

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

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

Hong Kong Exchange and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



**MAJOR ACQUISITION AND CONNECTED TRANSACTION
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

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



A letter from the Board is set out on pages 4 to 16 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 17 to 18 of this circular. A letter from the Independent Financial Adviser containing its advices to the Independent Board Committee and the Independent Shareholders is set out on pages 19 to 33 of this circular.

A notice convening the EGM of the Company to be held at 3/F., Conference Room 1, The Capital Plaza Hotel, 1st Baomin Road, Baoan District, Shenzhen, the PRC on Monday, 12 March 2012 at 2:30 p.m., is set out on pages EGM-1 to EGM-2 of this circular. Whether or not you are able to attend the EGM in person, you are requested to complete and return the accompanying form of proxy enclosed with this circular in accordance with the instructions printed thereon and return the same to the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the accompanying form of proxy will not preclude you from attending and voting in person at the meeting or any adjourned meeting thereof should you so wish.

CONTENTS

	<i>Pages</i>
Definitions	1
Letter from the Board	4
Letter from the Independent Board Committee	17
Letter from Vinco Capital	19
Appendix I – Financial information relating to the Group	I-1
Appendix II – Unaudited pro forma financial information of the Group	II-1
Appendix III – Valuation report	III-1
Appendix IV – General information	IV-1
Notice of EGM	EGM-1

DEFINITIONS

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

“Acquisition”	the acquisition of the Property pursuant to the Acquisition Agreement
“Acquisition Agreement”	the conditional agreement dated 9 January 2012 entered into between JH Real Estate, as a vendor, and BJH Department Stores, as a purchaser, in respect of the Acquisition
“Announcement”	the announcement issued by the Company dated 9 January 2012 regarding the Acquisition
“associate”	has the meaning ascribed to it under the Listing Rules
“BJH Department Stores” or “Purchaser”	深圳市百佳華百貨有限公司 (Shenzhen Baijiahua Department Stores Company Limited), a wholly owned subsidiary of the Company and a wholly foreign-owned enterprise incorporated in the PRC with limited liability
“BJH Industrial”	深圳市百佳華實業發展有限公司 (Shenzhen Baijiahua Industrial Development Company Limited), a company incorporated in the PRC on 24 August 1995 with limited liability, which was owned as to 90% by Mr Zhuang and 10% by Mrs Zhuang as at the Latest Practicable Date
“Board”	the board of Directors
“Business Day(s)”	day(s) on which banks in Hong Kong are generally open for business (excluding a Saturday and Sunday)
“Company”	Jiahua Stores Holdings Limited (佳華百貨控股有限公司) (stock code: 602), an exempted company incorporated in the Cayman Islands on 4 September 2006 and the issued shares of which are listed on the main board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration”	the initial consideration of RMB270.0 million (equivalent to approximately HK\$332.1 million)
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	director(s) of the Company

DEFINITIONS

“EGM”	the extraordinary general meeting of the Company to be convened and held on Monday, 12 March 2012 at 3/F, Conference Room 1, The Capital Plaza Hotel, 1st Baomin Road, Baoan District, Shenzhen, the PRC for the purpose of considering and, if thought fit, approving terms of the Acquisition Agreement and the transactions contemplated thereunder
“Group”	the Company and its subsidiaries (from time to time)
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	a committee of Directors, consisting of independent non-executive Directors, formed to advise the Independent Shareholders in respect of the Acquisition Agreement and the transactions contemplated thereunder
“Independent Financial Adviser” or “Vinc Capital”	Grand Vinc Capital Limited, wholly-owned subsidiary of Vinc Financial Group Limited (stock code: 8340), a licensed corporation to carry out business in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, and the independent financial adviser of the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition Agreement and the transactions contemplated thereunder
“Independent Third Party(ies)”	(an) independent third party(ies) not connected with the Directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or their respective associates as defined in the Listing Rules
“Independent Shareholders”	Shareholders other than Mr. Zhuang and his associates
“JH Real Estate” or “Vendor”	深圳市佳華房地產開發有限公司 (Shenzhen Jiahua Real Estate Development Company Limited), which is owned as to 60% by Mrs Zhuang and 40% by BJH Industrial as at the Latest Practicable Date
“Latest Practicable Date”	23 February 2012, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular

DEFINITIONS

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Zhuang”	莊陸坤先生 (Mr. Zhuang Lu Kun), an executive Director and the controlling shareholder who is also the founder and chairman of the Group
“Mrs. Zhuang”	莊素蘭女士 (Mrs. Zhuang Su Lan), the spouse of Mr. Zhuang
“PRC”	the People’s Republic of China
“Property”	levels 1 to 4 of the retail commercial podium, Jia Hua Ming Yuan (佳華名苑), Area N1, Central Zone, Baoan District, Shenzhen, Guangdong Province, the PRC with a total of gross floor area of approximately 7,760.30 sq.m. for commercial uses
“SFO”	the Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Valuer”	B.I. Appraisals Limited, the independent property valuer to the Company in relation to the valuation of the Property
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“sq.m.”	square metre
“%”	per cent.

Unless otherwise specified in this circular, translation of RMB into HK\$ is made in this circular, for illustration purpose only, at the rate of RMB1 to HK\$1.23. No representation is made that any amount in RMB could have been or could be converted at such rate or any other rates.



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)

Executive Directors:

Mr. Zhuang Lu Kun (*Chairman*)
Mr. Zhuang Pei Zhong
Mr. Gu Wei Ming
Mr. Zhuang Xiao Xiong

Independent non-executive Directors:

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

Registered office:

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

*Head office and principal place of
business in the PRC:*

Unit 301 on 3rd Floor
Block 1 Baijiahua Building
No. 3008 Baoan Boulevard
Baoan District
Shenzhen
the PRC

*Head office and principal place of
business in Hong Kong:*

Suite 1216, 12th Floor
Ocean Centre, Harbour City
5 Canton Road
Tsimshatsui
Kowloon

24 February 2012

To the Shareholders

Dear sirs or madams,

MAJOR ACQUISITION AND CONNECTED TRANSACTION

INTRODUCTION

Reference is made to the Announcement whereby BJH Department Stores entered into the Acquisition Agreement on 9 January 2012 for an acquisition of the Property at a Consideration of RMB270.0 million (equivalent to approximately HK\$332.1 million).

LETTER FROM THE BOARD

As at the Latest Practicable Date, JH Real Estate, which is principally engaged in property development and property management in the PRC, is owned as to 60% by Mrs. Zhuang, an associate of Mr. Zhuang and 40% by BJH Industrial while BJH Industrial, which is principally engaged in property development and property management in the PRC, is owned as to 90% by Mr Zhuang and 10% by Mrs Zhuang. As such, JH Real Estate are connected persons of the Company and therefore, the transactions contemplated under the Acquisition Agreement constitute a connected transaction for the Company under the Listing Rules. As certain of the applicable percentage ratios stipulated under Rule 14.07 of the Listing Rules in respect of the Acquisition exceed 25% and less than 100%, the Acquisition as a connected transaction is subject to the reporting, announcement and the Independent Shareholders' approval requirements set out in Chapter 14A of the Listing Rules. Further, based on the relevant percentage ratio calculation under the Listing Rules, the Acquisition also constitutes a major transaction for the Company under Chapter 14 of the Listing Rules.

The purpose of this circular is (i) to provide Shareholders with further details of the Acquisition, the Property, and the transactions contemplated under the Acquisition Agreement; (ii) to set out recommendations of the Independent Board Committee to the Independent Shareholders regarding the terms of the Acquisition Agreement and the transactions contemplated thereunder; (iii) to set out recommendations of the Company's independent financial adviser, Vinco Capital, to the Independent Board Committee and the Independent Shareholders regarding the terms of the Acquisition Agreement and the transactions contemplated thereunder; (iv) to set out the property valuation report on the Property appraised by the Valuer; and (v) to set out the financial information relating to the Group; and, (vi) to give notice of the EGM.

THE ACQUISITION AGREEMENT

Date

9 January 2012 (after trading hours)

Parties

Vendor : JH Real Estate

Purchaser : BJH Department Stores

LETTER FROM THE BOARD

Assets to be acquired

Pursuant to the terms and conditions of the Acquisition Agreement, BJH Department Stores agreed to acquire the Property from JH Real Estate for an aggregate consideration of RMB270.0 million (equivalent to approximately HK\$332.1 million) based on the total gross floor area of approximately 8,080.46 sq.m. pursuant to the measurement and mapping report for the gross floor area of building in Shenzhen City (深圳市房屋建築面積測繪報告) prepared by Shenzhen Cadastral Survey & Mapping Office (深圳市地籍測繪大隊) date 12 November 2009).

The Property which is located at levels 1 to 4 of the retail commercial podium, Jia Hua Ming Yuan (佳華名苑), Area N1, Central Zone, Baoan District, Shenzhen, Guangdong Province, the PRC, has a total gross floor area of approximately 7,760.30 sq.m. based on the construction works completion measurement report (建設工程竣工測量報告) dated 17 January 2012. Residential flats of 15 storeys with gross floor area of approximately 14,154.55 sq.m. are situated above the Property. The land where the Property is situated was acquired by the Vendor in 1996. Both of the historical cost invested in the Property and the book value of the Property recorded in the unaudited management accounts by the Vendor as at 31 December 2011 were approximately RMB73.1 million. The Property is currently under development pending for completion of electrical and mechanical installations, fitting-outs and finishing works and is expected to be completed by 30 June 2012. It is expected that the estimated costs for JH Real Estate to complete the development of the Property will amount to approximately RMB15.0 million. Based on the valuation report issued by an independent professional valuer (details of which are as set out in appendix III in this circular), the estimated capital value of the Property in existing state as at 30 November 2011 was amounted to approximately RMB251.0 million. As the Property will be acquired on a construction completion basis, the Company should not be liable for any capital cost of development of the Property. In other words, all of such capital cost, if any, will be solely borne by the JH Real Estate. The Company intended that the level 4 of the Property of approximately 2,326.26 sq.m. will be used for administration office of the Group and levels 1-3 of the Property of approximately 5,434.04 sq.m. will be used for leasing purpose.

According to the legal opinion issued by an independent PRC lawyer of the Company ("PRC Lawyer"), (1) JH Real Estate, which was incorporated in the PRC and legally exists up to the date of the legal opinion, has obtained the land use right of the Property under proper legal procedures, and has completed all necessary administrative and legal processes in accordance with the PRC law; (2) there is no other evidences brought to the attention of the PRC lawyer that there are liens, charges, encumbrances and other right restrictions issues or potential legal disputes in respect of the Property; (3) except for level 4 of the Property which is built in excess of area stated in the original planning approval, levels 1-3 of the Property has been granted pre-sale permit; (4) the area of the Property measured during pre-sale approval indicates that the built area is in excess of the area stated in the planning approval. If the result of completion measurement shows that this situation persists, JH Real Estate will need to pay additional land premium for the excessive area and after such payment by JH Real Estate, there will not be any legal obstacle for the purchaser in obtaining the property ownership certificate (However, according to the construction works completion measurement report (建設工程竣工測量報

LETTER FROM THE BOARD

告) dated 17 January 2012 issued by Shenzhen Municipal Planning and State-owned Land Resources Commission and as confirmed by the PRC Lawyer, the gross floor area of the Property has been adjusted to approximately 7,760.30 sq.m. from approximately 8,080.46 sq.m., which is within the limit as stipulated in the planning approval. Therefore, JH Real Estate will not be required to pay any additional land premium.); and (5) the sale and purchase of level 4 of the Property is considered as provisional sale and purchase and is in compliance with the relevant PRC law.

As advised by the PRC Lawyer, under the relevant PRC law, should the consideration of a real estate be paid to the builders before the relevant completion acceptance report is issued, such sale is classified as pre-sale; and, should the consideration of a real estate be paid to the builders only after the relevant certificate of property ownership is issued, such sale is classified as provisional sale and purchase. In view of the above, (i) given that the consideration of level 4 of the Property would only be settled upon obtaining the relevant certificate of property ownership, the level 4 of the Property is considered as real estate's provisional sale and purchase, and therefore, the pre-sale permit is not required; and (ii) given that the consideration of levels 1 to 3 of the Property would be settled prior to obtaining the completion acceptance report by JH Real Estate, the levels 1 to 3 of the Property is considered as real estate's pre-sale.

