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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00602)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2022

FINANCIAL HIGHLIGHTS

Revenue decreased by 22.8% to approximately RMB335.3 million.

Gross profit margin of sales of goods increased by 4.0% to approximately RMB14.8 million.

Loss attributable to the owners of the Company for the year amounted to approximately RMB107.9 million.

Basic loss per share was approximately RMB10.40 cents.

No final dividend is recommended.

ANNUAL RESULTS

The board (the "Board") of directors (the "Directors") of Jiahua Stores Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to the "Group") for the year ended 31 December 2022 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

	Notes	Year ended 31 December 2022 RMB'000	2021 RMB'000
Revenue	4	**335,272**	434,237
Cost of inventories sold		**(168,004)**	(236,566)
		167,268	197,671
Other operating income	6	**51,832**	47,199
Decrease in fair value of investment properties		**(15,600)**	(10,400)
Selling and distribution costs		**(231,177)**	(240,267)
Administrative expenses		**(40,127)**	(45,621)
Other operating expenses		**(2,266)**	(8,855)
(Impairment loss)/reversal of impairment loss on loan receivables		**(881)**	2,076
Finance costs	7	**(39,438)**	(42,066)
Loss before income tax	8	**(110,389)**	(100,263)
Income tax credit	9	**2,492**	149
Loss and total comprehensive income for the year and attributable to owners of the Company		**(107,897)**	(100,114)
Loss per share for loss attributable to the owners of the Company during the year:			
Basic and diluted *(RMB cents)*	11	**(10.40)**	(9.65)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	Notes	As at 31 December 2022 RMB'000	2021 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**150,870**	205,470
Right-of-use assets		**296,092**	366,418
Investment properties		**258,600**	274,200
Intangible assets		**6,463**	5,902
Deposits paid, prepayments and other receivables		**15,920**	16,525
Interests in an associate		**–**	–
		727,945	868,515
Current assets			
Inventories and consumables		**12,460**	24,431
Trade and loan receivables	12	**53,267**	52,631
Deposits paid, prepayments and other receivables		**34,517**	51,273
Tax recoverable		**66**	388
Restricted bank deposit		**2,000**	2,000
Cash and cash equivalents		**66,171**	26,113
		168,481	156,836
Current liabilities			
Trade payables	13	**54,029**	66,808
Contract liabilities		**19,794**	20,058
Deposits received, other payables and accruals		**90,896**	101,864
Amount due to a director		**59**	59
Lease liabilities		**60,360**	56,522
Borrowings		**5,712**	3,280
Provision for taxation		**9,214**	10,266
		240,064	258,857
Net current liabilities		**(71,583)**	(102,021)
Total assets less current liabilities		**656,362**	766,494

		As at 31 December	
		2022	2021
	Notes	***RMB'000***	*RMB'000*
Non-current liabilities			
Lease liabilities		**357,288**	416,954
Borrowings		**151,464**	90,133
Deferred tax liabilities		**16,201**	20,101
		524,953	527,188
Net assets		**131,409**	239,306
EQUITY			
Share capital	14	**10,125**	10,125
Reserves		**121,284**	229,181
Total equity		**131,409**	239,306

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 4 September 2006 as an exempted company with limited liability. The address of its registered office and its principal place of business are located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and Level 4, Jiahua Ming Yuan, 2146 Xinhu Road, Baoan Central District, Shenzhen, Guangdong Province, the People's Republic of China (the "PRC") respectively. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are operation and management of retail stores and other related businesses and provision of financing services in the PRC.

2. BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of measurement and going concern assumption

The consolidated financial statements have been prepared on the historical cost basis except for investment properties which are stated at fair values.

The Group incurred a loss of approximately RMB107,897,000 for the year ended 31 December 2022, and as of that date, its current liabilities exceeded its current assets by approximately RMB71,583,000, while the Group had cash and cash equivalents of approximately RMB66,171,000. These conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

In assessing the appropriateness of the use of the going concern basis in the preparation of the consolidated financial statements, the directors of the Company have prepared a cash flow forecast covering a period up to March 2024 (the "Cash Flow Forecast"). The directors of the Company have given careful consideration to the future liquidity and performance of the Group and the Group's available sources of financing in assessing whether the Group will have sufficient financial resources to continue as a going concern. The following considerations have been taken into account in the Cash Flow Forecast:

(i) As at the approval date of these consolidated financial statements, the unutilised banking facility available for drawdown amounted to RMB10,000,000;

(ii) On 10 March 2023, the Group has entered into an agreement with a debtor of loan receivable for the new repayment terms (the "New Repayment Schedule"). Pursuant to the New Repayment Schedule, the debtor will repay the aggregate principal and interest amount at a minimum of RMB5,000,000, RMB7,000,000 and RMB8,000,000 within the second quarter, third quarter and last quarter of 2023, respectively; and

(iii) The management of the Group has been endeavouring to enhance its operation to improve its cash flow from operations to strengthen its working capital.

The directors of the Company considered that the Group would have sufficient financial resources to finance its operations and to meet its financial liabilities as and when they fall due so as to enable the Group as a going concern notwithstanding that there are, material uncertainties as to whether the Group would be able to successfully implement the above plans and measures, including timely repayment from a debtor of loan receivable of approximately RMB20,000,000 pursuant to the term of the New Repayment Schedule; and generation of sufficient operating cash flows based on its forecasted revenue. Accordingly, the directors of the Company are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Should the Group be unable to continue in business as a going concern, adjustments would have to be made to reduce the carrying values of the Group's assets to their realisable amounts, to provide for liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effect of these adjustments has not been reflected in the consolidated financial statements.

3. ADOPTION OF NEW OR AMENDED HKFRS

The Hong Kong Institute of Certified Public Accountants has issued a number of amended HKFRS that are first effective for the current accounting period of the Group:

Amendments to HKFRS 3	*Reference to the Conceptual Framework*
Amendments to HKAS 16	*Property, Plant and Equipment – Proceeds before Intended Use*
Amendments to HKAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*
Annual Improvements to HKFRSs 2018-2020 Cycle	*Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards, HKFRS 9 Financial Instruments, HKFRS16 Leases and HKAS 41 Agriculture*

None of these amended HKFRS has a material impact on the Group's results and financial position for the current or prior period. The Group has not early applied any new or amended HKFRS that is not yet effective for the current accounting period.

4. REVENUE

Revenue, which is also the Group's turnover, represents invoiced value of goods sold, net of value added tax and after allowances for returns and discounts, commission from concessionaire sales, rental income and interest income from financing services.

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Revenue from Contracts with Customers within the scope of HKFRS 15:		
Sales of goods	**182,773**	250,765
Commissions from concessionaire sales	**23,039**	26,972
	205,812	277,737
Revenue from other sources:		
Rental income from investment properties	**9,070**	9,095
Rental income from sub-leasing of shop premises	**42,459**	60,896
Rental income form sub-leasing of shopping malls	**72,660**	80,672
Interest income from financing services	**5,271**	5,837
	129,460	156,500
	335,272	434,237

5. SEGMENT INFORMATION

The Group has identified its operating segments and prepared segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and review of these components' performance. There are two business components/operating segments in the internal reporting to the executive directors, which are operation and management of retail stores and other related businesses and provision of financing services.

