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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 2016

FINANCIAL HIGHLIGHTS

Revenue decreased by 13.2% to approximately RMB728.9 million

Gross profit margin of direct sales of goods, increased by 1.3% to approximately RMB87.4 million

Profit for the year attributable to the owners of the Company amounted to approximately RMB41.3 million

Basic earnings per share was approximately RMB3.98 cents

Proposed final dividend of RMB2.41 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 2016 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

		Year ended 31 December	
		2016	2015
	Notes	***RMB'000***	*RMB'000*
Revenue	*4*	**728,903**	839,674
Cost of inventories sold		**(468,950)**	(579,767)
		259,953	259,907
Other operating income	*6*	**69,992**	66,169
Increase in fair value of investment properties	*12*	**10,600**	3,100
Selling and distribution costs		**(216,943)**	(214,561)
Administrative expenses		**(54,047)**	(43,887)
Other operating expenses		**(4,911)**	(5,237)
Operating profit	*8*	**64,644**	65,491
Share of loss of an associate		**(116)**	(1,475)
Finance cost	*7*	**–**	(13)
Profit before income tax		**64,528**	64,003
Income tax expense	*9*	**(23,393)**	(18,414)
Profit and other comprehensive income for the year		**41,135**	45,589
Profit and other comprehensive income for the year attributable to:			
– Owners of the Company		**41,306**	45,600
– Non-controlling interest		**(171)**	(11)
		41,135	45,589
Earnings per share for profit attributable to the owners of the Company during the year			
– Basic and diluted (RMB cents)	*11*	**3.98**	4.40

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

		As at 31 December	
		2016	2015
	Notes	***RMB'000***	*RMB'000*
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**113,134**	102,798
Investment properties	*12*	**270,700**	260,100
Prepaid land lease		**12,923**	13,184
Intangible assets		**11,498**	15,000
Deposits paid		**6,141**	10,214
Interests in an associate		**–**	116
Available-for-sale financial assets		**6,752**	10,833
		421,148	412,245
Current assets			
Inventories and consumables	*13*	**52,821**	63,190
Trade receivables	*14*	**19,768**	12,482
Amount due from non-controlling interest of a subsidiary		**–**	250
Deposits paid, prepayments and other receivables		**52,966**	54,352
Cash and bank balances		**328,610**	293,271
		454,165	423,545
Current liabilities			
Trade payables	*15*	**192,469**	189,006
Coupon liabilities, deposits received, other payables and accruals		**62,151**	58,978
Amount due to a director		**59**	59
Provision for taxation		**12,392**	10,844
		267,071	258,887

		As at 31 December	
		2016	2015
	Notes	***RMB'000***	*RMB'000*
Net current assets		**187,094**	164,658
Total assets less current liabilities		**608,242**	576,903
Non-current liabilities			
Deferred tax liabilities		**16,661**	13,031
Net assets		**591,581**	563,872
EQUITY			
Share capital	*16*	**10,125**	10,125
Reserves		**581,456**	553,508
Equity attributable to the owners of the Company		**591,581**	563,633
Non-controlling interest		**–**	239
Total equity		**591,581**	563,872

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, the 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, provision of factoring services and operation of restaurant in the PRC.

2. BASIS OF PREPARATION

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, 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"), which is the same as the functional currency of the Company, and all values are rounded to the nearest thousand except when otherwise indicated.

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.

3. CHANGE IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments to HKFRS that are first effective for the current accounting period of the Group. The adoption of the amendments has no material impact on the financial statements. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4. REVENUE

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Revenue		
Sales of goods	**555,206**	578,685
Commission from concessionaire sales	**110,330**	115,038
Rental income from sub-leasing of shop premises	**51,331**	45,342
Rental income from investment properties	**9,180**	8,997
Wholesale of consumables	**–**	90,970
Interest income from factoring services	**1,843**	642
Sales of food and catering	**731**	–
Others	**282**	–
	728,903	839,674

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; rental income and the value of services rendered.

