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
2008

Contents

Corporate Information

STOCK CODE
602

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CHAIRMAN'S STATEMENT

Chairman's Statement

INTRODUCTION

Due to the impacts of the global financial tsunami, global economies have been affected to different extents. Facing the crisis, the Company timely adjusted our operating directions, resulting in turnover of approximately RMB935.1 million, representing a year-on-year increase of approximately 12.7%; and consolidated net profit of approximately RMB24.4 million, representing a year-on-year decrease of approximately 69.2%, which is mainly attributed to the absence of gain from the excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost of acquisition of approximately RMB34.5 million in last year. Besides, there was a drop in bank interest income which arose from the proceeds from the listing in 2007. Added with the impact on sales of goods, commission from concessionaires and rental income of Longhua store during March to July 2008 due to the large scale shop renovation and the set up expenses of the new stores in Yanbu Foshan and Ronggui Foshan of the PRC, the net profit of the year has dropped considerably.

Despite the decrease of net profit in 2008, the Group's overall financial position remains healthy. Therefore, the Board of Directors is still optimistic towards the Group's long-term prospects.

Market Overview

2008 was a particularly challenging year for all economies and industries around the world. Although suffering from the financial tsunami, China's GDP still increased by 9% as compared with last year. Total retail sales of consumer goods for the year amounted to RMB10,848.7 billion, representing a year-on-year increase of 21.6% and a growth rate of 4.8% higher as compared with last year, among which the sales of consumer goods in wholesale and retail sectors was RMB9,119.9 billion, representing an increase of 21.5%. The Chinese government resumed its aggressive fiscal policy and proposed to invest RMB4,000 billion in the next two years to implement ten policies to expand domestic demand, which is unprecedented in terms of scale and efforts. The various economic stimulation policies introduced by the Chinese government are aimed at addressing the financial crisis and to bring new opportunities for economic development.

Prospects

Looking forward, China's economy will continue to sustain 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 and increase investment in domestic infrastructure will be a major focus for economic development of the PRC Government in 2009.

Chairman's Statement *(Continued)*

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 2009, the Group will stringently follow the direction of State policy, emphasizing on "stability" for its business development, to establish sales networks by sectors, enhance regional competitive edge and lower operation costs. While adequately accelerating the pace for expansion of its retail outlets, the Group will put more emphasis on the establishment of information system and the building of human resources, attracting talented professionals, strengthening staff training and improving review and appraisal systems, 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

6 April 2009

Biography of Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Zhuang Lu Kun (莊陸坤), aged 48, 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 is the father of Mr. Zhuang Xiao Xiong. 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) majoring in modern management in July 1999, and obtained the Master of Business Administration of senior management from the Sun Yat-sen University (中山大學). 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. Zhuang has served the Group for over 10 years.

Mr. Zhuang Pei Zhong (莊沛忠), aged 47, 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 management in Sun Yat-Sen University. Mr. Zhuang joined the Group in August 1995 and has over 10 years of experience in the retail industry. Mr. Zhuang has served the Group for over 10 years.

Mr. Gu Wei Ming (顧衛明), aged 40, is an executive Director and the chief procurement 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. Mr. Gu has served the Group for over 10 years.

Mr. Zhuang Xiao Xiong (莊小雄), aged 26. Mr. Zhuang obtained from the University of Luton, United Kingdom a bachelor of arts degree in business administration in 2005 and a master of science degree in finance and business management in 2006. Mr. Zhuang is the son of Mr. Zhuang Lu Kun. He joined the Group as full time member in 2006 and is responsible for the overall operation management of the Group. Mr. Zhuang has served the Group for over 2 years.

Zhuang Pei Zhong | Zhuang Lu Kun | Gu Wei Ming | Zhuang Xiao Xiong

Biography of Directors and Senior Management *(Continued)*

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. Mr. Chin has served the Group for over 1 year.

Dr. Guo Zheng Lin (郭正林), aged 42, 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 its shares are listed on the Shanghai Stock Exchange. Mr. Guo has served the Group for over 1 year.

Mr. Ai Ji (艾及), aged 55, 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 under the employment of Guangdong ShenTianCheng Law Firm (廣東深天成律師事務所). Mr. Ai has practised as a legal counsel and accumulated around 10 years of experience in various law firms in the PRC. Mr. Ai has served the Group for over 1 year.

SENIOR MANAGEMENT

Ms. Liu Yang (劉陽), aged 45, is the manager responsible for office administration 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 enterprises management from Liaoning University in 1985. Ms. Liu has served the Group for over 8 years.

Mr. Cai Xiao Wen (蔡小文), aged 44, is the chief operation officer responsible for operation function of the Group. Mr. Cai has served as operation manager, store manager and deputy manager of the procurement centre. Mr. Cai has over 19 years of experience in the retail industry. Mr. Cai has served the Group for over 5 years.

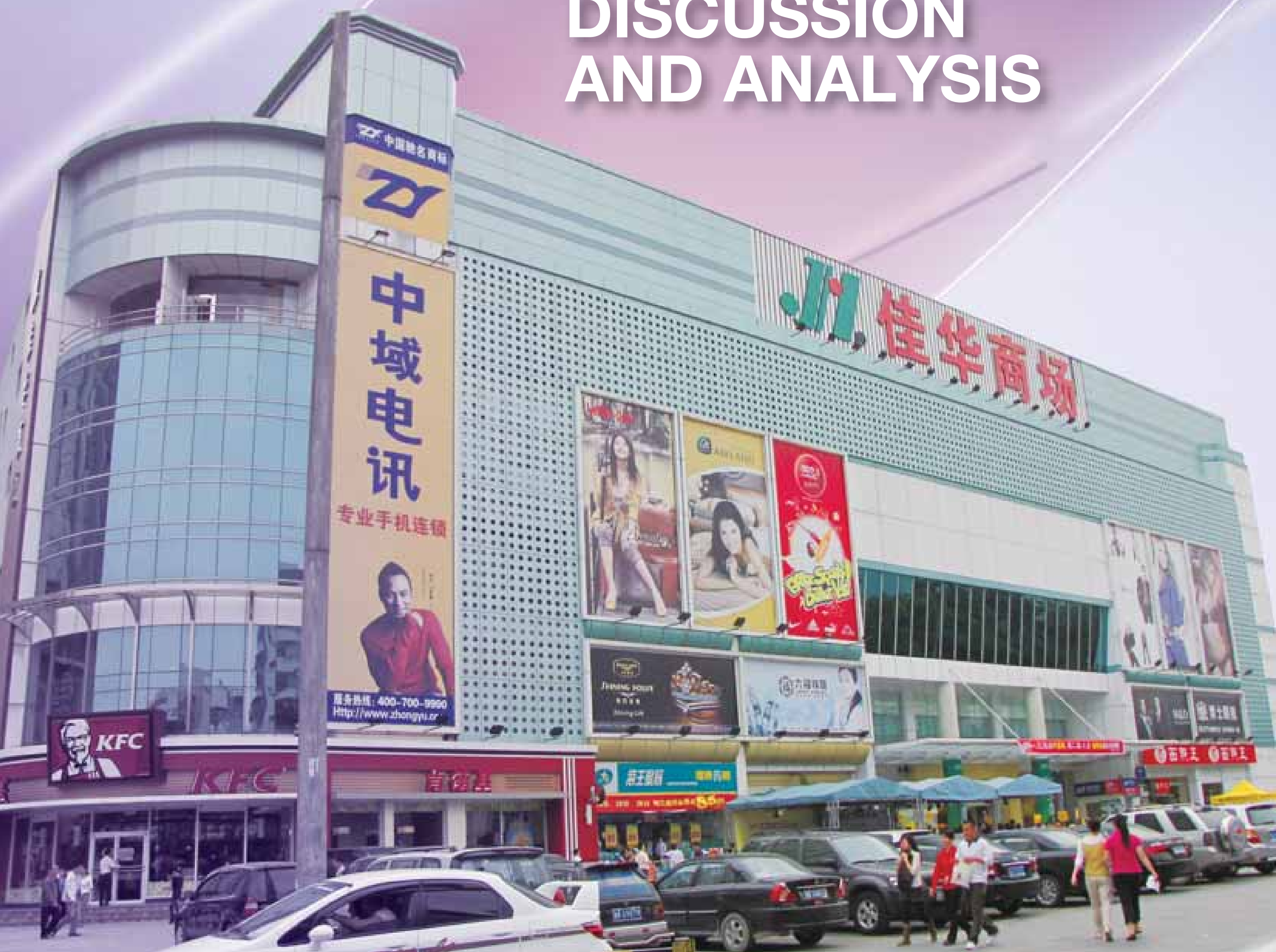
Mr. Zhong Hua (鍾華), aged 37, is the deputy manager responsible for information technology development and management of the Group. Mr. Zhong had served as manager and deputy manager of the information center. Mr. Zhong has over 9 years of experience in the information technology of the retail industry. Mr. Zhong has served the Group for over 5 years.

