2)*	675,000,000	65.06%
				1,000,000 *(Note 3)*	–	–
Martin Currie (Holdings) Limited *(Note 4)*	Corporate	Interest of controlled corporation	80,877,500	–	80,877,500	7.8%
Martin Currie Investment Management Limited	Corporate	Beneficial owner	61,600,500	–	61,600,500	5.9%

Notes:

(1) Pursuant to the pre-IPO Share Option Scheme, pre-IPO Share Options in relation to 1,000,000 Shares were granted to Mr. Zhuang Xiao Xiong.

(2) 607,500,000 Shares are held by Mr. Zhuang Lu Kun ("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.

(3) Pursuant to the pre-IPO Share Option Scheme, pre-IPO Share Options in relation to 1,000,000 Shares were granted to 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 which are subject to the pre-IPO Share Options granted to Mr. Zhuang.

(4) Martin Currie (Holdings) Ltd had interest in Martin Currie Inc and Martin Currie Investment Management Ltd which is deemed to have interest in the issued share capital of the Company.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS *(Continued)*

Save as disclosed above, there was no other person known to the Directors, other than the Directors, who, as at 31 December 2007, had an interest or a short position in the shares and 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.

CONTINUING CONNECTED TRANSACTIONS

As disclosed in the Prospectus, the Company has entered into the following non-exempt continuing connected transactions under Rule 14A.35 of the Listing Rules, which the Stock Exchange has granted waivers to, but subject to the disclosure in the annual report under Rule 14A.42 of the Listing Rules.

1. Lease of office premise from Mr. Zhuang

Mr. Zhuang is an executive Director and a controlling shareholder, and thus a connected person of the Company. Pursuant to a lease agreement dated 6 November 2006 ("Office Lease Agreement") between Mr. Zhuang (as landlord) and 深圳市百佳華百貨有限公司 (Shenzhen Baijiahua Department Stores Company Limited) ("BJH Department Stores"), a subsidiary of the Company (as tenant), BJH Department Stores leases the office premise situated at Unit 301, 3rd Floor, Block 1 Baijiahua Building, Hedong Road, Xixiang Town, Baoan District, Shenzhen, Guangdong Province, the PRC of a gross floor area of approximately 647.84 square meters for a term of 15 years commencing from 1 June 2006 and expiring on 31 May 2021 at a monthly rent of RMB16,843 with triennial increase of 5%. Pursuant to a supplemental agreement dated 6 November 2006 between Mr. Zhuang and BJH Department Stores, the parties agreed that if the Company cannot meet the requirements in respect of continuing connected transactions (including but not limited to obtaining approval by independent shareholders), BJH Department Stores has the right to terminate the transactions under the Office Lease Agreement by giving written notice to Mr. Zhuang, without any payment or compensation. Pursuant to the Office Lease Agreement, the total annual consideration paid by BJH Department Stores for the year ended 31 December 2007 was approximately RMB202,000 and has not exceeded the annual cap of RMB203,000 as disclosed in the prospectus. The relevant amount which are expected to be payable by BJH Department Stores will not exceed RMB203,000 and RMB209,000 respectively for the years ending 31 December 2008 and 2009.

CONTINUING CONNECTED TRANSACTIONS *(Continued)*

2. Lease of three store premises from BJH Industrial

深圳市百佳華實業發展有限公司 (Shenzhen Baijiahua Industrial Development Company Limited) ("BJH Industrial") is owned as to 90% by Mr. Zhuang and 10% by Mrs. Zhuang. BJH Industrial is thus an associate of Mr. Zhuang and therefore a connected person of the Company. The Group leases three store premises from BJH Industrial, details of which are set out as follows:

(i) Lease of store premises for the Longhua Store

Pursuant to a lease agreement dated 5 April 2005 ("Longhua Store Lease Agreement") between BJH Industrial (as landlord) and BJH Department Stores (as tenant), BJH Department Stores leases the store premises situated at Levels 1 to 5, Jiahua Emporium, No. 291 Renmin Bei Road, Longhua Street, Baoan District, Shenzhen, Guangdong Province, the PRC of a gross floor area of approximately 24,549.25 square metres for a term of 15 years commencing from 1 March 2004 and expiring on 28 February 2019 at a monthly rent of RMB490,985 with triennial increase of 5% starting from 1 March 2008. Pursuant to a supplemental lease agreement dated 18 November 2006 between BJH Industrial and BJH Department Stores, the parties agreed that if the Company cannot meet the requirements in respect of continuing connected transactions (including but not limited to obtaining approval by independent shareholders), BJH Department Stores has the right to terminate the transactions without any payment or compensation. Pursuant to the Longhua Store Lease Agreement (as supplemented), the total annual consideration paid by BJH Department Stores for the year ended 31 December 2007 was approximately RMB5,892,000 and has not exceeded the annual cap of RMB5,892,000 as disclosed in the prospectus. The relevant amount which are expected to be payable by BJH Department Stores will not exceed RMB6,138,000 and RMB6,187,000 respectively for the years ending 31 December 2008 and 2009.

(ii) Lease of store premises for the Songgang Store

Pursuant to a lease agreement dated 30 April 2005 ("Songgang Store Lease Agreement") between BJH Industrial (as landlord) and BJH Department Stores (as tenant) and as supplemented by two supplemental agreements dated 18 November 2006 and 29 March 2007 respectively both made between BJH Industrial and BJH Department Stores, BJH Department Stores leases the store premises situated at Levels 1 to 5, Jiahua Emporium, No. 293 Songgang Section of State Avenue 107, Baoan District, Shenzhen, Guangdong Province, the PRC of a gross floor area of approximately 23,134 square metres for a term of 15 years commencing from 1 March 2004 and expiring on 28 February 2019 at a monthly rent of RMB458,260 during the period from 1 March 2004 to 30 April 2005 and RMB462,680 with effect from 1 May 2005. The monthly rent is subject to a triennial increase of 5% starting from 1 March 2008. Pursuant to a supplemental lease agreement dated 18 November 2006 between BJH Industrial and BJH Department Stores, the parties agreed that if the Company cannot comply with the requirements in respect of continuing connected transactions (including but not limited to obtaining approval by independent shareholders), BJH Department Stores has the right to terminate the transactions under the Songgang Store Lease Agreement by giving written notice to BJH Industrial, without any payment or compensation. Pursuant to the Songgang Store Lease Agreement (as supplemented), the total annual consideration paid by BJH Department Stores for the year ended 31 December 2007 was approximately RMB5,552,000 and has not exceeded the annual cap of RMB5,553,000 as disclosed in the prospectus. The relevant amount which are expected to be payable by BJH Department Stores will not exceed RMB5,784,000 and RMB5,830,000 respectively for the years ending 31 December 2008 and 2009.

CONTINUING CONNECTED TRANSACTIONS *(Continued)*

2. Lease of three store premises from BJH Industrial *(Continued)*

(iii) Lease of store premises for the Gongming Store

Pursuant to a lease agreement dated 28 April 2002 ("Gongming Store Lease Agreement") between 深圳市中鵬展實業有限公司 (Shenzhen Zhong Peng Zhan Industrial Co., Ltd.) ("Zhong Peng Zhan") (as landlord) and BJH Industrial (as tenant), BJH Industrial leases the store premises situated at No. 1 Changchun Nan Road West, Gongming Town, Baoan District, Shenzhen, Guangdong Province, the PRC ("Gongming Premises") of a gross floor area of approximately 21,843 square metres for a term of 15 years commencing from 16 November 2002 and expiring on 15 November 2017 at a monthly rent of RMB480,546. Pursuant to a supplemental lease agreement dated 1 March 2004 between Zhong Peng Zhan and BJH Industrial (the "Gongming Store Supplemental Lease Agreement"), Zhong Peng Zhan has consented that BJH Industrial can provide the Gongming Premises for occupation by BJH Department Stores. Zhong Peng Zhan also consented that BJH Department Stores shall pay the rental under the Gongming Store Lease Agreement directly to Zhong Peng Zhan, and BJH Industrial has guaranteed the timely payment of rentals to Zhong Peng Zhan by BJH Department Stores. Pursuant to agreement dated 8 December 2006 between BJH Industrial and BJH Department Stores, BJH Industrial confirmed its agreement to provide the Gongming Premises for the use by BJH Department Stores and BJH Department Stores confirmed its agreement to use the Gongming Premises on the same terms of the Gongming Store Lease Agreement (including but not limited to the period of the lease and rental) and BJH Industrial and BJH Department Stores further agreed that if the Company cannot meet the requirements in respect of continuing connected transactions (including but not limited to obtaining approval by independent shareholders), BJH Department Stores has the right to terminate the lease of the Gongming Premises by giving written notice to BJH Industrial, without any payment or compensation. Despite BJH Department Stores pays the rental in respect of the Gongming Premises directly to Zhong Peng Zhan and not to BJH Industrial, since BJH Industrial is a party to the Gongming Store Lease Arrangement (as defined below) and BJH Industrial has guaranteed to Zhong Peng Zhan the timely payment of rentals by BJH Department Stores, the lease arrangement pursuant to the Gongming Store Lease Agreement, Gongming Store Supplemental Lease Agreement and the agreement between BJH Industrial and BJH Department Stores mentioned above ("Gongming Store Lease Arrangement") constitute continuing connected transactions of the Company after the Listing. Pursuant to the Gongming Store Lease Agreement (as supplemented), the total annual consideration paid by BJH Department Stores for the year ended 31 December 2007 was approximately RMB5,766,000 and has not exceeded the annual cap of RMB5,767,000 as disclosed in the prospectus. The relevant amount which are expected to be payable by BJH Department Stores will not exceed RMB5,767,000 for each of the years ending 31 December 2008 and 2009.

CONTINUING CONNECTED TRANSACTIONS *(Continued)*

3. Lease of store premise for Shiyan Store from JH Real Estate

深圳市佳華房地產開發有限公司 (Shenzhen Jiahua Real Estate Development Company Limited) ("JH Real Estate") is owned as to 60% by Mrs. Zhuang and 40% by BJH Industrial (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 JH Real Estate so as to exercise or control the exercise of 30% or more of the voting power at general meetings of JH Real Estate, JH Real Estate is an associate of Mr. Zhuang and also a connected person of the Company. Pursuant to a lease agreement dated 6 November 2006 ("Shiyan Store Lease Agreement") between JH Real Estate (as landlord) and BJH Department Stores (as tenant), BJH Department Stores leases the office premises situated at Level 1 of Commercial Podium, Jiahua Hao Yuan, Western Shiyan Avenue, Shiyan Street, Baoan District, Shenzhen, Guangdong Province, the PRC of a gross floor area of approximately 5,851.50 square metres for a term of 15 years commencing from 16 November 2006 and expiring on 15 November 2021 at a monthly rent of RMB222,357 with triennial increase of 5%. Pursuant to a supplemental agreement dated 6 November 2006 between JH Real Estate and BJH Department Stores, the parties agreed that if the Company cannot meet with the requirements in respect of continuing connected transactions (including but not limited to obtaining approval by independent shareholders), BJH Department Stores has the right to terminate the transactions under the Shiyan Store Lease Agreement by giving written notice to JH Real Estate without any payment or compensation. Pursuant to the Shiyan Store Lease Agreement, the total annual consideration paid by BJH Department Stores for the year ended 31 December 2007 was approximately RMB2,668,000 and has not exceeded the annual cap of RMB2,669,000 as disclosed in the prospectus. The relevant amount which are expected to be payable by BJH Department Stores will not exceed RMB2,669,000 and RMB2,685,000 respectively for each of the years ending 31 December 2008 and 2009.

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 our 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 entered into in accordance with the relevant agreement 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 our Company and our shareholders as a whole. The Directors, including the Independent Non-executive Directors, are also of the view that the Annual Caps are fair and reasonable as far as our shareholders taken as a whole are concerned.