5. SEGMENT INFORMATION

The Group has identified its operating segments and prepared segment information based on regular internal financial information about resources allocation to the Group's business components and review of these components' performance. There are three business components/operating segments, which are operation and management of retail stores and other related businesses, provision of factoring services and, food and catering (2015: operation and management of retail stores and other related businesses and wholesale of consumables) for the year. Business component of food and catering is a new business activity for the year. The Group disposed of its non-major business component of wholesale of consumables for the year ended 31 December 2015. Management had not identified business activity for provision of factoring services as a business component for the year ended 31 December 2015 as the business started during the year ended 31 December 2015 and the revenue was minimal for that year.

The Group has identified the reportable segment as operation and management of retail stores and other related businesses. Information about other business activities and operating segments that are not reportable are combined and disclosed in "All other segments". For the year ended 31 December 2016, "All other segments" includes provision of factoring services, and food and catering (for the year ended 31 December 2015, "All other segments" includes wholesale of consumables and provision of factoring services). There are no inter-segment sales.

	Operation and management of retail stores and other related businesses *RMB'000*	All other segments *RMB'000*	Consolidated *RMB'000*
Year ended 31 December 2016			
Segment revenue	**726,047**	**2,856**	**728,903**
Segment results	**82,263**	**(8,342)**	**73,921**
Impairment loss on an available-for-sale financial asset			**(4,081)**
Other unallocated corporate expenses			**(5,196)**
Operating profit			**64,644**
Share of loss of an associate	**(116)**	**–**	**(116)**
Profit before income tax			**64,528**
Income tax expense			**(23,393)**
Profit for the year			**41,135**
Other segment information			
Interest income	**(4,930)**	**(14)**	**(4,944)**
Additions to non-current assets	**34,140**	**8,878**	**43,018**
Amortisation of intangible assets	**105**	**4,547**	**4,652**
Amortisation of prepaid land lease	**261**	**–**	**261**
Depreciation of property, plant and equipment	**30,946**	**174**	**31,120**
Loss on disposal of property, plant and equipment	**350**	**–**	**350**
Obsolete inventories written off	**156**	**–**	**156**
Inventories loss	**307**	**–**	**307**
Increase in fair value of investment properties	**(10,600)**	**–**	**(10,600)**
Provision for a legal claim	**60**	**–**	**60**

	Operation and management of retail stores and other related businesses *RMB'000*	All other segments *RMB'000*	Consolidated *RMB'000*
At 31 December 2016			
Segment assets	**827,585**	**39,116**	**866,701**
Available-for-sales financial assets			**6,752**
Other unallocated corporate assets			**1,860**
Total assets			**875,313**
Segment liabilities	**252,050**	**1,616**	**253,666**
Provision for taxation			**12,392**
Deferred tax liability			**16,661**
Unallocated corporate liabilities			**1,013**
Total liabilities			**283,732**

	Operation and management of retail stores and other related businesses *RMB'000*	All other segments *RMB'000*	Consolidated *RMB'000*
Year ended 31 December 2015			
Segment revenue	748,062	91,612	839,674
Segment results	70,123	219	70,342
Unallocated corporate income			49
Unallocated corporate expenses			(4,900)
Operating profit			65,491
Share of loss of an associate	(1,475)	–	(1,475)
Finance cost			(13)
Profit before income tax			64,003
Income tax expense			(18,414)
Profit for the year			45,589
Other segment information			
Interest income	(4,948)	(37)	(4,985)
Additions to non-current assets	51,313	15,000	66,313
Amortisation of prepaid land lease	261	–	261
Depreciation of property, plant and equipment	27,731	–	27,731
Loss on disposal of property, plant and equipment	45	–	45
Obsolete inventories written off	224	–	224
Inventories loss	589	–	589
Impairment loss on other receivable	3,020	–	3,020
Increase in fair value of investment properties	(3,100)	–	(3,100)

	Operation and management of retail stores and other related businesses *RMB'000*	All other segments *RMB'000*	Consolidated *RMB'000*
At 31 December 2015			
Segment assets	792,457	27,427	819,884
Available-for-sales financial assets			10,833
Other unallocated corporate assets			5,073
Total assets			835,790
Segment liabilities	246,805	122	246,927
Provision for taxation			10,844
Deferred tax liabilities			13,031
Unallocated corporate liabilities			1,116
Total liabilities			271,918

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, including available-for-sales financial 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 2015 and 2016.