Below is a summary of the status of permits/licenses that were required for the Property as extracted from the valuation report in the appendix III as at the Latest Practicable Date:

	Level I	Licensing status		
		Level II	Level III	Level IV
Certificate of state-owned land use	Yes	Yes	Yes	Yes
Certificate of property ownership ⁽ⁱ⁾	No	No	No	No
Planning permit for construction land use	Yes	Yes	Yes	Yes
Planning permit for construction works	Yes	Yes	Yes	Yes
Commencement permit for construction ⁽ⁱⁱ⁾ works	Yes	Yes	Yes	Yes
Pre-sale permit ⁽ⁱⁱⁱ⁾	Yes	Yes	Yes	N/A

Notes:

- i. Up to the Latest Practicable Date, certificate of property ownership has not been obtained by JH Real Estate pending for the completion acceptance report (竣工驗收報告). Certificate of property ownership can be obtained by the Company upon all the conditions precedents of the acquisition agreement are fulfilled and there are no legal impediment in obtaining them as advised by PRC lawyer.

LETTER FROM THE BOARD

- ii. As stated in the commencement permit for construction works, the construction should be completed on 20 March 2011. However, mainly due to the change of the land use planning followed by the need to modify the building plans by the PRC government, the construction works for the construction of the Property have been delayed. According to the legal opinion issued by the PRC Lawyer, delay in construction completion may result in administrative penalty on JH Real Estate, however, it will not adversely affect the administrative and/or legal procedures for the sale of the Property upon such administrative penalty (if any) being settled by JH Real Estate.
- iii. Under the relevant PRC law, pre-sale permit is not required for level 4 of the Property as the sale and purchase of level 4 of the Property is considered as provisional sale and purchase under the relevant PRC law.

Consideration

Pursuant to the Acquisition Agreement, the initial Consideration of RMB270.0 million (equivalent to approximately HK\$332.1 million), which has been arrived at after arm's length negotiations between BJH Department Stores and JH Real Estate and was determined with reference to the valuation of the Property of RMB275.0 million (equivalent to approximately HK\$338.3 million) valued by an independent professional valuer, represents a discount of approximately 1.8% to the valuation of the Property. The Directors are aware that the attributable historical cost of approximately RMB73.1 million invested by JH Real Estate in the Property is lower than the initial Consideration. Given that JH Real Estate commenced the acquisition of the underlying land of the Property in 1996, or over 15 years ago, it is not unusual to achieve appreciation of value throughout the years. The then property market condition could not be directly comparable to the current property market condition in China. As such, rather than making direct reference to the attributable historical cost invested by JH Real Estate, the Directors consider that it would be more appropriate to make reference to the fair value of the Property in determining the consideration of the Property. Below is the breakdown of the Consideration of each level of the Property as extracted from the Acquisition Agreement:

Level	Gross Floor Area <i>(approximately sq.m.)</i>	Average unit price <i>(approximately RMB/sq.m.)</i>	Consideration <i>(approximately RMB million)</i>
1	1,635.6	55,825.0	91.4
2	2,204.7	33,400.0	73.6
3	1,961.9	27,023.9	53.0
Subtotal for levels 1 to 3	5,802.2	37,565.6	218.0
4	2,278.3	22,840.5	52.0
Total for levels 1 to 4	8,080.5	33,413.9	270.0

LETTER FROM THE BOARD

The Consideration will be settled according to the below schedule:

- (i) approximately RMB109.0 million (equivalent to approximately HK\$134.1 million), being 50% of the consideration for levels 1 to 3 of the Property, will be satisfied by cash payable within 3 days after the satisfaction of items (1) and (2) as set out in the section headed “Conditions Precedents” of this circular;
- (ii) approximately RMB87.2 million (equivalent to approximately HK\$107.3 million), being 40% of the consideration for levels 1 to 3 of the Property, will be satisfied by cash payable within 10 days from the date of obtaining the acknowledgement (備案回執) from the relevant ministry of land and resources of its receipt of the Acquisition Agreement;
- (iii) approximately RMB73.8 million (equivalent to approximately HK\$90.8 million), being 10% of the Consideration for levels 1 to 3 of the Property and 100% of the consideration for level 4 of the Property, will be satisfied by way of issuance of one year interest-free promissory notes by the Company to JH Real Estate within 3 days after the satisfaction of item (3) as set out in the section headed “Conditions Precedents” of this circular; and
- (iv) the one year interest-free promissory notes can only be converted into cash after JH Real Estate has obtained the property ownership certificate of the Property for BJH Department Stores.

It is the intention of the Group to finance the Acquisition by way of its internal resources and/or bank borrowing, if necessary.

Pursuant to the construction works completion measurement report (建設工程竣工測量報告) dated 17 January 2012 issued by Shenzhen Municipal Planning and State-owned Land Resources Commission, the total gross floor area of the Property is 7,760.30 sq.m. and the breakdown for individual levels of the Property are as below:

- a) Level 1 : 1,671.84 sq.m.
- b) Level 2 : 1,812.13 sq.m.
- c) Level 3 : 1,950.07 sq.m.
- d) Level 4 : 2,326.26 sq.m.

Pursuant to the Acquisition Agreement, in the event that the actual gross floor area as stated on the certificate of property ownership is deviated from the gross floor area as stated in the Acquisition Agreement, the Consideration will be adjusted (i) downwards by setting off the payment obligations of BJH Department Stores should the actual gross floor area as stated on the certificate of property ownership is smaller than the gross floor area as stated in the Acquisition Agreement (subject to the Consideration adjustment mechanism below); and (ii) upwards by adding to the payment obligations of BJH Department Stores should the actual gross floor area as stated on the certificate of

LETTER FROM THE BOARD

property ownership is larger than the gross floor area as stated in the Acquisition Agreement (subject to the Consideration adjustment mechanism below). Below is the Consideration adjustment mechanism:

Scenario	Adjustment to Consideration
Should the actual gross floor area as stated on the certificate of property ownership is smaller than the gross floor area as stated in the Acquisition Agreement by over 3%	Downwards adjustment equivalent to the difference between the actual gross floor area and the gross floor area as stated in the Acquisition Agreement multiply by 200% of the average unit price of relevant level of the Property
Should the actual gross floor area as stated on the certificate of property ownership is smaller than the gross floor area as stated in the Acquisition Agreement by 3% or less	Downwards adjustment equivalent to the difference between the actual gross floor area and the gross floor area as stated in the Acquisition Agreement multiply by the average unit price of relevant level of the Property
Should the actual gross floor area as stated on the certificate of property ownership is larger than the gross floor area as stated in the Acquisition Agreement by over 3%	No adjustment
Should the actual gross floor area as stated on the certificate of property ownership is larger than the gross floor area as stated in the Acquisition Agreement by 3% or less	Upwards adjustment equivalent to the difference between the actual gross floor area and the gross floor area as stated in the Acquisition Agreement multiply by the average unit price of relevant level of the Property

LETTER FROM THE BOARD

Based on the Consideration adjustment mechanism above and the updated information, as advised by the PRC Lawyer, it is estimated that the Consideration will be adjusted downwards by approximately RMB21.2 million and such adjustment will be deducted from the one year interest-free promissory notes. Set out below is the Consideration adjustment computation:

Level	Difference between the actual gross floor area and the gross floor area as stated in the Acquisition Agreement (A) <i>approximately sq.m.</i>	Consideration adjustment based on the Consideration adjustment mechanism (B) <i>Approximately RMB million</i>	Average unit price calculated based on Consideration adjustment (B)÷(A) <i>approximately RMB per sq.m.</i>
1	36.21	2.02	55,825.0
2	(392.55)	(24.01)	61,172.5
3	(11.83)	(0.32)	27,023.9
4	48.01	1.1	22,840.5
Total	(320.16)	(21.2)	66,263.7

Conditions precedents

The completion of the Acquisition Agreement is subject to the following conditions:

- (1) obtaining the Shenzhen Municipal property pre-sales permits (深圳市房地產預售許可證) in relation to levels 1 to 3 of the Property by JH Real Estate;
- (2) the Independent Shareholders having approved by way of poll at the EGM for the Acquisition Agreement and the transactions contemplated thereunder;
- (3) obtaining the completion acceptance report (竣工驗收報告) by JH Real Estate (which is expected to be around 30 June 2012); and
- (4) JH Real Estate settling the additional land premium for the built area in excess of area stated in the planning approval.

The conditions above shall not be waived in any event. If the Conditions have not been fulfilled by 30 December 2012 (or such other date as the parties to the Acquisition Agreement may agree in writing), the Acquisition Agreement shall thereupon be terminated. Should the acquisition agreement be terminated, JH Real Estate, as the vendor, is required to return the received cash amount and the promissory notes in full without any interests accrued thereon to, BJH Department Stores, as the purchaser.

LETTER FROM THE BOARD

As at the date of the Acquisition Agreement, JH Real Estate has obtained the Shenzhen Municipal property pre-sale permits in relation to levels 1 to 3 of the Property. According to the construction works completion measurement report (建設工程竣工測量報告) dated 17 January 2012 issued by Shenzhen Municipal Planning and State-owned Land Resources Commission, the gross floor area of the Property has been adjusted to approximately 7,760.3 sq.m. from approximately 8,080.5 sq.m., which is within the limit as stipulated in the planning approval and therefore, JH Real Estate will not be required to pay any additional land premium.

Pursuant to the Acquisition Agreement and according to the legal opinion issued by the PRC Lawyer, should the Vendor fail to obtain the property ownership certificate on behalf of the Purchaser falling 360 days immediately after the filing of the completion acceptance to Construction Bureau of Baoan District, Shenzhen City (深圳寶安區建設局), BJH Department Stores may:

1. terminate the Acquisition Agreement anytime within 6 months time from the date falling 361 days immediately after the filing of the completion acceptance to Construction Bureau of Baoan District, Shenzhen City (深圳寶安區建設局), at its sole discretion and the Vendor shall:
 - i. return all the Consideration paid by the Purchaser with interests accrued at the interest rate with same maturity as quoted from the People's Bank of China; and
 - ii. pay a penalty of the higher of 10% of the total Consideration or actual losses incurred by the Purchaser;
2. request the Vendor to enforce the Acquisition Agreement, and defer the cash conversion of the one year interest-free promissory notes under the settlement schedules (iii) and (iv) until the Vendor obtain the property ownership certificate on behalf of the Purchaser and entitle to:
 - i. a daily penalty of 0.03% of the total Consideration from the Vendor commencing from the 240th day after the filing of completion acceptance to Construction Bureau of Baoan District, Shenzhen City (深圳寶安區建設局) and up to the date of the Purchaser obtaining the property ownership certificate, should the Vendor obtain the property ownership certificate within 360 days from the date of filing of completion acceptance; and
 - ii. a daily penalty of 0.04% of the total Consideration from the Vendor commencing from the 240th day after the filing of completion acceptance to Construction Bureau of Baoan District, Shenzhen City (深圳寶安區建設局) and up to the date of the Purchaser obtaining the property ownership certificate, should the Vendor obtain the property ownership certificate after 360 days from the date of filing of completion acceptance.

LETTER FROM THE BOARD

According to the legal opinion issued by the PRC Lawyer, there is no legal impediment in obtaining the property ownership certificate of the Property upon all the conditions precedents of the Acquisition Agreement are fulfilled (pending for an administrative procedure, i.e. the initial registration (初始登記) for the Property from Shenzhen Municipal Property Ownership Registration Centre) and therefore, obtaining the property ownership certificate of the Property was not included as one of the condition precedents for the completion of Acquisition Agreement.

Completion of the Acquisition

The completion of the Acquisition will take place on or before the 7 Business Day after the conditions have been fulfilled in accordance with the Acquisition Agreement or such other date as the parties to the Acquisition Agreement may agree.

REASONS AND BENEFITS OF THE ACQUISITION

The Company is principally engaged in investment holding and BJH Department Stores, one of its subsidiaries, is principally engaged in investment holding and operation and management of retail stores in the PRC.