	Operation and management of retail stores and other related businesses	**Provision of financing services**	**Consolidated**
	RMB'000	***RMB'000***	***RMB'000***
Year ended 31 December 2022			
Revenue from external customers	**330,001**	**5,271**	**335,272**
Inter-segment revenue	**–**	**–**	**–**
Reportable segment revenue	**330,001**	**5,271**	**335,272**
Segment results	**(109,591)**	**3,589**	**(106,002)**
Other unallocated corporate income			**254**
Other unallocated corporate expenses			**(4,641)**
Loss before income tax			**(110,389)**

	Operation and management of retail stores and other related businesses *RMB'000*	Provision of financing services *RMB'000*	Consolidated *RMB'000*
Year ended 31 December 2022			
Other segment information			
Interest income	**(160)**	**(4)**	**(164)**
Additions to non-current assets (other than financial instruments)	**15,645**	**–**	**15,645**
Amortisation of intangible assets	**1,108**	**97**	**1,205**
Depreciation of right-of-use assets	**58,361**	**–**	**58,361**
Depreciation of property, plant and equipment	**60,127**	**–**	**60,127**
Loss on disposal of property, plant and equipment	**158**	**–**	**158**
Written-off of property, plant and equipment	**1**	**–**	**1**
Obsolete inventories written-off	**31**	**–**	**31**
Impairment loss on property, plant and equipment	**3,891**	**–**	**3,891**
Impairment loss on right-of-use assets	**12,915**	**–**	**12,915**
Impairment loss on loan receivables	**–**	**881**	**881**
Decrease in fair value of investment properties	**15,600**	**–**	**15,600**

	Operation and management of retail stores and other related businesses *RMB'000*	Provision of financing services *RMB'000*	Consolidated *RMB'000*
At 31 December 2022			
Reportable segment assets	**825,631**	**35,241**	**860,872**
Tax recoverable			**66**
Other unallocated corporate assets			**35,488**
Total assets			**896,426**
Reportable segment liabilities	**737,486**	**83**	**737,569**
Provision for taxation			**9,214**
Deferred tax liabilities			**16,201**
Other unallocated corporate liabilities			**2,033**
Total liabilities			**765,017**

	Operation and management of retail stores and other related businesses	Provision of financing services	Consolidated
	RMB'000	*RMB'000*	*RMB'000*
Year ended 31 December 2021			
Revenue from external customers	428,400	5,837	434,237
Inter-segment revenue	–	–	–
Reportable segment revenue	428,400	5,837	434,237
Segment results	(102,596)	7,037	(95,559)
Other unallocated corporate income			–*
Other unallocated corporate expenses			(4,704)
Loss before income tax			(100,263)

* The balance represents amount less than RMB1,000.

	Operation and management of retail stores and other related businesses	Provision of financing services	Consolidated
	RMB'000	*RMB'000*	*RMB'000*
Year ended 31 December 2021			
Other segment information			
Interest income	(600)	(24)	(624)
Additions to non-current assets (other than financial instruments)	74,647	–	74,647
Amortisation of intangible assets	835	97	932
Depreciation of right-of-use assets	69,601	–	69,601
Depreciation of property, plant and equipment	59,292	2	59,294
Loss on disposal of property, plant and equipment	578	–	578
Written-off of property, plant and equipment	690	–	690
Obsolete inventories written-off	173	–	173
Inventories gain	(187)	–	(187)
Reversal of impairment loss on loan receivables	–	(2,076)	(2,076)
Written-off of other receivable	3,800	–	3,800
Decrease in fair value of investment properties	10,400	–	10,400

	Operation and management of retail stores and other related businesses *RMB'000*	Provision of financing services *RMB'000*	Consolidated *RMB'000*
At 31 December 2021			
Reportable segment assets	945,089	40,643	985,732
Tax recoverable			388
Other unallocated corporate assets			39,231
Total assets			1,025,351
Reportable segment liabilities	753,505	70	753,575
Provision for taxation			10,266
Deferred tax liabilities			20,101
Other unallocated corporate liabilities			2,103
Total liabilities			786,045

The PRC is the country of domicile of the Group. The country of domicile is determined by referring to the country which the Group regards as its home country, has the majority of operations and centre of management.

No separate analysis of segment information by geographical segment is presented as the Group's revenue and non-current assets, are principally attributable to a single geographical region, which is the PRC.

Information about a major customer

There was no single customer that contributed to 10% or more of the Group's revenue for the years ended 31 December 2022 and 2021.

6. OTHER OPERATING INCOME

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Interest income	**164**	624
Net exchange gain	**353**	–
Government grants *(Note)*	**3,810**	3,222
Administration and management fee income	**24,617**	30,250
Gain on early termination of lease	**–**	275
COVID-19-related rent concessions	**10,840**	837
Others	**12,048**	11,991
	51,832	47,199

Note: Various local government grants have been granted to subsidiaries of the Company during the years ended 31 December 2022 and 2021. The amounts mainly represented unconditional cash subsidies from government for subsidising enterprises as an encouragement for the contribution in specific industry in the region and remedy for COVID-19 pandemic. There were no unfulfilled conditions or contingencies attaching to these government grants.

7. FINANCE COSTS

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Interest on lease liabilities	**33,229**	37,356
Interest on borrowings	**6,209**	4,710
	39,438	42,066

8. LOSS BEFORE INCOME TAX

Loss before income tax is arrived at after charging/(crediting):

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Cost of inventories sold recognised as expense	**168,004**	236,566
Auditor's remuneration	**1,021**	1,106
Depreciation of property, plant and equipment	**60,127**	59,294
Depreciation of right-of-use assets:		
– Properties leased for own use	**58,100**	69,340
– Leasehold land for own use	**261**	261
Amortisation of intangible assets	**1,205**	932
Written-off of other receivable	**–**	3,800
Loss on disposal of property, plant and equipment	**158**	578
Short term lease expense	**920**	671
COVID-19-related rent concessions	**(10,840)**	(837)
Obsolete inventories written-off	**31**	173
Inventories gain	**–**	(187)
Impairment loss on property, plant and equipment *(Note (i))*	**3,891**	–
Impairment loss on right-of-use assets *(Note (i))*	**12,915**	–
Written-off of property, plant and equipment	**1**	690
Net exchange (gain)/loss	**(353)**	69
Staff costs, including directors' emoluments		
Salaries and other benefits	**58,929**	65,315
Contributions to retirement schemes	**10,371**	10,591
	69,300	75,906
Rental income from investment properties	**(9,070)**	(9,095)
Income from subleasing of right-of-use assets		
– Base rents	**(112,959)**	(139,525)
– Contingent rents *(Note (ii))*	**(2,160)**	(2,043)
	(115,119)	(141,568)
Total gross rental income	**(124,189)**	(150,663)
Less: Direct operating expenses arising from investment properties that generated rental income during the year	**1,394**	1,387
Less: Outgoings of subleasing of right-of-use assets	**14,104**	17,995
Net rental income	**(108,691)**	(131,281)

Notes:

(i) Impairment loss on property, plant and equipment and right-of-use assets had been included in selling and distribution costs.