Mr. Li Quan Lin (李全林), aged 36, is the general manager of our Guangxi subsidiary and is responsible for the overall operating management and business development of the Guangxi subsidiary. Mr. Li obtained a bachelor degree in statistics from Hangzhou College of Commerce in 1997. Mr. Li has served the Group for over 3 years.

COMPANY SECRETARY

Mr. Ho Yuet Lee, Leo (何悅利), FCCA, CPA, ACIS, ACS aged 35, is the finance manager and company secretary of the Group. Mr. Ho obtained a degree of Bachelor of Business Administration (Honours) in Accounting from the Hong Kong Baptist University in 1995 and a Master degree in Corporate Governance from the Hong Kong Polytechnic University in 2008. He is a fellow member of the Association of Chartered Certified Accountants, an associate member of the Hong Kong Institute of Certified Public Accountants, an associate member of the Hong Kong Institute of Chartered Secretaries and an associate member of the Institute of Chartered Secretaries and Administrators. Mr. Ho has over 10 years of experience in accounting, auditing and corporate finance. Mr. Ho has served the Group for over 2 years.

MANAGEMENT DISCUSSION AND ANALYSIS



Management Discussion and Analysis

INDUSTRY OVERVIEW

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

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

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

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

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


• Shuyuan Yage Store

BUSINESS REVIEW

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

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

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

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

Management Discussion and Analysis *(Continued)*

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

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

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

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

OUTLOOK

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

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

FINANCIAL REVIEW

1. Revenue

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

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

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

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

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

Management Discussion and Analysis *(Continued)*

(3) Commencement of the wholesale business

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

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

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

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

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

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

3. Profit for the Year

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

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

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

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

Management Discussion and Analysis *(Continued)*

LIQUIDITY AND FINANCIAL RESOURCES

During the year, it financed its working capital and capital expenditures principally through net cash generated from operating activities. As at 31 December 2008, the Group had bank balances and cash of approximately RMB281.0 million (2007: approximately RMB300.3 million).

During the year, the Group did not use any financial instruments for any hedging purpose. The Group has no bank loans as at 31 December 2008 (2007: Nil) and charge on its assets.

NET CURRENT ASSETS AND NET ASSETS

The Group's net current assets as at 31 December 2008 was approximately RMB222.8 million, a decrease of 14.8% or RMB38.7 million from the balance of RMB261.5 million recorded as at 31 December 2007. Net asset of the Group as at 31 December 2008 rose to RMB408.5 million, an increase of RMB2.6 million or 0.6% over the balance as at 31 December 2007.

SUBSEQUENT EVENTS

Pursuant to a written resolution at 9 February 2009, Mr. Shen Da Jin had resigned as a director, chairman and member of the nomination committee of the Company and Mr. Zhuang Xiao Xiong had been appointed as a director of the Company with effect from 9 February 2009.

Save as disclosed above, the Group did not have any other significant subsequent events subsequent to 31 December 2008.

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 and HK$ 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 trade 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 bank balances. 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 bank balances 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 2008, the Group had approximately 3,511 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 year, total staff costs were approximately RMB80.8 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 2008, the Group has no significant contingent liabilities.

Capital Expenditure

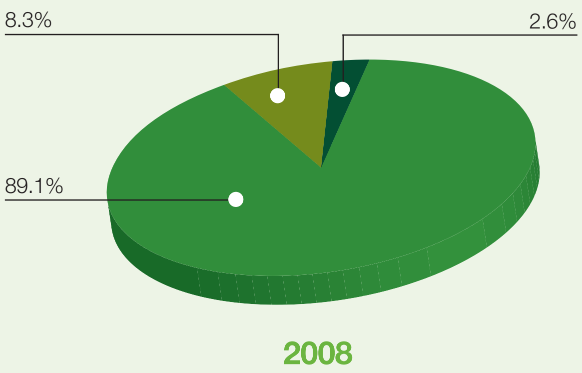
For the year ended 31 December 2008, capital expenditures of the Group for property, plant and equipment and intangible asset amounted to approximately RMB55.5 million (2007: RMB111.4 million).

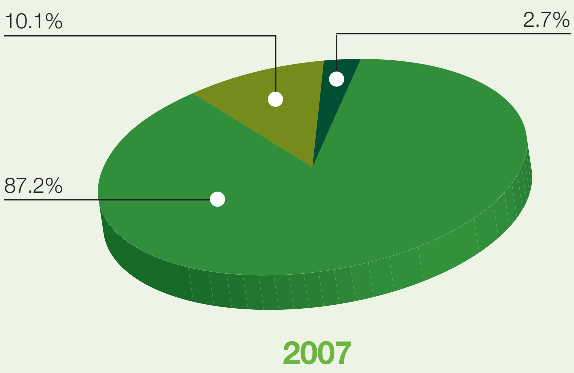
Capital Commitments

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

Management Discussion and Analysis *(Continued)*

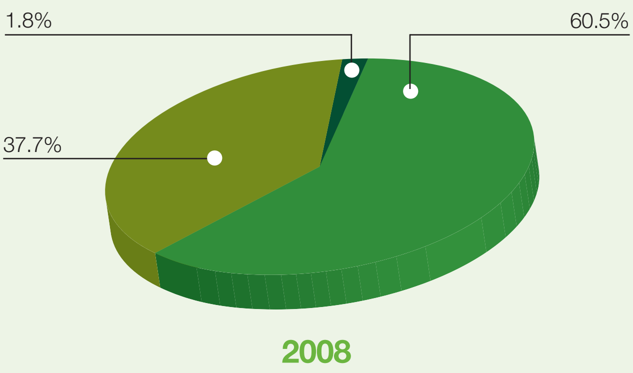
Revenue – Turnover

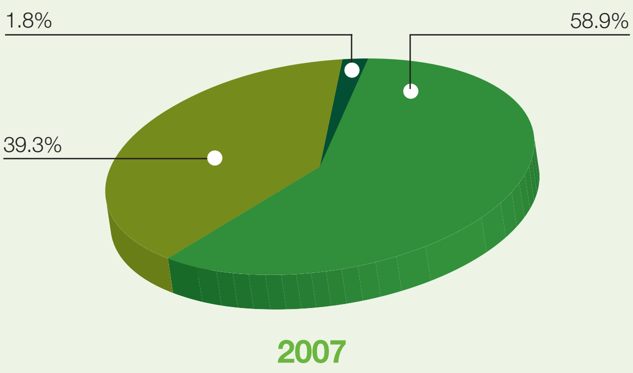




	2008 RMB'000	2007 RMB'000
Sales of goods and wholesale of consumables	833,115	724,110
Commissions from concessionaire sales	77,248	83,679
Rental income from sub-leasing of shop premises	24,704	22,059
	935,067	829,848

Gross Proceeds





	2008 RMB'000	2007 RMB'000
Sales of goods and wholesale of consumables	833,115	724,110
Commissions from concessionaire sales	518,179	482,376
Rental income from sub-leasing of shop premises	24,704	22,059
	1,375,998	1,228,545

Management Discussion and Analysis *(Continued)*

Retail stores	Commence operation	Storey	Gross floor area *(sqm)*	Average of daily transactions (Supermarket)		Average of daily transactions (Department store)		Estimated no. of visitors per day	
				FY07	FY08	FY07	FY08	FY07	FY08
Xixiang	1/10/1997	3	8,806	8,703	7,434	1,890	1,632	15,630	13,418
Shajin	1/5/1999	5	20,978	7,596	5,965	2,976	2,320	14,567	11,433
Songgang	1/1/2001	5	23,134	9,343	7,043	5,184	3,792	19,324	19,869
Longhua	1/11/2001	5	24,549	10,142	4,781	5,671	4,780	18,736	11,282
Gongming	1/9/2002	4	21,843	11,796	8,577	5,758	4,618	22,762	23,570
Zhangmutou	1/8/2006	4	12,200	5,548	4,516	2,797	1,059	10,232	8,363
Shatoujiao	1/11/2006	4	11,110	6,083	5,704	4,422	1,426	12,568	10,552
Shiyan	1/1/2007	1	5,852	6,371	4,953	1,489	2,667	13,862	14,754
Shengtaosha	1/8/2007	3	14,401	2,839	2,542	664	635	4,904	4,766
Fanshen	1/8/2007	2	6,121	4,943	4,586	1,156	509	8,538	7,643
Nanshan	1/8/2007	3	4,352	3,755	3,411	878	379	6,487	5,685
Buji	1/8/2007	2	10,800	3,241	3,596	758	899	5,598	6,743
Yanbu	1/1/2008	4	16,560	N/A	3,476	N/A	869	N/A	6,431
Ronggui	1/11/2008	3	10,200	N/A	3,266	N/A	576	N/A	5,686

