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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 2015

FINANCIAL HIGHLIGHTS

Revenue increased by 2.2% to approximately RMB839.7 million

Gross profit margin decreased by 10.9% to approximately RMB89.9 million

Profit for the year attributable to the owners of the Company amounted to approximately RMB45.6 million

Basic earnings per share was approximately RMB4.4 cents

Proposed final dividend of RMB1.27 cents 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 2015 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

		Year ended 31 December	
		2015	2014
	Notes	***RMB'000***	*RMB'000*
Revenue	*4*	**839,674**	821,249
Cost of inventories sold		**(579,767)**	(556,965)
		259,907	264,284
Other operating income	*5*	**66,169**	74,949
Increase in fair value of investment properties	*11*	**3,100**	7,000
Selling and distribution costs		**(214,561)**	(213,675)
Administrative expenses		**(43,887)**	(42,222)
Other operating expenses		**(5,237)**	(10,317)
Operating profit		**65,491**	80,019
Share of loss of an associate		**(1,475)**	(2,009)
Finance cost	*6*	**(13)**	(1,238)
Profit before income tax	*7*	**64,003**	76,772
Income tax expense	*8*	**(18,414)**	(18,116)
Profit for the year		**45,589**	58,656
Other comprehensive income			
Item that will not be reclassified to profit or loss:			
Revaluation gain upon transfer of owner occupied land and building to investment properties		**–**	574
Deferred tax		**–**	(143)
Other comprehensive income for the year, net of tax		**–**	431
Total comprehensive income for the year		**45,589**	59,087

		Year ended 31 December	
		2015	2014
	Notes	***RMB'000***	*RMB'000*
Profit/(loss) for the year attributable to:			
– Owner of the Company		**45,600**	58,656
– Non-controlling interest		**(11)**	–
		45,589	58,656
Total comprehensive income attributable to:			
– Owner of the Company		**45,600**	59,087
– Non-controlling interest		**(11)**	–
		45,589	59,087
Earnings per share for profit attributable to the owners of the Company during the year			
– Basic and diluted (RMB cents)	*10*	**4.40**	5.65

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

	Notes	As at 31 December **2015** ***RMB'000***	2014 *RMB'000*
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**102,798**	79,464
Investment properties	*11*	**260,100**	257,000
Prepaid land lease		**13,184**	13,445
Intangible asset		**15,000**	–
Deposits paid		**10,214**	8,374
Interests in an associate		**116**	1,591
Available-for-sale financial assets		**10,833**	–
		412,245	359,874
Current assets			
Inventories and consumables	*12*	**63,190**	83,274
Trade receivables	*13*	**12,482**	4,924
Amount due from non-controlling interest of a subsidiary		**250**	–
Deposits paid, prepayments and other receivables		**54,352**	60,821
Pledged bank deposits		**–**	100,000
Cash and bank balances		**293,271**	321,703
		423,545	570,722
Current liabilities			
Trade payables	*14*	**189,006**	210,375
Coupon liabilities, deposits received, other payables and accruals		**58,978**	58,827
Amount due to a director		**59**	59
Provision for taxation		**10,844**	9,881
Bank borrowing, secured	*15*	**–**	100,000
		258,887	379,142

		As at 31 December	
		2015	2014
	Notes	***RMB'000***	*RMB'000*
Net current assets		**164,658**	191,580
Total assets less current liabilities		**576,903**	551,454
Non-current liabilities			
Deferred tax liabilities		**13,031**	12,256
Net assets		**563,872**	539,198
EQUITY			
Share capital	*16*	**10,125**	10,125
Reserves		**553,508**	529,073
Equity attributable to the owners of the Company		**563,663**	539,198
Non-controlling interest		**239**	–
Total equity		**563,872**	539,198

NOTES TO THE FINANCIAL STATEMENTS:

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 the it's registered office and principal place of business are located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and 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, wholesale of consumables and provision of factoring service in the PRC.

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

2. BASIS OF PREPARATION

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

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates.

In addition, the Group has adopted the amendments to the Listing Rules issued by the Stock Exchange relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap. 622) during the current financial year. The main impact on the financial statements is on the presentation and disclosure of certain information in the financial statements.