The Stock Exchange has granted a waiver from strict compliance with the announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the lease agreements.

The Directors confirm that the disclosure requirement in accordance with Chapter 14A of the Listing Rules has been complied with by the Company.

DISCONTINUED CONNECTED TRANSACTION

Licence to use trademark

Pursuant to a licence agreement dated 14 March 2005 made between BJH Industrial (as licensor) and BJH Department Stores (as licensee), BJH Industrial granted a licence to BJH Department Stores to use the trademark “ ” at nil consideration during the period from 9 March 2005 to 13 October 2012 (the “Licence”). Pursuant to the trademark transfer agreement dated 1 November 2006 entered into between BJH Industrial (as transferor) and BJH Department Stores (as transferee), BJH Industrial transferred and assigned the trademark to BJH Department Stores at nil consideration (the “Transfer”). Application was made to the Trademark Bureau of the State Administration of Industries and Commerce for change of registrant from BJH Industrial to BJH Department Stores. At the balance sheet date, BJH Department Stores has received notice of approval in relation to the change of registrant from BJH Industrial to BJH Department Stores.

The Directors are of the view that discontinued connected transaction as described above was entered into on normal commercial terms and in the ordinary and usual course of business of the Group.

EXEMPT CONTINUING CONNECTED TRANSACTIONS

As disclosed in the Prospectus, the Company has entered into the following exempt continuing connected transactions under Rule 14A.34 of the Listing Rules which is only subject to the reporting and announcement requirements set out in Rule 14A.45 to Rule 14A.47 of the Listing Rules.

Details of these exempt continuing connected transactions are as follows:

1. **Lease of certain spaces of the Gongming Stores to Baisheng**

   Certain spaces of the Gongming Stores are leased to Baisheng Food and Beverages (Shenzhen) Co., Ltd. (“Baisheng”) pursuant to a lease agreement dated 12 August 2002 entered into between BJH Industrial and Baisheng for commercial purposes. Pursuant to the supplemental agreement dated 6 November 2006 between BJH Industrial and BJH Department Stores referred to “Discontinued Connected Transactions” as set out in the prospectus of the Company dated 8 May 2007, among others, all rentals received pursuant to such lease agreement shall belong to BJH Department Stores. It is the Group’s intention to enter into lease agreement with Baisheng directly. During the year, in respect of the annual rental income receivable from Baisheng pursuant to the leasing of spaces in Gongming Store to Baisheng, the relevant percentage ratios were more than 0.1% but less than 2.5% and the annual rental income will be less than HK$1,000,000. Accordingly, the leasing of spaces of Gongming Store by Baisheng fell under Rule 14A.33(3) of the Listing Rules and constituted an exempt continuing connected transaction of the Company. The Directors expect that such leasing will continue to be an exempt continuing connected transaction of the Company.

EXEMPT CONTINUING CONNECTED TRANSACTIONS *(Continued)*

2. Purchase of consumer goods by connected persons of the Company

The Group is principally engaged in the operation and management of retail stores and its customers may include the directors, substantial shareholders and chief executives of the Company and its subsidiaries and their respective associates, each of whom will be a connected person of the Company. The Directors expect that the connected persons of the Company may continue to purchase merchandises at the Group's retail stores, which will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. The sale in the Group's ordinary and usual course of business of consumer goods to the connected persons of the Company for their own private use and consumption on terms no more favourable to the connected persons than those available to independent third parties will constitute exempt continuing connected transactions of the Company under Rule 14A.33(1) of the Listing Rules. If the total consideration or value of the merchandises purchased by the connected persons of the Company is, on an annual basis, equal to or exceed 1% of the total revenue of the Company as shown in its latest published audited consolidated accounts, the Company will comply with the reporting, announcement and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Company's major suppliers and customers are as follows:

Purchases

– the largest supplier	4.9%
– five largest suppliers combined	13.3%

Sales

– the largest customer	0.06%
– five largest customers combined	0.2%

Save as disclosed above, none of the Directors, their associates or any shareholders (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers and major customers noted above.

CORPORATE GOVERNANCE

The Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules for the year ended 31 December 2007. The Company's corporate governance principles and practices are set out on pages 16 to 20.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as the Company's code of conduct for dealings in securities of the Company by the Directors. Based on specific enquiry made with all Directors, the Directors have complied with the required standard set out in the Model Code, throughout the accounting period covered by the annual report.

COMPETING INTERESTS

None of the Directors or management shareholders of the Company and their respective associates (as defined in the Main Board Listing Rules) has an interest in a business which competes or may compete with the business of the Company or has any other conflict of interest with the Company during the year.

AUDIT COMMITTEE

In compliance with Rule 3.21 of the Listing Rules, the Board has established an audit committee on 30 April 2007, with written terms of reference. The primary duties of the audit committee are to review the financial reporting procedures and internal controls and provides guidance in relation thereto. The audit committee comprises the three Independent Non-executive Directors of the Company. The audited financial statements of the Company for the year ended 31 December 2007 have been reviewed by the audit committee before recommending to the Board for approval.

PROFESSIONAL TAX ADVICE RECOMMENDED

If the shareholders ("Shareholders") of the Company are unsure about the taxation implications of purchasing, holdings, disposing of, dealing in, or the exercise of any rights in relation to, the shares, they are advised to consult an expert.

USE OF PROCEEDS RAISED FROM LISTING

The proceeds raised from the Company's newly issued shares on the Stock Exchange in May 2007, after deduction of related issuance expenses, amounted to approximately HK$265.0 million. As of 31 December 2007, approximately HK$29.0 million of the proceeds so raised was used mainly for the acquisition of relevant business of the four outlets from Dongfangcheng, and the unused proceeds of approximately HK$236.0 million was deposited in bank, the security of which was adequately ensured.

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

AUDITORS

The financial statements of the Company for the year ended 31 December 2007 have been audited by Grant Thornton, who will retire and, being eligible, offer themselves for reappointment at the forthcoming annual general meeting.

For and on behalf of the Board
Zhuang Lu Kun
Chairman

16 April 2008
Shenzhen, the PRC

INDEPENDENT AUDITORS' REPORT

Grant Thornton
均富

Member of Grant Thornton International Ltd

To the shareholders of Jiahua Stores Holdings Limited
佳華百貨控股有限公司
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements of Jiahua Stores Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred as the "Group") set out on pages 37 to 88, which comprise the consolidated and company balance sheets as at 31 December 2007, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Grant Thornton
Certified Public Accountants
13th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

16 April 2008

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	Notes	**2007** **RMB'000**	2006 *RMB'000*
Revenue	*5*	**829,848**	630,622
Cost of inventories sold		**(630,466)**	(484,054)
		199,382	146,568
Other operating income	*5*	**109,084**	78,374
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost of acquisition	*30*	**34,453**	–
Distribution costs		**(208,948)**	(131,593)
Administrative expenses		**(43,372)**	(27,768)
Profit before income tax	*7*	**90,599**	65,581
Income tax expense	*8*	**(11,482)**	(8,676)
Profit for the year attributable to the Company's equity holders		**79,117**	56,905
Dividends	*9*	**22,153**	22,000
Earnings per share	*10*		
– Basic (RMB cents)		**8.53**	7.59
– Diluted (RMB cents)		**8.52**	N/A

CONSOLIDATED BALANCE SHEET

As at 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	11	**85,764**	52,919
Intangible asset	12	**56,488**	–
Deposits paid and prepayments	13	**9,388**	9,098
		151,640	62,017
Current assets			
Inventories and consumables	15	**104,549**	75,639
Trade receivables	16	**1,478**	381
Deposits paid, prepayments and other receivables	13	**55,088**	37,306
Amounts due from related parties	17	**140**	41,115
Cash and cash equivalents	18	**300,339**	59,366
		461,594	213,807
Current liabilities			
Trade payables	19	**146,299**	156,407
Coupon liabilities, deposits received, other payables and accruals	20	**48,187**	33,439
Amount due to a director	21	**738**	–
Taxes payable		**4,888**	4,503
		200,112	194,349
Net current assets		**261,482**	19,458
Total assets less current liabilities		**413,122**	81,475
Non-current liabilities			
Amounts due to ultimate shareholders	22	**–**	33,660
Deferred tax liabilities	23	**7,200**	–
		7,200	33,660
Net assets		**405,922**	47,815
EQUITY ATTRIBUTABLE TO THE COMPANY'S EQUITY HOLDERS			
Share capital	24	**10,125**	–
Reserves	25	**395,797**	47,815
Total equity		**405,922**	47,815

Zhuang Lu Kun
Director

Zhuang Pei Zhong
Director

BALANCE SHEET

As at 31 December 2007

	Notes	**2007** **RMB'000**	2006 *RMB'000*
ASSETS AND LIABILITIES			
Non-current assets			
Investments in subsidiaries	*14*	**67,848**	–
Current assets			
Amounts due from subsidiaries	*14*	**50,998**	390
Cash and cash equivalents	*18*	**242,604**	–
		293,602	390
Current liabilities			
Accruals		**899**	–
Net current assets		**292,703**	390
Net assets		**360,551**	390
EQUITY ATTRIBUTABLE TO THE COMPANY'S EQUITY HOLDERS			
Share capital	*24*	**10,125**	–
Reserves	*25*	**350,426**	390
Total equity		**360,551**	390

Zhuang Lu Kun
Director

Zhuang Pei Zhong
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

		Equity attributable to equity holders of the Company										
	Notes	Share capital *RMB'000*	Share premium *RMB'000*	Statutory reserve *RMB'000*	Statutory welfare reserve *RMB'000*	Merger reserve *RMB'000*	Share option reserve *RMB'000*	Translation reserve *RMB'000*	Distribution to the then ultimate holding company *RMB'000*	Retained profits *RMB'000*	Dividend proposed *RMB'000*	Total *RMB'000*
At 1 January 2007		–	390	9,383	2,286	(20,306)	–	–	–	34,062	22,000	47,815
Profit for the year		–	–	–	–	–	–	–	–	79,117	–	79,117
Currency translation difference – net income directly recognised in equity		–	–	–	–	–	–	738	–	–	–	738
Total recognised income and expenses for the year		–	–	–	–	–	–	738	–	79,117	–	79,855
Arising from the Reorganisation		–	–	–	–	32,679	–	–	–	–	–	32,679
Issue of shares	*24*	10,125	281,585	–	–	–	–	–	–	–	–	291,710
Share issue expenses		–	(29,497)	–	–	–	–	–	–	–	–	(29,497)
Dividend relating to 2007	*9(a)*	–	–	–	–	–	–	–	–	(22,153)	22,153	–
Dividend relating to 2006	*9(b)*	–	–	–	–	–	–	–	–	–	(22,000)	(22,000)
Share-based compensation		–	–	–	–	–	5,360	–	–	–	–	5,360
At 31 December 2007		**10,125**	**252,478**	**9,383**	**2,286**	**12,373**	**5,360**	**738**	**–**	**91,026**	**22,153**	**405,922**
At 1 January 2006		–	–	5,000	–	–	–	–	(10,568)	16,617	80,000	91,049
Profit for the year (Total recognised income and expenses for the year)		–	–	–	–	–	–	–	–	56,905	–	56,905
Initial recognition of amount due from the then ultimate holding company		–	–	–	–	–	–	–	(223)	–	–	(223)
Arising from Reorganisation		–	–	–	–	(20,306)	–	–	–	–	–	(20,306)
Issue of shares	*24*	–	390	–	–	–	–	–	–	–	–	390
Transfer	*25(b) & (c)*	–	–	4,383	2,286	–	–	–	–	(6,669)	–	–
Special dividend relating to 2006	*9(a)*	–	–	–	–	–	–	–	–	(22,000)	22,000	–
Dividend relating to 2005	*9(b)*	–	–	–	–	–	–	–	–	–	(80,000)	(80,000)
Transfer on distribution to the then ultimate holding company		–	–	–	–	–	–	–	10,791	(10,791)	–	–
At 31 December 2006		–	390	9,383	2,286	(20,306)	–	–	–	34,062	22,000	47,815