Retail stores	Gross proceeds *(RMB million)*		Gross proceeds per day *(RMB thousand)*		Gross proceeds per operation area per day *(RMB)*		Average value per transaction *(RMB)*	
	FY07	FY08	FY07	FY08	FY07	FY08	FY07	FY08
Xixiang	98.2	89.9	269.2	245.8	33.7	30.7	29.3	30.0
Shajin	136.4	131.9	373.7	360.3	18.8	18.1	44.4	47.4
Songgang	178.3	185.6	488.6	507.1	25.5	26.5	46.7	50.8
Longhua	212.9	188.7	583.3	515.6	27.9	24.6	51.3	59.2
Gongming	272.9	289.0	747.9	789.6	38.2	40.3	56.8	64.9
Zhangmutou	86.0	59.2	235.7	161.7	17.0	11.7	24.3	32.8
Shatoujiao	73.3	89.1	200.8	243.6	21.8	26.5	40.3	38.1
Shiyan	102.1	128.9	279.9	352.3	59.5	74.9	47.0	51.0
Shengtaosha	20.5	45.7	135.2	125.1	12.0	11.1	38.0	42.0
Fanshen	15.3	31.3	106.5	85.5	20.4	16.4	16.0	19.0
Nanshan	14.4	25.0	100.1	68.3	28.0	19.1	18.1	19.8
Buji	17.7	43.0	118.9	117.7	13.4	13.2	20.5	28.5
Yanbu	N/A	49.0	N/A	136.9	N/A	8.7	N/A	34.5
Ronggui	N/A	8.1	N/A	150.2	N/A	18.7	N/A	38.7

Notes: 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. For the year ended 31 December 2008, 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") 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 year 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 year under review in compliance with the provisions of the Code.

BOARD

The Board consists of seven 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". 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 2009. 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 second 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;

Report on Corporate Governance *(Continued)*

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 (resigned on 9 February 2009)	4/4
Mr. Zhuang Pei Zhong	4/4
Mr. Gu Wei Ming (appointed as Chairman of Nomination Committee on 9 February 2009)	4/4

Independent Non-executive Directors **3**

Name	**Attendance**
Mr. Chin Kam Cheung	4/4
Dr. Guo Zheng Lin	4/4
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 (resigned on 9 February 2009)	–	–	Chairman
Mr. Zhuang Pei Zhong	–	Member	–
Mr. Gu Wei Ming (appointed as Chairman of Nomination Committee on 9 February 2009)	–	–	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 2008.

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

Three meetings have been held in 2008.

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 Director.

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.

One meeting has been held in 2008.

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.

No meeting has been held in 2008.

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 33.

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 year 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, audit fee of approximately RMB836,000 were incurred 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 2008.

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 implement 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 reviewed of all relevant financial, operational, compliance controls and risk management function within an established framework.

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 2008 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, the Company has met several fund managers analysts and media reporters 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 annual report together with the audited financial statements of the Company for the year ended 31 December 2008.

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 subsidiaries of the Company during the year ended 31 December 2008 are operation and management of retail stores.

RESULTS

The results of the Company for the year ended 31 December 2008 are set out in the consolidated income statement on page 35.

DIVIDENDS

The Board of Directors proposed final dividends of RMB1.17 cents (equivalent to HK1.33 cents) per ordinary share for the year ended 31 December 2008 to shareholders of the Company. This proposal is subject to shareholders' approval at the annual general meeting to be held on Tuesday, 19 May 2009. The proposed final dividends will be paid in Hong Kong dollars, such amount to be calculated by reference to the middle rate published by the People's Bank of China for the conversion of Renminbi to Hong Kong dollars as at 6 April 2009.

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 23 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 24 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 25 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2008, the Company's distributable reserves amounted to approximately RMB265,588,000 of which approximately RMB12,139,000 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	*(Chairman)*
Mr. Shen Da Jin	(resigned on 9 February 2009)
Mr. Zhuang Pei Zhong	*(Chief Financial Officer)*
Mr. Gu Wei Ming	*(Chief Procurement Officer)*
Mr. Zhuang Xiao Xiong	(appointed on 9 February 2009)

Independent Non-executive Directors:

Mr. Chin Kam Cheung
Dr. Guo Zheng Lin
Mr. Ai Ji

Pursuant to Article 87(1) of the articles of association of the Company, Mr. Zhuang Lu Kun, Mr. Zhuang Pei Zhong, and Mr. Zhuang Xiao Xiong 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 years upon the termination of service, the Executive Director cannot engage in any business which is competing or is likely to compete, either directly or indirectly, with the business of the Company. The appointments are subject to the provisions of retirement and rotation of Directors under the Articles of Association of the Company.

Save as disclosed above, none of the Directors has entered into any service contracts with the Company or any of its subsidiaries (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)). 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 31, 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 2008. Details of the outstanding options as at the balance sheet date are set out in note 25 to the financial statements.

As at the date of this annual report, the number of shares in respect of which options had been granted under the Share Option Scheme adopted by the Company and remained outstanding under the Scheme was 26,060,000 shares, representing 2.51% of the shares of the Company in issue.

The remaining life of the scheme is around 8 years.

Regarding the values of options as disclosed in this report, it is warned that due to subjectivity and uncertainty of the values of options, such values are subject to a number of assumptions and the limitation of the model.

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 2008, 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	617,757,500	67,500,000 (Note 1)	685,257,500	66.05%
	Beneficial Owner	2,000,000 (Note 2)	–	–	–
Mr. Shen Da Jin (resigned on 9 February 2009)	Beneficial Owner	1,220,000 (Note 3)	–	–	–
Mr. Zhuang Pei Zhong	Beneficial Owner	1,000,000 (Note 4)	–	–	–
Mr. Gu Wei Ming	Beneficial Owner	940,000 (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) These shares would be allotted to Mr. Zhuang upon the exercise in full of the share options granted to him under the Share Option Scheme.

(3) These Shares would be allotted Mr. Shen Da Jin upon the exercise in full of the share options granted to him under the Share Option Scheme.

(4) These Shares would be allotted to Mr. Zhuang Pei Zhong upon the exercise in full of the share options granted to him under the Share Option Scheme.

(5) These Shares would be allotted to Mr. Gu Wei Ming upon the exercise in full of the share options granted to him under the Share Option Scheme.

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

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	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
	–	1,000,000	–	–	1,000,000	8/8/2008	9/8/2008 to 8/8/2013	0.46
Mr. Shen Da Jin (resigned on 9 February 2009)	720,000	–	–	–	720,000	30/4/2007	21/11/2007 to 20/11/2012	1.04
	–	500,000	–	–	500,000	8/8/2008	9/8/2008 to 8/8/2013	0.46
Mr. Zhuang Pei Zhong	600,000	–	–	–	600,000	30/4/2007	21/11/2007 to 20/11/2012	1.04
	–	400,000	–	–	400,000	8/8/2008	9/8/2008 to 8/8/2013	0.46
Mr. Gu Wei Ming	540,000	–	–	–	540,000	30/4/2007	21/11/2007 to 20/11/2012	1.04
	–	400,000	–	–	400,000	8/8/2008	9/8/2008 to 8/8/2013	0.46

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.

Report of the Directors *(Continued)*

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

As at 31 December 2008, 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 (appointed as director on 9 February 2009)	Personal	Beneficial owner	75,000,000	–	75,000,000	7.23%
			2,000,000 (Note 1)	–	–	–
Mrs. Zhuang	Personal	Beneficial owner	67,500,000	617,757,500 (Note 2)	685,257,500	66.05%
				2,000,000 (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) These shares would be allotted to Mr. Zhuang Xiao Xiong upon the exercise in full of the share options granted to him under the Share Option Scheme.

(2) 617,757,500 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) These Shares would be allotted to Mr. Zhuang upon the exercise in full of the share options granted to him under the Share Option Scheme. 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 Share Options granted to Mr. Zhuang.

(4) Martin Currie Investment Management Ltd and Martin Currie Inc, which are wholly owned subsidiaries of Martin Currie (Holdings) Limited, together hold 61,600,500 Shares and 19,277,000 Shares respectively. Martin Currie (Holdings) Limited is deemed to have interest of 80,877,500 Shares held by Martin Currie Investment Management Limited and Martin Currie Inc.

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 2008, 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

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 2008 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 RMB209,000 for the year ending 31 December 2009.

The rental paid for Xixiang office as disclosed above of RMB202,000 is included under note 29(b) to the financial statements for the year ended 31 December 2008.