3. ADOPTION OF NEW AND REVISED STANDARDS

(a) Adoption of new/revised HKFRSs – effective 1 January 2015

During the year, the Group has adopted all the revised HKFRSs which are first effective for the reporting year and relevant to the Group. Except as explained below, the adoption of these revised HKFRSs did not result in material changes to the Group's accounting policies.

Amendments to HKFRSs	Annual Improvements to HKFRSs 2010 - 2012 Cycle
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011 - 2013 Cycle

(b) New/revised HKFRSs that have been issued but are not yet effective

At the date of this results announcement, certain new and revised HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

For the new/revised HKFRSs that have been issued but are not yet effective and have not been early adopted by the Group, the directors of the Company (the "Directors") anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncements. The Directors are currently assessing the impact of the new and revised HKFRSs upon initial application but are not yet in a position to state whether they would have material financial impact on the Group's results and financial position.

4. REVENUE AND SEGMENT INFORMATION

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
Revenue		
Sales of goods	**578,685**	628,619
Commissions from concessionaire sales	**115,038**	114,142
Rental income from sub-leasing of shop premises	**45,342**	40,806
Rental income from investment properties	**8,997**	8,448
Wholesale of consumables	**90,970**	29,234
Interest income from factoring service	**642**	–
	839,674	821,249

Revenue, which is also the Group's turnover, represents invoiced value of goods sold, net of value added tax, after allowances for returns and discounts; rental income and the value of services rendered. On adoption of HKFRS 8 "Operating Segments", the Group has identified its operating segments and prepared segment information based on the regular internal financial information reported to the Group's 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/reportable segments in the internal reporting to the executive directors, which are operation and management of retail stores and wholesale of consumables. No operating segment analysis is presented as less than 10% of the Group's revenue, operating result and asset is attributable to the wholesales of consumables for the year ended 31 December 2014. During the year, the Group disposed its non-major business component of wholesale of consumables.

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.

5. OTHER OPERATING INCOME

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
Interest income	**4,985**	9,524
Net exchange gain	**348**	325
Government grants	**2,097**	2,477
Administration and management fee income from suppliers	**42,403**	41,526
Others	**16,336**	21,097
	66,169	74,949

6. FINANCE COST

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
Interest expenses on revolving loan	**13**	1,238

7. PROFIT BEFORE INCOME TAX

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
Profit before income tax is arrived at after charging:		
Cost of inventories sold recognised as expense	**579,767**	556,965
Auditor's remuneration	**992**	851
Depreciation of property, plant and equipment	**27,731**	31,033
Amortisation of prepaid land lease	**261**	261
Impairment loss on other receivable	**3,020**	–
Loss on disposal of property, plant and equipment	**45**	199
Operating lease rentals in respect of land and buildings	**49,010**	51,442
Obsolete inventories written off	**224**	217
Inventories loss	**589**	393
Loss on disposal of a subsidiary	**204**	–
Staff costs, including directors' emoluments		
Salaries and other benefits	**76,933**	77,925
Contributions to retirement schemes	**9,888**	9,400
	86,821	87,325
and crediting:		
Net exchange gain	**348**	325
Rental income from investment properties	**8,997**	8,448
Sub-letting of properties		
– Base rents	**42,199**	36,735
– Contingent rents*	**3,143**	4,071
	45,342	40,806
Total gross rental income	**54,339**	49,254
Less: Direct operating expenses arising from investment properties that generated rental income during the year	**(28)**	(26)
Less: Outgoings of sub-letting of properties	**(14,215)**	(12,761)
Net rental income	**40,096**	36,467

Notes:

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

8. INCOME TAX EXPENSE

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
Current income tax		
PRC enterprise income tax	**15,361**	14,952
PRC withholding income tax	**2,278**	1,414
Deferred tax	**775**	1,750
	18,414	18,116

The Group is not subject to any taxation under the jurisdiction of the Cayman Islands and British Virgin Islands during the year (2014: Nil).

No provision for Hong Kong Profits Tax has been made as the Group had no estimated assessable profit in Hong Kong for the year (2014: Nil).

Subsidiaries of the Company established in the PRC were mainly subject to PRC Enterprise Income Tax at the rate of 25% for the year under the income tax rules and regulations of the PRC (2014: 25%).