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
Cash flows from operating activities			
Profit before income tax		**90,599**	65,581
Adjustments for:			
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost of acquisition	30	**(34,453)**	–
Depreciation of property, plant and equipment		**19,780**	18,375
Imputed interest income		**(800)**	(6,223)
Interest income		**(18,094)**	(164)
Obsolete inventories written-off and inventories loss		**3,818**	824
Loss on disposal of property, plant and equipment		**32**	98
Amortisation of intangible asset		**2,114**	–
Share-based payment expenditure		**5,360**	–
Operating profit before working capital changes		**68,356**	78,491
Increase in inventories and consumables		**(32,728)**	(23,890)
(Increase)/decrease in trade receivables		**(1,097)**	123
Increase in deposits paid, prepayments and other receivables		**(17,782)**	(12,740)
Decrease/(increase) in amounts due from related parties		**19,775**	(23,573)
(Decrease)/increase in trade payables		**(10,108)**	33,279
Increase in coupon liabilities, deposits received, other payables and accruals		**14,748**	4,609
Increase in amount due to a director		**738**	–
Cash generated from operations		**41,902**	56,299
Interest received		**18,094**	164
Income tax paid		**(11,397)**	(9,184)
Net cash inflow from operating activities		**48,599**	47,279
Cash flows from investing activities			
Cash consideration on Reorganisation		**–**	(30,306)
Deposits paid and prepayments for acquisition of property, plant and equipment		**(290)**	(4,866)
Payment for business combination	30	**(28,000)**	–
Payments for property, plant and equipment		**(41,389)**	(33,421)
Proceeds from disposal of property, plant and equipment		**83**	54
Net cash outflow from investing activities		**(69,596)**	(68,539)
Cash flows from financing activities			
Proceeds from issuance of share capital		**290,729**	390
Share issue expenses		**(29,497)**	–
Advances from then ultimate shareholders		**–**	33,660
Net cash inflow from financing activities		**261,232**	34,050
Increase in cash and cash equivalents		**240,235**	12,790
Cash and cash equivalents at 1 January		**59,366**	46,576
Effect of foreign exchange rate changes		**738**	–
Cash and cash equivalents at 31 December		**300,339**	59,366

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

1. REORGANISATION AND GENERAL INFORMATION

Jiahua Stores Holdings Limited ("the Company") was incorporated in the Cayman Islands on 4 September 2006 as an exempted company with limited liability. Pursuant to a group reorganisation (the "Reorganisation") to rationalise the structure of the Company and its subsidiaries (collectively referred to as the "Group") in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as detailed in subsection headed "Corporate Reorganisation" in Appendix V of the prospectus dated 8 May 2007 (the "Prospectus"), the Company became the holding company of the Group. The Company's shares were listed on the Main Board of the Stock Exchange on 21 May 2007.

The address of the Company's registered office and principal place of business are located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and 301 on 3rd Floor, Block 1, Baijiahua Building, Hedong Road, Xixiang Town, Baoan District, Shenzhen, Guangdong Province, the People Republic of China respectively.

The principal activity of the Company is investment holding. Details of the principal activities of the Company's subsidiaries are set out in note 14 to the financial statements. There were no significant changes in the nature of the subsidiaries' principal activities during the year.

The consolidated financial statements on pages 37 to 88 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collectively includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The consolidated financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

The consolidated financial statements for the year ended 31 December 2007 were approved for issue by the board of directors on 16 April 2008.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2007

2. ADOPTION OF NEW AND REVISED HKFRSs

2.1 Adoption of new and revised HKFRSs which are effective for current year

The Group has adopted the following new and revised HKFRSs which are first effective for the year and relevant to the Group.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 8	Scope of HKFRS 2

The adoption of the new HKFRSs had no material effect on how the results and financial positions for the current or prior periods have been prepared and presented. Accordingly, no prior period adjustment is required.

(a) Amendment to HKAS 1 Presentation of Financial Statements – Capital disclosures

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 33 to the financial statements.

(b) HKFRS 7 Financial Instruments: Disclosures

HKFRS 7 – Financial Instruments: Disclosures is mandatory for reporting periods beginning on 1 January 2007 or later. The new standard replaces and amends the disclosure requirements previously set out in HKAS 32 Financial Instruments: Presentation and Disclosures and has been adopted by the Group in its consolidated financial statements for the year ended 31 December 2007. All disclosures relating to financial instruments including all comparative information have been updated to reflect the new requirements. In particular, the Group's financial statements now feature:

- a sensitivity analysis, to explain the Group's market risk exposure in regards to its financial instruments, and

- a maturity analysis that shows the remaining contractual maturities of financial liabilities,

each as at the balance sheet date. The first-time application of HKFRS 7, however, has not resulted in any prior-period adjustments of cash flows, net income or balance sheet line items.

(c) HK(IFRIC)-Int 8 Scope of HKFRS 2

This interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Group is able to identify all the goods or services provided by its employees and consultants, the interpretation has had no effect on these financial statements.

2. ADOPTION OF NEW AND REVISED HKFRSs *(Continued)*

2.2 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSs

The Group has not early adopted the following HKFRSs that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[5]
HKFRS 2 (Amendment)	Amendments to HKFRS 2 Share-based Payment: Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[5]
HKFRS 8	Operating Segments[1]
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions[2]
HK(IFRIC)-Int 12	Service Concession Arrangements[3]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[4]
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3]

1 Effective for accounting periods beginning on or after 1 January 2009
2 Effective for accounting periods beginning on or after 1 March 2007
3 Effective for accounting periods beginning on or after 1 January 2008
4 Effective for accounting periods beginning on or after 1 July 2008
5 Effective for accounting periods beginning on or after 1 July 2009

Amendment to HKAS 1 Presentation of Financial Statements

This amendment affects the presentation of owner changes in equity and introduces a statement of comprehensive income. Preparers will have the option of presenting items of income and expenses and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of other comprehensive income). The amendment does not affect the financial position or results of the Group but will give rise to additional disclosures. The directors of the Company are currently assessing the detailed impact of this amendment on the Group’s financial statements.

The directors of the Company are currently assessing the impact of the other new standards and interpretations but are not yet in a position to state whether they would have material financial impact on the Group’s financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The Group is regarded as a continuing entity resulting from the Reorganisation since all of the entities which took part in the Reorganisation were controlled by the same ultimate shareholders before and immediately after the Reorganisation. Consequently, immediately after the Reorganisation, there was a continuation of the risks and benefits to the ultimate shareholders that existed prior to the Reorganisation.

The Reorganisation has been accounted for as a reorganisation under common control in a manner similar to pooling of interests. Accordingly, the consolidated financial statements have been prepared on the basis of merger accounting in accordance with the Accounting Guideline No. 5, "Merger Accounting for Common Control Combination" issued by the HKICPA, under which the Company was the holding company of the subsidiaries for the financial years presented rather than from the dates of acquisition of the subsidiaries. The consolidated financial statements of the Group have been prepared as if the Company has always been the holding company. The results and cash flows of the Group include the results and cash flows of the Company and its subsidiaries with effect from 1 January 2006 or since their respective dates of incorporation/establishment, where this is a shorter period. The consolidated balance sheet as at each balance sheet date is a consolidation of the balance sheets of the Company and its subsidiaries at that balance sheet date.

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

The financial statements have been prepared on the historical cost basis except for the revaluation of certain financial assets and liabilities at initial recognition. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4 to the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Basis of consolidation and subsidiaries

The consolidated financial statements include the financial statements of the Company and its subsidiary made up to 31 December each year. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries are entities (including special purpose entities) over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

Business combinations (other than those combining entities under common control) are accounted for by applying the purchase method.

As explained in note 3.1, the Reorganisation has been accounted for using the merger method of accounting. The acquisition of all other subsidiaries is subject to application of the purchase method.

The merger method of accounting involves measuring the cost of acquisition at the historical carrying value of the assets and liabilities of the merging entities. This cost is ascribed as the value of the shares issued by the holding company to the shareholders of the merging entities.

The purchase method of accounting involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary (including business acquired), at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

Inter-group transactions, balances and unrealised gains on transactions between group companies are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Company's balance sheet, subsidiaries are carried at cost less impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.3 Intangible asset

Intangible asset acquired separately, which is the favourable operating leases, is recognised initially at cost. After initial recognition, intangible asset with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses.

Amortisation for intangible asset with finite useful lives is provided on straight-line basis over their estimated useful lives, using the straight-line method, at the rates ranging from 6.9% to 17.6% per annum, which are the lives of the operating leases.

Intangible asset is tested for impairment as described below in note 3.5. Amortisation commences when the intangible asset is available for use.

3.4 Property, plant and equipment

Property, plant and equipment are stated at acquisition cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use. Subsequent expenditure relating to property, plant and equipment is added to the carrying amount of the assets if it can be demonstrated that such expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets.

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Depreciation on property, plant and equipment, is provided to write off the cost over their estimated useful lives, using the straight-line method, at the following rates per annum:

Leasehold improvements	20%
Plant and machinery	10%
Motor vehicles and tools	20%
Furniture, fixtures and equipment	20%

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.5 Impairment test of assets

Property, plant and equipment, intangible asset, deposit paid and prepayments and investments in subsidiaries are subject to impairment testing. They are tested for impairment whenever there are indications that the carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognised.

3.6 Foreign currency translation

The financial statements are presented in RMB, which is also the functional currency of the Company.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the balance sheet date retranslation of monetary assets and liabilities are recognised in the income statement.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.6 Foreign currency translation *(Continued)*

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into RMB. Assets and liabilities have been translated into RMB at the closing rate at the balance sheet date. Income and expenses have been converted into RMB at the exchange rate ruling at the transaction dates, or the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been dealt with separately in equity.

Other exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

3.7 Revenue recognition

Revenue comprises the fair value for the sale of goods, rendering of services and the use by others of the Group's assets yielding interest and dividends, net of rebates and discounts. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

(i) Sale of goods are recognised upon transfer of the significant risks and rewards of ownership to the customer. Sales of own purchased and consignment stocks are recognised on gross basis when products are delivered and title has passed to the end users.

(ii) Commissions from concessionaire sales are recognised upon the sale of merchandise by the relevant stores.

(iii) Administration and management fee income, products entrance fees income, promotion income, sponsorship income and store display income are recognised on an accrual basis when the right to receive has been established or as services are provided according to contract terms.

(iv) Rental income under operating leases is recognised in the income statement in equal instalments over the accounting periods covered by the lease term. Lease incentives granted are recognised in the income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(v) Interest income is recognised on a time-proportion basis using the effective interest method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.8 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Operating lease charges as lessee

Where the Group has the right to use assets held under operating leases, payments made under the leases are charged to the income statement on a straight line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rental are charged to the income statement in the accounting period in which they are incurred.

(iii) Assets leased out under operating leases as the lessor

Assets leased out under operating leases are measured and presented according to the nature of the assets. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the rental income.

Rental income receivable from operating leases is recognised as set out in note 3.7(iv).

3.9 Inventories and consumable stores

Inventories comprise merchandise purchased for resale and are stated at lower of cost and net realisable value. Cost of merchandise, representing the purchase cost, is calculated on the first-in, first-out basis. Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

Consumable stores for own consumption are stated at cost. Cost is determined using the weighted average method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.10 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement.