6. OTHER OPERATING INCOME

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Interest income	**4,944**	4,985
Net exchange gain	**517**	348
Government grants *(Note)*	**2,500**	2,097
Administration and management fee income from suppliers	**43,375**	42,403
Others	**18,656**	16,336
	69,992	66,169

Note: Various local government grants have been granted to a subsidiary of the Group during the year ended 31 December 2015 and 2016. There were no unfulfilled conditions or contingencies attaching to these government grants.

7. FINANCE COST

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Interest expense on revolving loan	**–**	13

8. OPERATING PROFIT

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Operating profit is arrived at after charging:		
Cost of inventories sold recognised as expense	**468,950**	579,767
Auditor's remuneration	**1,142**	992
Depreciation of property, plant and equipment	**31,120**	27,731
Amortisation of prepaid land lease	**261**	261
Impairment loss on other receivable	**–**	3,020
Loss on disposal of property, plant and equipment	**350**	45
Operating lease rentals in respect of land and buildings	**53,089**	49,010
Obsolete inventories written off	**156**	224
Inventories loss	**307**	589
Loss on disposal of a subsidiary	**–**	204
Impairment loss on an available-for-sale financial asset *(note (i))*	**4,081**	–
Amortisation of intangible assets	**4,652**	–
Provision of a legal claim *(note (i))*	**60**	–
Staff costs, including directors' emoluments		
Salaries and other benefits	**80,282**	76,933
Contributions to retirement schemes	**9,143**	9,888
	89,425	86,821
and crediting:		
Net exchange gain	**517**	348
Rental income from investment properties	**9,180**	8,997
Sub-letting of properties		
– Base rents	**47,705**	42,199
– Contingent rents *(note (ii))*	**3,626**	3,143
	51,331	45,342
Total gross rental income	**60,511**	54,339
Less: Direct operating expenses arising from investment properties that generated rental income during the year	**(29)**	(28)
Less: Outgoings of sub-letting of properties	**(18,563)**	(14,215)
Net rental income	**41,919**	40,096

Notes:

(i) Impairment loss on an available-for-sale financial asset and provision for a legal claim had been included in other operating expenses.

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

9. INCOME TAX EXPENSE

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Current income tax		
PRC enterprise income tax	**16,863**	15,361
PRC withholding income tax	**2,900**	2,278
Deferred tax	**3,630**	775
	23,393	18,414

The Group is not subject to any taxation under the jurisdiction of the Cayman Islands and British Virgin Islands during the year (2015: 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 (2015: Nil).

Subsidiaries of the Company established in the PRC (except for Guangxi, which Enterprise Income Tax rate was 15% (2015: 15%) pursuant to the privilege under the China's Western Development Program (西部大開發)) were subject to PRC Enterprise Income Tax at the rate of 25% for the year under the income tax rules and regulations of the PRC (2015: 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.

10. DIVIDENDS

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Proposed final dividend of approximately RMB2.41 cents per ordinary share for the year ended 31 December 2016 (2015: RMB1.27 cents)	**25,004**	13,176

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 profits for that year.

11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to the owners of the Company of approximately RMB41,306,000 (2015: RMB45,600,000) and the weighted average number of approximately 1,037,500,002 (2015: 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. All the outstanding options were lapsed during the year ended 31 December 2016.

12. INVESTMENT PROPERTIES

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
At beginning of the year	**260,100**	257,000
Increase in fair value of investment properties	**10,600**	3,100
At end of the year	**270,700**	260,100

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.