Pursuant to the Detailed Implementation Regulations for implementation of the new Corporate Income Tax Law of the PRC issued on 6 December 2007, a 10% withholding income tax shall be levied on the dividends remitted by the companies established in the PRC to their foreign investors starting from 1 January 2008. Dividends declared or proposed out from the profits generated by the PRC companies after 1 January 2008 shall be subject to this withholding income tax.

9. DIVIDENDS

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
Proposed final dividend of RMB1.27 cents per ordinary share for the year ended 31 December 2015 (2014: RMB2.04 cents)	**13,176**	21,165

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

10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to the owners of the Company of approximately RMB45,600,000 (2014: approximately RMB58,656,000) and the weighted average number of approximately 1,037,500,002 (2014: 1,037,500,002) ordinary shares in issue during the year.

Diluted earnings per share were the same as the basic earnings per share as the exercise price of the Company's outstanding options were higher than the average market price for the years and there were no other potential dilutive ordinary shares in existence during the years.

11. INVESTMENT PROPERTIES

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
At beginning of the year	**257,000**	232,000
Transfer from property, plant and equipment	**–**	10,490
Transfer from prepaid land lease	**–**	6,936
Revaluation gain upon transfer of property, plant and equipment and prepaid land lease to investment properties	**–**	574
Increase in fair value of investment properties	**3,100**	7,000
At end of the year	**260,100**	257,000

The investment properties represent various buildings and leasehold land located in the PRC held for generating rental income and the leasehold land will expire in 2066.

12. INVENTORIES AND CONSUMABLES

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
Merchandise for resale	**59,495**	78,843
Low value consumables	**3,695**	4,431
	63,190	83,274

13. TRADE RECEIVABLES

All of the Group's sales are on cash basis except for certain wholesale of consumables, bulk sales of merchandise to corporate customers, rental income receivables from tenants and provision of factoring services. The credit terms offered to these customers or tenants from operation and management of retail stores, wholesale of consumables are generally for a period of one to three months while to customers from factoring services are generally for a period of one to six months. Trade receivables were non-interest-bearing, except for trade receivables from factoring services of RMB9,476,000 which bore interest at rates ranging from 12% to 13% per annum. The aging analysis of the trade receivables, based on invoice dates, is as follows:

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
Within 30 days	**2,812**	4,633
31–60 days	**79**	186
61–180 days	**9,562**	104
181–365 days	**26**	–
Over 1 year	**3**	1
	12,482	4,924

14. TRADE PAYABLES

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

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
Within 30 days	**107,973**	117,663
31–60 days	**51,370**	60,868
61–180 days	**19,995**	19,957
181–365 days	**1,512**	3,704
Over 1 year	**8,156**	8,183
	189,006	210,375

15. BANK BORROWING, SECURED

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
Current		
Bank borrowing repayable on demand	**–**	100,000

16. SHARE CAPITAL

	2015		**2014**	
	Number of shares		**Number of shares**	
	('000)	*RMB'000*	*('000)*	*RMB'000*
Authorised:				
Ordinary shares of 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

17. LITIGATIONS

(a) Guangxi Yulin Store

In July 2011, the Group entered into a lease agreement with Yulin Hongyuan Real Estate Development Limited ("Yulin Hongyuan") pursuant to which the Group would lease from Yulin Hongyuan a property located at No.8 Baishiqiao Road of Yulin, Guangxi, the PRC for setting up a store (the "Yulin Store"). The Group also entered into property management agreements with a related company of Yulin Hongyuan for the Yulin Store in July 2011.

In October 2012, the Group has commenced legal proceedings against Yulin Hongyuan and its related company as Yulin Hongyuan has breached the lease agreement for failing to hand over the property to the Group before the deadline as stipulated in the lease agreement. The Group demanded repayments of the deposits, prepaid rentals and management fees of an aggregate amount of approximately RMB4,173,000 from Yulin Hongyuan and its related company. The Group further claimed a sum of approximately RMB1,669,000, being penalty for breaching the agreements and the costs of the proceedings.

In December 2012, Yulin Hongyuan and the related company have filed counterclaims against the Group for the alleged damage of an aggregate amount of approximately RMB8,466,000 arising from the alleged improper cancellation of the agreements by the Group and the costs of the proceedings.