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 triennal 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 2008 was approximately RMB5,892,000 and has not exceeded the annual cap of RMB6,138,000 as disclosed in the prospectus. The relevant amount which are expected to be payable by BJH Department Stores will not exceed RMB6,187,000 for the year ending 31 December 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 2008 was approximately RMB5,552,000 and has not exceeded the annual cap of RMB5,784,000 as disclosed in the prospectus. The relevant amount which are expected to be payable by BJH Department Stores will not exceed RMB5,830,000 for the year ending 31 December 2009.

The rental paid for Longhua store and Songgang store as disclosed above of approximately RMB5,892,000 and approximately RMB5,552,000 respectively totalling approximately RMB11,444,000 are included under note 29(a)(i) to the financial statements for the year ended 31 December 2008.

Report of the Directors *(Continued)*

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. Pursuant to the Gongming Store Lease Agreement (as supplemented), the total annual consideration paid by BJH Department Stores for the year ended 31 December 2008 was approximately RMB5,510,000 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 the year ending 31 December 2009.

The rental paid for Gongming store as disclosed above of RMB5,510,000 is included under note 29(a)(ii) to the financial statements for the year ended 31 December 2008.

CONTINUING CONNECTED TRANSACTIONS *(Continued)*

3. Lease of two store premises 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. The Group leases two stores premises from JH Real Estate, details of which are set out as follows:

(i) 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 store 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 2008 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 RMB2,685,000 for the year ending 31 December 2009.

The rental paid for Shiyan store as disclosed above of RMB2,668,000 is included under note 29(b) to the financial statements for the year ended 31 December 2008.

(ii) Pursuant to a lease agreement dated 23 February 2009 ("Shuyuan Yage Store Lease Agreement") between JH Real Estate (as landlord) and BJH Department Stores (as tenant), BJH Department Stores leases the store premises situated at Level 1 of Commercial Podium, Jiahua Shuyuan Yage, Southwestern Side of Dabao Road, Xinan Jiedao, Baoan District, Shenzhen City, Guangdong Province, the PRC of a gross floor area of approximately 2,693.69 square metres for a term of 3 years commencing from 1 March 2009 and expiring on 28 February 2012 for a monthly rental of RMB80,810.7. The parties to the Shuyuan Yage Store Lease Agreement 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 Shuyuan Yage Store Lease Agreement by giving written notice to JH Real Estate without any payment or compensation. Pursuant to the Shuyuan Yage Store Lease Agreement, the total annual consideration paid by BJH Department Stores will be approximately RMB740,765, RMB888,918, RMB888,918 and RMB148,153 for the years ending 31 December 2009, 2010, 2011 and 2012 respectively.

No rental was paid by the Group for Shuyuan Yage store for the year ended 31 December 2008.

Report of the Directors *(Continued)*

CONTINUING CONNECTED TRANSACTIONS *(Continued)*

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 conducted in accordance with the relevant agreements governing the transactions and are of the view that the terms and conditions of these transactions are fair and reasonable and are in the best interests of 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 Directors confirm that they have received a confirmation from its auditors regarding the matters as stated in Chapter 14A.38 of the Listing Rules for the continuing connected transactions as stated in para. (1), (2)(i), (2)(ii), (2)(iii) and (3)(i) above.

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.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2008, revenue attributable to the largest customer of the Group amounted to approximately 0.07% of the total sales of goods and wholesale of consumables for the year and the five largest customers of the Group accounted for less than 30% of the Group's total revenue for the year.

For the year ended 31 December 2008, purchases attributable to the largest supplier of the Group amounted to approximately 3.33% of the total purchases for the year and the five largest suppliers of the Group accounted for less than 30% of the Group's total purchases for the year.

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 2008. The Company's corporate governance principles and practices are set out on pages 16 to 20.

Report of the Directors *(Continued)*

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 2008 have been reviewed by the audit committee before recommending to the Board for approval.

PROFESSIONAL TAX ADVICE RECOMMENDED

If the 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.

Independent Auditors' Report

Grant Thornton
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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 35 to 84, which comprise the consolidated and company balance sheets as at 31 December 2008, 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.

Independent Auditors' Report *(Continued)*

Grant Thornton
均富

Member of Grant Thornton International Ltd

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 2008 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

6 April 2009

Consolidated Income Statement

For the year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Revenue	5	**935,067**	829,848
Cost of inventories sold		**(727,278)**	(630,466)
		207,789	199,382
Other operating income	5	**100,973**	109,084
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost of acquisition		**–**	34,453
Distribution costs		**(236,710)**	(208,948)
Administrative expenses		**(36,970)**	(43,372)
Other operating expenses		**(2,441)**	–
Profit before income tax	7	**32,641**	90,599
Income tax expense	8	**(8,290)**	(11,482)
Profit for the year attributable to the Company's equity holders		**24,351**	79,117
Dividends	9(a)	**12,139**	22,153
Earnings per share	10		
– Basic (RMB cents)		**2.35**	8.53
– Diluted (RMB cents)		**N/A**	8.52

Consolidated Balance Sheet

As at 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	11	**114,136**	85,764
Intangible asset	12	**51,746**	56,488
Deposits paid and prepayments	13	**26,277**	9,388
		192,159	151,640
Current assets			
Inventories and consumables	15	**114,583**	104,549
Trade receivables	16	**5,253**	1,478
Deposits paid, prepayments and other receivables	13	**47,647**	55,088
Amount due from a related party	17	**–**	140
Cash and bank balances	18	**281,031**	300,339
		448,514	461,594
Current liabilities			
Trade payables	19	**161,562**	146,299
Coupon liabilities, deposits received, other payables and accruals	20	**60,387**	48,187
Amount due to a director	21	**738**	738
Provision for tax		**3,007**	4,888
		225,694	200,112
Net current assets		**222,820**	261,482
Total assets less current liabilities		**414,979**	413,122
Non-current liabilities			
Deferred tax liabilities	22	**6,480**	7,200
Net assets		**408,499**	405,922
EQUITY ATTRIBUTABLE TO THE COMPANY'S EQUITY HOLDERS			
Share capital	23	**10,125**	10,125
Reserves	24	**398,374**	395,797
Total equity		**408,499**	405,922

Zhuang Lu Kun
Director

Zhuang Pei Zhong
Director

Balance Sheet

As at 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Investments in subsidiaries	*14*	**67,848**	67,848
Current assets			
Amounts due from subsidiaries	*14*	**282,540**	50,998
Cash and bank balances	*18*	**1,426**	242,604
		283,966	293,602
Current liabilities			
Accruals		**807**	899
Net current assets		**283,159**	292,703
Net assets		**351,007**	360,551
EQUITY ATTRIBUTABLE TO THE COMPANY'S EQUITY HOLDERS			
Share capital	*23*	**10,125**	10,125
Reserves	*24*	**340,882**	350,426
Total equity		**351,007**	360,551

Zhuang Lu Kun
Director

Zhuang Pei Zhong
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

		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	Retained profits RMB'000	Dividend proposed RMB'000	Total RMB'000
At 1 January 2008		10,125	252,478	9,383	2,286	12,373	5,360	738	91,026	22,153	405,922
Profit for the year		–	–	–	–	–	–	–	24,351	–	24,351
Currency translation difference – net expense directly recognised in equity		–	–	–	–	–	–	(1,707)	–	–	(1,707)
Total recognised income and expenses for the year		–	–	–	–	–	–	(1,707)	24,351	–	22,644
Transfer to statutory reserve	24(b)&(c)	–	–	12,591	–	–	–	–	(12,591)	–	–
Dividend relating to 2008	9(a)	–	–	–	–	–	–	–	(12,139)	12,139	–
Dividend relating to 2007	9(b)	–	–	–	–	–	–	–	–	(22,153)	(22,153)
Share-based compensation		–	–	–	–	–	2,086	–	–	–	2,086
At 31 December 2008		**10,125**	**252,478**	**21,974**	**2,286**	**12,373**	**7,446**	**(969)**	**90,647**	**12,139**	**408,499**
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 ordinary shares	23	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