13. INVENTORIES AND CONSUMABLES

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Merchandise for resale	**49,944**	59,495
Low value consumables	**2,877**	3,695
	52,821	63,190

14. TRADE RECEIVABLES

All of the Group's sales are on cash basis except for certain 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 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 RMB16,977,000 (2015: RMB9,476,000) which bore interest at rates ranging from 6% to 13% (2015: 12% to 13%) per annum. The aging analysis of the Group's trade receivables, based on invoice dates, is as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Within 30 days	**2,611**	2,812
31–60 days	**2,397**	79
61–180 days	**14,667**	9,562
181–365 days	**53**	26
Over 1 year	**40**	3
	19,768	12,482

15. 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	
	2016	2015
	RMB'000	*RMB'000*
Within 30 days	**107,603**	107,973
31–60 days	**57,413**	51,370
61–180 days	**17,610**	19,995
181–365 days	**2,860**	1,512
Over 1 year	**6,983**	8,156
	192,469	189,006

16. SHARE CAPITAL

	2016		2015	
	Number of shares		Number of shares	
	('000)	***RMB'000***	*('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

17. LITIGATIONS

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 and 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 approximately RMB1,407,000 and RMB938,000 respectively; the Group was required to bear partial court processing fee of approximately 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 approximately RMB1,097,000 and RMB731,000 respectively; the Group was required to bear the partial court processing fee of approximately 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 regarding the legal proceedings with Yulin Hongyuan 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 approximately RMB1,097,000 and RMB731,000 respectively; the Group was required to bear the partial court processing fee of approximately 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 approximately RMB938,000; the Group was required to bear partial court processing fee of approximately 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 approximately 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.

In July 2016, Yulin Hongyuan lodged protest to the People's Procuratorate Court. In October 2016, the court has suspended the compulsory execution made by the decision in February 2015 and ordered the case to be processed again.

In August 2016, the court has announced that the judgements made in July 2014 have been sustained. The related company of Yulin Hongyuan lodged appeal to the court immediately. The legal proceeding has been processed by the court in November 2016 and is still in trail up to the end of the reporting date.

The directors are of the view that, as pursuant to legal opinion from the Group's legal advisor, all deposits and prepaid rent and management fees of an aggregate amount of approximately RMB4,173,000 should be refunded to the Group from Yulin Hongyuan and its related company. Provision of counterclaims of alleged damage granted by the court of approximately RMB60,000 to the related company of Yulin Hongyuan was made for the year ended 31 December 2016. No impairment loss on deposits and prepaid rent and management fees was made and these amounts were recorded under current assets – deposits paid, prepayments and other receivables as at 31 December 2016.

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 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

(A) Industry Review

In the past one year, China was facing extreme complicated domestic and external economic condition. The government has implemented various adjustment policies to tackle various challenging risks, such that the social economy was under healthy development. Starting from the year 2016, green spending, leisure tour spending, and personalized spending grew vigorously. The domestic consumption power has been pushed up by the upcoming spending trend of "internet plus" which completely changed the traditional spending behavior and consumption mode.

Sales turnover of retail industry has been slowed down and the growth rate of social consumable goods has been decreased. With the economic downturn and the government anti-corruption policy, the consumption growth rate was decreasing. Nevertheless, physical retail stores has gaining recovering power as both the consumer price index has reached a high level and real estate industry has been sustained. Food and home appliance spending took the lead. Net cash inflow has been maintained in the retail business but in a declining trend. The e-commerce business was growing slowly, with new brand name products put online.

According to the statistics released by the National Bureau of Statistics of China, GDP for the year amounted to RMB74,400 billion, representing a 6.7% increase over last year. Total retail sales of social consumer goods for the year was RMB33,200 billion, representing an year-on-year ("YOY") growth of 10.4%. Among them, retail sales of "over-the-threshold" consumer goods grew by 8.1% on an YOY basis to RMB15,400 billion. Retail sales of urban consumer goods rose by 10.4% to RMB28,600 billion YOY, while retail sales of rural consumer goods rose by 10.9% to RMB4,700 billion YOY. By consumption pattern, retail sales of commodities went up 10.4% to RMB29,700 billion YOY. During the year, total domestic Internet retail sales amounted to RMB5,200 billion, representing an YOY growth of 26.2%. Among them, commodity goods Internet retail sales grew by 25.6% on an YOY basis to RMB4,200 billion, accounting for 12.6% of the total retail sales of social consumer goods. The annual per capita income amounted to RMB24,000. On further breakdown, per capita disposable income of urban residents amounted to RMB34,000, increased by 7.8% as compared with last year; Per capita disposable income of rural residents amounted to RMB12,000, increased by 8.2% as compared with last year.