In July 2013, the court has announced its judgement that the Group was required to bear the alleged damage to Yulin Hongyuan with a total of approximately RMB3,510,000; Yulin Hongyuan was required to return the prepaid rent and deposit to the Group of RMB1,407,000 and RMB938,000 respectively; the Group was required to bear partial court processing fee of RMB25,000. In August 2013, the Group and Yulin Hongyuan have lodged appeal against the decision by the court separately.

In October 2013, the court has announced its judgement that the Group was required to bear the alleged damage to the related company of Yulin Hongyuan with a total of approximately RMB678,000; the related company of Yulin Hongyuan was required to return the prepaid management fee and deposit to the Group of RMB1,097,000 and RMB731,000 respectively; the Group was required to bear the partial court processing fee of RMB12,000. In December 2013, the Group has lodged appeal against the decision by the court.

In March 2014, the court has subsequently cancelled its previous judgements in July 2013 as stated above and the legal proceedings will be processed again by the court.

In July 2014, the court has announced its judgement that the Group was required to bear the alleged damage to the related company of Yulin Hongyuan with a total of approximately RMB60,000; the related company of Yulin Hongyuan was required to return the prepaid management fee and deposit to the Group of RMB1,097,000 and RMB731,000 respectively; the Group was required to bear the partial court processing fee of RMB16,000. In August 2014, the Group has lodged application for compulsory execution of the decision by the court.

In August 2014, the court has announced its judgement that the Group was required to bear the alleged damage and rental loss compensation to Yulin Hongyuan with a total of approximately RMB1,754,000 and RMB2,815,000 respectively; Yulin Hongyuan was required to return the rental deposit to the Group of RMB938,000; the Group was required to bear partial court processing fee of RMB38,000. In November 2014, the Group has lodged appeal against the decision by the court.

In February 2015, the court has announced its judgement that Yulin Hongyuan was required to return the prepaid rent and deposit to the Group of RMB1,407,000 and RMB938,000 respectively; Yulin Hongyuan was required to bear all court processing fee. In October 2015, Yulin Hongyuan have lodged appeal against the decision by the court but has been turned down.

In October 2015, the court has cancelled its previous judgements regarding the legal proceedings with the related company of Yulin Hongyuan in October 2013 and July 2014 as stated above respectively and the legal proceedings will be processed again by the court.

The directors are of the view that the counterclaims of alleged damage granted by the court of RMB60,000 to the related company of Yulin Hongyuan is groundless on the basis of the legal opinion obtained from the Group's legal advisor. Therefore, no provision for the counterclaims of RMB60,000 was made as at 31 December 2015. Furthermore, the directors are of the view that adequate provision for legal fees in relation to the proceedings has been made as at 31 December 2015.

(b) Yunnan Kunming Store

In October 2011, the Group entered into a lease agreement with Yunnan Zhenwan Corporate Management Limited ("Yunnan Zhenwan") pursuant to which the Group would lease from Yunnan Zhenwan a property located at Laohaigeng Road of Xisan District, Kunming, Yunnan, the PRC for setting up a store.

In December 2012, the Group has commenced legal proceedings against Yunnan Zhenwan and two related companies as they failed to hand over the property in condition stipulated in the agreement to the Group before the deadline as stipulated in the agreement. The Group demanded repayments of the deposit paid of approximately RMB529,000 and further claimed a sum of approximately RMB7,784,000 for damage of economic loss arising from the breach of the agreement and the costs of the proceedings.

In February 2013, Yunnan Zhenwan and its related companies have filed counterclaim against the Group for the alleged damage of approximately RMB2,239,000 arising from the alleged improper cancellation of the agreement by the Group and the costs of the proceedings.

In November 2013, the court has announced its judgement that Yunnan Zhenwan and its related companies were required to refund the rental deposit of approximately RMB529,000, and compensate the Group for the decoration fee on leasehold improvement of approximately RMB1,106,000 plus a refund of decoration deposit of approximately RMB30,000. On the other hand, the Group was required to compensate Yunnan Zhenwan and its related companies for the amount of approximately RMB61,000.