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

9. INCOME TAX CREDIT

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Current income tax		
– PRC enterprise income tax	**1,408**	1,451
Deferred tax	**(3,900)**	(1,600)
	(2,492)	(149)

The Group is not subject to any taxation under the jurisdiction of the Cayman Islands and British Virgin Islands during the year (2021: Nil).

No provision for Hong Kong Profits Tax has been made as the Group had no estimated assessable profits in Hong Kong for the year (2021: Nil).

For a subsidiary of the Company in Guangxi, its PRC Enterprise Income Tax has been provided at the preferential enterprise income tax rate of 15% (2021: 15%) for the year pursuant to the privilege under the China's Western Development Program.

A subsidiary of the Company in Shenzhen, namely 深圳市百佳華網絡科技有限公司, is qualified as a High and New Technology Enterprise and enjoys a preferential income tax of 15% as approved by the PRC tax authority for the years ended 31 December 2020, 2021 and 2022. The High and New Technology Enterprise qualification is subjected to be renewed every three years.

Other subsidiaries of the Company established in the PRC were mainly subject to PRC Enterprise Income Tax at the rate of 25% (2021: 25%) for the year under the income tax rules and regulations of the PRC.

10. DIVIDENDS

No dividend has been paid or declared by the Company for the year ended 31 December 2022 (2021: Nil).

11. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to the owners of the Company is based on following data:

	Year ended 31 December	
	2022	2021
Loss		
Loss for the purposes of basic and diluted loss per share *(RMB'000)*	**(107,897)**	(100,114)
Number of shares		
Weighted average number of ordinary shares	**1,037,500,002**	1,037,500,002
Basic and diluted loss per share *(RMB cents)*	**(10.40)**	(9.65)

Diluted loss per share equals to basic loss per share, as there were no dilutive potential ordinary shares issued during the years ended 31 December 2022 and 2021.

12. TRADE AND LOAN RECEIVABLES

All of the Group's sales are on cash basis except for trade receivables from certain bulk sales of merchandise to corporate customers, rental income receivables from tenants and loan receivables from provision of financing services. The credit terms offered to the customers from operation and management of retail stores and other related businesses are generally for a period of one to three months (2021: one to three months), while to customers from financing services are repayable on demand (2021: repayable on demand or one month).

As at 31 December 2022, included in trade receivables of approximately RMB17,658,000 (2021: RMB12,050,000) represented rental income receivables from tenants.

As at 31 December 2022, included in trade receivables of approximately RMB682,000 (2021: RMB115,000) represented trade receivables due from related companies.

Trade receivables were non-interest-bearing. Loan receivables from provision of financing services which bore interest at fixed rates with effective interest rates at 15% (2021: ranging from 12% to 15%) per annum. The loan receivables are secured by the borrower's the trade receivables and with recourse.

	2022	2021
	RMB'000	*RMB'000*
Trade receivables *(note (i))*	**19,581**	13,401
Loan receivables *(note (ii))*	**34,567**	39,230
Less: loss allowance	**(881)**	–
	33,686	39,230
	53,267	52,631

Notes:

(i) The aging analysis of the Group's trade receivables, based on invoice dates, is as follows:

	2022	2021
	RMB'000	*RMB'000*
Within 30 days	**12,585**	12,495
31–60 days	**1,657**	123
61–180 days	**4,438**	269
181–365 days	**862**	381
Over 365 days	**39**	133
	19,581	13,401

(ii) The aging analysis of the Group's loan receivables (net of impairment loss) is as follows:

	2022	2021
	RMB'000	*RMB'000*
Repayable on demand or within one year	**33,686**	39,230

13. TRADE PAYABLES

The credit terms granted by suppliers are generally for a period of 30 to 60 days (2021: 30 to 60 days). The aging analysis of the trade payables, based on invoice dates, is as follows:

	2022	2021
	RMB'000	*RMB'000*
Within 30 days	**27,020**	39,793
31–60 days	**13,020**	12,913
61–180 days	**5,858**	4,692
181–365 days	**2,071**	3,506
Over 1 year	**6,060**	5,904
	54,029	66,808

14. SHARE CAPITAL

	2022		2021	
	Number of shares ('000)	***RMB'000***	*Number of shares ('000)*	*RMB'000*
Authorised:				
Ordinary shares of Hong Kong Dollars ("HK$") 0.01 each				
At 1 January and 31 December	**10,000,000**	**97,099**	10,000,000	97,099
Issued and fully paid:				
Ordinary shares of HK$0.01 each				
At 1 January and 31 December	**1,037,500**	**10,125**	1,037,500	10,125

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

The following is the extract of the independent auditor's report from the external auditor of the Company:

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Material Uncertainty Related to Going Concern

We draw attention to Note 2(b) in the consolidated financial statements, which indicates that the Group incurred a loss of approximately RMB107,897,000 for the year ended 31 December 2022, and as of that date, its current liabilities exceeded its current assets by approximately RMB71,583,000, while the Group had cash and cash equivalents of approximately RMB66,171,000. As stated in Note 2(b), these conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

MANAGEMENT DISCUSSION AND ANALYSIS

(A) INDUSTRY REVIEW

During the year, the domestic consumption market was severely affected by the pandemic. Accordingly, the Chinese government implemented corresponding countermeasures. In December 2022, the State Council issued the "Strategic Planning Outline for Expanding Domestic Demand (2022–2035)". According to the outline, domestic spending will be actively promoted, and consumption will be upgraded at a faster pace: final consumption is the driving force of economic growth. Following the trend of consumption upgrading, it will increase traditional consumption, cultivate new types of consumption, expand service consumption, increase public consumption, and strive to meet individual, diversified and quality consumer demand. The two key points include (i) continue to increase traditional consumption, improve the quality of basic consumption such as food and clothing, release the potential of travel consumption, and meet the consumption needs of mid-to-high-end consumer goods. These will be done by promoting the orderly development of the duty-free industry, by strengthening of national brands in line with international standards to meet domestic consumer demand and to supply mid-to-high-end consumer goods, and by building regional consumption centers, including Hainan International Tourism Consumption Center. (ii) Cultivate new types of consumption and support the integrated development of online and offline commodity consumption. Retailers accelerated the digital transformation and upgrading of traditional offline business formats and develop new retail formats such as smart supermarkets, stores, and restaurants. Besides, it is expected to improve the technology and service standard system, regulate the development of the platform economy in accordance with the law, and improve the ability to supervise new business formats.