Overall, despite certain decrease in sales of some commodities, the traditional retail store industry is still healthy and getting better.

(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 Guangxi. During the year, the Group has opened a restaurant in Nanshan Shenzhen and two beverage kiosks in Baoan Shenzhen and Nanshan Shenzhen. Besides, 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.

Prepare the first shopping mall to connect the new trend of traditional retail industry

The Group has commenced preparation for the first self-operated shopping mall – Bantian Jiahua Ling Hui Plaza. Total floor area amounted to approximately 220,000 square meters,with proposed usage including commercial, hotel, office and residential purpose, will become a high end shopping arcade in the Bantian community. Commercial portion composed of 36% of the total floor area, covering shopping, leisure, entertaining and beverage etc. The Group has signed tenancy agreement with a related party last September to lease its commercial portion as shopping mall with an area of approximately 35,000 square meters. The area accommodated around 437,000 resident population and 2,000 corporations with various size. Bantian is an important part of the high-tech industry of which Huawei is one of its corporate residents. Our shopping mall will build up a livelihood compartment, with supermarket and value-added retail outlets. The second phrase will emphasize leisure enjoyment, with theme restaurant, sports corner, kids cinema/park etc., to attract more head traffic.

Expand Internet Technology subsidiary scope to develop online shopping application

The Group has incorporated a subsidiary focusing on internet technology a year before and recruited a team to produce our own build up online application – Baijiahua online. This application is a version of internet plus by providing both online and offline platform. It encompasses supermarket, cross-border products, brand name corner and home delivery service. Annual gross turnover has been over RMB12,000,000 and total sales orders beyond 60,000 (registered member over 130,000). There will be new service including catering, entertaining, property, fund management and other community services. It will become an integrated, innovative, interconnected livelihood platform for shoppers in the future.

Develop the commercial factoring business to share the Country's pioneer project

During the year, the Group actively developed commercial factoring business, with its scope extend to non-retailing industry. A subsidiary was set up in the Qianhai district (possesses tax privilege and technical support from the Government) which has benefited from both sea silk road and free trade zone. The current business included sales of trade debts and agency for recovering of trade debts and will extend to supermarket supply chain, real estate, manufacturing supply chain and logistic core corporations. Other than general commercial factoring service, there will be self-factoring system, and factoring insurance products to be provided in future.

Expand the business scope to commence food and beverage business with main theme

The Group has commenced preparation for the first official authorized Hello Kitty restaurant and beverage kiosk. The restaurant has been landed on OCT Harbour Shenzhen and the two beverage kiosks arrived at shopping mall in Baoan and Nanshan. Besides, two more beverage kiosks via cooperation agreement started business in Shenzhen. All of them got official authorization. The restaurant served western style natural food, drinks and desserts under the spirit of forestry garden. The beverage kiosks provided special milk tea and flower tea, which advocated healthy and trendy leisure drink. There are more self-operated and co-operation shops to come to bring more income to the Group.

(C) Outlook

Looking forward to 2017, retail industry is still facing rising cost and e-commerce competition. The operation mode division will be more apparent. With the increase in resident household income and demand of service, the spending pattern will be heading quality goods and lofty leisure activities. Shopping and leisure experience will become the attractive point for retailers, and shopping mall will be the general direction.