In June 2014, the Group received the refund of rental deposit of approximately RMB529,000, decoration deposit of approximately RMB30,000 and the compensation from Yunnan Zhenwan and its related companies of approximately RMB1,106,000 and recognised the compensation as other income for the year ended 31 December 2014.

(c) Shatoujiao Store

In April 2005, the Group entered into a lease agreement with Shenzhen Rongjin Industrial Group Limited ("Shenzhen Rongjin") pursuant to which the Group would lease from Shenzhen Rongjin a property located at Shayan Road, Yantian District, Shenzhen, the PRC for the operation of a store (the "Shatoujiao Store"). In June 2011, the Group entered into another lease agreement with McDonald's Restaurants (Shenzhen) Limited ("McDonald's") to sub-lease part of its store.

In July 2013, the Group sent a letter to inform Shenzhen Rongjin and McDonald's regarding its early termination of the lease agreements effective in October 2013.

In October 2013, McDonald's has commenced legal proceeding against the Group for its early termination of the lease agreement. The Group had reached a settlement agreement with McDonald's for which Shenzhen Rongjin is willing to lease the property directly to McDonald's which is currently occupied by McDonald's provided that the Group is willing to pay a total of RMB2 million to Shenzhen Rongjin as a compensation. The Group paid RMB2 million to Shenzhen Rongjin in November 2013.

In December 2013, Shenzhen Rongjin has commenced legal proceedings against the Group for its early termination of the lease agreement. Shenzhen Rongjin demanded the forfeiture of the rental deposits of approximately RMB1,222,100 paid by the Group to Shenzhen Rongjin and further claimed the Group for the compensation of approximately RMB66,505,000.

In May 2014, the Group had reached a settlement agreement ("Settlement Agreement") with Shenzhen Rongjin. Pursuant to the Settlement Agreement, the Group and Shenzhen Rongjin mutually agreed to early terminate the lease agreement immediately after signing the Settlement Agreement, and the Group made a cash compensation ("Cash Compensation") in a total of approximately RMB12,000,000 to Shenzhen Rongjin. The rental deposits of RMB1,222,100 paid by the Group was set off against the Cash Compensation. The Group and Shenzhen Rongjin withdrew the legal proceedings accordingly for the year ended 31 December 2014. Provision of compensation of approximately RMB3,000,000 had been recognised for the year ended 31 December 2013, an amount of approximately remaining RMB9,000,00 of compensation had been recorded and included in other operating expenses during the year ended 31 December 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

(A) Industry Overview

Amid rapid reform and transformation in the retail sector in China, the economic restructuring has made the retail sector a major channel to stimulate domestic demand and economy. Improvement in living standard and changes in foreign currency exchange rates led to shift in trend of consumption and demand. As the government was proactively fostering the development of Internet and encouraging development of online business, operators in the retail sector were subject to significant reform and had to deal with many challenges.

According to the statistics released by the National Bureau of Statistics of China, GDP for the year amounted to RMB67,600 billion, representing a 6.9% increase over last year. Total retail sales of social consumer goods for the year was RMB30,000 billion, representing an year-on-year ("YOY") growth of 10.7%. Among them, retail sales of "over-the-threshold" consumer goods grew by 7.8% on an YOY basis to RMB14,200 billion. Retail sales of urban consumer goods rose by 10.5% to RMB25,900 billion YOY. By consumption pattern, retail sales of commodities went up 10.6% to RMB26,900 billion YOY. During the year, total domestic Internet retail sales amounted to RMB3,800 billion, representing an YOY growth of 33.3%. Among them, commodity goods Internet retail sales grew by 31.6% on an YOY basis to RMB3,200 billion, accounting for 10.8% of the total retail sales of social consumer goods. Online retail sales of non-physical goods amounted to RMB 630 billion, up by 42.4%. The annual per capita income amounted to RMB22,000. On further break down, per capita disposable income of urban residents amounted to RMB31,000, increased by 8.2% as compared with last year; per capita disposable income of rural residents amounted to RMB11,000, increased by 8.9% as compared with last year.

The retail market in China is plagued with slow recovery in consumption and fierce competition among various channels. As such, physical store operators are going through a rough patch and lacking growth momentum in their fundamental aspects. It remains highly uncertain whether they can turn things around.