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Cash flows from operating activities			
Profit before income tax		**32,641**	90,599
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	27	**–**	(34,453)
Depreciation of property, plant and equipment		**26,988**	19,780
Imputed interest income		**–**	(800)
Interest income		**(6,430)**	(18,094)
Obsolete inventories written-off and inventories loss		**1,964**	3,818
(Gain)/loss on disposal of property, plant and equipment		**(2)**	32
Amortisation of intangible asset		**4,742**	2,114
Share-based payment expenditure		**2,086**	5,360
Operating profit before working capital changes		**61,989**	68,356
Increase in inventories and consumables		**(11,998)**	(32,728)
Increase in trade receivables		**(3,775)**	(1,097)
Decrease/(increase) in deposits paid, prepayments and other receivables		**7,441**	(17,782)
Decrease in amounts due from related parties		**140**	19,775
Increase/(decrease) in trade payables		**15,263**	(10,108)
Increase in coupon liabilities, deposits received, other payables and accruals		**12,200**	14,748
Increase in amount due to a director		**–**	738
Cash generated from operations		**81,260**	41,902
Interest received		**6,430**	18,094
Income tax paid		**(10,891)**	(11,397)
Net cash generated from operating activities		**76,799**	48,599
Cash flows from investing activities			
Deposits paid and prepayments for rental deposits and acquisition of property, plant and equipment	33	**(19,094)**	(290)
Payment for business combination	27	**–**	(28,000)
Payments for property, plant and equipment	33	**(53,342)**	(41,389)
Proceeds from disposal of property, plant and equipment		**189**	83
Net cash used in investing activities		**(72,247)**	(69,596)
Cash flows from financing activities			
Dividends paid		**(22,153)**	–
Increase in bank deposits maturing over three months		**(80,000)**	–
Proceeds from issuance of share capital		**–**	290,729
Share issue expenses		**–**	(29,497)
Net cash (used in)/generated from financing activities		**(102,153)**	261,232
Net (decrease)/increase in cash and cash equivalents		**(97,601)**	240,235
Cash and cash equivalents at 1 January		**300,339**	59,366
Effect of foreign exchange rate changes		**(1,707)**	738
Cash and cash equivalents at 31 December	18	**201,031**	300,339

Notes to the Financial Statements

For the year ended 31 December 2008

1. GENERAL INFORMATION

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

The principal activity of the Company is investment holding. Details of the principal activities of the Company's subsidiaries are set out in note 14 to the financial statements.

The consolidated financial statements on pages 35 to 84 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collectively includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The consolidated financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

The consolidated financial statements for the year ended 31 December 2008 were approved for issue by the board of directors on 6 April 2009.

2. ADOPTION OF NEW AND REVISED HKFRSs

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

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

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

Notes to the Financial Statements *(Continued)*
For the year ended 31 December 2008

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

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

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

Notes:

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

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.

3.2 Basis of consolidation and subsidiaries

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December each year.

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 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 for combining entities under common control) are accounted for by applying the purchase method.

Combining entities under common control is 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.

Notes to the Financial Statements *(Continued)*

For the year ended 31 December 2008

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

3.2 Basis of consolidation and subsidiaries *(Continued)*

The purchase method of accounting involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, 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.

Intra-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.

3.3 Intangible asset

Intangible asset acquired in a business combination which is the favourable operating leases, is recognised initially at fair value. After initial recognition, intangible asset with finite useful lives are carried at fair value at the date of acquisition less subsequent 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 consolidated income statement.

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

3.4 Property, plant and equipment *(Continued)*

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 consolidated income statement during the financial period in which they are incurred.

Depreciation on property, plant and equipment, is provided to write off the cost less residual values 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%

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each balance date.

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.

Notes to the Financial Statements *(Continued)*
For the year ended 31 December 2008

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

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 consolidated income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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 consolidated 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 consolidated income statement in equal instalments over the accounting periods covered by the lease term. Lease incentives granted are recognised in the consolidated 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 of assets held under operating leases, payments made under the leases are charged to the consolidated 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 consolidated income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the consolidated 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.

3.10 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 consolidated income statement.

Notes to the Financial Statements *(Continued)*
For the year ended 31 December 2008

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

3.10 Accounting for income taxes *(Continued)*

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, including existing taxable temporary differences, 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 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 consolidated 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, with original maturities of three months or less and which are not restricted as to use.

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, amount due from a related party namely Shenzhen Baijiahua Industrial Development Company Limited ("BJH Industrial"), which was the then ultimate holding company prior to the reorganisation, and cash and bank balances. 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, amount due from BJH Industrial and cash and bank balances 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 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 consolidated income statement.

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

3.12 Financial assets *(Continued)*

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 of the Company, 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, amounts due from subsidiaries and amount due from BJH Industrial 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 the consolidated income statement of the period in which the impairment occurs.

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 the consolidated income statement 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 amount due to 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 consolidated income statement.

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

Notes to the Financial Statements *(Continued)*

For the year ended 31 December 2008

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

3.14 Financial liabilities *(Continued)*

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 consolidated 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 consolidated income statement using the coupon sales value. Coupon liabilities are classified as current liabilities at the end of the year.

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 of the amount of the obligation 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.

Compensations are recognised at their fair value when the Group is virtually certain that reimbursement will be received and the Group will comply with all the attached conditions. Compensation relating to costs are deferred and recognised in the consolidated 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.

3.17 Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

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

3.17 Related parties *(Continued)*

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

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 consolidated income statement unless it qualifies for recognition as asset, 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.

Notes to the Financial Statements *(Continued)*
For the year ended 31 December 2008

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

3.19 Employee retirement benefits

Employees of the Group in the PRC 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 consolidated income statement 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 consolidated 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.

3.20 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 consolidated 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 available for 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.

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

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated 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.

Share-based payment expenditure

Expense on share-based payment 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 consolidated income statement and share option reserve.

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.

Fair value of intangible asset

The intangible asset was the acquiree's identifiable assets acquired in the business combination (note 27). At the date of acquisition, they were measured at fair value. The fair values of identifiable assets were determined by a firm of independently qualified professional valuer. Such valuations were based on certain assumptions, which were subject to uncertainty and might materially differ from the actual results.

Notes to the Financial Statements *(Continued)*
For the year ended 31 December 2008

5. REVENUE AND OTHER OPERATING INCOME

The Group is principally engaged in operation and management of retail stores and wholesale of consumables. 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:

	2008 *RMB'000*	2007 *RMB'000*
Revenue – Turnover		
Sales of goods	**822,062**	724,110
Commissions from concessionaire sales	**77,248**	83,679
Rental income from sub-leasing of shop premises	**24,704**	22,059
Wholesale of consumables	**11,053**	–
	935,067	829,848
Other operating income		
Imputed interest income	**–**	800
Interest income	**6,430**	18,094
Government grants *(note)*	**284**	1,530
Compensation from insurer	**2,441**	–
Income from suppliers		
– Administration and management fee income	**29,907**	24,071
– Products entrance fee income	**21,037**	19,676
– Promotion income	**7,809**	12,168
– Sponsorship income	**8,033**	7,507
– Store display income	**5,998**	7,697
Others	**19,034**	17,541
	100,973	109,084

Note: Various local government grants have been granted to a subsidiary of the Group as rewards for employing non-Shenzhen and agricultural residents during the year (2007: 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 and wholesale of consumables are the business segments of the Group. No business segment analysis is presented as less than 10% of the Group's revenue and operating profit is attributable to the wholesale of consumables. No geographical segment analysis is presented as less than 10% of the Group's revenue and operating profit is attributable to markets located outside the PRC. Accordingly, no separate business and geographical segment information is presented.

Notes to the Financial Statements *(Continued)*
For the year ended 31 December 2008

7 PROFIT BEFORE INCOME TAX

	2008 **RMB'000**	2007 RMB'000
Profit before income tax is arrived at after charging:		
Cost of inventories sold recognised as expense	**727,278**	630,466
Auditors' remuneration	**836**	774
Amortisation of intangible asset	**4,742**	2,114
Net exchange loss	**7,629**	10,406
Depreciation of property, plant and equipment	**26,988**	19,780
Loss on disposal of property, plant and equipment	**–**	32
Operating lease rentals in respect of land and buildings	**55,268**	47,755
Obsolete inventories written-off	**139**	1,092
Inventories loss	**1,825**	2,726
Loss on natural disaster *	**2,441**	–
Staff costs, including directors' emoluments *(note 26(a))*		
Salaries and other benefits	**73,070**	59,927
Contributions to pension schemes	**5,613**	3,897
Share-based payment expenditure	**2,086**	5,193
	80,769	69,017
Share-based payment expenditure to a consultant	**–**	167
Listing expenses	**–**	3,037
and crediting:		
Gain on disposal of property, plant and equipment	**2**	–
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost of acquisition *(note 27)*	**–**	34,453
Sub-letting of properties		
– Base rents	**20,033**	18,232
– Contingent rents **	**4,671**	3,827
Gross rental income	**24,704**	22,059
Less: Outgoings	**(11,075)**	(9,460)
Net rental income	**13,629**	12,599

Notes:

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

** 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 2008

8. INCOME TAX EXPENSE

	2008 **_RMB'000_**	2007 *RMB'000*
Current tax		
PRC enterprise income tax – current year	**9,010**	11,782
Deferred tax *(note 22)*	**(720)**	(300)
	8,290	11,482

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

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

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

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

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

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

Notes to the Financial Statements *(Continued)*
For the year ended 31 December 2008

9. DIVIDENDS

(a) Dividends attributable to the year

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

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

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

	2008 **RMB'000**	2007 RMB'000
Final dividend for the year ended 31 December 2007	**22,153**	–
Special dividend for the year ended 31 December 2006 to the then respective equity holders	**–**	22,000
	22,153	22,000

The final dividend for the year ended 31 December 2007 was paid on 20 June 2008.