The Directors consider that the Acquisition and is beneficial to the Group based on the following: (i) the Acquisition enables the Group to secure long-term office premise and avoid unnecessary disruptions due to any market rent fluctuation and to capture any capital gains in future should the property market rises; (ii) the Consideration was determined with reference to the valuation of the Property of RMB275.0 million (equivalent to approximately HK\$338.3) valued by an independent professional valuer represents a discount of approximately 1.8% to the valuation of the Property; (iii) the terms of the Acquisition Agreement are negotiated between the relevant parties on an arm's length basis and are normal commercial terms; and, (iv) the Property, which is situated in a new commercial and residential area of Shenzhen Municipality, is surrounded by various communal commercial facilities, within proximity to the Shenzhen Metro and well-served by an extensive public transportation network. Given its prime location, it is considered that the potential return from rental income to be satisfactory. Therefore, although the Group may face the risk of sub-optimal occupancy rate of the Property and the change of market value of the Property, having considered the potential of possible appreciation of fair value due to the prime location of the Property and the satisfactory indications of occupancy rates of properties in the region of the Property as advised from certain property agents, the Directors (excluding members of the Independent Board Committee who will be advised by the Independent Financial Adviser) consider that the advantages of the acquisition outweighs the disadvantages and the terms of the Acquisition Agreement are fair and reasonable and the Acquisition, which is beneficial to the Group, is in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

FINANCIAL EFFECTS OF THE ACQUISITION

As extracted from the unaudited proforma financial information of the Group set forth in the appendix II to this circular, upon completion of the Acquisition, the total assets of the Group are expected to be increased by approximately RMB69.0 million (equivalent to approximately HK\$84.8 million), resulting from the increase of approximately RMB51.1 million (equivalent to approximately HK\$62.8 million) in the property, plant and equipment and the prepaid land lease and the increase of approximately RMB214.1 million (equivalent to approximately HK\$263.3 million) in investment properties netting of the decrease in cash and bank balances of approximately RMB196.2 million (equivalent to approximately HK\$241.3 million), being the first two installments of the Consideration. Level 4 of the Property of approximately 2,278.3 sq.m. which will be used as the Company's office, will be recognized as property, plant and equipment and prepaid land lease of the Group amounting to approximately RMB29.6 million (equivalent to approximately HK\$36.4 million) and approximately RMB21.5 million (equivalent to approximately HK\$26.4 million) respectively while levels 1 to 3 of the Property of approximately 5,802.2 sq.m., which will be used for leasing purpose, will be recognized as investment properties of the Group amounting to approximately RMB214.1 million (equivalent to approximately HK\$263.3 million). The net assets value of the Group upon completion of the Acquisition is expected to remain unchanged as the increase in the property, plant and equipment, the prepaid land lease and investment properties will be offset by the decrease in cash and bank balances and increase in liabilities of the Group due to the promissory notes. Upon conversion of promissory notes in cash and assuming other factors remain constant, subject to the review of the annual audit, the total assets value of the Group is expected to remain unchanged.

Upon the Completion of the Acquisition, the Property will be able to contribute to both the revenue and the earnings to the Group by leasing out levels 1 to 3 of the Property.

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, JH Real Estate, which is principally engaged in property development and property management in the PRC, is owned as to 60% by Mrs. Zhuang, an associate of Mr. Zhuang and 40% by BJH Industrial while BJH Industrial, which is principally engaged in property development and property management in the PRC, is owned as to 90% by Mr. Zhuang and 10% by Mrs. Zhuang. As such, JH Real Estate is a connected person of the Company and therefore, the transactions contemplated under the Acquisition Agreement constitute a connected transaction for the Company under the Listing Rules. As certain of the applicable percentage ratios stipulated under Rule 14.07 of the Listing Rules in respect of the Acquisition exceed 25% and less than 100%, the Acquisition as a connected transaction is subject to the reporting, announcement and the Independent Shareholders' approval requirements set out in Chapter 14A of the Listing Rules. Further, based on the relevant percentage ratio calculation under the Listing Rules, the Acquisition also constitutes a major transaction for the Company under Chapter 14 of the Listing Rules. Also, in view of the material interest in respect of Mr. Zhuang in the Acquisition Agreement, Mr. Zhuang and his associate, Mr. Zhuang Xiao Xiong have abstained from voting on the relevant board resolution to approve the Acquisition Agreement and the transactions contemplated thereunder.

LETTER FROM THE BOARD

GENERAL

An Independent Board Committee has been established to advise the Independent Shareholders in respect of the terms of the Acquisition Agreement and the transactions contemplated thereunder. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in the same regard. The Company will convene the EGM for the Independent Shareholders to consider the approval of the Acquisition Agreement and the transactions contemplated thereunder. Mr. Zhuang and his associates, holding in an aggregate interest of 73.3% in the Company, will abstain from voting at the EGM in respect of the ordinary resolution to approve the above matters. The votes of the Independent Shareholders regarding the resolution for approval of the Acquisition Agreement and the transactions contemplated thereunder will be taken by way of a poll at the EGM.

EGM

You will find on pages EGM-1 to EGM-2 of this circular a notice of the EGM to be held at 3/F., Conference Room 1, The Capital Plaza Hotel, 1st Baomin Road, Baoan District, Shenzhen, the PRC on Monday, 12 March 2012 at 2:30 p.m. for the purpose of considering and, if thought fit, approving the Acquisition Agreement and the transactions contemplated thereunder.

In accordance with the Rule 2.15 of the Listing Rules, connected persons of the Company who have material interests in the transactions are required to abstain from voting in respect of the resolutions approving such transactions. So far as the Company was aware, having made all reasonable enquires, Mr. Zhuang and his associates held the voting rights in respect of 760,257,500 Shares, constitutes approximately 73.3% of the Company's issued ordinary share capital as at the Latest Practicable Date and will abstain from voting on the resolutions to be proposed at the EGM to approve the Acquisition Agreement and the transactions contemplated thereunder.

Pursuant to Rule 13.39(4) of the Listing Rules, the resolution relation to the Acquisition Agreement and the transactions contemplated thereunder must be taken by poll at the EGM.

A form of proxy for the use of EGM is enclosed with this circular and published on the website of the Company (www.szbj.hk) and the website of the Stock Exchange (www.hkexnews.hk/index.htm). Whether or not you are able to attend the meeting in person, you are requested to complete this form of proxy in accordance with the instructions printed thereon and return the same to the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. The completion and return of the accompanying form of proxy will not preclude you from attending and voting in person at the meeting or any adjourned meeting should you so wish.

LETTER FROM THE BOARD

RECOMMENDATION

Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the relevant ordinary resolution to be proposed at the EGM.

Your attention is drawn to the recommendation of the Independent Board Committee as set out on pages 17 to 18 to this circular and the letter from Vinco Capital as set out on pages 19 to 33.

ADDITIONAL INFORMATION

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

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of the letter of recommendation to the Independent Shareholders from the Independent Board Committee regarding the terms of the Acquisition Agreement and the transactions contemplated thereunder for the purpose of incorporation in this circular:



佳華百貨控股有限公司 Jiahua Stores Holdings Limited

(incorporated in the Cayman Islands with limited liability)

(stock code: 602)

24 February 2012

To the Independent Shareholders

Dear Sirs or Madams,

MAJOR ACQUISITION AND CONNECTED TRANSACTION

We refer to the circular (the “Circular”) dated 24 February 2012 issued by the Company to its Shareholders of which this letter forms part. Terms defined in the Circular shall have the same meanings when used in this letter, unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders in respect of the terms of the Acquisition Agreement and the transactions contemplated thereunder, details of which are described in the letter from the Board as set out in the Circular.

We also draw your attention to the advice of Vinco Capital, the Independent Financial Adviser appointed in respect of the terms of the Acquisition Agreement and the transactions contemplated thereunder, as set out on pages 19 to 33 to the Circular.

As the Independent Board Committee, we have discussed with the management of the Company the reasons for entering into the Acquisition Agreement, the basis upon which its terms have been determined as described in the letter from the Board as set out in the Circular. We have also considered the key factors taken into account by Vinco Capital in arriving at its opinion regarding the terms of the Acquisition Agreement and the transactions contemplated thereunder as set out in the letter from Vinco Capital in the Circular, which we urge you to read carefully.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having taken into account, amongst other things, the advice of of Vinco Capital, the independent financial adviser to the Company, we are of the view that the Acquisition Agreement is (i) entered into under ordinary and usual course of business of the Group; (ii) on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (iii) in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend you to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Acquisition and the transactions contemplated under the Acquisition Agreement.

Yours faithfully,
Independent Board Committee
Jiahua Stores Holdings Limited
Mr. Chin Kam Cheung, Dr. Guo Zheng Lin and Mr. Ai Ji
Independent Non-Executive Directors

LETTER FROM VINCO CAPITAL

The following is the text of a letter of advice from Vinco Capital to the Independent Board Committee and the Independent Shareholders in connection with the Acquisition which has been prepared for the purpose of incorporation in this circular:



Grand Vinco Capital Limited
Units 4909-4910, 49/F., The Center
99 Queen's Road Central, Hong Kong

24 February 2012

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

Dear Sirs,

MAJOR ACQUISITION AND CONNECTED TRANSACTION

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Acquisition Agreement and the transactions contemplated thereunder, details of which are set out in the section headed "Letter from the Board" in the circular issued by the Company to the Shareholders dated 24 February 2012 (the "Circular") of which this letter forms part. Capitalized terms used in this letter shall have the same meanings ascribed to them in the Circular unless the context otherwise requires.

On 9 January 2012 (after trading hours), the Company announced that BJH Department Stores, as a purchaser, has entered into the Acquisition Agreement with JH Real Estate, as a vendor, on the same date for an acquisition of the Property at a Consideration of RMB270.0 million (equivalent to approximately HK\$332.1 million).

As at the Latest Practicable Date, JH Real Estate, which is principally engaged in property development and property management in the PRC, is owned as to 60% by Mrs. Zhuang, an associate of Mr. Zhuang and 40% by BJH Industrial while BJH Industrial, which is principally engaged in property development and property management in the PRC, is owned as to 90% by Mr. Zhuang and 10% by Mrs. Zhuang. As such, JH Real Estate is a connected person of the Company and therefore, the transactions contemplated under the Acquisition Agreement constitute a connected transaction for the Company under the Listing Rules. As certain of the applicable percentage ratios stipulated under Rule 14.07 of the Listing Rules in respect of the Acquisition exceed 25% and less than 100%, the Acquisition as a major and connected transaction is subject to the reporting, announcement and the Independent Shareholders' approval requirements set out in Chapter 14 and Chapter 14A of the Listing Rules.

LETTER FROM VINCO CAPITAL

In view of the material interest in respect of Mr. Zhuang in the Acquisition Agreement, Mr. Zhuang and his associate Mr. Zhuang Xiao Xiong, holding in an aggregate interest of 73.3% in the Company, have abstained from voting on the relevant board resolution to approve the Acquisition Agreement and the transactions contemplated thereunder.

An independent board committee comprising Mr. Chin Kam Cheung, Dr. Guo Zheng Lin and Mr. Ai Ji (all being independent non-executive Directors) has been established by the Board to advise the Independent Shareholders in respect of the terms of the Acquisition Agreement and the transactions contemplated thereunder. In our capacity as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders for the purposes of the Listing Rules, our role is to give you an independent opinion as to whether the terms of the Acquisition Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole and whether the Independent Shareholders should vote in favour of the resolution to be proposed at the EGM to approve the Acquisition contemplated under the Acquisition Agreement.

BASIS OF OUR OPINION AND RECOMMENDATION

In forming our opinion and recommendation, we have relied on the information, facts and representations contained or referred to in the Circular and the information, facts and representations provided by, and the opinions expressed by the Directors and management of the Group. We have assumed that all information, facts, opinions and representations made or referred to in the Circular were true, accurate and complete at the time they were made and continued to be true, accurate and complete as at the date of the Circular and that all expectations and intentions of the Directors and management of the Group, will be met or carried out as the case may be. We have no reason to doubt the truth, accuracy and completeness of the information, facts, opinions and representations provided to us by the Directors and management of the Group. The Directors have confirmed to us that no material facts have been omitted from the information supplied and opinions expressed. We have no reason to doubt that any relevant material facts have been withheld or omitted from the information provided and referred to in the Circular or the reasonableness of the opinions and representations provided to us by the Directors and management of the Group.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

We have relied on such information and opinions and have not, however, conducted any independent verification of the information provided, nor have we carried out any independent investigation into the business, financial conditions and affairs of the Group or its future prospect.

LETTER FROM VINCO CAPITAL

Based on the foregoing, we confirm that we have taken all reasonable steps, which are applicable to the Acquisition Agreement and the transactions contemplated thereunder as referred to in Rule 13.80 of the Listing Rules (including the notes thereto).

For the purpose of this letter, unless otherwise specified, an exchange rate of RMB1.00 to HK\$1.23 has been adopted for illustrative purpose only. No representation is made that any amounts in RMB or HK\$ have been, could have been or could be converted at the above rate or at any other rates or at all.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Acquisition Agreement and the transactions contemplated thereunder and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Acquisition Agreement and the transactions contemplated thereunder, we have taken into consideration the following principal factors and reasons:

Background Information

Information of the Group

As referred to the Letter from the Board in the Circular, the Group is principally engaged in investment holding and BJH Department Stores, one of its subsidiaries, is principally engaged in investment holding and operation and management of retail stores in the PRC.