(B) Business Review

During the year, the Group has directly operated 11 stores with a total gross floor area of approximately 149,000 square meters, principally located in the Guangdong (including Shenzhen and Foshan) and Guangxi provinces. Among them, ten stores (total gross floor area of approximately 146,000 square meters) are operating as retail stores and one is used for leasing purpose. For the ten retail stores, eight of them are in Guangdong (seven in Shenzhen and one in Foshan) and the remaining two are in Nanning of Guangxi. The Group also owns a four-floor commercial property located in Baoan Central District, Shenzhen, Guangdong. Except for part of one floor being used as the Group's own headquarters, all other commercial floors have been fully leased out for rental purpose.

Store upgrade and renovation to create a delicate shopping environment

During the year, two flagship stores underwent intensive renovation to enhance their presentation in order to create a delicate shopping environment. Songgang store was the major project, the renovation to which involved an overhaul of its outer wall and installation of a large display at its entrance. It served to promote and deliver the store's message to its customers in an innovative and interactive manner. The store boasted a refreshing layout and decoration with enhanced lighting effects and tiles replacement for the sales floor. Other improvements included revamped tour escalators to implement interaction between three escalators, ancillaries upgrade and reduced supermarket area to make space for a complementary catering project. Trendsetting lifestyle brands and operators were introduced to the store and product mix was optimised, which would provide a comfortable and delicate shopping environment for the consumers. Shiyan store also optimised its layout and products structure and improved its internal environment and facilities. The store also brought in well known kids wear suppliers to foster an atmosphere of community store.

Introducing corporate visual design to communicate corporate business objective

In order to enhance recognition and attractiveness of our brand, the Group carried out a corporate visual design exercise during the year. We conducted comprehensive logo-upgrading work and applied the logos in our sales efforts. The new "BJW" logo is based on the idea of "service 100, quality 100, and happiness 100", which represents our energy, vigour and charm to go beyond limit. The new logo not only establishes a new outlook of the Group's retail business for customers, but also communicates the management's operating concepts regarding the Group's future development. During the year, the Group applied such visual identity in all sales outlets so as to provide customers with a brand new experience as well as to lay a solid foundation for further upgrade of the brand in the future.

Commence cross-border e-commerce to carry out state-supported projects

In recent years, demand for foreign products in China has been surging. In response to the emerging of this new retail segment, the Group carried out preparation works in the middle of the year and put in place an information system for retail. The activation of O2O model allowed for a full utilisation of mobile Internet technology, enhanced synergistic marketing between online and offline channels and a trial run for the cross-border e-commerce. Accordingly, the Group expanded its merchandising department and recruited talents for online shopping so as to establish an online development team, which would be responsible for identifying foreign manufacturers, acquiring tax-free commodities from overseas and implementing the new concept of "shopping around the world". In October, the Group set up the first conceptual cross-border e-commerce store in Longhua store in Shenzhen to assist the cross border business. The Group expects to obtain a considerable share in the new segment of the retail market.

Widen investment horizon to expand scope of business

Since last year, the Group kept searching for new investment projects and added a few to its existing portfolio in addition to purchase of commercial properties for rental purposes, investments in consumable distributors and acquisition of equity interest in enterprises engaged in mobile Internet platform. In this regard, the Group commenced investment cooperation with an Internet service platform operator headquartered in Changzhou, Jiangsu Province and acquired part of its equity, which generated a slight investment return due to soaring interest in the Internet. Furthermore, in February, the Group entered into a cooperation agreement with an international cartoon brand licensor for an exclusive operating right and franchise licensing right of the brand's catering services in Shenzhen and Guangzhou, PRC. The Group had identified several lease properties locations for the operation of theme restaurants and cafes, marking an important step for its catering and retail business. At the end of the year, the Group established a subsidiary focusing on Internet technology, which will complement the development of the Group's retail business and develop mobile phone software and work on the promotion and selling of integrated marketing application. As the business scope continues to diversify, the Group will continue to identify feasible investment opportunities and take full advantage of the resources obtained from listing to boost the return for the shareholders.