Dividend for the year ended 31 December 2006 was declared and payable by the subsidiary, BJH Department Stores, to its then respective equity holders. 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 for the year attributable to the Company's equity holders of approximately RMB24,351,000 (2007: RMB79,117,000) and on the weighted average number of approximately 1,037,500,000 (2007: 927,842,000) ordinary shares in issue during the year.

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

The calculation of the diluted earnings per share for the year ended 31 December 2007 was based on the profit for the year attributable to the Company's equity holders 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 25.

Notes to the Financial Statements *(Continued)*

For the year ended 31 December 2008

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 2007					
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 amount					
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 27)*	–	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
Net book amount					
At 1 January 2008	40,032	10,576	5,258	29,898	85,764
Additions	35,547	9,987	2,441	7,572	55,547
Disposals	–	–	(187)	–	(187)
Depreciation	(15,523)	(1,710)	(1,550)	(8,205)	(26,988)
At 31 December 2008	**60,056**	**18,853**	**5,962**	**29,265**	**114,136**
At 31 December 2008					
Cost	102,503	25,103	9,775	90,539	227,920
Accumulated depreciation	(42,447)	(6,250)	(3,813)	(61,274)	(113,784)
Net book amount	**60,056**	**18,853**	**5,962**	**29,265**	**114,136**

Depreciation charges incurred for the year were recognised in the consolidated income statement as "distribution costs" and "administrative expenses" amounted to approximately RMB26,664,000 (2007: RMB19,619,000) and RMB324,000 (2007: RMB161,000) respectively.

Notes to the Financial Statements *(Continued)*
For the year ended 31 December 2008

12. INTANGIBLE ASSET – GROUP

	2008 **RMB'000**	2007 RMB'000
Net carrying amount		
At 1 January	**56,488**	–
Business combination *(note 27)*	**–**	58,602
Amortisation charge for the year	**(4,742)**	(2,114)
At 31 December	**51,746**	56,488
At 31 December		
Gross carrying amount	**58,602**	58,602
Accumulated amortisation	**(6,856)**	(2,114)
Net carrying amount	**51,746**	56,488

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

13. DEPOSITS PAID, PREPAYMENTS AND OTHER RECEIVABLES – GROUP

	2008 **RMB'000**	2007 RMB'000
Non-current assets		
Deposits paid and prepayments		
– rental deposits	**11,832**	7,183
– payment in advance for acquisition of property, plant and equipment	**14,445**	2,205
	26,277	9,388
Current assets		
Deposits paid	**73**	394
Prepayments	**7,945**	14,028
Advances to suppliers	**9,686**	5,812
Other receivables *(note)*	**29,943**	34,854
	47,647	55,088

Notes to the Financial Statements *(Continued)*
For the year ended 31 December 2008

13. DEPOSITS PAID, PREPAYMENTS AND OTHER RECEIVABLES – GROUP *(Continued)*

Note: Included in the balance was input VAT receivable of approximately RMB19,839,000 as at 31 December 2008 (2007: RMB21,379,000). Input VAT arose when the Group purchased products from suppliers and the input VAT can be deducted from output VAT of sales.

Except VAT receivables which had no expiry date, all other receivables were repayable on demand. At 31 December 2008, no other receivables was past due (2007: Nil).

14. INTERESTS IN SUBSIDIARIES – COMPANY

	2008 ***RMB'000***	2007 *RMB'000*
Investments in subsidiaries		
Unlisted shares, at cost	**67,848**	67,848
Amounts due from subsidiaries	**282,540**	50,998

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 2008 are as follows:

Company name	**Place of incorporation/ establishment and legal form of entity**	**Particulars of issued share/paid-up registered capital**	**Percentage of interest held by the Company**		**Principal activities and place of operations**
			Directly	**Indirectly**	
Forever Prosperity International Company Limited 永泰國際有限公司 ("Forever Prosperity")	British Virgin Islands, limited liability company	United States Dollars 20	100%	–	Investment holding in Hong Kong
Ding Xin Investment Company Limited 鼎新投資有限公司	Hong Kong, limited liability company	Hong Kong Dollars ("HK$") 0.1	–	100%	Investment holding in Hong Kong

Notes to the Financial Statements *(Continued)*
For the year ended 31 December 2008

14. INTERESTS IN SUBSIDIARIES – COMPANY *(Continued)*

Company name	Place of incorporation/ establishment and legal form of entity	Particulars of issued share/paid-up registered capital	Percentage of interest held by the Company Directly	Indirectly	Principal activities and place of operations
Shenzhen Ding Xin Department Stores Company Limited 深圳鼎新百貨有限公司	The PRC, limited liability company	RMB5,000,000	–	100%	Wholesale of consumables in the PRC
BJH Department Stores 深圳市百佳華百貨有限公司	The PRC, limited liability company	RMB220,400,000	–	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
Guangxi Baijaihua Department Stores Company Limited 廣西百佳華百貨有限公司	The PRC, limited liability company	RMB10,000,000	–	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

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

Notes to the Financial Statements *(Continued)*
For the year ended 31 December 2008

16. TRADE RECEIVABLES – GROUP

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

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

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

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.

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly. There was no provision for impairment loss as at 31 December 2008 (2007: Nil).

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

	2008 **RMB'000**	2007 RMB'000
Neither past due nor impaired	**3,929**	1,027
1 – 30 days past due	**433**	211
31 – 180 days past due	**804**	128
181 – 365 days past due	**87**	112
	5,253	1,478

Trade receivables that were neither past due nor impaired related to customers or tenants for whom there were no recent history of default. Trade receivables that were past due but not impaired related to a number of customers or tenants that had a good track record of credit with the Group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

Notes to the Financial Statements *(Continued)*
For the year ended 31 December 2008

17. AMOUNT DUE FROM A RELATED PARTY – GROUP

	2008 **RMB'000**	2007 *RMB'000*
Carrying amount outstanding at		
1 January	**140**	39,863
31 December	**–**	140
Maximum carrying amount outstanding during the year	**140**	39,863

The amount due from a related party represents amount due from BJH Industrial of which 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.

18. CASH AND BANK BALANCES – GROUP AND COMPANY

	Group		Company	
	2008 **RMB'000**	2007 *RMB'000*	**2008** **RMB'000**	2007 *RMB'000*
Cash at banks and in hand	**73,162**	59,966	**407**	2,231
Bank deposits maturing within three months	**127,869**	240,373	**1,019**	240,373
Cash and cash equivalents for the purpose of cash flow statement	**201,031**	300,339	**1,426**	242,604
Bank deposits maturing over three months	**80,000**	–	**–**	–
	281,031	300,339	**1,426**	242,604

The Group had cash and bank balances denominated in RMB of approximately RMB279,272,000 (2007: RMB52,055,000) 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 2008 (2007: Nil).

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

The bank deposits bore interest at floating rates. The effective interest rates at 31 December 2008 ranged from 0.05% to 6.5% (2007: ranged from 2.9% to 6.5%). They had maturities ranged from 1 day to 6 months (2007: 7 days) and were eligible for immediate cancellation without receiving any interest for the last deposit period.

Notes to the Financial Statements *(Continued)*
For the year ended 31 December 2008

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:

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

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

	2008 **RMB'000**	2007 RMB'000
Coupon liabilities	**7,486**	6,192
Deposits received	**10,639**	8,749
Other payables *(note)*	**21,181**	16,342
Accruals	**21,081**	16,904
	60,387	48,187

Note: Included in the balance was other PRC tax payables, other than PRC enterprise income tax, of approximately RMB3,962,000 at 31 December 2008 (2007: RMB6,360,000). Balance also included amounts received from (i) suppliers when they send promoters to the retail stores and; (ii) staff when joining the retail stores of approximately RMB4,702,000 at 31 December 2008 (2007: RMB3,916,000).