Apart from this, the Group is prepared for the sales reorientation works by strengthening operation management to enhance our profit level and tackle challenge from the e-commerce operators. At the same time, the Group will continuously renovated our stores, to enhance the shopping experience, and to kick off the preparation for shopping mall. On the operation level, information system build up and improvement, customer satisfaction enhancement will be maintained. On the investment side, the Group will look for other appropriate investment opportunities, extend our business horizon, to increase return rate to shareholders.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2016, total revenue of the Group (that is, the aggregate proceeds from direct sales of goods, commissions from concessionaire sales, rental income from sub-leasing of shop premises, rental income from investment properties, interest income from factoring services, and sales of food and catering was approximately RMB728.9 million, representing a decrease of approximately 13.2% from approximately RMB839.7 million in 2015.

During the year, there were additional renovation works to some of our major stores, to give a new shopping environment to the shoppers. Besides, our stores have undergone rearrangement of sales floor area by injecting trendy brand name and hot concessionaire operators. All these made customers more enjoyable shopping experience and increase attractiveness of the stores. During the period of renovation, temporary suspension of business in our stores and this adversely affected our direct sales turnover. In addition, the rearrangement of sales floor area has decreased our direct sales area which has been converted to food and beverage or entertaining operators.

In 2016, total direct sales of goods declined by approximately 4.1% to approximately RMB553.4 million. Sales margin of direct sales was approximately 15.8% for the year of 2016, which was slightly higher than the sales margin of direct sales of approximately 15.0% for the year of 2015. On the other hand, internet sales amounted to approximately RMB1.8 million during the year. There was gross loss on interest sales during the year as it is still in the infant stage of business.

Commission from concessionaire sales decreased by approximately 4.1% to approximately RMB110.3 million for the year of 2016 due to conversion of sales floor area of concessionaire to food and beverage or entertaining operators. In contrast, rental income from sub-leasing of store premises increased to approximately RMB51.3 million for the year, an increase of approximately 13.2% comparatively on yearly basis as most of the food and beverage or entertaining operators were under fixed rental lease. There was no income from the wholesale of consumables after the disposal of subsidiary last year end as the profit margin of the business was low and there were profit fluctuation risk factor behind the business. Rental income from investment properties increased by approximately 2.0% to approximately RMB9.2 million for the year. The increase was mainly due to arrival of first rental increment period of most of the tenancy. During the year, the factoring business has become mature. Income from factoring service increase by 187.1% to approximately RMB1.8 million. There was a new business of the Group in the catering industry. A theme restaurant and two beverage kiosks have been opened which achieved a turnover of approximately RMB0.7 million during the year.

Other operating income

Other operating income of the Group, which mainly comprised of interest income, net exchange gain, administration and management fee income from suppliers, government grants and miscellaneous income, amounted to approximately RMB70.0 million in 2016, representing an increase of approximately 5.8% from approximately RMB66.2 million in the year of 2015. This was attributable to the strengthening of management work to produce more administration and management fee income from suppliers.

Cost of inventories sold

Cost of inventories sold represent the cost of direct sales of goods of approximately RMB469.0 million, representing a decrease of 19.1% from approximately RMB579.8 million in 2015. There was no cost of sales for wholesale of consumables for the year of 2016. Upon the stringent control on procurement management, cost of direct sales has been decreased more than the direct sales of goods. The Group's cost of inventories sold for direct sales declined to approximately RMB466.0 million for the year ended 31 December 2016, representing a decrease of approximately 5.1% from approximately RMB490.8 million in the year of 2015.

Increase in fair value of investment properties

Increase in fair value of investment properties increased from approximately RMB3.1 million for the year ended 31 December 2015, to approximately RMB10.6 million for this year, representing an increase of approximately 241.9% due to changing condition in real estate market.

Staff costs

The Group's staff costs increased by 3.0% from approximately RMB86.8 million in 2015 to approximately RMB89.4 million in 2016. The increase was mainly due to the rise of labour cost.

Depreciation

The Group's depreciation increased by 12.2% from RMB27.7 million in 2015 to approximately RMB31.1 million in 2016. The change was primarily due to additional expenditure on the amortisation fixed assets for the renovation of stores during the year. Depreciation as a percentage of total revenue of the Group increased from 3.3% in 2015 to 4.3% in 2016.