(C) Outlook

Looking forward to 2016, the retail sector will still face the challenge from greater pressure of accelerating cost and competition from e-business. Although the traditional retailer will still dominate the market, profit margin is likely to drop with the vicious competition and the influence of e-business. Despite this situation, the Group will carefully guide the transformation towards the sales-driven model and strengthen the operating management to further its profitability so as to cope with the impact brought about by the e-business to traditional retail operation. Apart from this, all stores will undergo upgrade renovation to bring in new shopping experience to customers. Information platform building will uplift customer profile and satisfaction, hence preserve their confidence on the Group's stores. On the investment front, the Group will continue to seek other appropriate opportunities in broadening its operating scope and increasing the shareholders' return.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2015, total revenue of the Group (that is, the aggregate proceeds from direct sales of goods, commission from concessionaire sales, rental income from sub-leasing of shop premises, rental income from investment properties, wholesale of consumables and factoring income) was approximately RMB839.7 million, representing an increase of 2.2% from approximately RMB821.2 million in 2014.

Affected by the emerging and fast growing of internet e-shopping operators, the Group has undergone conversion of part of sales floor from direct sales to leasing to food and beverage concessionaire counter to increase the attractiveness of stores to customers. Total direct sales of goods declined by approximately 7.9% to approximately RMB578.7 million for the year of 2015. Sales margin was approximately 14.9% for the year of 2015, which was slightly lower than the sales margin of approximately 15.8% for the year of 2014.

Commission from concessionaire sales, however, increased by approximately 0.8% to approximately RMB115.0 million for the year of 2015. The increase was mainly due to increase of sales floor for concessionaire counters, principally food and beverage operators. This resulted in the increase of rental income from sub-leasing of store premises amounted to approximately RMB45.3 million for the year as well, an increase of 11.1% comparatively on yearly basis. For the wholesale of consumables, there was considerable performance with approximately RMB91.0 million with aggressive strategy of low margin by the Group. Rental income from investment properties increased by approximately 6.5% to approximately RMB9.0 million for the year. The increase was mainly due to full occupancy of the properties which earned rental income. There was a new business commenced by a subsidiary of the Group to carry out factoring arrangement amounting to approximately RMB0.6 million during the year.

Other operating income

Other operating income of the Group, which mainly comprised of interest income, administration and management fee income from suppliers, government grants and miscellaneous income, amounted to approximately RMB66.2 million in 2015, representing a decrease of 11.7% from RMB74.9 million in the year of 2014. This was attributable to the decrease in interest rate on bank deposits and loss of side business income from direct sales.

Cost of inventories sold

Cost of inventories sold represent the sales of goods and wholesale of consumables. In line with the decline of sales of goods, the Group's cost of inventories sold declined to approximately RMB579.8 million for the year ended 31 December 2015, representing a decrease of approximately 4.1% from approximately RMB557.0 million in the year of 2014.

Increase in fair value of investment properties

Increase in fair value of investment properties decreased from approximately RMB7.0 million for the year ended 31 December 2014, to approximately RMB3.1 million for this year, representing a decrease of approximately 55.7% due to changing condition in real estate market.

Staff costs

The Group's staff costs decreased by 0.6% from approximately RMB87.3 million in 2014 to approximately RMB86.8 million in 2015. The decrease was mainly due to the streamlining of manpower resource of the Group.

Depreciation

The Group's depreciation decreased by 10.6% from RMB31.0 million in 2014 to approximately RMB27.7 million in 2015. The drop was primarily due to full amortisation of part of the fixed assets acquired in the early years. Depreciation as a percentage of total revenue of the Group decreased from 3.8% in 2014 to 3.3% in 2015.

Other operating expenses

Other operating expenses decreased mainly due to absence of compensation payment to landlord for early termination of Shatoujiao store last year.

Share of loss of an associate

The share of loss of an associate for year ended 31 December 2015 amounted to approximately RMB1.5 million representing the Group's share of results of its equity interests in Shenzhen Egoos Mobile Internet Limited acquired last year.

Finance cost

For the year ended 31 December 2015, finance cost of the Group amounted to approximately RMB0.01 million, representing a decrease of 98.9% from approximately RMB1.2 million in 2014 due to the full repayment of loan at the beginning of the year.