There were many events took place in China's retail industry. For supermarkets, this was a difficult year. Affected by the pandemic and cyclical troughs, supermarkets have withstood severe shocks and challenges. Business performance was generally under pressure, stores were closed one after another to stop losses, shareholdings were reduced, manager changes occurred frequently, the main business was separated, and controlling shareholders even lost their voting power. In 2022, many listed supermarket companies suffered losses, including Yonghui, Lianhua Supermarket, Zhongbai Group, Hualian Supermarket, and Renrenle etc. Major supermarket companies had to carry out strategic contraction and close stores to stop losses. Yonghui, Lianhua, Zhongbai, Hongqi Chain Store, Carrefour, Jiajiayue, etc. have started to close stores. Jingdong 7fresh, G-Super, and Hema NB have also undergone large-scale contraction. Better Life supermarket has completely withdrawn from the Sichuan market, and the Jiangxi market has also undergone significant contraction. The headquarters of Hunan has also continuously closed inefficient and loss-making stores. Under such circumstances, shareholders have also begun to reduce its holdings. Tencent and JD.com have reduced their holdings in BBK, and Yonghui has reduced their holdings in Zhongbai Group. It is also expected that the company will change the managers. Zhongbai Group, Carrefour, Xiaorunfa, etc. have all undergone coaching changes and adjustments. Likewise, for Newhuadu, Andre, and Hualian Supermarket, they divested their retail business one after another and completely transformed.

In addition, physical retailing was under pressure under the pandemic, and the department store was even more affected. In 2022, at least 42 department stores across the country have been closed. The reasons for the closure of these department stores include expiry of leases, strategic adjustments, inability to renew contracts, and continuous losses. In the first half of the year, the performance of listed domestic department store companies was generally under pressure, and only approximately 10% achieved both revenue and net profit growth. Under the situation of declining customer flow and weakening consumption power, closing department stores to stop losses is an inevitable choice.

For e-commerce, those giant operators which has performed well in recent years need to reduce costs and increase efficiency. Based on available data, both Ali and JD.com were showing a slow growth rate; On Double Eleven shopping carnival of 2022, the two retail giants did not announce their performance to the public, reflecting their unsatisfactory operating results. Although Pinduoduo's revenue was still growing steadily, the three e-commerce giants are all facing a situation where online traffic has peaked and user growth has slowed down. It may be difficult to reuse the tactic by giving money to grab customers, and it is compromised to reduce costs and increase efficiency. Measures such as abandoning loss-making product lines, reducing administrative and marketing expenses, and reducing salaries and layoffs have become the norm. In terms of redundancy, Ali has reduced a total of about 15,000 employees; JD.com proposed to eliminate executives, and launched a comprehensive salary cut for top management; and Pinduoduo also frequently reported layoffs proposal.

In terms of community group buying which was popular recently, with the contraction, transformation and shutdown of some platforms, community group buying participants have started to exit the market. As Tongcheng Life and Shihui Group fell one after another, the only remaining Xingsheng Selected Group also closed down North China and Southeast China, and withdrew their websites of four provinces and cities including Henan, Shandong, Sichuan, and Chongqing. There were also mass layoffs. The Internet giants' community group-buying platforms did not escape. Orange Optimization was struggling to save itself through transformation, Jingxi Pinpin has shut down a large area, Meituan Selected, Duoduomaicai, Taocaicai, etc. are also shrinking their front lines and optimizing their personnel. Community group buying has entered a cooling-off period, and the tactic of relying on burning money to grab the market is not viable. Scale makers in business does not work. The construction of core capabilities such as supply chain, warehousing and distribution system, terminal performance, cost reduction and efficiency increase, customer unit price, and gross profit margin is the key to the future development of community group buying.

In terms of retail business, cross-sector expansion has become the main strategy. In 2022, China Post, Li-Ning, Xtep, NIO, Melatonin, Philips, etc., and other companies that have no connection with coffee will enter the market one after another. In addition, there are catering brands such as Go Believe and Hefu-Noodle, as well as tea brands such as Sexytea, Shuyi, Ningji, and Sweet7. In the retail arena, acquisitions and mergers were frequent, and companies are seeking business transformation and diversification. In 2022, there were frequent mergers and acquisitions in the retail industry. In the field of e-commerce, JD.com acquired Deppon, YQNLINK acquired COPE etc. In the field of apparel, Li-Ning holds a controlling stake in the century-old British shoe brand Clarks, Japanese high-end professional sports brand Descente acquired the Chinese joint venture of "Arena", and Sequoia China acquired the Korean trendy brand "WE11DONE" etc. In the field of supermarkets and fast-moving consumer products, Taiwan's Carrefour was acquired by Uni-President, Renrenle was controlled by the Qujiang Group, and Milkland was controlled by Mengniu. In the field of tea drinks, Nayuki's Tea acquired Lelecha and invested in Chayiji, bakery brand Cranesuo, coffee brand AOKKA and Huhu coffee. Heytea Holdings' new tea brand Sogood Tea and invested in Few Coffee.

The catering industry is facing massive store closures. Under the pandemic control, the dine-in suspension days in restaurants in many places has reached a new high. Most of the listed catering companies have experienced a sharp drop in net profit, incurred operating losses, declining revenue, and shrinking scale. During the year, many catering brands and stores across the country were closed. These included coffee, bakery, fast food, snack and noodle shops, etc., including Starbucks, KFC, Shuyi, Xianhezhuang hotpot, Christine, Ajisen Ramen and other brands, as well as Croissant Village, Popeyes, GROM Ice Cream and other internet celebrity brands, and even traditional old restaurants such as M on the Bund, Polo Restaurant, and Uncle Jia Sweet Rice Ball etc.

In 2022, giants such as JD.com and Meituan will focus on instant retailing. At the same time, physical supermarkets such as Wal-Mart, RT-Mart, and Yonghui have also joined in. The integration of online to offline (O2O), business formats and scenarios became a typical feature of new consumption. Instant retailing is changing the e-commerce landscape. In the short term, compared with traditional e-commerce, instant retailing has advantages in terms of delivery timeliness, but it cannot catch up with traditional e-commerce in terms of product variety, stock keeping unit (SKU), and commodity prices. In the long run, the continuous expansion of instant retailing will gradually erode the market share of traditional e-commerce platforms.

In terms of shopping malls, despite the new pandemic, approximately 366 new shopping malls (more than 40 renovation projects, with a volume of more than 4 million square meters) were opened throughout the year, with a volume of approximately 32.68 million square meters. As of 31 December 2022, there were 5,685 shopping malls nationwide, with a volume of 503 million square meters. According to the monthly statistic, after a peak opening in January, it was at a trough from February to August, and December ushered in the highest opening peak of this year, with 86 new malls in a single month. The reduction in the number of openings, despite the impact of the pandemic, was attributable to the increasingly fierce market competition and the gradual slowdown of the industry's growth rate. In terms of regional distribution of opening projects in the year, they are still concentrated in the eastern and southern regions, and the total number of openings in northern regions (North China, Northeast China, Northwest China) accounted for only 12%. The number of openings in South China accounted for 18%, and Guangdong Province accounted for more than 70%, concentrated in the three major cities of Guangzhou, Shenzhen, and Foshan. In addition, Guangxi and Hainan have 11 and 5 projects respectively, and duty-free shopping on Hainan continues to be hot. The medium and large volumes of 50,000 to 150,000 square meters are still dominant, and the proportion of the area above 150,000 square meters has increased significantly. Among Shenzhen shopping malls, Qianhai•Inli is a downshifting block featuring "courtyard style". The core business format introduces a brand-new complex life bookstore, Yuxin Flagship Bookstore, Hi Paw Hang Out Home, Xinjuhui KTV, TOP Fitness, Seesaw Coffee, MANNER Coffee, TAPS mini Craft Wine experience business. In 2022, while the newly opened shopping malls are competing with the first or new stores, a wave of sports experience has emerged. Under the upsurge of sports and fitness, major shopping malls have obviously increased their sports business. Including sports retail brands, such as Anta, Li Ning, Lululemon, Descente, Arc'teryx and other sports brands have become the signature for shopping malls; trendy sports experience brands also frequently appear in shopping malls, including fitness clubs, rock climbing, trampoline, Go-karts, basketball courts, tennis courts, ice rink, diving pools, equestrian fields, shooting halls, roller skating, mini golf course, and fighting halls etc.