21. AMOUNT DUE TO A DIRECTOR – GROUP

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

Notes to the Financial Statements *(Continued)*
For the year ended 31 December 2008

22. DEFERRED TAX LIABILITIES – GROUP

Deferred taxation attributable to temporary difference between 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 is calculated in full on temporary differences under the liability method using the tax rate of 18% to 25%, the PRC enterprise income tax rate which would be effective from 1 January 2008 onwards. The movement on the deferred tax liabilities arising from business combination is as follows:

	2008 *RMB'000*	2007 *RMB'000*
At 1 January	**7,200**	–
Arising from business combination *(note 27)*	**–**	7,500
Deferred taxation credited to the consolidated income statement	**(720)**	(300)
At 31 December	**6,480**	7,200

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. At 31 December 2008, the Group has unrecognised tax losses to carry forward against future taxable income as follows:

	2008 *RMB'000*	2007 *RMB'000*
Expire in		
– 2012	**8,697**	8,697
– 2013	**3,206**	–
	11,903	8,697

Notes to the Financial Statements *(Continued)*

For the year ended 31 December 2008

23. SHARE CAPITAL – COMPANY

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

Notes:

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

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

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

Notes to the Financial Statements *(Continued)*
For the year ended 31 December 2008

23. SHARE CAPITAL – COMPANY *(Continued)*

Notes: (Continued)

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

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

24. RESERVES – GROUP AND COMPANY

		Group		Company	
		2008	2007	**2008**	2007
	Notes	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Share premium	*(a)*	**252,478**	252,478	**252,478**	252,478
Statutory reserve	*(b)*	**21,974**	9,383	**–**	–
Statutory welfare reserve	*(c)*	**2,286**	2,286	**–**	–
Merger reserve	*(d)*	**12,373**	12,373	**–**	–
Share option reserve	*(e)*	**7,446**	5,360	**7,446**	5,360
Contributed surplus	*(f)*	**–**	–	**67,848**	67,848
Translation reserve		**(969)**	738	**–**	–
Retained profits		**90,647**	91,026	**971**	2,587
		386,235	373,644	**328,743**	328,273
Dividend proposed		**12,139**	22,153	**12,139**	22,153
		398,374	395,797	**340,882**	350,426

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

Notes to the Financial Statements *(Continued)*

For the year ended 31 December 2008

24. 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*	Dividend proposed *RMB'000*	Total *RMB'000*
As at 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 and 1 January 2008	252,478	5,360	67,848	2,587	22,153	350,426
Profit for the year (total income and expenses recognised during the year)	–	–	–	10,523	–	10,523
Dividend relating to 2008	–	–	–	(12,139)	12,139	–
Dividend relating to 2007	–	–	–	–	(22,153)	(22,153)
Share-based compensation	–	2,086	–	–	–	2,086
As at 31 December 2008	**252,478**	**7,446**	**67,848**	**971**	**12,139**	**340,882**

Of the consolidated profit attributable to the equity holders of the Company of RMB24,351,000 (2007: RMB79,117,000), a profit of RMB10,523,000 (2007: RMB24,740,000) 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.

Notes to the Financial Statements *(Continued)*
For the year ended 31 December 2008

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

Notes: (Continued)

(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.

(e) The share option reserve of the Group arose as a result of the options granted to the employees, directors and 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 consolidated net assets value of the subsidiaries then acquired.

25. 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 of 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.

Notes to the Financial Statements *(Continued)*
For the year ended 31 December 2008

25. 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. The Group has no legal or constructive obligation to repurchase or settle the Options.

Notes to the Financial Statements *(Continued)*
For the year ended 31 December 2008

25. 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 2008 were as follows:

			Number of Options				
Grant to	Date of grant	Exercisable period	Balance at 1 January 2008	Granted during the year	Lapsed during the year	Balance at 31 December 2008	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
	8 August 2008	9 August 2008 to 8 August 2013	–	1,000,000	–	1,000,000	0.46
Mr. Shen Da Jin	30 April 2007	21 November 2007 to 20 November 2012	720,000	–	–	720,000	1.04
	8 August 2008	9 August 2008 to 8 August 2013	–	500,000	–	500,000	0.46
Mr. Zhuang Pei Zhong	30 April 2007	21 November 2007 to 20 November 2012	600,000	–	–	600,000	1.04
	8 August 2008	9 August 2008 to 8 August 2013	–	400,000	–	400,000	0.46
Mr. Gu Wei Ming	30 April 2007	21 November 2007 to 20 November 2012	540,000	–	–	540,000	1.04
	8 August 2008	9 August 2008 to 8 August 2013	–	400,000	–	400,000	0.46
Employees of the Group	30 April 2007	21 November 2007 to 20 November 2012	15,450,000	–	(280,000)	15,170,000	1.04
	8 August 2008	9 August 2008 to 8 August 2013	–	7,380,000	(170,000)	7,210,000	0.46
Consultant	30 April 2007	21 November 2007 to 20 November 2012	600,000	–	–	600,000	1.04
			18,910,000	**9,680,000**	**(450,000)**	**28,140,000**	

Notes to the Financial Statements *(Continued)*

For the year ended 31 December 2008

25. 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:

Grant to	Date of grant	Exercisable period	Number of Options				Exercise price per share
			Balance at 1 January 2007	Granted during the year	Lapsed during the year	Balance at 31 December 2007	*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	

Options granted on 30 April 2007:

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.

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

Options granted on 8 August 2008:

The fair values of Options granted during the year of approximately RMB2,086,000 (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$0.46 and exercise prices as illustrated above. Furthermore, the calculation took into account the expected dividend yield of nil and a volatility rate of 60.49%, based on expected share price. Risk-free annual interest rate was determined at 3.065%.

The underlying expected volatility was determined based on the historical share price information of the Company from the date of listing on 21 May 2007 to the date of Options granted.

No options were expired, forfeited or exercised pursuant to the Scheme during the year (2007: Nil).

Notes to the Financial Statements *(Continued)*
For the year ended 31 December 2008

26. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

	Fees *RMB'000*	Salary, allowance and other benefits in kind *RMB'000*	Share-based payment expenditure *RMB'000*	Contributions to pension scheme *RMB'000*	Total *RMB'000*
2008					
Executive directors					
Mr. Zhuang Lu Kun	**–**	**516**	**215**	**4**	**735**
Mr. Shen Da Jin	**–**	**438**	**108**	**–**	**546**
Mr. Zhuang Pei Zhong	**–**	**320**	**86**	**4**	**410**
Mr. Gu Wei Ming	**–**	**318**	**86**	**2**	**406**
	–	**1,592**	**495**	**10**	**2,097**
Independent non-executive directors					
Mr. Chin Kam Cheung	**96**	**–**	**–**	**–**	**96**
Dr. Guo Zheng Lin	**96**	**–**	**–**	**–**	**96**
Mr. Ai Ji	**96**	**–**	**–**	**–**	**96**
	288	**–**	**–**	**–**	**288**
	288	**1,592**	**495**	**10**	**2,385**
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

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

(a) Directors' emoluments *(Continued)*

No directors of the Company waived any emoluments paid by the Group during the year (2007: 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 (2007: Nil).

2,300,000 share options (note 25) were granted to the directors of the Company during the year (2007: 2,860,000 share options).

(b) Five highest paid individuals

The five highest paid individuals of the Group included four directors (2007: four) of the Company for the year, whose emoluments are disclosed in note 26(a). Details of the remuneration paid to the remaining one (2007 : one) highest paid individual for the year, which fell within the band of Nil – HK$1 million (equivalent to approximately Nil – RMB890,000) is as follows:

	2008 ***RMB'000***	2007 *RMB'000*
Basic salaries, other allowances and benefits in kind	**580**	1,017
Contributions to pension scheme	**12**	14
Share-based payment expenditure	**43**	84
	635	1,115

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 (2007: Nil).

200,000 share options were granted to the highest paid individual, other than directors of the Company, during the year (2007: 300,000 share options).

27. BUSINESS COMBINATION – GROUP

Pursuant to an agreement of transfer dated 23 July 2007 entered into between a subsidiary of the Group, BJH Department Stores, and Shenzhen Dongfangcheng Department Store Limited 深圳市東方城商業有限公司 (the "SZDFC"), the relevant business of all four stores of the SZDFC were acquired by the Group at a consideration of approximately RMB28,000,000. The business 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 business 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 and 7 August 2007, 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.

Notes to the Financial Statements *(Continued)*

For the year ended 31 December 2008

27. BUSINESS COMBINATION – GROUP *(Continued)*

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's fair value as consideration.

At the dates of acquisition, the identifiable assets and liabilities arising from the 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 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. The favourable operating leases were recognised by the Group as intangible asset and they were amortised over the lease periods according to the respective tenancy agreements.

(c) Deferred tax liabilities at the dates of acquisition had been provided at the tax rate of 18% to 25%, the PRC enterprise income tax rate which would be effective from 1 January 2008 onwards. The deferred tax liabilities were resulted from the temporary differences arising from 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.

Notes to the Financial Statements *(Continued)*
For the year ended 31 December 2008

27. BUSINESS COMBINATION – GROUP *(Continued)*

The carrying amounts of each class of the acquiree's assets immediately before the combination were not disclosed as it was impracticable to determine the individual amount on this acquisition of identified assets in the businesses.

There was no acquisition in the year ended 31 December 2008.