LETTER FROM VINCO CAPITAL

Set out below is a summary of the audited consolidated financial results for the three years ended 31 December 2008, 2009 and 2010 as extracted from the 2009 and 2010 annual report (the “2009 Annual Report” and “2010 Annual Report”) and the unaudited consolidated financial results for the six months ended 30 Jun 2010 and 2011 as extracted from the 2011 interim report (the “2011 Interim Report”):

Consolidated Statement of Comprehensive Income	For the year ended 31 December			For the six months ended 30 June	
	2008	2009	2010	2010	2011
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	935,067	819,381	849,265	416,939	402,406
Profit (loss) for the year	24,351	(21,139)	11,494	3,302	44,441

Consolidated Statement of Financial Position	For the year ended 31 December			For the six months ended 30 June	
	2008	2009	2010	2010	2011
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total assets	640,673	642,070	656,251	646,087	
Total liabilities	232,174	266,849	269,536	218,319	
Net assets value attributable to owners of the Company	408,499	375,221	386,715	427,768	

As shown from the above, we noted that the Group's turnover for the year ended 31 December 2009 amounted to approximately RMB819.38 million, representing a decrease of approximately 12.37% as compared to the year ended 31 December 2008. With reference to the 2009 Annual Report, such decrease was mainly attributed to the adverse effect from the outside environment brought by the financial tsunami, which resulted in the withdrawal of foreign investment or downscale in the suburban area of Shenzhen, affecting both the wholesale and retail business in the local economy. During the year ended 31 December 2009, the Group recorded a loss of approximately RMB21.14 million while the profit for the year ended 31 December 2008 was approximately RMB24.35 million. As stated in the 2009 Annual Report, the loss recorded was mainly attributed to: (1) a lump sum write-off of intangible assets, fixed assets, rental deposits paid, provision for closure costs and reversal of operating lease rental in relation to two loss making stores amounting to approximately RMB40.9 million; and (2) the impact to sales of goods, commission from concessionaires and rental income of Shajing, Xixiang and Buji stores during May to September 2009 for large scale shop renovation. As at 31 December 2009, the Group recorded total assets, total liabilities and net assets value attributable to Shareholders of approximately RMB642.07 million, RMB266.85 million and RMB375.22 million respectively.

LETTER FROM VINCO CAPITAL

For the year ended 31 December 2010, the Group's turnover amounted to approximately RMB849.27 million, representing an increase of approximately 3.65% as compared to the year ended 31 December 2009. As stipulated in the 2010 Annual Report, such increase was mainly due to: (1) the change of operation mode by increasing the portion of counter sales in place of the supermarket area; and (2) gradually recovered local economy after the Central government policy of stimulation of domestic demand. During the year ended 31 December 2010, the Group recorded a turned-around result from a loss of approximately RMB21.14 million in 2009 to a profit of approximately RMB11.49 million in 2010. As stated in the 2010 Annual Report, such improvement in profitability was mainly attributable to the absence of a lump sum write-off of the intangible assets, rental deposits paid, provision for closure costs and reversal of operating lease rental in relation to loss making stores in the year 2009. As at 31 December 2010, the Group recorded total assets, total liabilities and net assets value attributable to Shareholders of approximately RMB656.25 million, RMB269.54 million and RMB386.72 million respectively.

For the six months ended 30 June 2011 (the "2011 Period"), the Group's turnover amounted to approximately RMB402.41 million, representing a decrease of approximately 3.49% as compared to the six months ended 30 June 2010 (the "2010 Period"). During the 2011 Period, the Group recorded an increase in profit of approximately RMB3.30 million for the six months ended 30 June 2010 to approximately RMB44.44 million for the six months ended 30 June 2011. Such increase in profit was mainly attributable to gain on disposal of loss making stores to alleviate the overall operation burden and implementation of various cost control measures to reduce expenditure of the retail stores. As at 30 June 2011, the Group recorded unaudited total assets, total liabilities and net assets value attributable to Shareholders of approximately RMB646.09 million, RMB218.32 million and RMB427.77 million respectively.

Information of BJH Industrial

BJH Industrial is a company incorporated in the PRC on 24 August 1995 with limited liability, which was owned as to 90% by Mr. Zhuang and 10% by Mrs. Zhuang as at the Latest Practicable Date. The principal business of BJH Industrial is property development and property management in the PRC.

Information of JH Real Estate

JH Real Estate is principally engaged in property development and property management in the PRC and is owned as to 60% by Mrs. Zhuang and 40% by BJH Industrial as at the Latest Practicable Date.

Information of BJH Department Stores

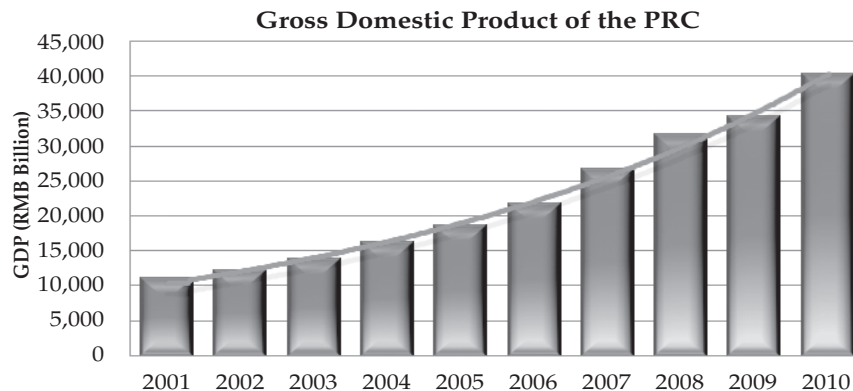
BJH Department Stores is a wholly owned subsidiary of the Company and a wholly foreign-owned enterprise incorporated in the PRC with limited liability. It is principally engaged in investment holding and operation and management of retail stores in the PRC.

LETTER FROM VINCO CAPITAL

Reasons of and benefits of the Acquisition

(i) *The PRC economy*

The PRC economy has been growing at an accelerated pace in the past decade. According to the National Bureau of Statistics of China, the PRC's gross domestic product ("GDP") has been growing at a compound annual growth rate ("CAGR") of approximately 15.50%, from approximately RMB10,966 billion in 2001 to approximately RMB40,120 billion in 2010. The following chart illustrates the GDP of the PRC from 2001 to 2010:

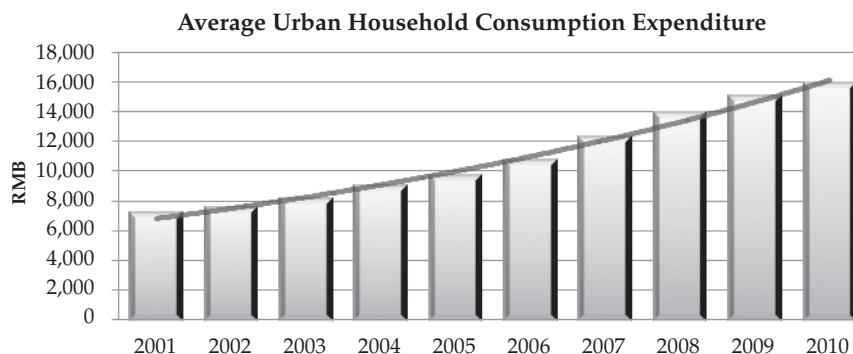


Source: National Bureau of Statistics of China

The PRC economy is also expected to sustain its fast pace of growth in the coming next few years. According to the World Economic Outlook September 2011 issued by the International Monetary Fund, the PRC economy is expected have an annual projection growth rate at 9.5%, 9.0% and 9.5% in 2011, 2012 and 2016 respectively.

(ii) *The retail industry in the PRC*

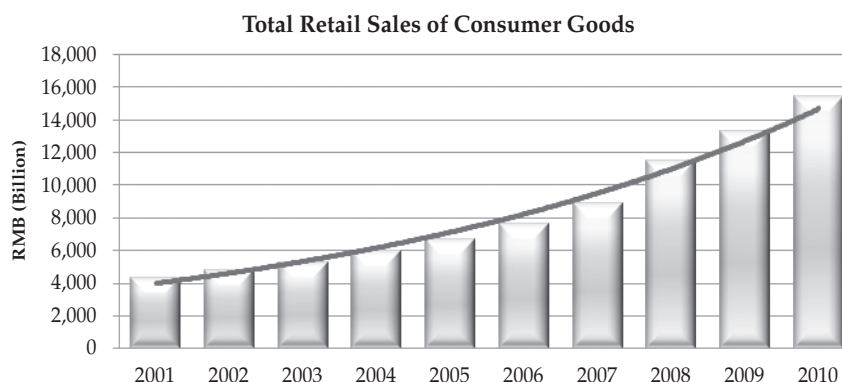
The consumer goods market and the purchasing power of PRC households have been gradually increasing throughout the decade due to robust economic development of the PRC. The following charts illustrate the total sales of consumer goods and average urban household consumption expenditure in the PRC during the period from 2001 to 2010:



Source: National Bureau of Statistics of China

LETTER FROM VINCO CAPITAL

As shown from the chart above, the average urban household consumption expenditure has grown from approximately RMB7,161 in 2001 to approximately RMB15,907 in 2010, representing a CAGR of 9.27% during the aforesaid period.



Source: National Bureau of Statistics of China

As shown from the chart above, the total sales of consumer goods in the PRC has grown from approximately RMB4,306 billion in 2001 to approximately RMB15,455 billion in 2010, representing a CAGR of 15.26% during the period.

Given the significant growth of the economy and retail market, it is expected that the rental prices of retail premises in the PRC will continue to rise. According to the MarketView published by CB Richard Ellis, Inc., the prime retail market in Shenzhen remains robust in recent quarters. The market has experienced rental surges especially for those newly completed shopping centres. The average rental of ground floor in prime shopping malls has grown by 5.8%, 5.3%, 2.6% and 5.8% respectively during the four quarters from the third quarter of 2010 to the third quarter of 2011 and hit a record high of RMB29 per sq.m. per day. In the mean time, the vacancy rate has slipped down from 9.7% in first quarter of 2010 to 8.5% in the second quarter of 2011, and eventually reached 6.4% in third quarter of 2011. The rental yields of the similar retail properties located in the same local area of the Property, which are calculated based on the existing annual rental income divided by the current offer prices of the similar retail properties, range from 1.25% to 4.97%.

With the fast development of the PRC's economy and increase in internal demand, the retail sector is expected to continue to grow and the rental business of the retail premises in the PRC will be well positioned to benefit from the development and growth prospects of the PRC economy.

(iii) Provision of long-term office premise

As stated in the Letter from the Board in the Circular, level 4 of the Property will be used as the administration office of the Group, enabling the Group to secure long-term office premise and avoid unnecessary disruptions due to fluctuation in the rental market. As stated in the 2011 Interim Report, the Group intends to keep its base in Shenzhen and open up the nearby location, and maintain and expand its market share in the retail

LETTER FROM VINCO CAPITAL

industry. Therefore, we are of the view that the development of self-owned office is in line with the strategic direction of the Group and enables the Group to maintain its administrative functions in the core business area of the Group.

(iv) Broaden the source of revenue and diversify the business portfolio

With reference to the 2010 Annual Report and 2011 Interim Report, it is noted that the revenue of the Group mainly came from the sales of goods, which accounted for approximately 84.07% and approximately 81.90% of its total revenue for the corresponding periods. Rental income from sub-leasing of shop premises represented a relatively smaller portion in the Group's overall revenue portfolio and only accounted for approximately 4.58% and 5.07% of the Group's total revenue for the year ended 31 December 2010 and for the six months ended 30 June 2011.

As stated in the letter from the Board in the Circular, the Property is situated in a new commercial and residential area of Shenzhen Municipality and is surrounded by various communal commercial facilities, within proximity to the Shenzhen Metro and well-served by an extensive public transportation network. Given its prime location, it is considered that the potential return from rental income to be satisfactory. Therefore, upon the completion of the Acquisition, the Company will be able to lease out the shop premises and generate more rental income to achieve better diversification of the Group's business portfolio.

Having considered that (i) the entering into of the Acquisition Agreements is in line with the Group's business development strategy; (ii) the sound prospect of the economy and retail industry in the PRC; (iii) the Acquisition will provide a long-term office premises for the Group; and (iv) the Acquisition can broaden the source of revenue and diversify the business portfolio of the Group, we concur with the Directors' view that the Acquisition represents a business opportunity of the Group for its development in the retail industry, which is in the ordinary and usual course of business of the Company and will be beneficial to the Company and the Shareholders as a whole.

Principal terms of the Acquisition Agreement

On 9 January 2012 (after trading hours), JH Real Estate and BJH Department Stores entered into the Acquisition Agreement for an acquisition of the Property. The principal terms of the Acquisition Agreement are as follows:

(i) Asset to be acquired

Pursuant to the terms and conditions of the Acquisition Agreement, BJH Department Stores agreed to acquire the Property from JH Real Estate for an aggregate consideration of RMB270.0 million (equivalent to approximately HK\$332.1 million) based on the total gross floor area of approximately 8,080.46 sq.m. pursuant to the measurement and mapping report for the gross floor area of buildings in Shenzhen City (深圳市房屋建築面積測繪報告) prepared by Shenzhen Cadastral Surveying and Mapping Office (深圳市地籍測繪大隊) dated 12 November 2009.