Deferred tax is calculated using the liability method on temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss. Deferred tax assets or liabilities on temporary differences arising from a business combination are recognised as identifiable assets or liabilities at the date of business combination. Consequently, those deferred tax assets or liabilities affect goodwill or the amount of any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the acquisition.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset is realised, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised in the income statement or in equity if they relate to items that are charged or credited directly to equity.

3.11 Cash and cash equivalents

Cash and cash equivalents include cash at bank, cash in hand and bank deposits, which are not restricted as to use.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.12 Financial assets

The Group's accounting policies for financial assets other than investments in subsidiaries are set out below.

The Group's financial assets include trade receivables, other receivables, amounts due from subsidiaries, Shenzhen Baijiahua Industrial Development Company Limited ("BJH Industrial"), which was the then ultimate holding company prior to the Reorganisation, shareholders and directors, and cash and cash equivalents. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised, when and only when, the Group becomes a party to the contracted provisions of the instrument and are recognised on their trade date. Trade receivables, other receivables, amounts due from subsidiaries, BJH Industrial, shareholders and directors, and cash and cash equivalents are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade receivables, other receivables and amounts due from subsidiaries, shareholders and directors are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any impairment losses. Any changes in their value are recognised in the income statement.

Amount due from BJH Industrial is recognised initially at fair value and subsequently measured at amortised cost, using the effective interest method. The difference between the nominal loan amount and its fair value at initial recognition represents deemed distribution to BJH Industrial, the then shareholders, and is recorded as a "deemed distribution to BJH Industrial" in equity. The difference is transferred to the retained profits upon actual distribution to BJH Industrial.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. An assessment for impairment is undertaken at least at each balance sheet date whether or not there is objective evidence that a financial asset or a group of financial assets is impaired.

If there is objective evidence that an impairment loss on trade receivables, other receivables and amounts due from subsidiaries, BJH Industrial, shareholders and directors has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.12 Financial assets *(Continued)*

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

3.13 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

3.14 Financial liabilities

The Group's financial liabilities include trade payables, other payables and amounts due to ultimate shareholders and a director.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised as an expense in finance cost in the income statement.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in the income statement.

Financial liabilities are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

3.15 Coupon Liabilities

Coupon liabilities are recorded as liabilities when coupons are sold. Coupons surrendered in exchange for products during the year are recognised as sales and transferred to the income statements using the coupon sales value. Coupon liabilities are classified as current liabilities at the end of the year.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.16 Provisions, contingent liabilities and contingent assets

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Contingent liabilities are recognised in the course of the allocation of purchase price to the assets and liabilities acquired in a business combination. They are initially measured at fair value at the date of acquisition and subsequently measured at the higher of the amount that would be recognised in a comparable provision as described above and the amount initially recognised less any accumulated amortisation, if appropriate.

3.17 Related parties

Parties are considered to be related to the Group if:

(i) directly, or indirectly through one or more intermediaries, the party (a) controls, is controlled, or is under common control with, the Company/Group; (b) has an interest in the Company/Group that gives it significant influence over the Company/Group; or (c) has joint control over the Company/Group;

(ii) the party is an associate of the Company/Group;

(iii) the party is a joint venture in which the Company/Group is a venturer;

(iv) the party is a member of the key management personnel of the Company/Group or its parent;

(v) the party is a close member of the family or any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Company/Group, or of any entity that is a related party of the Company/Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.18 Share-based payment transactions

The Group operates equity-settled share-based compensation plans to remunerate its employees, directors and consultants.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share options awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions.

For other goods or services received by the Group in exchange for the grant of any share-based compensation, they are directly measured at the fair value of the goods or services received.

All share-based compensation is ultimately recognised as an expense in the income statement with a corresponding increase in the share option reserve in equity. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than originally vested.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share capital and share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

3.19 Employee retirement benefits

Employees in the People's Republic of China (the "PRC") of the Group are members of state-managed employee pension scheme operated by the relevant municipal and provincial governments in the PRC which undertakes to assume the retirement benefit obligations of all existing and future retired employees. The contributions are based on a certain percentage of the employees' salary and are charged to the income statements as incurred.

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all employees in Hong Kong who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme.

The assets of the schemes are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the schemes.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.20 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate and are presented separately from the costs.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Depreciation

The Group depreciates property, plant and equipment on a straight-line basis over the estimated useful lives of 5 to 10 years, starting from the date on which the assets are placed into productive use. The estimated useful lives reflect the directors' estimates of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment.

Inventory valuation

Inventory is valued using the cost method, which values inventory at the lower of the actual cost and net realisable value. Cost is determined using the first-in, first-out method. The estimated net realisable value is generally the merchandise selling price less selling expenses. The Group reviews its inventory levels in order to identify slow-moving merchandise and use markdowns to clear merchandise. Inventory value is reduced when the decision to markdown below cost is made.

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market conditions and the historical experience of selling products of a similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles. Management reassesses these estimations at the balance sheet date to ensure inventory is shown at the lower of cost and net realisable value.

Impairment of receivables

The Group's management review receivables on a regular basis to determine if any provision for impairment is necessary. This estimate is based on the credit history of its customers, past settlement and industry practice and current market conditions. Management reassesses the impairment of receivables at each balance sheet date.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

Share-based employee compensation

Expense on share-based employee compensation is subject to the limitations of the option pricing models adopted and the uncertainty in estimates used by management in the assumptions. Should the estimates including limited early exercise behaviour, expected interval and frequency of open exercise periods in the share option life and the relevant parameters of the share option model be changed, there would be material changes in the amount of share option benefits recognised in the income statement and share option reserve.

Fair value of acquiree's identifiable assets

The property, plant and equipment and intangible asset were the acquiree's identifiable assets acquired in the business combination (note 30). At the date of acquisition, they were measured at fair values. The fair values of identifiable assets were determined by a firm of independently qualified professional valuers. Such valuations were based on certain assumptions, which were subject to uncertainty and might materially differ from the actual results.

Income tax

Significant judgement is required in determining the amount of the provision of income tax and the timing of payment of the related taxation. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the current tax and deferred tax provisions in periods in which such determination are made.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2007

5. REVENUE AND OTHER OPERATING INCOME

The Group is principally engaged in operation and management of retail stores. Revenue, which is also the Group's turnover, represents invoiced value of goods sold, net of value added tax ("VAT"), after allowances for returns and discounts; and the value of services rendered. Revenue and other operating income recognised during the year are as follows:

	2007 **RMB'000**	2006 RMB'000
Revenue – Turnover		
Sales of goods	**724,110**	546,963
Commissions from concessionaire sales	**83,679**	68,440
Rental income from sub-leasing of shop premises	**22,059**	15,219
	829,848	630,622
Other operating income		
Imputed interest income	**800**	6,223
Interest income	**18,094**	164
Government grants *(note)*	**1,530**	–
Income from suppliers		
– Administration and management fee income	**24,071**	21,853
– Products entrance fee income	**19,676**	12,101
– Promotion income	**12,168**	5,919
– Sponsorship income	**7,507**	6,251
– Store display income	**7,697**	5,319
Other	**17,541**	20,544
	109,084	78,374

Note:

Various local government grants have been granted to a subsidiary of the Group as rewards for the listing of the Company's shares on the Main Board of the Stock Exchange. There were no unfulfilled conditions or contingencies attaching to these government grants.

6. SEGMENT INFORMATION

Operation and management of retail stores is the only business segment of the Group. No geographical segment analysis is presented as less than 10% of the Group's revenue and operating profit is attributable to markets located outside the PRC. Accordingly, no separate business and geographic segment information is presented.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2007

7. PROFIT BEFORE INCOME TAX

	2007 **_RMB'000_**	2006 *RMB'000*
Profit before income tax is arrived at after charging:		
Cost of inventories sold recognised as expense	**630,466**	484,054
Auditors' remuneration	**774**	60
Amortisation of intangible asset	**2,114**	–
Net exchange loss	**10,406**	37
Depreciation of property, plant and equipment	**19,780**	18,375
Loss on disposal of property, plant and equipment	**32**	98
Operating lease rentals in respect of land and buildings	**47,755**	27,268
Obsolete inventories written-off	**1,092**	824
Inventories loss	**2,726**	–
Staff costs, including directors' emoluments *(note 27(a))*		
Salaries and other benefits	**59,927**	43,949
Contributions to pension schemes	**3,897**	3,206
Share-based payment expenditure	**5,193**	–
	69,017	47,155
Share-based payment expenditure to a consultant	**167**	–
Listing expenses	**3,037**	–
and crediting:		
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost of acquisition *(note 30)*	**34,453**	–
Sub-letting of properties:		
– Base rents	**18,232**	12,349
– Contingent rents *(note)*	**3,827**	2,870
Gross rental income	**22,059**	15,219
Less: Outgoings	**(9,460)**	(7,574)
Net rental income	**12,599**	7,645

Note:

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

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2007

8. INCOME TAX EXPENSE

	2007 **RMB'000**	2006 *RMB'000*
Current tax		
PRC enterprise income tax – current year	**11,782**	8,676
Deferred tax	**(300)**	–
	11,482	8,676

No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profit in Hong Kong for the year (2006: Nil).

PRC enterprise income tax for the year has been provided at the rate of 15% (2006: 15%) on the estimated assessable profits of a subsidiary of the Company established in the PRC and which is situated in the Shenzhen Special Economic Zone. The preferential enterprise income tax rate of 15% was in accordance with a notice of reference Guo Fa (1984) 161 issued by the State Council in 1984.

Another subsidiary of the Company established in the PRC and which is situated in Dougguan was subject to PRC enterprise income tax at the rate of 33% for the year under the income tax rules and regulations of the PRC (2006: 33%).

Pursuant to the PRC enterprise income tax law passed by the Tenth National People's Congress on 16 March 2007, the new enterprise income tax rates for domestic and foreign enterprises are unified at 25% and will be effective from 1 January 2008. The PRC enterprise income tax rate of the subsidiary situated in Dongguan will be 25% from 2008 onwards. Pursuant to the detailed pronouncements issued on 26 December 2007, the new tax rates of the subsidiary situated in the Shenzhen Special Economic Zone will be 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2007

8. INCOME TAX EXPENSE *(Continued)*

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

	2007 **RMB'000**	2006 *RMB'000*
Profit before income tax	**90,599**	65,581
Tax on operating profit, calculated at the domestic tax rate of 15% (2006: 15%)	**13,590**	9,837
Effect of higher tax rate	**(1,717)**	441
Tax effect of non-deductible expenses	**4,719**	162
Tax effect of non-taxable income	**(8,777)**	(1,113)
Tax effect of tax loss not recognised	**2,870**	–
Others	**797**	(651)
Income tax expense	**11,482**	8,676

9. DIVIDENDS

(a) Dividend attributable to the year

	2007 **RMB'000**	2006 *RMB'000*
Special dividend for the year ended 31 December 2006	**–**	22,000
Final dividend for the year ended 31 December 2007 of approximately RMB2.14 cents per ordinary share	**22,153**	–
	22,153	22,000

Dividend for the year ended 31 December 2006 was declared and payable by the subsidiary, Shenzhen Baijaihua Department Stores Company Limited 深圳市百佳華百貨有限公司 ("BJH Department Stores"), to its then respective equity holders. The rate of dividend and the number of shares ranking for dividends are not presented as such information are not meaningful.

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

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2007

9. DIVIDENDS *(Continued)*

(b) Dividend attributable to the previous financial year, approved and paid during the year

	2007 *RMB'000*	2006 *RMB'000*
Final dividend for the year ended 31 December 2005 to the then respective equity holders	**–**	80,000
Special dividend for the year ended 31 December 2006 to the then respective equity holders	**22,000**	–
	22,000	80,000

The rates of dividend and the number of shares ranking for dividends are not presented as such information are not meaningful.