28. COMMITMENTS

(a) Capital Commitments

The Group had the following outstanding capital commitments:

	2008 **RMB'000**	2007 *RMB'000*
Contracted, but not provided for, in respect of property, plant and equipment	**2,595**	4,867

The Company did not have any capital commitment as at 31 December 2008 (2007: Nil).

(b) Operating lease 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 :

	2008 **RMB'000**	2007 *RMB'000*
Within one year	**49,952**	47,127
In the second to fifth years	**209,930**	184,153
After five years	**373,178**	504,116
	633,060	735,396

Notes to the Financial Statements *(Continued)*
For the year ended 31 December 2008

28. COMMITMENTS *(Continued)*

(b) Operating lease commitments *(Continued)*

(i) ***Group as lessee*** *(Continued)*

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 :

	2008 ***RMB'000***	2007 *RMB'000*
Within one year	**15,247**	14,794
In the second to fifth years	**63,859**	61,125
After five years	**95,811**	111,467
	174,917	187,386

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 statement during the year ended 31 December 2008 are disclosed in note 7 to these financial statements. All other leases are cancellable with one to two months' notice.

The Company did not have any lease commitment as at 31 December 2008 (2007: Nil).

Notes to the Financial Statements *(Continued)*
For the year ended 31 December 2008

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	**2008 *RMB'000***	2007 *RMB'000*
Operating lease rentals paid in respect of land and buildings	*(i)*	**(11,444)**	(11,444)
Operating lease rentals arrangement in respect of land and buildings	*(ii)*	**(5,510)**	(5,766)
Rental income arrangement	*(iii)*	**877**	1,357
Utilities income arrangement	*(iii)*	**597**	1,146
Imputed interest income		**–**	800

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 lessor from the independent third party commencing from 1 March 2004. The rental 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 arrangement had ceased and the Group became the landlord 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 (2007: RMB202,000) and RMB2,668,000 (2007: RMB2,668,000) 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 2008

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

(c) Compensation of key management personnel

	2008 **RMB'000**	2007 RMB'000
Total remuneration of directors and other members of key management during the year *(note 26(a) and (b))*	**3,020**	3,065

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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.

(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 and HK$. 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 bank balances denominated in currency other than the functional currency of the entity to which they relate are set out below:

	2008		2007	
	HK$ **'000**	**Australian dollars** **'000**	HK$ '000	Australian dollars '000
Group	**1,997**	**–**	255,052	1,418
Company	**1,620**	**–**	248,987	1,418

Notes to the Financial Statements *(Continued)*
For the year ended 31 December 2008

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(i) Foreign currency risk *(Continued)*

The following table illustrates the sensitivity of the profit for the year and retained profits in regards to the Group's cash and bank balances 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.

(a) Group

	Effect on profit for the year and retained profits			
	2008		2007	
	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%	**(88)**	**–**	(11,943)	(471)
If RMB weakened by 5%	**88**	**–**	11,943	471

(b) Company

	Effect on profit for the year and retained profits			
	2008		2007	
	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%	**(71)**	**–**	(11,659)	(471)
If RMB weakened by 5%	**71**	**–**	11,659	471

The assumed changes in exchange rates are considered to be reasonably possible based on observation of current market conditions and represents the management's assessment of a reasonably possible change in exchange rate over the period until the next annual balance sheet date.

Notes to the Financial Statements *(Continued)*
For the year ended 31 December 2008

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(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 trade and other receivables included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to its financial assets. Credit risk on cash and bank balances is mitigated as cash is deposited in banks of high credit rating.

The Group's policy is to deal with credit worthy counterparties. Credit terms are granted to new customers after a credit worthiness assessment by the credit control department. When considered appropriate, customers may be requested to provide proof as to their financial position. Customers who are not considered creditworthy are required to pay in advance or on delivery of goods. Payment record of customers is closely monitored. Monthly reports of customer payment history are produced and reviewed by the finance department. Overdue balances and significant trade receivables are highlighted. The finance director will determine the appropriate recovery actions.

There is no requirement for collateral or other credit enhancement by the Group and the Company.

The Company does not have significant exposure to credit risk at balance sheet date (2007 : Nil).

(iii) Interest rate risk

The Group's and the Company's exposure to interest rate risk mainly arises on cash and bank balances (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/Company's profits after tax and retained profits. Changes in interest rates have no impact on the Group's/Company'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.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(iv) Liquidity risk

The Group's policy is to maintain sufficient cash and bank balances 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.

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 current rates 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*
At 31 December 2008			
Trade payables	**161,562**	**161,562**	**161,562**
Other payables	**21,181**	**21,181**	**21,181**
Amount due to a director	**738**	**738**	**738**
Total	**183,481**	**183,481**	**183,481**
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

The Company does not have any exposures to liquidity risk at the balance sheet date (2007: Nil).

(v) Fair value

The fair values of the Group's current financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short term maturity.

Notes to the Financial Statements *(Continued)*
For the year ended 31 December 2008

31. 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:

	2008 *RMB'000*	2007 *RMB'000*
Loans and receivables, including cash and bank balances		
Current assets		
– Trade receivables	**5,253**	1,478
– Other receivables	**29,943**	34,854
– Amount due from a related party	**–**	140
– Cash and bank balances	**281,031**	300,339
	316,227	336,811

Financial liabilities:

	2008 *RMB'000*	2007 *RMB'000*
Financial liabilities measured at amortised cost		
Current liabilities		
– Trade payables	**161,562**	146,299
– Other payables	**21,181**	16,342
– Amount due to a director	**738**	738
	183,481	163,379

(b) Company

Financial assets:

	2008 *RMB'000*	2007 *RMB'000*
Loans and receivables, including cash and bank balances		
Current assets		
– Amounts due from subsidiaries	**282,540**	50,998
– Cash and bank balances	**1,426**	242,604
	283,966	293,602

The Company does not have any financial liabilities at 31 December 2008 (2007: Nil).

Notes to the Financial Statements *(Continued)*
For the year ended 31 December 2008

32. CAPITAL MANAGEMENT

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 2008 amounted to approximately RMB408,499,000 (2007: RMB405,922,000), in which management considers as optimal having considered the projected capital expenditures and the projected strategic investment opportunities.

33. MAJOR NON-CASH TRANSACTIONS

The Group paid RMB2,205,000 as payment in advance for acquisition of property, plant and equipment during the year ended 31 December 2007. These payments formed part of the additions of property, plant and equipment during the year ended 31 December 2008.

34. SUBSEQUENT EVENTS

Pursuant to a written resolution at 9 February 2009, Mr. Shen Da Jin had resigned as a director, chairman and member of the nomination committee of the Company and Mr. Zhuang Xiao Xiong had been appointed as a director of the Company with effect from 9 February 2009.

Save as disclosed above, the Group did not have any significant subsequent events subsequent to 31 December 2008 and up to the date of issue of these financial statements.

Five-Year Financial Summary

RESULTS

	Year ended 31 December				
	2004 *RMB'000*	2005 *RMB'000*	2006 *RMB'000*	2007 *RMB'000*	**2008** ***RMB'000***
Revenue	581,954	576,171	630,622	829,848	**935,067**
Cost of inventories sold	(458,583)	(443,271)	(484,054)	(630,466)	**(727,278)**
	123,371	132,900	146,568	199,382	**207,789**
Other operating income	55,269	68,268	78,374	109,084	**100,973**
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)	**(236,710)**
Administrative expenses	(21,016)	(26,883)	(27,768)	(43,372)	**(36,970)**
Other operating expenses	–	–	–	–	**(2,441)**
Profit before income tax	50,809	66,497	65,581	90,599	**32,641**
Income tax expense	(828)	(9,962)	(8,676)	(11,482)	**(8,290)**
Profit attributable to the Company's equity holders	49,981	56,535	56,905	79,117	**24,351**
Dividends	–	80,000	22,000	22,153	**12,139**
Earnings per share – Basic	RMB6.66 cents	RMB7.54 cents	RMB7.59 cents	RMB8.53 cents	**RMB2.35 cents**
– Diluted	N/A	N/A	N/A	RMB8.52 cents	**N/A**

ASSETS AND LIABILITIES

	As at 31 December				
	2004 *RMB'000*	2005 *RMB'000*	2006 *RMB'000*	2007 *RMB'000*	**2008** ***RMB'000***
Total assets	166,795	258,018	275,824	613,234	**640,673**
Total liabilities	(116,830)	(156,969)	(228,009)	(207,312)	**(232,174)**
Net assets	49,965	101,049	47,815	405,922	**408,499**

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 2008, and the assets and liabilities as at 31 December 2008 have been extracted from the audited consolidated income statement and audited consolidated balance sheet as set out on pages 35 and 36 respectively, of the financial statements.