According to the National Bureau of Statistics, the annual GDP of China of 2022 reached approximately RMB121.0 trillion, an increase of 3.0% year-on-year (YOY).

In the whole year, the total retail sales of consumer goods were approximately RMB44.0 trillion, a YOY decrease of 0.2%. Among them, the retail sales of consumer goods by enterprises over the threshold size were approximately RMB17.1 trillion, a YOY increase of 1.4%. Based on the location of business units, retail sales of consumer goods in city were approximately RMB38.0 trillion, a YOY decrease of 0.3%; while retail sales of consumer goods in rural areas were approximately RMB5.9 trillion, without change YOY. In terms of consumption patterns, catering revenue was approximately RMB4.4 trillion, a decrease of 6.3%; retail sales of goods were approximately RMB39.6 trillion, an increase of 0.5%. The retail sales of communications equipment, cosmetics, and goldsmith and jewellery products of over the threshold units were increased by -3.4%, -4.5%, and -1.1% respectively YOY. During the year, online retail sales across the country reached RMB13.8 trillion, a YOY increase of 4.0%. Among them, the online retail sales of physical goods was RMB12.0 trillion, an increase of 6.2%, accounting for 27.2% of the total retail sales of consumer goods. Among the online retail sales of physical goods by categories, eat, wear and use consumer goods were increased by 16.1%, 3.5% and 5.7% respectively. By retail format, the retail sales above the threshold units of supermarket, convenience stores, specialty stores, and exclusive stores increased by 3.0%, 3.7%, 3.5%, 0.2% and 12.0% respectively, while department stores decreased by 9.3%.

In 2022, the downward pressure on China's economy has increased, and the outbreak of new wave of the pandemic in many places. The commercial real estate industry has been impacted. In addition, Generation Z has become a main consumer group, and consumer behavior and consumption patterns have changed. At the same time, domestic commercial real estate competition is fierce, the industry needs to explore new development models, and the development direction of enterprises is gradually changing from the pursuit of high-scale growth to the pursuit of high-quality operations, and more refined operations are required. The Group continued to progress with steadily and rationally utilized its core advantages. In terms of traditional retail, we locate Shenzhen as the center to develop surrounding areas to preserve and expand its retail market share. Actively increase revenue and reduce expenditure in order to maintain its position in the industry and operating advantages. In terms of other investments, the group will continue to find suitable investment opportunities to expand the scope of the group's retail business and increase the business variety.

(B) BUSINESS REVIEW

For the year ended 31 December 2022, the Group's total revenue was approximately RMB335.3 million, a decrease of approximately 22.8% YOY; gross profit of sales of goods was approximately RMB14.8 million, YOY increase of approximately 4.0%. Loss attributable to owners of the Company was approximately RMB107.9 million, YOY increase of approximately 7.8%. At the end of the year, there were 7 retail stores and 2 shopping malls. The decrease in revenue was mainly due to the general decline in consumption spirit in the society during the pandemic, the enhancement work of the some of our stores, and the closure of two stores last year. During the year, it was mainly for upgrading to increase revenue, the streamline of manpower and maintenance of key employees, as to retain strength to meet future challenges. Commodity sales decreased by approximately RMB68.0 million, commissions from concessionaire sales decreased by approximately RMB3.9 million, rental income from sub-leasing of shop premises decreased by approximately RMB18.4 million, rental income from sub-leasing of shopping malls decreased by approximately RMB8.0 million, investment property income decreased by approximately RMB20,000, and interest income from financing services decreased by approximately RMB0.6 million. The Group adopts a proactive and stable business strategy, provides value-added services to physical retail stores, and seeks and develops potential profit opportunities for other investment projects, and begins to plan the preparatory work for the expansion of its branch network and shopping mall in the coming year.

Looking back at the year 2022, the Group has made the following major highlights in terms of operations.

(1) Improve performance of operation of the shopping malls and win honor from the industry association

The Group currently operates two shopping malls located in mid-to-high-end new residential areas in Shenzhen to cater for the new retail era. BJH Linghui shopping mall is located at Bantian Street, Longgang District, Shenzhen. It is a demonstration base for the integration of technology industry and urban development in the Guangdong-Hong Kong Macao Greater Bay Area. It has been awarded as "Guangdong Province Smart Manufacturing Demonstration Base" and "Shenzhen's First Batch of Innovation and Entrepreneurship Bases". BJH Lingyu shopping mall is located at Guanlan Street, Shenzhen, as a pilot demonstration street for the development of circular economy in Shenzhen and Baoan District. Guanlan's economy has maintained a good development trend, and the circular economy, original prints, Mission Hills Golf Club, and Yongfengyuan ceramics have become four outstanding businesses of Guanlan. There are many large enterprises such as Foxconn in the area. The performance of shopping malls has continued to improve, and the operating model has also been consolidated. Shenzhen BJH Shajing shopping mall, which is expected to be opened in the second half of the year, has also undergone active preparations. Shenzhen BJH Shajing Lingchuang Plaza won the "China Shopping Alliance 2021 Shopping Center Star Show Award – Pending operation" during the year due to its continuous optimization of brand portfolio and design content, laying a solid foundation for future openings.

(2) Create a marketing attraction label and increase the customer flow to the store

In order to increase the attractiveness of the stores, the Group signed a licensing exhibition cooperation agreement with the licensor during the year to hold online and offline licensing exhibition activities in its shopping malls and commercial arcades. Walnut Duck, a trendy intellectual property from the UK, has attracted large number of young people with its "British duck" attributes and vibrant image. Walnut Duckling is a keen Sherlock Holmes fan. Bravery, action-oriented and erudition are the labels of Walnut Duckling's unique personality. "All My Best, Be Myself" is its motto. Relying on this authorization exhibition, the group will extend a series of cute and interesting check-in points and beautiful art display with the theme of "Beach Fun in Summer" combined with the intellectual property rights of Walnut Duckling: Giant Inflatable Duck, Ten-Layer Duck Cake Tower, Camping Duck, Swimming Pool Duck, Fruit Duck, Cone Duck, and Hula Duck, etc. The showcase period is from June to August this year, using the summer period to attract family customers and young trendy groups to the store to interact and punch in, and to co-launch with the promotion activities of commercial arcades and shopping malls, including live broadcasting, point redemption activities, and shopping gifts. During the event, passenger flow and sales increased, the number of new members also rose, and media exposure increased.