10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to the Company's equity holders for the year of approximately RMB79,117,000 (2006: RMB56,905,000) and on the weighted average number of approximately 927,842,000 (2006: 750,000,000) ordinary shares in issue during the year, as adjusted to reflect the shares issued for Reorganisation and capitalisation.

The calculation of the diluted earnings per share for the year ended 31 December 2007 is based on the profit attributable to the Company's equity holders for the year of approximately RMB79,117,000 and approximately 928,280,000 ordinary shares, being the 927,842,000 ordinary shares as used in the calculation of basic earnings per share plus the weighted average of 438,000 ordinary shares deemed to be issued on the deemed exercise of share options under the share option scheme as set out in note 26. Diluted earnings per share for the year ended 31 December 2006 was not presented as there were no dilutive potential shares.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2007

11. PROPERTY, PLANT AND EQUIPMENT – GROUP

	Leasehold improvements *RMB'000*	Plant and machinery *RMB'000*	Motor vehicles and tools *RMB'000*	Furniture, fixtures and equipment *RMB'000*	Total *RMB'000*
At 1 January 2006					
Cost	23,410	7,612	2,502	53,804	87,328
Accumulated depreciation	(12,351)	(2,499)	(962)	(33,491)	(49,303)
Net book amount	11,059	5,113	1,540	20,313	38,025
Net book value					
At 1 January 2006	11,059	5,113	1,540	20,313	38,025
Additions	21,441	2,960	2,521	6,499	33,421
Disposals	–	–	(59)	(93)	(152)
Depreciation	(6,458)	(1,166)	(562)	(10,189)	(18,375)
At 31 December 2006	26,042	6,907	3,440	16,530	52,919
At 31 December 2006					
Cost	44,851	10,572	4,759	59,927	120,109
Accumulated depreciation	(18,809)	(3,665)	(1,319)	(43,397)	(67,190)
Net book amount	26,042	6,907	3,440	16,530	52,919
Net book value					
At 1 January 2007	26,042	6,907	3,440	16,530	52,919
Additions	22,105	1,256	3,051	14,977	41,389
Business combination *(note 30)*	–	3,288	–	8,063	11,351
Disposals	–	–	(115)	–	(115)
Depreciation	(8,115)	(875)	(1,118)	(9,672)	(19,780)
At 31 December 2007	**40,032**	**10,576**	**5,258**	**29,898**	**85,764**
At 31 December 2007					
Cost	66,956	15,116	7,606	82,967	172,645
Accumulated depreciation	(26,924)	(4,540)	(2,348)	(53,069)	(86,881)
Net book amount	**40,032**	**10,576**	**5,258**	**29,898**	**85,764**

Note:

Depreciation charges incurred for the year were recognised in the consolidated income statement as "distribution costs" and "administrative expenses" amounted to approximately RMB19,619,000 (2006: RMB18,375,000) and RMB161,000 (2006: Nil) respectively.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2007

12. INTANGIBLE ASSET – GROUP

	2007 **RMB'000**	2006 *RMB'000*
Net carrying amount		
At 1 January	**–**	–
Business combination *(note 30)*	**58,602**	–
Amortisation charge for the year	**(2,114)**	–
At 31 December	**56,488**	–
At 31 December		
Gross carrying amount	**58,602**	–
Accumulated amortisation	**(2,114)**	–
Net carrying amount	**56,488**	–

During the year, the Group entered into certain operating leases as a result of the business combination as set out in note 30 in which the businesses acquired were the lessees before the combination. The terms of the leases were favourable relative to market terms at the date of business combination. Such favourable operating leases were recognised by the Group as intangible asset.

Amortisation charges were included in "distribution costs" in the consolidated income statement.

13. DEPOSITS PAID, PREPAYMENTS AND OTHER RECEIVABLES – GROUP

	2007 **RMB'000**	2006 *RMB'000*
Non-current assets		
Deposits paid and prepayments		
– rental deposits	**7,183**	4,232
– payment in advance for acquisition of property, plant and equipment	**2,205**	4,866
	9,388	9,098
Current assets		
Deposits paid	**394**	368
Prepayments	**14,028**	11,229
Advances to suppliers	**5,812**	8,471
Other receivables *(note)*	**34,854**	17,238
	55,088	37,306

Note:

Included in the balance was input VAT receivable of approximately RMB21,379,000 as at 31 December 2007 (2006: RMB10,000,000). Input VAT arose when the Group purchases products from suppliers and the input VAT can be deducted from output VAT on sales.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2007

14. INTERESTS IN SUBSIDIARIES – COMPANY

	2007 ***RMB'000***	2006 *RMB'000*
Investments in subsidiaries Unlisted shares, at cost	**67,848**	–
Amounts due from subsidiaries	**50,998**	390

The amounts due from subsidiaries were in the nature of current accounts and were unsecured, interest-free and repayable on demand.

Details of the subsidiaries at 31 December 2007 are as follows:

Company name	**Place of incorporation/ establishment and legal form of entity**	**Particulars of issued share/ registered capital**	**Percentage of interest held by the Company Directly**	**Indirectly**	**Principal activities and place of operations**
Forever Prosperity International Company Limited (永泰國際有限公司 ("Forever Prosperity")	British Virgin Islands, limited liability company	United States Dollars ("US$") 20	100%	–	Investment holding in Hong Kong
Ding Xin Investment Company Limited 鼎新投資有限公司 ("Ding Xin")	Hong Kong, limited liability company	Hong Kong Dollars ("HK$") 0.1	–	100%	Investment holding in Hong Kong
BJH Department Stores	the PRC, limited liability company	RMB35,000,000	–	100%	Investment holding and operation and management of retail stores in the PRC
Dongguan Jiahua Department Store Company Limited 東莞市佳華百貨有限公司	the PRC, limited liability company	RMB3,000,000	–	100%	Operation and management of retail stores in the PRC

The financial statements of the above subsidiaries were audited by Grant Thornton, Hong Kong, for statutory purpose and/or for the purpose of the group consolidation.

15. INVENTORIES AND CONSUMABLES – GROUP

	2007 **RMB'000**	2006 *RMB'000*
Merchandise for resale	**96,412**	67,886
Low value consumables	**8,137**	7,753
	104,549	75,639

16. TRADE RECEIVABLES – GROUP

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

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

	2007 **RMB'000**	2006 *RMB'000*
Within 30 days	**1,027**	292
31-60 days	**211**	62
61-180 days	**124**	27
181 days-365 days	**4**	–
Over 1 year	**112**	–
	1,478	381

The carrying value of trade receivables is considered as reasonable approximation of fair value. Impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtors and default or delinquency in payments are considered indicators that the trade receivables are impaired. All of the Group's trade receivables have been reviewed for indicators of impairment.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2007

16. TRADE RECEIVABLES – GROUP *(Continued)*

In addition, some of the unimpaired trade receivables are past due as at the reporting date. Ageing analysis of trade receivables neither past due nor impaired and, past due but not impaired is as follows:

	2007 **RMB'000**	2006 RMB'000
Neither past due nor impaired	**1,027**	354
1-30 days past due	**211**	27
31-180 days past due	**128**	–
181 days - 365 days past due	**112**	–
	1,478	381

17. AMOUNTS DUE FROM RELATED PARTIES – GROUP

	Notes	**2007** **RMB'000**	2006 RMB'000
Amount due from BJH Industrial	*(a)*	**140**	39,863
Amounts due from directors			
– Mr. Zhuang Lu Kun	*(b)*	**–**	818
– Mr. Zhuang Pei Zhong	*(c)*	**–**	44
		–	862
Amounts due from ultimate shareholders	*(d)*	**–**	390
		140	41,115

Notes:

(a) Amount due from BJH Industrial

	2007 **RMB'000**	2006 RMB'000
Carrying amount outstanding at		
1 January	**39,863**	85,629
31 December	**140**	39,863
Maximum carrying amount outstanding during the year	**39,863**	142,610

Mr. Zhuang Lu Kun, a director of the Company, has beneficial interest in BJH Industrial.

The amount due was unsecured, interest free and repayable on demand. The fair value of amount due from BJH Industrial at 31 December 2007 was calculated based on cash flows discounted using a rate based on the interest rate of 7.56% (2006: ranged from 5.76% to 7.56%) which were determined with reference to the bank borrowing rates available to BJH Industrial. The dividend declared for the year ended 31 December 2006 of RMB22,000,000 was offset against the amount due from BJH Industrial during the year.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2007

17. AMOUNTS DUE FROM RELATED PARTIES – GROUP *(Continued)*

(b) Amount due from Mr. Zhuang Lu Kun

	2007 **RMB'000**	2006 RMB'000
Carrying amount outstanding at		
1 January	**818**	5,913
31 December	**–**	818
Maximum carrying amount outstanding during the year	**818**	5,913

The amount due was unsecured, interest free and repayable on demand.

(c) Amount due from Mr. Zhuang Pei Zhong

	2007 **RMB'000**	2006 RMB'000
Carrying amount outstanding at		
1 January	**44**	–
31 December	**–**	44
Maximum carrying amount outstanding during the year	**44**	279

The amount due was unsecured, interest free and repayable on demand.

(d) Amounts due from ultimate shareholders

	2007 **RMB'000**	2006 RMB'000
Carrying amount outstanding at		
1 January		
– Mr. Zhuang Lu Kun	**316**	–
– Mrs. Zhuang Su Lan	**35**	–
– Mr. Zhuang Xiao Xiong	**39**	–
	390	–
31 December		
– Mr. Zhuang Lu Kun	**–**	316
– Mrs. Zhuang Su Lan	**–**	35
– Mr. Zhuang Xiao Xiong	**–**	39
	–	390
Maximum carrying amount outstanding during the year		
– Mr. Zhuang Lu Kun	**316**	316
– Mrs. Zhuang Su Lan	**35**	35
– Mr. Zhuang Xiao Xiong	**39**	39
	390	390

The amounts due were unsecured, interest free and repayable on demand.

18. CASH AND CASH EQUIVALENTS – GROUP AND COMPANY

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash at banks and in hand	**59,966**	59,366	**2,231**	–
Short term bank deposits	**240,373**	–	**240,373**	–
Cash and cash equivalents	**300,339**	59,366	**242,604**	–

The Group had cash and bank balances denominated in RMB of approximately RMB52,055,000 (2006: RMB59,366,000) and the remittance of these funds out of the PRC was subject to the exchange control restrictions imposed by the PRC government. The Company did not have cash and bank balances denominated in RMB as at 31 December 2007 (2006: Nil).

The cash at banks balances bore interests at floating rates based on daily bank deposit rates.

The short term bank deposits bore interest at floating rates. The effective interest rates at 31 December 2007 ranged from 2.9% to 6.5% (2006: Nil). They had maturities of 7 days and were eligible for immediate cancellation without receiving any interest for the last deposit period.

19. TRADE PAYABLES – GROUP

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

	2007	2006
	RMB'000	*RMB'000*
Within 30 days	**120,631**	77,309
31-60 days	**14,058**	47,309
61-180 days	**7,285**	23,772
181 days-365 days	**3,241**	4,655
Over 1 year	**1,084**	3,362
	146,299	156,407

20. COUPON LIABILITIES, DEPOSITS RECEIVED, OTHER PAYABLES AND ACCRUALS – GROUP

	2007 ***RMB'000***	2006 *RMB'000*
Coupon liabilities	**6,192**	3,862
Deposits received	**8,749**	7,355
Other payables *(note)*	**16,342**	12,308
Accruals	**16,904**	9,914
	48,187	33,439

Note:

Included in the balance was other PRC tax payable, other than PRC enterprise income tax, of approximately RMB6,360,000 (2006: RMB2,754,000) at 31 December 2007. Balance also included amounts received from (i) suppliers when they send promoters to the retail stores (ii) staff when joining the retail stores of approximately RMB3,916,000 (2006: RMB4,881,000) at 31 December 2007.