Other operating expenses

Other operating expenses decreased by approximately RMB0.3 million, mainly due to absence of impairment loss on other receivable of approximately RMB3.0 million, reduction of penalty payment of approximately RMB0.5 million, and reduction of charity contribution of approximately RMB0.9 million. But there was impairment loss on an available-for-sale financial asset of approximately RMB4.1 million which was related to an unlisted securities in the PRC.

Share of loss of an associate

The share of loss of an associate for year ended 31 December 2016 amounted to approximately RMB0.1 million representing impairment loss on Shenzhen Egoos Mobile Internet Limited.

Income tax expense

The Group's income tax expense increased by 27.0% from approximately RMB18.4 million in 2015 to approximately RMB23.4 million in 2016 as there was additional provision of withholding tax and deferred tax on fair value change of investment properties of the Group.

Profit for the year

As a result of the reasons mentioned above, profit for the year ended 31 December 2016 amounted to approximately RMB41.1 million, representing a decrease of 9.8% from approximately RMB45.6 million in 2015.

SUBSEQUENT EVENTS

The Group did not have any other significant subsequent events subsequent to 31 December 2016.

PROPOSED FINAL DIVIDEND

The Board recommends the payment of final dividend for the year ended 31 December 2016 of RMB2.41 cents per ordinary share (inclusive of tax). The total amount of final dividends to be distributed shall be approximately RMB25,004,000, 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 29 May 2017, Monday. The proposed final dividend shall be declared in RMB and paid in Hong Kong dollars. The final dividend payable in Hong Kong dollars will be converted from RMB at the average middle rate of RMB to Hong Kong dollars of 1.1278 as announced by the People's Bank of China as at 30 March 2017. Upon the approval to be obtained from the Annual General Meeting, the final dividend will be payable on 26 June 2017 to the shareholders whose name appears on register of members of the Company at close of business on 2 June 2017.

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 cash flows are denominated in RMB. Assets and liabilities of the Group are mostly denominated in RMB and HK$. Any significant exchange rate fluctuations of foreign currencies against RMB may have financial impact to the Group.

(ii) *Credit risk*

The Group has no significant concentrations of credit risk. Most of the sales transactions were settled in cash basis or by credit card payment. The carrying amount of trade and other receivables included in the consolidated 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. 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 2016, the Group had 1,294 full-time employees (year ended 31 December 2015: 1,425). 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 2016, 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 2015: 73,334, representing 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 2016, approximately HK$199,541,000 of the proceeds so raised was used, and the unused proceeds of approximately HK$65,459,000 was deposited with banks, the security of which was adequately ensured.

Details of the used proceeds raised of approximately HK$199,541,000 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$8,800,000 for opening of a restaurant and two beverage kiosks in Shenzhen, 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$11,916,000 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.

Contingent Liabilities

As at 31 December 2016, 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 2016 as contained in Appendix 14 of the Listing Rules, except for the following deviations:

Code Provision A.6.7 of the Code requires that Independent Non-executive Directors should attend general meeting. Due to other commitments, one Independent Non-executive Directors of the Company had not attended the annual general meeting of the Company held on 26 May 2016.

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 26 May 2016 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 2016.

ANNUAL GENERAL MEETING

The 2016 Annual General Meeting of the Company will be held on 29 May 2017, Monday 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 29 May 2017, the register of members of the Company will be closed from 24 May 2017 to 29 May 2017, 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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 23 May 2017, HK time.

For determining the entitlement to the proposed final dividend for the year ended 31 December 2016 (subject to approval by the shareholders at the annual general meeting), the register of members of the Company will be closed from 5 June 2017 to 6 June 2017, 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 our Branch Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 2 June 2017, HK time.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the year ended 31 December 2016, 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 2016.

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 one Executive Director, 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 2016 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 2016 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 2016 as set out in the announcement have been agreed by the Company'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 2016 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, 30 March 2017

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.