Income tax expense

The Group's income tax expense increased by 1.6% from approximately RMB18.1 million in 2014 to approximately RMB18.4 million in 2015 as there was additional provision of withholding tax of the Group.

Profit for the year

As a result of the reasons mentioned above, profit for the year ended 31 December 2015 amounted to approximately RMB45.6 million, representing a decrease of 22.3% from approximately RMB58.7 million in 2014.

SUBSEQUENT EVENTS

The Group did not have any other significant subsequent events subsequent to 31 December 2015.

DIVIDEND

The Board recommends the payment of final dividend for the year ended 31 December 2015 of RMB1.27 cents per ordinary share (inclusive of tax). The total amount of final dividends to be distributed shall be approximately RMB13,176,000, of which dividends paid to non-resident corporate shareholders will be subject to the corporate tax applicable on the PRC sourced income pursuant to the PRC Corporate Income Tax Law and the Regulations on the Implementation of the PRC Corporate Income Tax Law that became effective on 1 January 2008 and the applicable tax rate is 10%. The Company will be responsible for withholding the relevant amount of tax from the dividend payment and the dividends to be received by the non-resident corporate shareholders will be net of withholding tax. This proposal is subject to shareholders' approval at the annual general meeting to be held on 26 May 2016, Thursday. The proposed final dividend will be paid in Hong Kong dollars, such amount to be calculated by reference to the middle rate published by the People's Bank of China for the conversion of Renminbi to Hong Kong dollars as at 29 March 2016. Upon the approval to be obtained from the Annual General Meeting, the final dividend will be payable on 24 June 2016 to the shareholders whose name appears on register of members of the Company at close of business on 2 June 2016.

Risk Management

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

(i) *Foreign exchange risk*

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

For the year ended 31 December 2015, the Group did not purchase any foreign exchange, interest rate derivative products or relevant hedging tools.

(ii) *Credit risk*

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

(iii) Interest rate risk

The Group's exposure to interest rate risk mainly arises on cash and bank balances and bank borrowing. 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'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 2015, the Group had 1,425 full-time employees (year ended 31 December 2014: 1,626). 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 2015, the number of shares in respect of which options had been granted under the share option scheme (the "Scheme") adopted by the Company and remained outstanding under the Scheme was 73,334 shares (year ended 31 December 2014: 73,334), representing 0.01% (year ended 31 December 2014: 0.01%) of the shares of the Company in issue.

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 2015, approximately HK$188,850,000 of the proceeds so raised was used, and the unused proceeds of approximately HK$76,150,000 was deposited with banks, the security of which was adequately ensured.

Details of the used proceeds raised of approximately HK$188,850,000 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 Xian 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$9,200,000 for setting up of a procurement centre in Shiyan Shenzhen, the PRC;

- as to approximately HK$10,416,000 for the purchase of transportation equipment;

- as to approximately HK$14,609,000 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.

Contingent Liabilities

As at 31 December 2015, the Group has no significant contingent liabilities.

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 2015 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 28 May 2015 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 2015.

ANNUAL GENERAL MEETING

The 2015 Annual General Meeting of the Company will be held on 26 May 2016, Thursday 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 26 May 2016, the register of members of the Company will be closed from 25 May 2016 to 26 May 2016, 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, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 24 May 2016.

For determining the entitlement to the proposed final dividend for the year ended 31 December 2015 (subject to approval by the shareholders at the annual general meeting), the register of members of the Company will be closed from 1 June 2016 to 2 June 2016, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible for the above proposed final dividend, 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, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 31 May 2016.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the year ended 31 December 2015, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

An Audit 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 Audit Committee currently comprises three Independent Non-executive Directors of the Company, namely, Mr. Chin Kam Cheung (Chairman of the committee), Mr. Sun Ju Yi and Mr. Ai Ji, is responsible for reviewing and providing supervision on the Group's financial reporting process and internal control systems. The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and the auditing, internal control and financial reporting aspects of the Company including the review of the annual results of the Company for the year ended 31 December 2015.

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 Directors, 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 one Executive Directors, namely, Mr. Gu Wei Ming, 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 2015 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 2015 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 2015 as set out in the preliminary announcement have been agreed by the Group's auditors, 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 2015 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 2016

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