21. AMOUNT DUE TO A DIRECTOR – GROUP

Amount due was unsecured, interest free and repayable on demand.

22. AMOUNTS DUE TO ULTIMATE SHAREHOLDERS – GROUP

Amounts due were unsecured, interest free and had no fixed terms of repayment. Such amounts were capitalised on 16 April 2007 as equity of a subsidiary.

23. DEFERRED TAX LIABILITIES – GROUP

Deferred taxation is calculated in full on temporary differences under the liability method using the applicable PRC enterprise income tax rates in the Shenzhen Special Economic Zone. The movement on the deferred tax liabilities arising from business combination is as follows:

	2007 ***RMB'000***	2006 *RMB'000*
At 1 January	**–**	–
Arising from business combination *(note 30)*	**7,500**	–
Deferred taxation credited to income statement	**(300)**	–
At 31 December	**7,200**	–

Deferred tax assets are recognised for tax loss carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. At 31 December 2007, the Group has unrecognised tax losses to carry forward against future taxable income of RMB8,697,000 (2006: Nil). These tax losses may be carried forward up to 2012.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

24. SHARE CAPITAL – COMPANY

	Notes	For the year ended 31 December 2007 Number of shares ('000)	For the year ended 31 December 2007 RMB'000	From 4 September 2006 (date of incorporation) to 31 December 2006 Number of shares ('000)	From 4 September 2006 (date of incorporation) to 31 December 2006 RMB'000
Authorised:					
Ordinary shares of HK$ 0.01 each					
At the beginning of the year/period		**39,000**	**390**	–	–
Increase in authorised share capital	(a)	**9,961,000**	**96,709**	39,000	390
At 31 December		**10,000,000**	**97,099**	39,000	390
Issued and fully paid:					
Ordinary shares of HK$ 0.01 each					
At the beginning of the year/period		**1**	**–**	–	–
Issue of ordinary shares at the date of incorporation	(a)	**–**	**–**	–	–
Issue of ordinary shares	(b)	**–**	**–**	1	–
Issue of ordinary shares on Reorganisation	(c)	**99,999**	**981**	–	–
Issue of ordinary shares on capitalisation issue	(d)	**650,000**	**6,342**	–	–
Issue of ordinary shares by initial public offering	(e)	**250,000**	**2,439**	–	–
Issue of ordinary shares upon exercise of over-allotment option	(f)	**37,500**	**363**	–	–
At 31 December		**1,037,500**	**10,125**	1	–

Notes:

(a) The Company was incorporated in the Cayman Islands on 4 September 2006 as an exempted company with limited liability under the Companies Law of the Cayman Islands. At the date of incorporation, the authorised share capital of the Company was HK$390,000 divided into 39,000,000 ordinary shares of HK$ 0.01 each. On the same date, 90 ordinary shares of HK$0.01 each were allotted and issued at par.

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

(b) On 27 October 2006, the Company issued and allotted, for cash at par, 10 ordinary shares. On the same day, the Company further issued and allotted for cash, 900 ordinary shares at a consideration of approximately HK$390,000. A share premium of approximately RMB390,000 arose and was recorded as share premium of the Company.

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

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2007

24. SHARE CAPITAL – COMPANY *(Continued)*

Notes (Continued):

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

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

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

25. RESERVES – GROUP AND COMPANY

		Group		Company	
	Notes	**2007** **RMB'000**	2006 RMB'000	**2007** **RMB'000**	2006 RMB'000
Share premium	(a)	**252,478**	390	**252,478**	390
Statutory reserve	(b)	**9,383**	9,383	**–**	–
Statutory welfare reserve	(c)	**2,286**	2,286	**–**	–
Merger reserve	(d)	**12,373**	(20,306)	**–**	–
Share option reserve	(e)	**5,360**	–	**5,360**	–
Contributed surplus	(f)	**–**	–	**67,848**	–
Translation reserve		**738**	–	**–**	–
Retained profits		**91,026**	34,062	**2,587**	–
		373,644	25,815	**328,273**	390
Dividend proposed		**22,153**	22,000	**22,153**	–
		395,797	47,815	**350,426**	390

The movements of the Group's reserves for the year are presented in the consolidated statement of changes in equity.

25. RESERVES – GROUP AND COMPANY *(Continued)*

Reserve movements of the Company for the year are set out below:

	Share premium *RMB'000*	Share option reserve *RMB'000*	Contributed surplus *RMB'000*	Retained profits *RMB'000*	Proposed dividend *RMB'000*	Total *RMB'000*
Profit for the period (total income and expenses recognised during the period)	–	–	–	–	–	–
Issue of shares	390	–	–	–	–	390
As at 31 December 2006 and 1 January 2007	390	–	–	–	–	390
Profit for the year (total income and expenses recognised during the year)	–	–	–	24,740	–	24,740
Arising from Reorganisation	–	–	67,848	–	–	67,848
Issue of shares	281,585	–	–	–	–	281,585
Share issue expenses	(29,497)	–	–	–	–	(29,497)
Dividend relating to 2007	–	–	–	(22,153)	22,153	–
Share-based compensation	–	5,360	–	–	–	5,360
As at 31 December 2007	**252,478**	**5,360**	**67,848**	**2,587**	**22,153**	**350,426**

Of the consolidated profit attributable to the equity holders of the Company of RMB79,117,000 (2006: RMB56,905,000), a profit of RMB24,740,000 (2006: Nil) has been dealt with in the financial statements of the Company.

Notes:

(a) Under the Companies Law of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

(b) According to the relevant PRC laws, subsidiaries established in the PRC are required to transfer at least 10% of their net profit after tax, as determined under the PRC accounting regulation, to a statutory reserve until the reserve balance reaches 50% of the entity's registered capital. The transfer of this reserve must be made before the distribution of dividend to the subsidiaries equity owners. The statutory reserve is non-distributable other than upon the liquidation of the entity.

(c) According to the relevant PRC laws, companies established in the PRC are required to transfer a certain percentage, as approved by the board of directors, of its net profit after tax, as determined under the PRC accounting regulation, to a statutory welfare reserve. This reserve can only be used to provide staff facilities and other collective benefits to its employees. The statutory welfare reserve is non-distributable other than upon the liquidation of the entity.

(d) The merger reserve of the Group arose as a result of the Reorganisation completed on 30 April 2007 and represented the difference between the nominal value of the Company's shares issued under the Reorganisation and the nominal value of the aggregate share capital/registered capital and share premium of the subsidiaries then acquired.

25. RESERVES – GROUP AND COMPANY *(Continued)*

Notes: (Continued)

(e) The share option reserve of the Group arose as a result of the options granted to the employees, directors and an consultant of the Group.

(f) The contributed surplus of the Company arose as a result of the Reorganisation and represents the excess of the nominal value of the Company's shares issued in exchange for the then consolidated net assets value of the subsidiaries then acquired.

26. SHARE-BASED COMPENSATION – GROUP

Pursuant to the written resolutions of all the shareholders passed on 30 April 2007, the Company has adopted the Share Option Scheme (the "Scheme").

The purpose of the Scheme is to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the participants and for such other purposes as the board of directors (the "Board") may approve from time to time.

Pursuant to the Scheme, the Board may, at its absolute discretion, invite any executive or non-executive directors including independent non-executive directors or any employees (whether full-time or part-time) of any member of the Group; any consultants, professional and other advisers to any member of the Group (or persons, firms or companies proposed to be appointed for providing such services), (together, the "Participants" and each a "Participant"), to take up options ("Option(s)") to subscribe for shares at a price determined in accordance with the paragraph below.

The subscription price in respect of each share issued pursuant to the exercise of Options granted shall be a price solely determined by the Board and notified to a Participant and shall be at least the highest of:

(a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the offer date;

(b) a price being the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the offer date (provided that the new issue price shall be used as the closing price for any business day falling within the period before listing of the shares where the Company has been listed for less than 5 business days as at the offer date); and

(c) the nominal value of a share.

The total number of shares, which may be issued upon exercise of all options to be granted under the Scheme and any other share option scheme of the Company shall not in aggregate exceed 100,000,000 shares, being 10% of the total number of shares on the listing date, unless the Company obtains an approval from its shareholders. Options lapsed in accordance with the terms of the Scheme will not be counted for the purpose of calculating such 10% limit.

26. SHARE-BASED COMPENSATION – GROUP *(Continued)*

On and subject to the terms of the Scheme, the Board shall be entitled at any time, within 10 years after 30 April 2007 to make an offer of the grant of an Option by the Board (the "Offer") to any Participant as the Board may in its absolute discretion select to subscribe for such number of shares as the Board may determine at the subscription price. In determining the basis of eligibility of each Participant, the Board would mainly take into account the experience of the Participant in the Group's business, the length of service of the Participant has exerted and made towards the success of the Group and/or the amount of potential efforts and contributions the Participant is likely to be able to give or make towards the success of the Group in the future.

Notwithstanding any provisions of the Scheme, the limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company must not exceed 30% of the shares in issue from time to time.

Unless approved by the shareholders, the total number of shares issued and to be issued upon exercise of the Options granted to each participant (including both exercised and outstanding Options) in any 12-month period shall not exceed 1% of the total number of shares in issue.

An Offer shall be deemed to have been accepted by any Participant (the "Grantee") who accepts an Offer in accordance with the terms of the Scheme or (where the context so permits) the legal personal representative(s) entitled to any such Scheme in consequence of death of the Grantee and the Option to which the Offer relates shall be deemed to have been granted and to have taken effect when the duplicate of the offer letter comprising acceptance of the Offer duly signed by the Grantee together with a remittance in favour of the Company of HK$1.00 by way of consideration for the granting thereof is received by the Company within the date upon which the Offer is made to such date as the Board may determine and specify in the offer letter (both days inclusive).

All share-based employee compensation will be settled in equity.

Further details of the Scheme is published in the Company's Prospectus.

26. SHARE-BASED COMPENSATION – GROUP *(Continued)*

Details of the Options granted by the Company pursuant to the Scheme and the Options outstanding as at 31 December 2007 were as follows:

			Number of Options					
Grant to	**Date of grant**	**Exercisable period**	**Balance at 1 January 2006 and 2007**	**Granted during the year**	**Exercised during the year**	**Lapsed during the year**	**Balance at 31 December 2007**	**Exercise price per share** *HK$*
Executive Directors								
Mr. Zhuang Lu Kun	30 April 2007	21 November 2007 to 20 November 2012	–	1,000,000	–	–	1,000,000	1.04
Mr. Shen Da Jin	30 April 2007	21 November 2007 to 20 November 2012	–	720,000	–	–	720,000	1.04
Mr. Zhuang Pei Zhong	30 April 2007	21 November 2007 to 20 November 2012	–	600,000	–	–	600,000	1.04
Mr. Gu Wei Ming	30 April 2007	21 November 2007 to 20 November 2012	–	540,000	–	–	540,000	1.04
Employees of the Group	30 April 2007	21 November 2007 to 20 November 2012	–	15,750,000	–	(300,000)	15,450,000	1.04
Consultant	30 April 2007	21 November 2007 to 20 November 2012	–	600,000	–	–	600,000	1.04
			–	19,210,000	–	(300,000)	18,910,000	

The fair values of Options granted during the year of approximately RMB5,360,000 (note 7) were determined using the Black-Scholes Option Pricing Model. Significant inputs into the calculation included a share price on issue date of HK$1.04 and exercise prices as illustrated above. Furthermore, the calculation took into account the expected dividend yield of nil and a volatility rate of 41.11%, based on expected share price. Risk-free annual interest rate was determined at 4.26%.