LETTER FROM VINCO CAPITAL

As set out in the Letter from the Board, the Property which is located at levels 1 to 4 of the retail commercial podium, Jia Hua Ming Yuan (佳華名苑), Area N1, Central Zone, Baoan District, Shenzhen, Guangdong Province, the PRC, has a total gross floor area of approximately 7,760.30 sq.m. based on the construction works completion measurement report (建設工程竣工報告) dated 17 January 2012. Residential flats of 15 storeys with gross floor area of approximately 14,154.55 sq.m. are situated above the Property. The land where the Property is situated was acquired by the Vendor in 1996. Both of the historical cost invested in the Property and the book value of the Property recorded in the unaudited managements account by the Vendor as at 31 December 2011 were approximately RMB73.1 million. The Property is currently under development pending for completion of electrical and mechanical installations, fitting-outs and finishing works and is expected to be completed by 30 June 2012. The estimated costs for JH Real Estate to complete the development of the Property will amount to approximately RMB15.0 million. Based on the valuation report issued by B.I. Appraisals Limited (the "Independent Valuer"), the estimated capital value of the Property in existing state as at 30 November 2011 was amounted to approximately RMB251.0 million. The Property will be acquired on a completion basis and any capital cost for development will be solely borne by JH Real Estate. The Company intended that the level 4 of the Property of approximately 2,326.26 sq.m. will be used for administration office of the Group and levels 1-3 of the Property of approximately 5,434.04 sq.m. will be used for leasing purpose.

According to the legal opinion issued by an independent PRC lawyer of the Company (the "PRC Lawyer"), (1) JH Real Estate, which was incorporated in the PRC and legally exists up to the date of the legal opinion, has obtained the land use right of the Property under proper legal procedures, and has completed all necessary administrative and legal processes in accordance with the PRC law; (2) there is no other evidences brought to the attention of the PRC lawyer that there are liens, charges, encumbrances and other right restrictions issues or potential legal disputes in respect of the Property; (3) except for level 4 of the Property which is built in excess of area stated in the original planning approval, levels 1-3 of the Property have been granted pre-sale permit; (4) the area of the Property measured during pre-sale approval indicates that the built area is in excess of the area stated in the planning approval. If the measurement result of completion measurement shows that this situation persists, JH Real Estate will need to pay additional land premium for the excessive area and after such payment by JH Real Estate, there will not be any legal obstacle for the purchaser in obtaining the property ownership certificate; and (5) the sale and purchase of level 4 of the Property is considered as provisional sale and purchase and is in compliance with the relevant PRC law.

As set out in the Letter from the Board, the level 4 of the Property is considered as real estate's provisional sale and purchase in which the pre-sale permit is not required, while the levels 1 to 3 of the Property is considered as real estate's pre-sale. The completion of the Acquisition will be subject to, among other conditions precedents, the settlement of the additional land premium (if any) for the built area in excess of the area stated in the planning approval by JH Real Estate. As advised by the PRC Lawyer, the administrative penalty and the additional land

LETTER FROM VINCO CAPITAL

premium (if any) shall be payable by JH Real Estate. However, according to the construction works completion measurement report (建設工程竣工測量報告) dated 17 January 2012 issued by Shenzhen Municipal Planning and State-owned Land Resources Commission and as confirmed by the PRC Lawyer, the gross floor area of the Property has been adjusted to approximately 7,760.3 sq.m. from approximately 8,080.46 sq.m., which is within the limit as stipulated in the planning approval. Therefore, JH Real Estate will not be required to pay any additional land premium.

We note that the obtaining of property ownership certificate is not included as one of the conditions precedents in the Acquisition. However, as advised by the Directors, there is a protective clause in the Acquisition Agreement. Pursuant to the Acquisition Agreement and according to the legal opinion issued by the PRC Lawyer, JH Real Estate, on behalf of the Company, shall be responsible for obtaining the property ownership certificate within 360 days after the filing of the completion acceptance to Construction Bureau of Baoan District, Shenzhen City (深圳寶安區建設局). In case such condition has not been fulfilled, the one year interest-free promissory notes will not be converted into cash and the Company will have the rights to terminate the Acquisition Agreement. As mentioned on the above, the PRC Lawyer is of the view that there should be no legal impediment in obtaining the property ownership certificate of the Property upon the fulfillment of all conditions precedents in the Acquisition Agreement. Having considered the above, we are of the view that the interests of the Company will not be jeopardised notwithstanding the fact that it is not a condition precedent to obtain the property ownership certificate for the Completion of the Acquisition.

(ii) Consideration

Pursuant to the Acquisition Agreement, the initial Consideration of RMB270.0 million (equivalent to approximately HK\$332.1 million), which has been arrived at after arm's length negotiations between BJH Department Stores and JH Real Estate and was determined with reference to the valuation of the Property of RMB275.0 million (equivalent to approximately HK\$338.3 million) valued by the Independent Valuer, represents a discount of approximately 1.8% to the valuation of the Property. The Consideration will be settled according to the below schedule:

- (a) approximately RMB109.0 million (equivalent to approximately HK\$134.1 million), being 50% of the consideration for levels 1 to 3 of the Property, will be satisfied by cash payable within 3 days after the satisfaction of items (1) and (2) as set out in the section headed "Conditions Precedents" of the Circular;
- (b) approximately RMB87.2 million (equivalent to approximately HK\$107.3 million), being 40% of the consideration for levels 1 to 3 of the Property, will be satisfied by cash payable within 10 days from the date of obtaining the acknowledgement (備案回執) from the relevant ministry of land and resources of its receipt of the Acquisition Agreement;

LETTER FROM VINCO CAPITAL

- (c) approximately RMB73.8 million (equivalent to approximately HK\$90.8 million), being 10% of the consideration for levels 1 to 3 of the Property and 100% of the consideration for level 4 of the Property, will be satisfied by way of issuance of one year interest-free promissory notes by the Company to JH Real Estate within 3 days after the satisfaction of item (3) as set out in the section headed “Conditions Precedents” of the Circular; and
- (d) the one year interest-free promissory notes can only be converted into cash after JH Real Estate has obtained the property ownership certificate of the Property for BJH Department Stores.

As stated in the Letter from the Board in the Circular, the Group intends to finance the Acquisition by way of its internal resources and/or bank borrowing, if necessary.

Pursuant to the Acquisition Agreement, there is an adjustment mechanism on the Consideration in case the actual gross floor area is deviated from the gross floor area as stated in the Acquisition Agreement. Given that the gross floor area has been adjusted from approximately 8,080.46 sq.m. to approximately 7,760.30 sq.m., as advised by the PRC Lawyer, it is estimated that the Consideration will be adjusted downwards by approximately RMB21.2 million. Such adjustment will be deducted from the one year interest-free promissory notes. As advised by the PRC Lawyer, the adjustment mechanism is determined in accordance with the relevant PRC laws on sales of real estate (商品房銷售管理辦法). We also note that (i) the Company is being protected by downward adjustment to the Consideration if the actual gross floor area stated on the certificate is smaller than the gross floor area stated in the Acquisition Agreement, (ii) on the other hand, the Company is required to make upward adjustment to the Consideration should the actual gross floor area stated on the certificate of property ownership is larger than the gross floor area stated in the Acquisition Agreement by 3% or less, and (iii) the adjustment mechanism has capped the maximum upward adjustment to the Consideration whereby no adjustment is required if the actual gross floor area stated on the certificate of property ownership is larger than the gross floor area stated in the Acquisition Agreement by over 3%. Given that the adjustment mechanism is stipulated by the relevant PRC laws and it has provided enough protection to the Company against any deviations on the gross floor area stated in the Acquisition Agreement, we are of the view that the adjustment mechanism is fair and reasonable and in the interest of the Company and Independent Shareholders as a whole.

LETTER FROM VINCO CAPITAL

(iii) *The Valuation*

According to the valuation report in relation to the Property (the “Valuation Report”) issued by the Independent Valuer (*Note*) as disclosed in Appendix III to the Circular, the fair market value of the Property as at 30 November 2011 was RMB275,000,000.

As stated above in our letter, both of the historical cost invested in the Property and the book value of the Property recorded in the unaudited managements account by the Vendor as at 31 December 2011 were approximately RMB73.1 million. As advised by the Directors, the Property was acquired in 1996, it is not unusual to achieve appreciate of value throughout the years. The then property market condition could not be directly compared to the current property market condition in the PRC. As such, we concur with the view of the Directors that it would be more appropriate to make reference to the fair value of the Property in determining the consideration of the Property.

In assessing the fairness and reasonableness of the Consideration, we have reviewed the Valuation Report and discussed with the Independent Valuer regarding, among other things, the basis and assumptions made and the methodology adopted by the Independent Valuer in conducting the valuation for the Property. We were advised by Independent Valuer, in which we are satisfied with their qualifications and experience, that there are three generally accepted property valuation approaches, namely the market approach, the cost approach and the income approach. The Independent Valuer has adopted the Direct Comparison Method under the market approach, for the valuation of the Property. Under this approach, the Property was valued with the assumption that it would have been completed as at the Date of Valuation and that the Property is capable of being sold with the benefit of immediate vacant possession, by making reference to comparable sales evidence or offerings as available in the relevant market.

In determining the valuation of the Property, we are advised by the Independent Valuer that the market approach is the most appropriate approach because market comparables are readily available and the Property will be a newly completed, vacant property available for sale.

Note: Mr. William C.K. Sham, is a qualified valuer on the approved List of Property Valuers for Undertaking Valuation for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers published by the Hong Kong Institute of Surveyors. Mr. Sham has over 30 years’ experience in the valuation of properties in Hong Kong and has over 15 years’ experience in the valuation of properties in the People’s Republic of China and the Asia Pacific regions. Mr. Sham is a Real Estate Appraiser registered under the Construction Bureau of The People’s Republic of China and a member of China Institute of Real Estate Appraisers.

LETTER FROM VINCO CAPITAL

Regarding the cost approach, the Independent Valuer considered it is not appropriate to be used in the valuation as in the cost approach, the value of a property is equal to the value of the land for its existing use plus the estimated cost of replacement of the building, or the cost of rebuilding a structure for the same functional use. It generally furnishes the most reliable indication of value for a property in the absence of a known market based on comparable sales and is often used for valuing specialized properties which rarely change hands and for which there are few or no comparables. Therefore, the adoption of cost approach in this case may underestimate the current market value of the Property.

Regarding the income approach, Independent Valuer also considered it is not appropriate to be used in the valuation because the Property is not an operating entity in which its revenue is highly depends on the performance of the management and subject to higher fluctuation. Also, no reference can be made for historic rent of the Property since it is a newly completed property.

Given the fact that the value of a property generally could be reflected by making reference to the consideration of comparable properties sold in proximal area, and the Property will be acquired by the Company on a completion basis, we concur with the view of the Independent Valuer that using market approach represents a fair and reasonable assessment on the market value of the Property. We have also discussed with the Directors, no material has come to our attention that would lead us to believe that the Valuation Report on the Property prepared by the Independent Valuer is not true or omits a material fact. In light of the above, we are of the view that the Valuation Report has been reasonably prepared and are normal in nature without any unusual assumption and the basis of the Valuation Report is fair and reasonable. We are of the opinion that the Valuation Report may provide a valid benchmark for the Directors and the Independent Shareholders to assess the fairness and reasonableness of the Consideration taken into the consideration that (i) the valuation standards that have been adopted by the Independent Valuer, (ii) the basis and assumptions in arriving the valuation using the Direct Comparison Method, (iii) the work profile of the Independent Valuer in which we are satisfied with their qualifications and experience, and (iv) the Valuation was prepared in accordance with generally accepted valuation procedures and in compliance with requirements of Chapter 5 and Practice Note 12 of the Listing Rules and the requirements contained in the HKIS Valuation Standard on Properties.

We note that there is a gap period of about seven months between the Date of Valuation and the expected date of completion for the construction of the Property. As advised by the Independent Valuer, the controls and policies recently released by the government of the PRC have inevitably caused unfavorable influence on the property market of the PRC. However, such measures are mainly aimed at cooling down the overheated residential property market while the impacts on retail and commercial properties market are insignificant. It is observed that property investors are now turning their focus to retail and commercial property market. Moreover, it is observed that the vacancy rate in Shenzhen's prime retail property market has been decreasing and the rental has been increasing in recent quarters. The rental of a property is considered to be one of the most important factors affecting the value of a property. Having considered these market factors, the

LETTER FROM VINCO CAPITAL

Independent Valuer does not expect any significant downturn in the retail property market in the gap period. In light of the above, we concur with the view of the Independent Valuer that the value of the Property has been fairly and reasonably reflected in the valuation and the Consideration of RMB270,000,000 which represents a discount of approximately 1.8% to the market value of the Property is therefore fair and reasonable.

Having considered all of the above, we are of the view that the terms of the Acquisition Agreement and the Consideration are on normal commercial terms, fair and reasonable to the Company and the Independent Shareholders as a whole.