(3) Strengthen corporate culture to promote unity and caring spirit

The Group supports the establishment of a good work team, develops the potential of employees and fosters a sense of belonging to the company. In addition to the annual events, including sports day, birthday parties, and travel activities, employee talent competitions are held during the period. Temporary competition stages are set up in stores to allow employees to participate in specific competition events, provide relaxing time beyond work duty, and enhance employees' self-confidence and demonstrate their performance skills. In addition, the Group expressed care and responsibility to the community. During the period, Shenzhen was unblocked after the pandemic lessened, and special community activities were organized to present gift packs to the medical staff, delivery workers, public cleaners and volunteers as a gift. In addition, in response to the tense situation of the pandemic, district shut down was implemented. During the period, the Group cooperated with suppliers, linked the surrounding communities, provided community friendly life services, set up temporary stalls, and selected "high-value", "high-quality" and "high performance" products. This allows residents to experience affordable and convenient shopping services without going far away.

(4) Hold a series of marketing activities to stimulate customer consumption

During the year, the Group actively organized marketing activities and implemented cross-industry cooperation to provide a diversified shopping atmosphere. Following the trend, the group began to hold live broadcast sales. The virtual shopping scene constructed by live broadcast brought the peddling noise in market to the live broadcast room of instant interaction. In the process of live streaming, the anchor acts as a salesperson, shopping guide, and beauty consultant. Promote vertical live broadcast, strengthen the theme and interactivity, and increase attractiveness. Increase special activities for members to maintain a stable customer base. To enhance on-site small handmade booths, customer satisfaction surveys, and customer relationship management system. Official account tweets, online mini-games and interactive topics are launched to cater for different customers. In addition, short videos are produced and broadcast on Douyin and Channels to attract attention with vivid methods, and live broadcast promotions combined with brand activities. In terms of publicity materials, the Group has produced various visual identity designs and management, visual graphic design and extension in a novel and relaxed way, adding joyful and colorful cartoons and texts, and putting them into festive storefront promotional pictures, official account long pictures, live broadcast related pictures and membership promotional design. In addition, the Group also makes fashionable designs for offline packaging materials, eco-friendly shopping bags, and staff uniforms. Festivals, product categories, and seasonal themes are also introduced into the design of store decorations, shelves, shopping coupons, and promotional merchandise stands.

(5) Strengthen the store safety management to reduce potential safety hazards

During the period, the group conducted a thorough store inspection and maintenance of fire protection system, electrical and supporting facilities, and operating equipment (including elevators, air conditioning systems, smoke exhaust pipes, etc.), and provided safety knowledge training and drills to all employees to enhance disaster prevention awareness. In addition, regular monthly safety meetings are held to solve hidden safety hazards in stores, and comprehensive inspections of facilities are carried out to ensure normal daily operation. Replacement of parts of cooling tower and wind cabinet to ensure normal operation and saves costs. Inspection of store decoration site is taken to prevent illegal operations by workers during the process in a timely manner. The Company strengthens internal control by carrying out regular inventory count of all fixed assets of stores, procurement center, shopping malls and head office, to ensure matching balance and reasonable retirement. This is used to update system data and keep accurate records. In addition, the job assignment mechanism is established to reduce operation and man-made losses and protect the group's property.

Periodic adjustments and rotation to staff positions, detailed allocation plans are used to support comprehensive performance appraisal, and improve human resource incentive plans. In addition, safety management is introduced to old store adjustment and upgrade plan, and store design technique is employed to make full use of resources and reduce construction costs. Strengthening the protection mechanisms and introducing effective alert system. The Company will conduct anti-terrorism and flood prevention drills and trainings to safeguard the safety of employees, customers and group property.

(C) OUTLOOK AND FUTURE PROSPECTS

The year 2022 has both opportunity and challenge existed, the Group has prepared to cope with all difficulties, to make use of our core competency in the industry.

Looking ahead, China is still under the fast pace of development stage. The macro-economic condition has significant impact to the industry. Rapid growth in information technology has direct and critical effect to the industry. The directors are confident towards the future. The mission of the Group is to become one of the major operators in the retail industry.

The Group will follow the trends, more innovative, and expand its income source and improve its operating performance through other means like merger and acquisition to enhance its competitive advantage, to explore new business opportunities and to uplift the value of the Company.

FINANCIAL REVIEW

Revenue

The Group's revenue amounted to approximately RMB335.3 million for the year ended 31 December 2022, representing a decrease of 22.8% as compared to approximately RMB434.2 million in the corresponding period of 2021. The decrease was principally attributable from the decrease in sales of goods of approximately RMB68.0 million, the decrease in commission from concessionaire sales of approximately RMB3.9 million, the decrease in rental income from sub-leasing of shop premises of approximately RMB18.4 million, decrease in rental income from sub-leasing of shopping malls of approximately RMB8.0 million, investment property income decreased by approximately RMB20,000, and the decrease in interest income from financing services of approximately RMB0.6 million.

Sales of goods decreased by 27.1% to RMB182.8 million for the year ended 31 December 2022 from RMB250.8 million in the corresponding period of 2021, principally due to the persistence of pandemic in Mainland China which imposed measures including the lockdown of cities and borders and the management of people flow within community. Besides, the Group has closed down two stores in Foshan Yanbu and Guangxi Taoyuan in year 2021 which reduced the income from sales of goods in current year. Sales of goods as a percentage of the Group's total revenue was 54.5% for the year ended 31 December 2022 as compared to 57.7% in the corresponding period of 2021.

Commission from concessionaire sales dropped by 14.4% to RMB23.1 million for the year ended 31 December 2022 from RMB27.0 million in the corresponding period of 2021, mainly due to the persistence of pandemic and closure of two stores in 2021. Commission from concessionaire sales as a percentage of the Group's total revenue was 6.9% for the year ended 31 December 2022 as compared to 6.2% for the corresponding period of 2021.

Rental income from sub-leasing of shop premises down by 30.2% to RMB42.5 million for the year ended 31 December 2022 from RMB60.9 million for the corresponding period in 2021, mainly due to the persistence of pandemic and closure of two stores in 2021. Rental income from subleasing of shop premises as a percentage of the Group's total revenue was 12.7% for the year ended 31 December 2022 as compared to 14.0% for the corresponding period of 2021.

Rental income from sub-leasing of shopping malls decreased by 9.9% to RMB72.6 million for the year ended 31 December 2022 as compared with RMB80.6 million for the corresponding period in 2021 due to the persistence of pandemic. Rental income from subleasing of shopping malls as a percentage of the Group's total revenue was 21.7% for the year ended 31 December 2022 as compared to 18.7% for the corresponding period of 2021.

Rental income from investment properties slightly drop by 0.2% to RMB9.08 million for the year ended 31 December 2022 from RMB9.10 million for the corresponding period in 2021, mainly due to offering of rent free period for long relationship tenants under the persistence of pandemic. Rental income from investment properties as a percentage of the Group's total revenue was 2.7% for the year ended 31 December 2022 as compared to 2.1% for the corresponding period of 2021.

Interest income from financing services down by 10.3% to RMB5.2 million for the year ended 31 December 2022 from RMB5.8 million for the corresponding period in 2021, mainly due to the decrease in business of the major customer which has been affected by the pandemic. Interest income from financing services as a percentage of the Group's total revenue was 1.5% for the year ended 31 December 2022 as compared to 1.3% for the corresponding period of 2021.