The underlying expected volatility was determined with reference to the historical share price information of a company listed on the Main Board of the Stock Exchange which was engaged in similar business to the Group as there was no historical volatility rate of the Company prior to the date of grant of the Options.

No options were forfeited or exercised pursuant to the Scheme during the year.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2007

27. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

	Fees *RMB'000*	Salary, allowance and other benefit in kind *RMB'000*	Share-based payment expenditure *RMB'000*	Contributions to pension scheme *RMB'000*	Total *RMB'000*
2007					
Executive directors					
Mr. Zhuang Lu Kun	**–**	**310**	**279**	**4**	**593**
Mr. Shen Da Jin	**–**	**252**	**201**	**2**	**455**
Mr. Zhuang Pei Zhong	**–**	**198**	**167**	**4**	**369**
Mr. Gu Wei Ming	**–**	**193**	**151**	**2**	**346**
	–	**953**	**798**	**12**	**1,763**
Independent non-executive directors					
Mr. Chin Kam Cheung	**59**	**–**	**–**	**–**	**59**
Dr. Guo Zheng Lin	**64**	**–**	**–**	**–**	**64**
Mr. Ai Ji	**64**	**–**	**–**	**–**	**64**
	187	**–**	**–**	**–**	**187**
	187	**953**	**798**	**12**	**1,950**
2006					
Executive directors					
Mr. Zhuang Lu Kun	–	298	–	2	300
Mr. Shen Da Jin	–	211	–	2	213
Mr. Zhuang Pei Zhong	–	163	–	2	165
Mr. Gu Wei Ming	–	171	–	2	173
	–	843	–	8	851
Independent non-executive directors					
Mr. Chin Kam Cheung	–	–	–	–	–
Dr. Guo Zheng Lin	–	–	–	–	–
Mr. Ai Ji	–	–	–	–	–
	–	–	–	–	–
	–	843	–	8	851

27. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

No directors of the Company waived any emoluments paid by the companies now comprising the Group during the year (2006: Nil).

No emoluments were paid to the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office for the year (2006: Nil).

2,860,000 share options (note 26) were granted to the directors of the Company during the year (2006: Nil).

(b) Five highest paid individuals

The five highest paid individuals in the Group included four directors (2006: four) of the Company for the year, whose emoluments are disclosed in note 27(a). Details of the remuneration paid to the remaining one (2006: one) highest paid individual for the year, which fell within the band of HK$1 million – HK$1.5 million (equivalent to approximately RMB936,000 – RMB1,404,000) is as follows:

	2007 ***RMB'000***	2006 *RMB'000*
Basic salaries, other allowances and benefits in kind	**1,017**	165
Contributions to pension scheme	**14**	2
Share-based payment expenditure	**84**	–
	1,115	167

No emoluments were paid by the Group to any of the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office for the year (2006: Nil).

300,000 share options were granted to the highest paid individual, other than directors of the Company, during the year (2006: Nil).

28. COMMITMENTS – GROUP

(a) Capital Commitments

The Group had the following outstanding capital commitments:

	2007 ***RMB'000***	2006 *RMB'000*
Contracted, but not provided for, in respect of property, plant and equipment	**4,867**	2,797

28. COMMITMENTS – GROUP *(Continued)*

(b) Operating leases commitments

(i) Group as lessee

The total future minimum lease payments under non-cancellable operating leases in respect of land and buildings payable to independent third parties is as follows:

	2007 **RMB'000**	2006 RMB'000
Within one year	**47,127**	27,770
In the second to fifth years	**184,153**	117,666
After five years	**504,116**	246,209
	735,396	391,645

The total future minimum lease payments under non-cancellable operating leases in respect of land and buildings payable to Mr. Zhuang Lu Kun, a director of the Company, and related companies, namely BJH Industrial and Shenzhen Jiahua Real Estate Development Company Limited ("JH Real Estate"), companies in which Mr. Zhuang Lu Kun and Mrs. Zhuang Su Lan have beneficial interests, are as follows:

	2007 **RMB'000**	2006 RMB'000
Within one year	**14,794**	13,981
In the second to fifth years	**61,125**	59,803
After five years	**111,467**	128,495
	187,386	202,279

The Group leases a number of land and buildings under operating leases. The leases run for initial periods of five to fifteen years, with an option to renew the lease terms at the expiry date or at dates as mutually agreed between the Group and respective landlords. None of the leases include contingent rentals.

(ii) Group as lessor

The Group sub-leases out a number of land and buildings under operating leases. One of the leases run for an initial period of ten years and are cancellable with three months' notice. The rentals on this lease are calculated based on a percentage of the relevant sales of the tenants pursuant to the rental agreement. Contingent rents recognised in the consolidated income statements during the year ended 31 December 2007 are disclosed in note 7 to those financial statements. All other leases are cancellable with one to two months' notice.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2007

29. RELATED PARTY TRANSACTIONS – GROUP

In addition to those transactions and balances detailed elsewhere in these financial statements, the following transactions were carried out with related parties:

(a) Transactions with BJH Industrial

	Notes	**2007** **RMB'000**	2006 RMB'000
Operating lease rentals paid in respect of land and buildings	*(i)*	**(11,444)**	(11,607)
Operating lease rentals arrangement in respect of land and buildings	*(ii)*	**(5,766)**	(5,827)
Rental income arrangement	*(iii)*	**1,357**	2,870
Utilities income arrangement	*(iii)*	**1,146**	3,133
Imputed interest income	*17(a)*	**800**	6,223

Notes:

(i) The amounts were determined in accordance with the terms of the underlying agreements.

(ii) BJH Industrial (as tenant) entered into lease arrangements with certain independent third parties (as landlords) to lease certain premises rented by the Group. The Group paid rental expenses of these premises as disclosed above directly to the landlords and not to BJH Industrial.

Pursuant to a lease agreement dated 28 April 2002 between 深圳市中鵬展實業有限公司 ("Zhong Peng Zhan") (as landlord) and BJH Industrial (as tenant), BJH Industrial leases store premises for a term of 15 years commencing from 16 November 2002 and expiring on 15 November 2017 at a monthly rent of approximately RMB481,000. Pursuant to a supplemental lease agreement dated 1 March 2004 between Zhong Peng Zhan and BJH Industrial, Zhong Peng Zhan has consented that BJH Industrial can provide the store premises for occupation by BJH Department Stores. Zhong Peng Zhan also consented that BJH Department Stores shall pay the rental under this lease agreement directly to Zhong Peng Zhan and BJH Industrial has guaranteed the timely payment of rentals to Zhong Peng Zhan by the Group.

(iii) BJH Industrial (as lessor) entered into certain sub-lease arrangements with an independent third party (as tenant) to sub-lease part of the retail stores which were rented by the Group. BJH Industrial received the rental income and utilities income as disclosed above on behalf of the Group. Pursuant to a supplemental agreement dated 6 November 2006 between BJH Industrial and the Group, BJH Industrial confirmed that the Group was entitled to the rental and utilities income as landlord from the independent third party commencing 1 March 2004. The rentals and utilities income were determined in accordance with the terms of underlying agreements. Except for the arrangement in respect of Gongming Store, certain sub-lease arrangements had ceased and the Group became the lessor on 1 April 2007.

(b) During the year, the Group leased properties from Mr. Zhuang Lu Kun and JH Real Estate. The operating lease rental expenses incurred were approximately RMB202,000 (2006: RMB118,000) and RMB2,668,000 (2006: Nil) respectively. The amounts were determined in accordance with the terms of the underlying agreements.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2007

29. RELATED PARTY TRANSACTIONS – GROUP *(Continued)*

(c) Compensation of key management personnel

	2007 **RMB'000**	2006 RMB'000
Total remuneration of directors and other members of key management during the year *(note 27(a) and (b))*	**3,065**	1,018

30. BUSINESS COMBINATION – GROUP

Pursuant to an agreement of transfer dated 23 July 2007 entered into between a subsidiary of the Group, Shenzhen Dongfangcheng Department Store Limited 深圳市東方城商業有限公司 (the "SZDFC") and the shareholders of SZDFC, the relevant businesses of all four stores of the SZDFC operating in the Shenzhen Special Economic Zone were acquired by the Group at a consideration of approximately RMB28,000,000. The businesses acquired included (a) property, plant and equipment at the stores, (b) tenancy agreements of the four stores at the original terms, (c) staff of the stores and (d) concessionaire suppliers.

The acquired businesses contributed revenues of approximately RMB43,394,000 and net profit of approximately RMB4,084,000 to the Group for the period from the respective dates of acquisition, which were 2 August 2007 for two stores and 7 August 2007 for another two stores, to 31 December 2007. No financial information was presented in respect of the Group's revenue and net profit as if the acquisition was completed on 1 January 2007 because it was impracticable to identify such information attributable to the identifiable assets acquired.

Details of the net identifiable assets acquired and excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost of acquisition are as follows:

	2007 **RMB'000**
Total purchase consideration paid by cash	**28,000**
Fair value of net identifiable assets acquired	**(62,453)**
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost of acquisition	**(34,453)**

The excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost of acquisition was attributable to the bargain purchase with the seller and the seller was willing to accept less than the business fair value as consideration.

30. BUSINESS COMBINATION – GROUP *(Continued)*

The identifiable assets and liabilities acquired at dates of acquisition are as follows:

	Notes	**Fair value at the dates of acquisition** ***RMB'000***
Property, plant and equipment	*(a)*	**11,351**
Intangible asset	*(b)*	**58,602**
		69,953
Deferred tax liability on business combination	*(c)*	**(7,500)**
Net identifiable assets acquired		**62,453**

Notes:

(a) At the dates of acquisition, the fair value of the property, plant and equipment was determined by Castores Magi (Hong Kong) Limited, a firm of independent qualified professional valuers, based on the cost approach by considering the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for obsolescence present, whether arising from physical, functional or economic causes.

(b) At the dates of acquisition, the fair value of the intangible asset, which is the favourable operating leases, was determined by Castores Magi (Hong Kong) Limited, a firm of independent qualified professional valuers, based on the market approach by comparing prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised assets relative to the market comparables.

(c) Deferred tax liabilities at the dates of acquisition had been provided at the applicable PRC enterprise income tax rates in the Shenzhen Special Economic Zone which would be effective from 1 January 2008 onwards. The deferred tax liabilities arose from the temporary differences between the fair value of the identifiable assets recognised by the Group on acquisition, namely property, plant and equipment and intangible asset, and their respective tax bases in the PRC.

The carrying amounts of each class of the acquiree's assets immediately before the date of combination were not disclosed as it was impracticable to identify such information attributable to the identifiable assets acquired.

There was no acquisition in the year ended 31 December 2006.

31. RISK MANAGEMENT OBJECTIVES AND POLICIES – GROUP

The Group is exposed to a variety of financial risks which result from both its operating and investing activities. The Group's risk management is coordinated at its headquarters, in close co-operation with the board of directors, and focuses on actively securing the Group's short to medium term cash flows by minimising the exposure to financial markets.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed to are described below.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2007

31. RISK MANAGEMENT OBJECTIVES AND POLICIES – GROUP *(Continued)*

(i) Foreign currency risk

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

The Group's and the Company's exposures at the balance sheet date to currency risk arising from cash and cash equivalents denominated in currency other than the functional currency of the entity to which they relate are set out below:

	2007		2006	
	HK$	**Australian Dollars**	HK$	Australian Dollars
	'000	***'000***	*'000*	*'000*
Group	**255,052**	**1,418**	1,062	–
Company	**248,987**	**1,418**	–	–

The following table illustrates the sensitivity of the profit for the year and retained profits in regards to the Group's cash and cash equivalents at the balance sheet date and the reasonable possible changes in the foreign exchange rates in the next 12 months to which the Group has significant exposure at the balance sheet date, based on the assumption that other variables are held constant. Changes in foreign exchange rates have no impact on the Group's other components of equity.