FINANCIAL IMPACTS ON THE ACQUISITION

Earnings

Upon completion of the Acquisition, levels 1 to 3 of the Property will be leased out by the Group in return for rental income. We consider that the Acquisition would generate recurring rental revenue to the Group and have a positive impact on future earnings of the Group once the Property is leased out. On the other hand, rental expenses paid by the Group would decrease as the Group will be using their own property as office while the depreciation of the Group will increase as the Group will recognize the depreciation of the Property over the useful life of the Property.

Net assets value

As extracted from the unaudited proforma financial information of the Group set forth in the appendix II to the Circular, upon completion of the Acquisition, the total assets of the Group are expected to be increased by approximately RMB69 million (equivalent to approximately HK\$84.8 million) resulting from the increase of approximately RMB51.1 million (equivalent to approximately HK\$62.8 million) in the property, plant and equipment and the prepaid land lease and the increase of approximately RMB241.1 million (equivalent to approximately HK\$263.3 million) in investment property netting of the decrease in cash and bank balances of RMB196.2 million (equivalent to approximately HK\$241.3 million), being the first two installments of the Consideration. Level 4 of the Property of approximately 2,278.3 sq.m. which will be used as the Company's office, will be recognized as property, plant and equipment and prepaid land lease of the Group amounting to approximately RMB29.6 million (equivalent to approximately HK\$36.4 million) and approximately RMB21.5 million (equivalent to approximately HK\$26.4 million) respectively while levels 1 to 3 of the Property of approximately 5,802.2 sq.m., which will be used for leasing purpose, will be recognized as investment properties of the Group amounting to approximately RMB214.1 million (equivalent to approximately HK\$263.3 million).

The net assets value of the Group upon completion of the Acquisition is expected to remain unchanged as the increase in the property, plant and equipment, the prepaid land lease and investment properties will be offset by the decrease in cash and bank balances and increase in liabilities of the Group due to the promissory note. Upon conversion of promissory notes in cash and assuming other factors remain constant, subject to the review of annual audit, the total assets value of the Group is expected to remain unchanged.

LETTER FROM VINCO CAPITAL

Cash Position

As at 30 June 2011, the unaudited cash and bank balances of the Group amounted to approximately RMB310,817,000. Pursuant to the Acquisition Agreement, there will be three stages of payments totalling to RMB270,000,000 to satisfy the Consideration. The first two payments will be RMB196.2 million in aggregate by cash and the third payment of RMB73.8 million (subject to Consideration adjustment mechanism) by one year interest-free promissory notes which will be issued within 3 days after the satisfaction of item (3) as set out in the section headed “Conditions Precedents” of the Circular. The one year interest-free promissory notes will only be converted into cash in one year from the date of issuance and after JH Real Estate has obtained the property ownership certificate of the Property for BJH Department Stores. Taking into account of the payment terms of the Consideration, the cash position of the Group as at 30 June 2011 and the operating cash flows that will be generated from the Group’s business, we concur with the Directors’ view that the Group has sufficient financial resources to satisfy the payment of the Consideration.

CONCLUSION

Having considered that (i) the rental business of the retail premises in Shenzhen, PRC is expected to grow further; (ii) the Acquisition is in line with the Group’s strategic direction and provides a long-term office premise for the Group’s administrative functions; (iii) the Acquisition will broaden the source of revenue and diversify the business profile of the Group; (iv) the Consideration is fair and reasonable to the Company and the Independent Shareholders as a whole and (v) the Acquisition would likely generate positive financial impact to the Group, we are of the view that the Acquisition Agreement and the transactions contemplated thereunder are (i) entered into under ordinary and usual course of business of the Group; (ii) on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (iii) in the interests of the Company and Independent Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders, and the Independent Shareholders, to vote in favour of the resolutions to be proposed at the EGM approving the Acquisition Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Grand Vinco Capital Limited
Alister Chung
Managing Director

1. SUMMARY OF FINANCIAL SUMMARY OF THE GROUP

The Group's financial statements for each of the three years ended 31 December 2010 were unqualified.

The following is a summary of the results and liabilities of the Group for (i) each of the six months period ended 30 June 2011 and 30 June 2010 as extracted from the interim report of the Company for the year 2011; and (ii) each of the three years ended 31 December 2010 as extracted from the annual report of the Company for the year ended 31 December 2010.

CONSOLIDATED INCOME STATEMENT

	For the six months period ended 30 June		For the year ended 31 December		
	2011 RMB'000 (Unaudited)	2010 RMB'000 (Unaudited)	2010 RMB'000 (Audited)	2009 RMB'000 (Audited)	2008 RMB'000 (Audited)
Revenue	402,406	416,939	849,265	819,381	935,067
Cost of inventories sold	<u>(278,365)</u>	<u>(305,843)</u>	<u>(605,232)</u>	<u>(576,418)</u>	<u>(727,278)</u>
	124,041	111,096	244,033	242,963	207,789
Other operating income	63,769	39,373	71,202	62,761	100,973
Distribution costs	(120,426)	(125,661)	(261,461)	(254,225)	(236,710)
Administrative expenses	(18,033)	(18,529)	(32,345)	(27,496)	(36,970)
Other operating expenses	<u>–</u>	<u>–</u>	<u>(4,400)</u>	<u>(40,918)</u>	<u>(2,441)</u>
Profit/(loss) before income tax	49,351	6,279	17,029	(16,915)	32,641
Income tax expense	<u>(4,910)</u>	<u>(2,977)</u>	<u>(5,535)</u>	<u>(4,224)</u>	<u>(8,290)</u>
Profit/(loss) for the period/year	<u>44,441</u>	<u>3,302</u>	<u>11,494</u>	<u>(21,139)</u>	<u>24,351</u>
Total comprehensive income for the period/year	<u>44,441</u>	<u>3,302</u>	<u>11,494</u>	<u>(21,139)</u>	<u>22,644</u>
Earnings/(loss) per share for profit/(loss) attributable to the owners of the Company during the year					
– Basic (RMB cents)	<u>4.28</u>	<u>0.32</u>	<u>1.11</u>	<u>(2.04)</u>	<u>2.35</u>
– Diluted (RMB cents)	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

2. FINANCIAL INFORMATION OF THE GROUP

The published audited consolidated financial statements of the Group for the three years ended 31 December 2010, 2009 and 2008 are disclosed in the Company's annual reports for the three financial years ended 31 December 2010 and 2009 and 2008 respectively and the published unaudited consolidated financial statements of the Group for the six months ended 30 June 2011 are disclosed in the Company's interim report for the year 2011, which can be accessed on the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (www.szbjh.com).

3. MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the financial or trading position of the Group since 31 December 2010, being the date to which the latest audited consolidated financial statements of the Group were made up.

4. WORKING CAPITAL

The Directors are of opinion that, in the absence of unforeseeable circumstances, after taking into account the Group's business prospects and internal resources, the Group has sufficient working capital for its present requirements for the next twelve months from the date of this circular.

5. INDEBTEDNESS

As at the close of business on 31 December 2011, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, save as intra-group liabilities, normal trade payables, coupon liabilities and other payables, the Group had no other outstanding mortgages, charges, debentures or loan capital, bank overdrafts or loans, other similar indebtedness, liabilities under acceptances or acceptable credits, obligation under finance lease, any guarantees or material contingent liabilities.

The Directors have confirmed that the Group has not incurred any material indebtedness, charges and contingent liabilities of the Group since 31 December 2011.

6. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group is principally engaged in operation and management of retail stores and wholesale of consumables. The Group will continue its principal business activities and will further develop other business when the opportunities arise.

The year 2011 marks the first year of China's 12th Five-Year Plan, pursuant to which the focus of the state economy will be shift from export and investment to internal consumption, and from growth of key cities and coastal region to rural and inner part of the country. The Group will directly benefit from the policy as we are opening up the retail industry in the second to third tier cities. The property market will grow healthy together with the continuous growth in the local consumption industry. The target property is located at the key area of the city and it is expected that the property will provide another source of stable and considerable income to the Group.

The Directors believe that the Acquisition will bring another major source of other income and profit to the Group. With the continuous increase in property demand and entry of the new generation property users, the Directors are optimistic to the investment the PRC property market. The Directors believe that the price of property will continue to grow in the long run.

The financial position of the Group remains solid and healthy. The Group maintains sufficient working capital and the gearing ratio of the Group remains at a low level.

The Directors consider the Acquisition to be a wise investment. The Directors have confidence in the PRC commercial property market and believe that price of commercial properties in prime commercial location will continue to go up in the long term. In addition to substantial rental income in the future, the Directors also believe that the Acquisition may produce potential capital gain in the future through appreciation in the value of the Property.

The following is the unaudited pro forma consolidated statement of the assets and liabilities of the Group (the “Unaudited Pro Forma Financial Information”) which has been prepared in accordance with paragraph 4.29 of The Listing Rules for the purpose of illustrating the effect on the financial position of the Enlarged Group as if the acquisition of Level 1 to 4 of Jia Hua Ming Yuan (the “Acquisition”), which is located at Area N1, Central Zone, Baoan District, Shenzhen, Guangdong Province, the People’s Republic of China (the “Property”) had been completed on 30 June 2011.

As the Unaudited Pro Forma Financial Information is prepared for illustrative purposes only, and because of its hypothetical nature, it may not give a true picture of the financial position and results of the Group following the completion of the Acquisition.

The Unaudited Pro Forma Financial Information is based on the unaudited consolidated net assets of the Group as at 30 June 2011 extracted from the published unaudited interim financial report of the Group for the six months ended 30 June 2011, after giving effect to the pro forma adjustments relating to the Acquisition that are (i) directly attributable to the Acquisition and not relating to future events or decisions; and (ii) factually supportable.

The Unaudited Pro Forma Financial Information is based on a number of assumptions, estimates and uncertainties. Accordingly, the Unaudited Pro Forma Financial Information does not purport to describe the actual financial position of the Group that would have been attained had the Acquisition been completed on 30 June 2011. The Unaudited Pro Forma Financial Information does not purport to predict the future financial positions or results of the Group.

A. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF THE ASSETS
AND LIABILITIES

	Pro forma adjustments	
	The Group as at 30 June 2011 RMB'000	Pro forma Group as at 30 June 2011 RMB'000
	Note 1 RMB'000	
ASSETS AND LIABILITIES		
Non-current assets		
Property, plant and equipment	115,184	144,737
Prepaid land lease	–	21,515
Investment properties	–	214,104
Deposits paid and prepayments	64,148	64,148
	<u>179,332</u>	<u>444,504</u>
Current assets		
Inventories and consumables	104,008	104,008
Trade receivables	780	780
Deposit paid, prepayments and other receivables	51,150	51,150
Cash and Bank balances	310,817	114,617
	<u>466,755</u>	<u>270,555</u>
Current liabilities		
Trade payables	(146,243)	(146,243)
Promissory note	–	(68,972)
Coupon liabilities, deposits received, other payables and accruals	(67,721)	(67,721)
Amount due to a director	(738)	(738)
Provision for tax	(3,617)	(3,617)
	<u>(218,319)</u>	<u>(287,291)</u>
Net current assets/(liabilities)	<u>248,436</u>	<u>(16,736)</u>
Total assets less current liabilities		
	<u>427,768</u>	<u>427,768</u>
Net assets	<u>427,768</u>	<u>427,768</u>

Notes:

- (1) The consideration of the acquisition of the Property is RMB270,000,000 which has been arrived at after arm's length negotiations. The consideration will be settled by cash of RMB196,200,000 and a one year interest-free promissory note of face value of RMB73,800,000. The fair value of the promissory note is approximately RMB68,972,000, being its present value of estimated future cash flows discounted using an effective interest rate of 7% per annum. The adjustment represents the cost of acquisition of the Property as if it was acquired on 30 June 2011, which is the amount of cash paid and fair value of the promissory note issued, with the related property ownership certificate being effectively obtained on that date. The first to third floor of the Property will be held by the Group for investment purpose and thus is classified as investment properties at RMB214,104,000 and will subsequently be measured at fair value. The fourth floor of the Property will be held by the Group for own use and thus is classified as property, plant and equipment at RMB29,553,000 (for the building cost portion) and prepaid land lease at RMB21,515,000 (for the land cost portion) and will subsequently be carried at cost less accumulated depreciation and amortisation respectively, and any accumulated impairment losses.



Tel: +852 2218 8288
Fax: +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

電話：+852 2218 8288
傳真：+852 2815 2239
www.bdo.com.hk

香港干諾道中111號
永安中心25樓

B. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

TO THE DIRECTORS OF JIAHUA STORES HOLDINGS LIMITED

We report on the unaudited pro forma financial information of Jiahua Stores Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group"), which has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the proposed acquisition of Level 1 to 4 of Jia Hua Ming Yuan, which is located at Area N1, Central Zone, Baoan District, Shenzhen, Guangdong Province, the People's Republic of China might have affected the financial information of the Group presented, for inclusion in Appendix II to the Company's circular dated 24 February 2012 (the "Circular"). The basis of preparation of the unaudited pro forma financial information of the Group is set out in the section headed "Unaudited Pro Forma Financial Information of the Group" in Appendix II to the Circular.