Purchase of and changes in inventories

Purchase of and changes in inventories amounted to RMB168.0 million for the year ended 31 December 2022, representing a decrease of 29.0% as compared with RMB236.6 million in the corresponding period of 2021, mainly due to decrease in sales of goods. As a percentage of sales of goods, purchase of and changes in inventories was 91.9% for the year ended 31 December 2022 as compared with 94.3% in the same period of 2021.

Other operating income

Other operating income up by 9.7% to RMB51.8 million for the year ended 31 December 2022 from RMB47.2 million in the corresponding period in 2021. The decrease in bank interest income of approximately RMB0.5 million was due to drop in bank balances throughout the year. The increase in government grants of approximately RMB0.6 million was due to offering of local government incentive. The decrease in administration and management fee income of approximately RMB5.6 million was corresponding to the drop in commission from concessionaire sales. The increase in rent concession from some of the stores of approximately RMB10.0 million were due to the continuance of pandemic condition.

Staff costs

Staff costs decreased by 8.7% to RMB69.3 million for the year ended 31 December 2022 from RMB75.9 million in the corresponding period of 2021, primarily due to the closure of two stores in 2021 and streamline of manpower during the year.

Depreciation of right-of-use assets

Depreciation of right-of-use assets decreased by 16.1% to RMB58.4 million for the year ended 31 December 2022 from RMB69.6 million in the corresponding period of 2021, primarily due to the closure of two stores in 2021.

Depreciation of property, plant and equipment

Depreciation of property, plant and equipment slightly increased by 1.3% to RMB60.1 million for the year ended 31 December 2022 from RMB59.3 million in the corresponding period in 2021. The increase was mainly due to enhancement of main stores in Shenzhen and the final construction works of Shenzhen Guanlan shopping mall.

(Impairment loss)/reversal of impairment loss on loan receivables

Impairment loss on loan receivables of approximately RMB0.9 million in the year ended 31 December 2022 represented expected credit loss on loan receivables from financing services business during the year. Reversal of impairment loss on loan receivables was approximately RMB2.1 million in the year ended 31 December 2021.

Other operating expenses

Other operating expenses decreased by approximately RMB6.6 million, from RMB8.9 million in the corresponding period of 2021 to RMB2.3 million for the year ended 31 December 2022. This was mainly due to written-off of other receivables of RMB3.8 million was recognised in the corresponding period of 2021.

Finance costs

Finance costs, arising from the effect of adoption of HKFRS 16, from lease liabilities decreased by approximately RMB4.1 million, from approximately RMB37.3 million for the year ended 31 December 2021 to approximately RMB33.2 million in the corresponding period of 2022, primarily due to the aging of lease liabilities during the year.

Finance costs arising from bank borrowings increased by approximately RMB1.5 million, from approximately RMB4.7 million for the year ended 31 December 2021 to approximately RMB6.2 million in the corresponding period of 2022 due to the increase in bank borrowings compared to last year.

Income tax credit

Income tax credit amounted to approximately RMB2.5 million for the year ended 31 December 2022 was due to decrease in fair value of investment properties during the year. There was income tax credit of approximately RMB0.1 million in the corresponding period of 2021. The effective tax rate applicable to the Group for the year ended 31 December 2022 were 25% for general subsidiaries (15% for Guangxi subsidiary and subsidiary qualified as High and New Technology Enterprise). In addition, pursuant to the PRC Corporate Income Tax Law, the Group is liable to withholding taxes on dividends distributed by subsidiaries established in China. The applicable tax rate is 10%.

Loss attributable to Shareholders of the Company

As a result of the aforementioned, loss attributable to Shareholders amounted to approximately RMB107.9 million for the year ended 31 December 2022 as compared with loss of approximately RMB100.1 million in corresponding period of 2021.

FINAL DIVIDEND

The Board does not recommend the payment of final dividend for the year ended 31 December 2022.

RISK MANAGEMENT

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

(i) Foreign exchange risk

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

(ii) Credit risk

For the operation and management of retail stores and other related businesses, the Group has no significant concentration of credit risk. Most of the sales transactions were settled in cash basis, by credit card payment (or through online payment platforms). Credit risk on cash and bank balances is mitigated as cash is deposited in banks of high credit rating.

The Group's exposure to credit risk mainly arises from loan receivables from financing business. In respect of loan receivables, the Group's policy is that all customers who wish to obtain loans from the Group are subject to management review. The Group holds collaterals directly or indirectly to cover its risks associated with loan receivables.

The credit and investment policies have been followed by the Group since prior years and are considered to have been effective in limiting the Group's exposure to credit risk to a desirable level.

(iii) Interest rate risk

The Group's exposure to interest rate risk mainly arises on bank balances, borrowings, loan receivables and lease liabilities. The Group has not used any derivative contracts to hedge its exposure to interest rate risk. The Group has not formulated a policy to manage the interest rate risk.

(iv) Liquidity risk

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

The Group did not use any financial instrument for hedging purposes and the Group did not have any hedging instrument outstanding during the year ended 31 December 2022.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

EMPLOYEE INFORMATION, REMUNERATION POLICIES AND SHARE OPTION SCHEME

As at 31 December 2022, the Group had 618 full-time employees (year ended 31 December 2021: 660). The salaries of the Group's employees were determined by the individual performance, professional qualification, industry experience of the employee and relevant market trends. The management reviews the remuneration policy of the Group on a regular basis and evaluates the working performance of the employees. The remuneration of the employees includes salaries, allowances, year-end bonus, social insurance or mandatory pension etc.

As at 31 December 2022, no share in respect of which options had been granted under the share option scheme (the "Scheme") adopted by the Company and remained outstanding (year ended 31 December 2021: Nil).

USE OF PROCEEDS FROM THE IPO

The net proceeds raised from the Company's newly issued and listed shares on the Stock Exchange in May 2007 (after deduction of related issuance expenses) amounted to approximately HK$265,000,000. As of 31 December 2022, approximately HK$207,834,000 of the proceeds so raised was used, and the unused proceeds of approximately HK$57,166,000 was deposited with banks, the security of which was adequately ensured.

Details of the used proceeds raised of approximately HK$207,834,000 are set out as follows:

- as to approximately HK$29,000,000 for acquisition of the business of a retail chain in Shenzhen, the PRC;
- as to approximately HK$28,300,000 for opening of new stores in Yanbu Foshan and Ronggui Foshan, the PRC;

- as to approximately HK$8,750,000 for opening of a new store in Nanning Guangxi, the PRC;

- as to approximately HK$4,350,000 for opening of two new stores in Xinan Baoan Shenzhen, the PRC;

- as to approximately HK$10,400,000 for opening of a new store in Luohu Shenzhen, the PRC;

- as to approximately HK$15,800,000 for opening of a new store in Buji Shenzhen, the PRC;

- as to approximately HK$14,300,000 for opening of another new store in Nanning Guangxi, the PRC;

- as to approximately HK$3,690,000 for opening of a new supermarket in Bantian Longgang, Shenzhen, the PRC;

- as to approximately HK$8,800,000 for opening of a restaurant and two beverage kiosks in Shenzhen, the PRC;

- as to approximately HK$3,600,000 for opening of a theme restaurant and a Chinese restaurant in Baoan and Longgang Shenzhen, the PRC respectively;

- as to approximately HK$9,200,000 for setting up of a procurement centre in Shiyan Shenzhen, the PRC;

- as to approximately HK$12,919,000 for the purchase of transportation equipment;

- as to approximately HK$15,000,000 for the purchase of office equipment;

- as to approximately HK$3,000,000 for the upgrade of the MIS;

- as to approximately HK$725,000 to promote the Company's brand image; and

- as to approximately HK$40,000,000 for the refurbishments of existing retail stores.