	Effect on profit for the year and retained profits			
	2007		2006	
	Increase/ (decrease) attributable to HK$	**Increase/ (decrease) attributable to Australian Dollars**	Increase/ (decrease) attributable to HK$	Increase/ (decrease) attributable to Australian Dollars
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
If RMB strengthened by 5%	**(11,943)**	**(471)**	(54)	–
If RMB weakened by 5%	**11,943**	**471**	54	–

31. RISK MANAGEMENT OBJECTIVES AND POLICIES – GROUP *(Continued)*

(ii) Credit risk

The Group has no significant concentrations of credit risk. Most of the sales transactions were settled in cash basis or by credit card payment. The carrying amount of loan and other receivables included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to its financial assets.

There is no requirement for collateral by the Group.

(iii) Interest rate risk

The Group's exposure to interest rate risk mainly arises on cash and cash equivalents (note 18). The Group has not used any derivative contracts to hedge its exposure to interest rate risk. The Group has not formulated a policy to manage the interest rate risk.

A reasonable change in interest rate in the next twelve months is assessed to result in immaterial change in the Group's profits after tax and retained profits. Changes in interest rates have no impact on the Group's other components of equity. The Group adopts centralised treasury policies in cash and financial management and focuses on reducing the Group's overall interest expense.

(iv) Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents and have available funding to meet its working capital requirements. The Group's liquidity is dependent upon the cash received from its customers. The directors of the Company are satisfied that the Group will be able to meet in full its financial obligations as and when they fall due in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2007

31. RISK MANAGEMENT OBJECTIVES AND POLICIES – GROUP *(Continued)*

(iv) Liquidity risk *(Continued)*

The following table details the remaining contractual maturities at the balance sheet date of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payment computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay:

	Carrying amount *RMB'000*	Total contractual undiscounted cash flows *RMB'000*	Repayable within one year or on demand *RMB'000*	Capitalised as equity *RMB'000*
At 31 December 2007				
Trade payables	**146,299**	**146,299**	**146,299**	**–**
Other payables	**16,342**	**16,342**	**16,342**	**–**
Amount due to a director	**738**	**738**	**738**	**–**
Total	**163,379**	**163,379**	**163,379**	**–**
At 31 December 2006				
Trade payables	156,407	156,407	156,407	–
Other payables	12,308	12,308	12,308	–
Amounts due to ultimate shareholders	33,660	33,660	–	33,660
Total	202,375	202,375	168,715	33,660

32. SUMMARY OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORY – GROUP AND COMPANY

The carrying amounts of the Group's and the Company's financial assets and liabilities recognised as at the balance sheet date may also be categorised as follows. See notes 3.12 and 3.14 for explanations about how the categorisation of financial instruments affects their subsequent measurement.

(a) Group

Financial assets:

	2007	2006
	RMB'000	*RMB'000*
Loans and receivables, including cash and cash equivalents		
Current assets		
– Trade receivables	**1,478**	381
– Other receivables	**34,854**	17,238
– Amounts due from related parties	**140**	41,115
– Cash and cash equivalents	**300,339**	59,366
	336,811	118,100

Financial liabilities:

	2007	2006
	RMB'000	*RMB'000*
Financial liabilities measured at amortised cost		
Current liabilities		
– Trade payables	**146,299**	156,407
– Other payables	**16,342**	12,308
– Accruals	**16,904**	9,914
– Amount due to a director	**738**	–
	180,283	178,629
Non-current liabilities		
– Amounts due to ultimate shareholders	**–**	33,660
	180,283	212,289

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2007

32. SUMMARY OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORY – GROUP AND COMPANY *(Continued)*

(b) Company

Financial assets:

	2007 RMB'000	2006 RMB'000
Loans and receivables, including cash and cash equivalents		
Current assets		
– Amounts due from subsidiaries	**50,998**	390
– Cash and cash equivalents	**242,604**	–
	293,602	390

Financial liabilities:

	2007 RMB'000	2006 RMB'000
Financial liabilities at amortised cost		
Current liabilities		
– Accruals	**899**	–

33. CAPITAL MANAGEMENT – GROUP

The Group's objectives when managing capital are:

- To safeguard the Group's ability to continue as a going concern, so that it continues to provide returns for shareholders and benefits for other stakeholders;
- To support the Group's stability and growth; and
- To provide capital for the purpose of strengthening the Group's risk management capability.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Group has not adopted any formal dividend policy.

Management regards total equity as capital, for capital management purpose. The amount of capital as at 31 December 2007 amounted to approximately RMB405,922,000 (2006: RMB47,815,000), in which management considers as optimal having considered the projected capital expenditures and the projected strategic investment opportunities.

34. SUBSEQUENT EVENTS

Pursuant to a written resolution dated on 3 January 2008, a subsidiary of the Group proposed to set up a new subsidiary in the PRC with registered capital of RMB5,000,000. No payment in respect of the above has been made by the Group up to the date of issue of these financial statements.

Save as disclosed above, the Group did not have any significant subsequent events subsequent to 31 December 2007 and up to the date of issue of these financial statements.

FOUR-YEAR FINANCIAL SUMMARY

RESULTS

	Year ended 31 December			
	2004	2005	2006	**2007**
	RMB'000	*RMB'000*	*RMB'000*	***RMB'000***
Revenue	581,954	576,171	630,622	**829,848**
Cost of inventories sold	(458,583)	(443,271)	(484,054)	**(630,466)**
	123,371	132,900	146,568	**199,382**
Other operating income	55,269	68,268	78,374	**109,084**
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost of acquisition	–	–	–	**34,453**
Distribution costs	(106,815)	(107,788)	(131,593)	**(208,948)**
Administrative expenses	(21,016)	(26,883)	(27,768)	**(43,372)**
Profit before income tax	50,809	66,497	65,581	**90,599**
Income tax expense	(828)	(9,962)	(8,676)	**(11,482)**
Profit attributable to the Company's equity holders	49,981	56,535	56,905	**79,117**
Dividends	–	80,000	22,000	**22,153**
Earnings per share – Basic	RMB6.66 cents	RMB7.54 cents	RMB7.59 cents	**RMB8.53 cents**
– Diluted	N/A	N/A	N/A	**RMB8.52 cents**

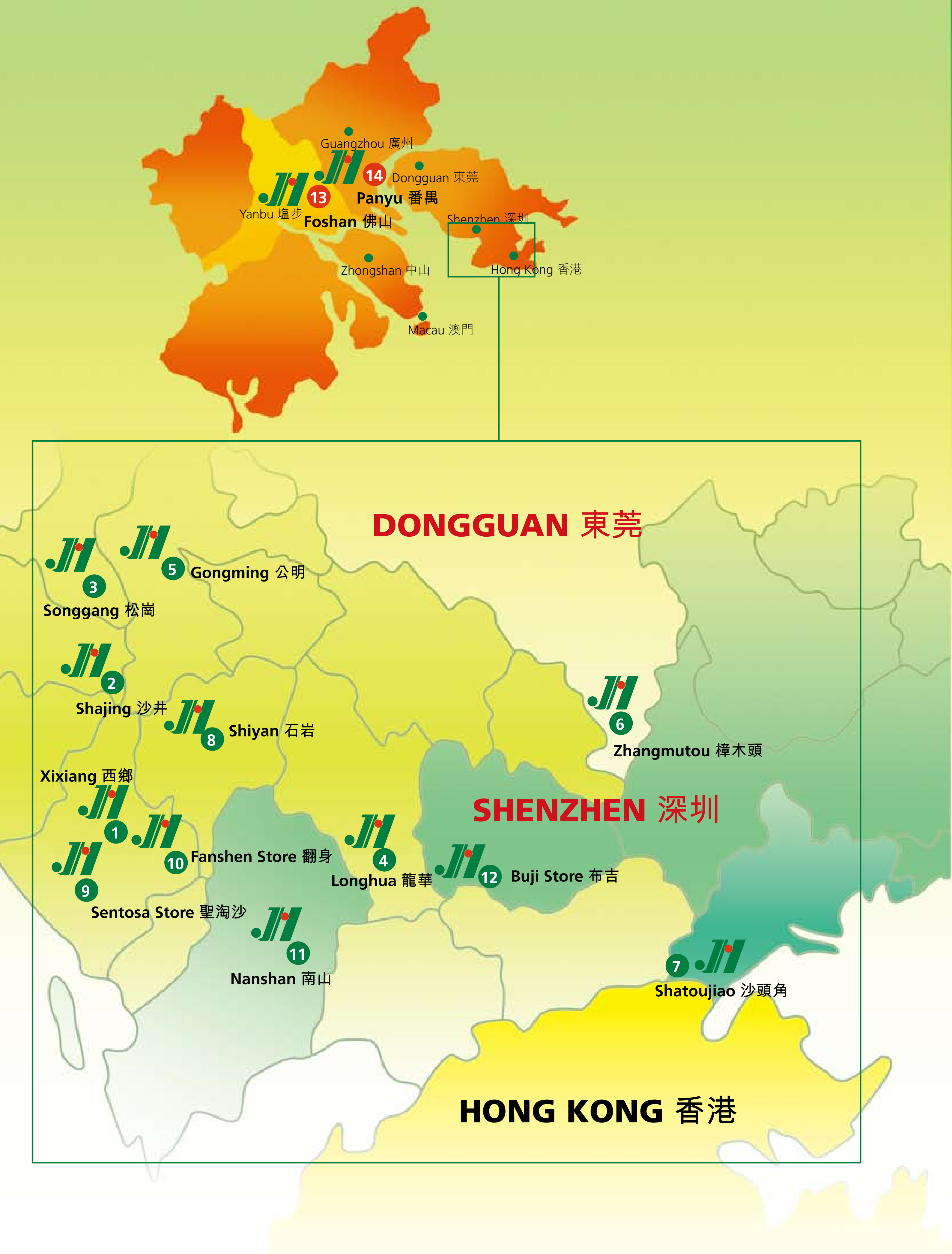
ASSETS AND LIABILITIES

	As at 31 December			
	2004	2005	2006	**2007**
	RMB'000	*RMB'000*	*RMB'000*	***RMB'000***
Total assets	166,795	258,018	275,824	**613,234**
Total liabilities	(116,830)	(156,969)	(228,009)	**(207,312)**
Net assets	49,965	101,049	47,815	**405,922**

Notes:

1. The financial information for each of the three years ended 31 December 2006 has been prepared on a combined basis to indicate the results of the Group as if the Group structure, at the time when the Company's shares were listed on The Stock Exchange of Hong Kong Limited, had been in existence throughout the years concerned. The results for the three years ended 31 December 2006, and the assets and liabilities as at 31 December 2004, 2005 and 2006 have been extracted from the prospectus of the Company dated 8 May 2007.

2. The results for year ended 31 December 2007, and the assets and liabilities as at 31 December 2007 have been extracted from the audited consolidated income statement and audited consolidated balance sheet as set out on pages 37 and 38 respectively, of the financial statements.



Guangzhou 廣州
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Dongguan 東莞
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Panyu 番禺
Yanbu 塩步
Foshan 佛山
Shenzhen 深圳
Zhongshan 中山
Hong Kong 香港
Macau 澳門
DONGGUAN 東莞
3
Songgang 松崗
5
Gongming 公明
2
Shajing 沙井
8
Shiyan 石岩
6
Zhangmutou 樟木頭
Xixiang 西鄉
1
10
Fanshen Store 翻身
9
Sentosa Store 聖淘沙
4
Longhua 龍華
12
Buji Store 布吉
SHENZHEN 深圳
11
Nanshan 南山
7
Shatoujiao 沙頭角
HONG KONG 香港


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