Respective Responsibilities of Directors of the Company and Reporting Accountants

It is the sole responsibility of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The unaudited pro forma financial information of the Group is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 30 June 2011 or any future date.

Opinion

In our opinion:

- (a) the unaudited pro forma financial information of the Group has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully

BDO Limited
Certified Public Accountants

Hong Kong, 24 February 2012

**B.I. Appraisals Limited**
保柏國際評估有限公司

Registered Professional Surveyors, Valuers & Property Consultants

Unit 1301, 13th Floor, Tung Wai Commercial Building,

109-111 Gloucester Road, Wan Chai, Hong Kong

Tel: (852) 21277762 Fax: (852) 21379876

Email: info@biappraisals.com.hk

Website: www.bigroupchina.com

24 February 2012

The Directors
Jiahua Stores Holdings Limited
Suite 1216, 12th Floor
Ocean Centre, Harbour City
5 Canton Road
Tsim Sha Tsui
Kowloon

Dear Sirs,

Re: Levels 1 to 4 of the Podium, Jia Hua Ming Yuan (佳華名苑), Area N1, Central Zone, Baoan District, Shenzhen City, Guangdong Province, The People's Republic of China ("PRC")

In accordance with the instructions from Jiahua Stores Holdings Limited (hereinafter referred to as the "Company") for us to value the captioned property (hereinafter referred to as the "Property"), we confirm that we have made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of value of the Property on completion basis as at 30 November 2011 (hereinafter referred to as the "Date of Valuation").

It is our understanding that this valuation document is to be used for reference purpose in relation to the possible acquisition of the Property. We further understand that our valuation and/or valuation report may subsequently be included in an announcement and/or circular to be issued by the Company regarding the proposed acquisition.

This letter, forming part of our valuation report, identifies the property being valued, explains the basis and methodology of our valuation, and lists out the assumptions and the title investigation we have made in the course of our valuation, as well as the limiting conditions.

BASIS OF VALUATION

Our valuation of the Property is our opinion of its market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

We are instructed to prepare our valuation of the Property assuming that it would have been completed as at the Date of Valuation. Furthermore, we are also required to provide our estimate of the capital value of the Property in existing state as at the Date of Valuation for reference purpose.

Our valuation has been carried out in accordance with The HKIS Valuation Standards on Properties (1st Edition 2005) issued by the Hong Kong Institute of Surveyors and under generally accepted valuation procedures and practices, which are in compliance with the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

VALUATION ASSUMPTIONS

Our valuation is made on the assumption that the Property would be sold in the open market as if completed as at the Date of Valuation and without the benefit of deferred term contracts, lease backs, joint ventures, management agreements, or any similar arrangements, which could serve to affect its value. In addition, no account has been taken of any option or right of pre-emption concerning or effecting a sale of the Property and no forced sale situation in any manner is assumed in valuation.

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

VALUATION METHODOLOGY

We have focused our valuation of the Property, which is to be held partly for owner occupation and partly for investment by the Company upon acquisition, by using the Direct Comparison Method, assuming that the Property would have been completed as at the Date of Valuation and that the Property is capable of being sold with the benefit of immediate vacant possession, by making reference to comparable sales evidence or offerings as available in the relevant market.

In assessing the capital value of the Property in existing state as at the Date of Valuation, we have adopted the Direct Comparison Method as mentioned above and have taken into consideration the outstanding construction cost that is to expend to complete the Property.

TITLE INVESTIGATION

We have been provided by the Company with copies of documents relating to the title to the Property. We have not examined the original documents to verify ownership and to ascertain the existence of any amendments that may not appear on the copies handed to us. All documents and leases have been used for reference only.

In the course of our valuation, we have relied on the advice given by the Company and the legal opinion dated 30 November 2011 prepared by 廣東萬乘律師事務所 (Guangdong Wansheng Law Firm), the Company's legal advisor on PRC law (hereinafter referred to as the "PRC Legal Advisor"), regarding the title to and the interest in the Property. We assume no responsibility for matters legal in nature nor do we render any opinion as to the title to the Property that is assumed to be good and marketable.

LIMITING CONDITIONS

We have inspected the exterior, and where possible, the interior of the Property. However, no structural survey has been made nor have any tests been carried out on any of the building services provided in the Property. We are, therefore, not able to report that the Property is free from rot, infestation or any other structural defects. Yet, in the course of our inspection, we did not note any serious defects.

We have not conducted any on-site measurement to verify the correctness of the floor areas of the Property but have assumed that the areas shown on the documents furnished to us are correct. Dimensions, measurements and areas included in the valuation certificate attached are based on information contained in the documents provided to us by the Company and are therefore approximations only.

Moreover, we have not carried out any site investigations to determine or otherwise the suitability of the ground conditions, the presence or otherwise of contamination and the provision of or otherwise suitability for services etc. for any future development. Our valuation is prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred in the event of any development.

All documents and descriptive information relating to the Property were provided by the Company. We confirm that we have not relied on any information provided by a connected person and have relied to a considerable extent on the information provided and the advice given to us by the Company on such matters as planning approvals, statutory notices, easements, tenure, particulars of occupancy, site and floor areas and all other relevant matters in the identification of the Property. We have not seen original planning consents and have assumed that the Property has been erected, occupied and used in accordance with such consents.

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

Our valuation reflects facts and conditions existing at the Date of Valuation. Subsequent events have not been considered and we are not required to update our report for such events and conditions.

This report and each part of it is prepared and intended for the exclusive use of the Company for the purpose hereinbefore stated. In accepting this report, the Company expressly agrees not to use or rely upon this report or any part of it for any other purpose without obtaining our prior written consent.

Similarly, neither the whole nor any part of this report or any reference thereto may be included in any document, circular or statement nor published in any way without our written approval of the form or context in which it may appear.

CURRENCY

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

REMARKS

We hereby confirm that we have neither present nor prospective interests in the Company, the Property, its owner or the value reported herein.

Our Valuation Certificate is hereby enclosed for your attention.

Yours faithfully,
For and on behalf of
B.I. APPRAISALS LIMITED
William C. K. Sham *MRICS, MHKIS, MCIREA*
Registered Professional Surveyor (G.P.)
China Real Estate Appraiser
Executive Director

Note: Mr. William C. K. Sham is a qualified valuer on the approved List of Property Valuers for Undertaking Valuation for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers published by the Hong Kong Institute of Surveyors. Mr. Sham has over 30 years' experience in the valuation of properties in Hong Kong and has over 15 years' experience in the valuation of properties in the People's Republic of China and the Asia Pacific regions.

**Market value on
completion basis
as at 30 November
2011**

Notes:

- (1) Pursuant to a Certificate of State-owned Land Use (Shen Fang Di Zi No. 5000175577 (深房地字第5000175577號) dated 24 November 2005 issued by Shenzhen Municipal State-owned Land Resources and Housing Administration Bureau, Baoan Division (深圳市國土資源和房產管理局寶安分局), the land use rights of the subject parcel of land with a site area of 6,022.56 sq.m. have been granted to Shenzhen Jiahua Real Estate Development Company Limited (深圳市佳華房地產開發有限公司) for a term of 70 years from 28 June 1996 to 27 June 2066 for mixed commercial and residential uses.
- (2) Pursuant to the Planning Permit for Construction Land Use No. Shen Gui Xu Zhi 05-2005-0033 (建設用地規劃許可證，編號：深規許字05-2005-0033號) dated 5 February 2005 issued by the Shenzhen Municipal Planning Bureau Baoan Division (深圳市規劃局寶安分局), Shenzhen Jiahua Real Estate Development Company Limited obtained the planning approval for the subject development.

- (3) Pursuant to the Planning Permit for Construction Works No. Shen Gui Jian Xu Zhi BA-2009-0050 (建設工程規劃許可證，編號：深規建許字BA-2009-0050號) dated 23 June 2009 issued by the Shenzhen Municipal Planning Bureau Baoan Division, Shenzhen Jiahua Real Estate Development Company Limited obtained the planning approval for the subject development. Major planning conditions stated in the said permit are summarized below:
- | | | | |
|----|-----------------------------|---|--|
| a) | Name of Development Project | : | Jia Hua Ming Yuan |
| b) | Land Location | : | Baoan District City Centre |
| c) | Lot Number | : | A003-0307 |
| d) | No. of Storey | : | 19 |
| e) | Gross Floor Area | : | 23,686.33 sq.m. (included in plot ratio calculation)
plus 7,837.23 sq.m. (not included in plot ratio calculation) |
| f) | Usage | : | Commercial/residential |
- (4) Surveying and Mapping Report for the Gross Floor Area of Buildings in Shenzhen City (深圳市房屋建築面積測繪報告) for the Property dated 12 November 2009 issued ShenZhen Cadastral Surveying & Mapping Office (深圳市地籍測繪大隊), the gross floor area of the Property is 8,080.46 sq.m., the breakdown of which is as follows:
- | | | | |
|----|---------|---|----------------|
| a) | Level 1 | : | 1,635.63 sq.m. |
| b) | Level 2 | : | 2,204.68 sq.m. |
| c) | Level 3 | : | 1,961.90 sq.m. |
| d) | Level 4 | : | 2,278.25 sq.m. |
- (5) Pursuant to the Commencement Permit for Construction Works (建築工程施工許可證) No. XK20100001 dated 12 January 2010 issued by Construction Bureau of Baoan District, Shenzhen City (深圳市寶安區建設局), the construction works for the subject development was approved to commence.
- (6) It was stated in the abovementioned Commencement Permit for Construction Works that construction should be completed on 20 March 2011. However, we have been advised that due to mainly the government's changing of the land use planning and the need to modify the building plans, the construction works for the subject development have been delayed.
- (7) Pursuant to the Presale Permit Shen Fang Xu Zi (2011) Bao An No. 022 (深房許字(2011)寶安022號) dated 29 November 2011 issued by Shenzhen Municipal Planning and State-owned Land Resources Commission Baoan Administration Bureau (深圳市規劃和國土資源委員會寶安管理局), a total gross floor area of 19,956.26 sq.m., comprising residential floor area of 14,154.55 sq.m. and commercial floor area of 5,802.21 sq.m., of the subject development is approved for pre-sale. It is stated that the premises on Level 4 is not included in the pre-sale.
- (8) Pursuant to the Construction Works Completion Measurement Report dated 17 January 2012 issued by Shenzhen Municipal Planning and State-owned Land Resources Commission, the total gross floor area of the Property is 7,760.30 sq.m. and the breakdown for individual levels of the Property are as below:
- | | | | |
|----|---------|---|----------------|
| a) | Level 1 | : | 1,671.84 sq.m. |
| b) | Level 2 | : | 1,812.13 sq.m. |
| c) | Level 3 | : | 1,950.07 sq.m. |
| d) | Level 4 | : | 2,326.26 sq.m. |
- (9) We have been advised that as at Date of Valuation the outstanding construction cost to complete the development was approximately RMB15,000,000. The capital value of the Property in existing state as at the Date of Valuation was reasonably estimated at RMB251,000,000.
- (10) The opinion of the PRC Legal Advisor is summarized as follows:
- | | |
|----|---|
| a) | Shenzhen Jiahua Real Estate Development Company Limited was established on 20 October 1993 in accordance with the PRC law and holds a "Real Estate Development Corporation Qualification Certificate" (《房地產開發企業資質證書》) No.: Zhen Fang Kai Zi (2011) No. 207 (編號：深房開字(2011) 207號) issued by Urban Planning Land and Resources Commission of Shenzhen Municipality (深圳市規劃和國土資源委員會). It is qualified under the PRC legal requirements to engage in real estate development. |
|----|---|