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

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2022, the Group had cash and cash equivalents of approximately RMB66.2 million (31 December 2021: approximately RMB26.1 million), while the restricted bank deposits amounted to approximately RMB2.0 million (31 December 2021: RMB2.0 million). Total borrowings of the Group included bank loans of approximately RMB157.2 million as at 31 December 2022 (31 December 2021: RMB93.4 million).

As at 31 December 2022, the Group had a net current liabilities of approximately RMB71.6 million, as compared to amount of approximately RMB102.0 million as at 31 December 2021. As at 31 December 2022, the gearing ratio of the Group was approximately 3.86 (31 December 2021: 2.25), which was calculated on the basis of the net debt divided by total equity. Net debt was calculated as total borrowings (including current and non-current bank loans and lease liabilities) less total cash (including cash and cash equivalents and restricted bank deposit).

CAPITAL EXPENDITURE

The total spending on the additions of property, plant and equipment amounted to approximately RMB9.6 million for the year (2021: approximately RMB50.3 million).

CHARGES OF ASSETS

As at 31 December 2022, the carrying amount of investment properties amounted to approximately RMB242.7 million (2021: RMB257.3 million) was pledged as security for the Group's bank loans granted in relation to the Group's retail business.

CONTINGENT LIABILITIES

As at 31 December 2022, the Group has no significant contingent liabilities (2021: Nil).

CORPORATE GOVERNANCE

The Company is committed to achieve a high standard of corporate governance practice, such that the interests of our shareholders, customers, employees as well as the long term development of the Company can be safeguarded. To this end, the Company has established the Board of Directors (the "Board"), audit committee ("Audit Committee"), remuneration committee ("Remuneration Committee") and nomination committee ("Nomination Committee") ensuring that we are up to the requirements as being diligent, accountable and professional.

The Board is of the view that the Company has complied with the code provisions set out in the Corporate Governance Code during the year ended 31 December 2022 as contained in Appendix 14 of the Listing Rules, except for the following deviations:

Code provision E.1.2 of the Code requires that the chairman of the board should attend the annual general meeting. Mr. Zhuang Lu Kun, the Chairman of the Board was unable to attend the annual general meeting of the Company held on 9 June 2022 due to his other business engagements.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Board of the Company had adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules as the Company's own code for securities transactions by its Directors. Following specific enquiry made with all Directors, the Company has confirmed that all Directors had been in compliance with the required standard mentioned above for the year ended 31 December 2022.

ANNUAL GENERAL MEETING

The 2023 Annual General Meeting of the Company will be held on 9 June 2023, Friday and the Notice of Annual General Meeting will be published and dispatched in the manner as required by the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the annual general meeting of the Company to be held on 9 June 2023, the register of members of the Company will be closed from 5 June 2023 to 9 June 2023, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the above meeting, unregistered holders of shares of the Company should ensure that all transfer forms accompanied by the relevant share certificates must be lodged with the Branch Share Registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration no later than 4:30 p.m. on 2 June 2023, HK time.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the year ended 31 December 2022, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Audit Committee consists of three Independent Non-executive Directors, namely Mr. Chin Kam Cheung, Mr. Sun Ju Yi and Mr. Ai Ji. Mr. Chin Kam Cheung, who holds the appropriate professional qualifications as required under Rule 3.10(2) and Rule 3.21 of the Listing Rules, serves as the chairman of the Audit Committee. The primary duties of the Audit Committee include examining independently the financial positions of the Company, overseeing the Company's financial reporting system, risk management and internal control system, the audit process and proposals of internal management, communicating independently with, monitoring and verifying the work of internal audit and external auditors. The Audit Committee reviewed the financial reporting system, compliance procedures, internal control (including the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting and financial reporting function), risk management systems and processes and the reappointment of the external auditor and fulfilled duties as required aforesaid. The Board had not deviated from any recommendation given by the Audit Committee on the selection, appointment, resignation or dismissal of external auditor. The Audit Committee has reviewed the annual results of the Company for the year ended 31 December 2022. There are proper arrangements for employees, in confidential, to raise concerns about possible improprieties in financial reporting, internal control and other matters. The written terms of reference of the Audit Committee are available on the websites of the Company and the Stock Exchange.

REMUNERATION COMMITTEE

A Remuneration Committee was established by the Company on 30 April 2007 with specific written terms of reference which set out clearly its authority and duties. The Remuneration Committee currently comprises one Executive Director, namely, Mr. Zhuang Pei Zhong, three Independent Non-executive Directors, namely, Mr. Chin Kam Cheung, Mr. Sun Ju Yi (Chairman of the Committee) and Mr. Ai Ji, is responsible for advising the Board on the remuneration policy and framework and determining the remuneration packages of Directors and senior management with reference to the Company's objectives from time to time.

NOMINATION COMMITTEE

A Nomination Committee was established by the Company on 30 April 2007 with specific written terms of reference which set out clearly its authority and duties. The Nomination Committee currently comprises three Independent Non-executive Directors, namely, Mr. Chin Kam Cheung, Mr. Sun Ju Yi and Mr. Ai Ji (Chairman of the Committee), is responsible for making recommendations to the Board on appointment of Directors and management of the succession of the Board.

REVIEW OF FINANCIAL STATEMENTS

A meeting of the audit committee was held to review the Group's annual results for the year ended 31 December 2022 before they presented the same to the board of directors of the Company for approval. The audit committee has reviewed with the senior management of the Company the accounting principles and practice adopted by the Group, discussed auditing, financial reporting matters and has reviewed the annual results for the year ended 31 December 2022 before they presented the same to the board of directors of the Company for approval.

SCOPE OF WORK OF BDO LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2022 as set out in the announcement have been agreed by the Group's auditor, BDO Limited ("BDO"), to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by BDO in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO on this preliminary announcement.

PUBLICATION OF FURTHER INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

The Annual Report of the Company for the year ended 31 December 2022 containing all information required by Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange and dispatched to shareholders in due course.

ACKNOWLEDGMENT

On behalf of the Board, I would like to take this opportunity to express our gratitude to the Board, management, our staff and relevant professional parties for their contribution and dedication.

By Order of the Board
Jiahua Stores Holdings Limited
Zhuang Lu Kun
Chairman

Shenzhen, the PRC, 29 March 2023

As at the date of this announcement, (a) the executive Directors are Mr. Zhuang Lu Kun, Mr. Zhuang Pei Zhong and Mr. Zhuang Xiao Xiong; (b) the independent non-executive Directors are Mr. Chin Kam Cheung, Mr. Sun Ju Yi and Mr. Ai Ji.