- b) Shenzhen Jiahua Real Estate Development Company Limited has obtained the Land Use Right of Lot Nos. A003-0307 at Area N1, Central Zone, Baoan District, Shenzhen City, Guangdong Province, the PRC under proper legal procedures, and has completed all necessary administrative and legal processes in accordance with the PRC laws. No liens, charges, encumbrances, other right restrictions issues or potential disputes have been noted.
- c) The development and construction of the subject project have complied with all necessary administrative and legal processes in accordance with the PRC laws. However, as the construction of the subject development has not been completed within the time limit as stated in the Commencement Permit for Construction Works, Shenzhen Jiahua Real Estate Development Company Limited may be subject to the administrative penalty imposed by the government. Yet, this does not affect Shenzhen Jiahua Real Estate Development Company Limited in obtaining the Pre-sale Permit and handling other real estate sales administrative legal procedures. No other right restriction issues or potential disputes have been noted.
- d) Shenzhen Jiahua Real Estate Development Company Limited is in possession of the ownership of the Property. Upon completing the review for pre-sale approval by the relevant government departments and obtaining the Pre-sale Permit or having passed the completion inspection, Shenzhen Jiahua Real Estate Development Company Limited shall possess all the requirements under the PRC laws to transfer the Property. The transfer contract of the Property is valid and legally binding to both vendor and purchaser. The area measured during pre-sale approval indicates that the built area is in excess of the area stated in the planning approval. If the measurement result of completion measurement shows that this situation persists, Shenzhen Jiahua Real Estate Development Company Limited will need to pay additional land premium for the excessive area. There will not be any legal obstacle for the purchaser in obtaining the property ownership certificate.
- e) The Property is permitted for commercial use.
- (11) We have relied on the information provided by the Company and the opinion of the PRC Legal Advisor and prepared our valuation based on the following assumptions:
- a) The Property has been completed as at the Date of Valuation.
- b) Floor area measurements and calculations stated in the report issued by Shenzhen Cadastral Surveying & Mapping Office on 12 November 2009 (see Note 4 above) accurately reflect the gross floor area of the Property as at the Date of Valuation.
- c) Relevant permits and certificates from government authorities have been obtained for the Property.
- d) The land premium has been settled in full.
- e) Shenzhen Jiahua Real Estate Development Company Limited is entitled to transfer freely the Property to other third party purchaser.
- (12) The status of the title and grant of major approvals and licences in accordance with the information provided by the Company and the aforesaid legal opinion are as follows:
- | | |
|---|-----|
| Certificate of State-owned Land Use | Yes |
| Certificate of Real Estate Ownership | No |
| Planning Permit for Construction Land Use | Yes |
| Planning Permit for Construction Works | Yes |
| Commencement Permit for Construction Works | Yes |
| Pre-sale Permit (excluding Level 4 of the Property) | Yes |

1. RESPONSIBILITY STATEMENT

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

2. INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

- a. As at the Latest Practicable Date, the interests and the short positions (within the meaning of Part XV of the SFO) of the directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such Director and chief executives was taken or deemed to have taken under such provisions of the SFO), or were required, pursuant to section 352 of the SFO, to be entered into the register maintained by the Company referred to therein, or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Interests in the Shares and underlying Shares

Name	Capacity	Number of Shares and underlying Shares held or deemed to be interested			Approximate percentage of the total issued share capital of the Company as at the Latest Practicable Date
		Personal Interest	Family Interest	Total Interest	
Mr. Zhuang	Beneficial Owner	617,757,500	67,500,000 (Note 1)	687,257,500	66.24%
	Beneficial Owner	2,000,000 (Note 2)	-		
Mr. Zhuang Pei Zhong	Beneficial Owner	1,000,000 (Note 2)	-	1,000,000	0.10%
Mr. Gu Wei Ming	Beneficial Owner	940,000 (Note 2)	-	940,000	0.09%
Mr. Zhuang Xiao Xiong	Beneficial Owner	75,000,000 2,000,000 (Note 2)	-	77,000,000	7.42%
Mr. Chin Kam Cheung	Beneficial Owner	36,666 (Note 2)	-	36,666	0.00%

Name	Capacity	Number of Shares and underlying Shares held or deemed to be interested			Approximate percentage of the total issued share capital of the Company as at the Latest Practicable Date
		Personal Interest	Family Interest	Total Interest	
Dr. Guo Zheng Lin	Beneficial Owner	36,666 (Note 2)	-	36,666	0.00%
Mr. Ai Ji	Beneficial Owner	36,666 (Note 2)	-	36,666	0.00%

Notes:

- (1) By virtue of 67,500,000 Shares being held by Mrs. Zhuang, the spouse of Mr. Zhuang, Mr. Zhuang is deemed to be interested in the said Shares held by Mrs. Zhuang under the SFO.
- (2) These underlying Shares represent the new Shares to be issued upon exercise in full of options granted to these Directors pursuant to the share option schemes adopted by the Company.

All the interests disclosed above represent long positions in the Shares.

As at the Latest Practicable Date, saved as disclosed above, none of the directors, chief executive of the Company, had any interests or short positions in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such Director and chief executives was taken or deemed to have under such provisions of the SFO), or were required pursuant to section 352 of the SFO, to be entered into the register maintained by the Company referred to therein, or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listing Companies.

- b. As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which have since 31 December 2010 (being the date to which the latest published audited consolidated accounts of the Group were made up) been acquired or disposed of by or leased to or by the Company or any of its subsidiaries, or are proposed to be acquired or disposed of by or leased to or by the Company or any of its subsidiaries.
- c. As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries, which was subsisting and was significant in relation to the business of the Group.

- d. As at the Latest Practicable Date, none of the Directors has any service contracts with the Company or any of its subsidiaries which does not expire or is not determinable by the employer within one year without payment of compensation (other than statutory compensation).
- e. As at the Latest Practicable Date, the Directors were not aware that any of the Directors or their respective associates has interest in any business, apart from the Group's business, which competes or is likely to compete, either directly or indirectly, with the business of the Group which falls to be disclosed under the Listing Rules.

3. QUALIFICATION AND CONSENT OF EXPERT

Vinco Capital, the Independent Financial Adviser, is a corporation licensed to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO. B.I. Appraisals Limited, the Valuer, is the independent property valuer, Guangdong Wansheng Law Firm is the PRC legal adviser. BDO Limited, is the certified public accountants.

Each of Vinco Capital, B.I. Appraisals Limited, Guangdong Wansheng Law Firm and BDO Limited have given and has not withdrawn its written consent to the issue of this circular with copies of its letter and the references to its name included herein the form and context in which they respectively appear.

As at the Latest Practicable Date, each of Vinco Capital, B.I. Appraisals Limited, Guangdong Wansheng Law Firm and BDO Limited was not interested in any Share or share in any member of the Group, nor did it have any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any Share or share in any member of the Group. As at the Latest Practicable Date, each of Vinco Capital, B.I. Appraisals Limited and Guangdong Wansheng Law Firm did not have any direct or indirect interests in any assets which have since 31 December 2010 (being the date to which the latest published audited consolidated accounts of the Group were made up) been acquired or disposed of by or leased to the Company or any of its subsidiaries, or are proposed to be acquired or disposed of by or leased to the Company or any of its subsidiaries.

4. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation, arbitration or claim of material importance and there was no litigation, arbitration or claim of material important known to the Directors to be pending or threatened against any member of the Group.

5. GENERAL

- (a) The registered office of the Company is located at Cricket Square, Hutchins Drive, P. O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.
- (b) The head office and principal place of business of the Company in Hong Kong is located at Suite 1216, 12th Floor, Ocean Centre, Harbour City, 5 Canton Road, Tsimshatsui, Kowloon.
- (c) The head office and principal place of business of the Company in the PRC is located at Unit 301 on 3rd Floor, Block 1, Baijiahua Building, No. 3008 Baoan Boulevard, Baoan District, Shenzhen, the PRC.
- (d) The Hong Kong branch share registrar and transfer office is Tricor Investor Services Limited located at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (e) The secretary of the Company is Mr. Ho Yuet Lee, Leo. 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.
- (f) The english text of this circular and the accompanying form of proxy shall prevail over the Chinese text.

6. MATERIAL CONTRACTS

The following contracts, not being contracts entered into the ordinary course of business, have been entered into by members of the Group after the date falling two years prior to the date of this circular and up to the Latest Practicable Date and which are or may be materials:

- (a) the supplemental lease agreement dated 28 January 2010 and entered into between BJH department Stores, as a lessee, and JH Real Estate, as a lessor, in relation to the leasing of level 1 of commercial podium, Jiahua Shuyuan Yage, south-western side of Dabao Road, Xinan Jiedao, Baoan District, Shenzhen City, Guangdong Province, the PRC of a gross floor area of approximately 2,693.69 sq.m. (the "Shuyan Yage Premise") from 1 February 2010 to 28 February 2012 for a monthly rental of RMB53,873.8;
- (b) the supplemental lease agreement dated 28 January 2010 and entered into between BJH Department Stores, as a lessee, and BJH Industrial, as a lessor in relation to the leasing of level 1 and level 2 of block 1, Shenzhen Baoan District 30 Taihua Building, Qianjin Road, Xinan Jiedao, Baoan District, Shenzhen City, Guangdong Province, the PRC of a gross floor area of approximately

4,216 sq.m. (the “Qianjin Premise”) from 1 February 2010 to 31 May 2012 for a monthly rental of RMB84,320 such lease has been terminated with effect from 15 November 2011;

- (c) the lease agreement dated 30 May 2011 and entered into between BJH Department Stores, as a lessee, and JH Real Estate as a lessor in relation to the leasing of the Shuyan Premise for a term of 3 years commencing from 1 June 2011 to 31 May 2014 for a monthly rental of RMB53,873.8;
- (d) the sale and purchase agreement dated 8 June 2011 and entered into between BJH Department Stores, as a vendor and Shenzhen Heng Chong Xin Investment Limited, as a purchase for the sale and purchase of entire equity interests in Shenzhen Baijiahua Supermarket Limited and Dongguan Jiahua Department Store Company Limited at an aggregate consideration of RMB26 million;
- (e) the termination letter dated 15 November 2011 and entered into between BJH Department Stores and BJH Industrial in relation to the termination of leasing of the Qianjin Premise; and
- (f) the Acquisition Agreement.

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours on any weekday (public holidays excepted) at the head office and principal place of business of the Company in Hong Kong at Suite 1216, 12th Floor, Ocean Centre, Harbour City, 5 Canton Road, Tsimshatsui, Kowloon from the date of this circular and up to and including the date of the EGM:

- (a) the memorandum and articles of association of the Company;
- (b) the annual reports of the Company for the two years ended 31 December 2010 and 2009;
- (c) the interim report of the Company for the six months period ended 30 June 2011;
- (d) the material contracts referred to in the paragraph headed “Material contracts” in this appendix;
- (e) the letter from Vinco Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out in the section headed “Letter from Vinco Capital” of this circular;
- (f) the letter of recommendation from the Independent Board Committee dated 24 February 2012, the text of which is set out on pages 16 to 17 of this circular;
- (g) the letter on the unaudited pro forma financial information of the Group issued by BDO Limited set out in Appendix II to this circular;

- (h) the PRC legal opinions prepared by Guangdong Wansheng Law Firm in respect of certain aspects to the Acquisition and the Property;
- (i) the valuation report and certificate on the Property, the text of which is set out in appendix III to this circular;
- (j) the written consents as referred to under the paragraph headed “Qualification and consent of expert” in this appendix; and
- (k) this circular.



佳華百貨控股有限公司
Jiahua Stores Holdings Limited

(incorporated in the Cayman Islands with limited liability)

(stock code: 602)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Jiahua Stores Holdings Limited (the “Company”) will be held at 3/F., Conference Room 1, The Capital Plaza Hotel, 1st Baomin Road, Baoan District, Shenzhen, the PRC on Monday, 12 March 2012 at 2:30 p.m. for the purpose of considering and, if thought fit, passing (with or without amendments) the following resolution:

AS ORDINARY RESOLUTION

“**THAT** the conditional acquisition agreement (the “Acquisition Agreement”) dated 9 January 2012 entered into between Shenzhen Baijiahua Department Stores Company Limited as purchaser and Shenzhen Jiahua Real Estate Development Company Limited as vendor (a copy of which is produced to the meeting marked “A” and signed by the chairman of the meeting for the purposes of identification) in relation to, among other matters, the Acquisition (as defined in the circular (the “Circular”) of the Company to its shareholders dated 24 February 2012) (a copy of the Circular is produced to the meeting marked “B” and signed by the chairman of the meeting for the purposes of identification) be and is hereby approved, confirmed and ratified, and **THAT** the transactions contemplated under the Acquisition Agreement be and are hereby approved; and any one director of the Company or any other person authorized by the board of directors of the Company from time to time be and are hereby authorized to sign, execute, perfect and deliver and where required, affix the common seal of the Company to, all such documents, instruments and deeds and do all such actions which are in his opinion necessary, appropriate, desirable or expedient for the implementation and completion of the Acquisition Agreement and transactions contemplated under or incidental to the Acquisition Agreement and all other matters incidental thereto or in connection respectively therewith and to agree to the variation and waiver any of the matters relating thereto that are, in his opinion, appropriate, desirable or expedient in the context of the Acquisition and are in the best interests of the Company.”

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

Shenzhen, the PRC, 24 February 2012

NOTICE OF EGM

Notes:

1. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint a proxy or if he is the holder of two or more shares, more than one proxy to attend and vote instead of him. A proxy needs not be a member of the Company.
2. In order to be valid, a form of proxy, together with any power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, must be deposited at the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
3. Completion and return of the accompanying form of proxy will not preclude a member from attending and voting in person at the meeting or any adjourned meeting thereof. If such member attends the meeting in person, his form of proxy and/or supplement proxy will be deemed to have been revoked.