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)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2017

FINANCIAL RESULTS

The board (the "Board") of directors (the "Directors") of Jiahua Stores Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively known as the "Group") for the six months ended 30 June 2017 together with the comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 30 June	
		2017	2016
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Revenue	*3*	**346,835**	373,997
Cost of inventories sold		**(213,187)**	(248,442)
		133,648	125,555
Other operating income	*3*	**47,353**	45,321
Selling and distribution costs		**(116,392)**	(110,791)
Administrative expenses		**(30,111)**	(26,667)
Other operating expenses		**(210)**	(552)
Operating profit before income tax	*4*	**34,288**	32,866
Income tax expense	*5*	**(10,111)**	(8,070)
Profit/(loss) and total comprehensive income for the period attributable to:			
– Owners of the Company		**24,177**	24,852
– Non-controlling interest		**–**	(56)
		24,177	24,796
Earnings per share for profit attributable to the owners of the Company during the period			
– Basic and diluted (RMB cents)	*7*	**2.33**	2.39

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**At 30 June 2017** *RMB'000* **(Unaudited)**	At 31 December 2016 *RMB'000* (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**107,121**	113,134
Investment properties		**270,700**	270,700
Prepaid land lease		**12,792**	12,923
Intangible assets		**9,115**	11,498
Deposits paid		**7,813**	6,141
Available-for-sale financial assets		**6,752**	6,752
		414,293	421,148
Current assets			
Inventories and consumables		**58,622**	52,821
Trade receivables	*9*	**25,625**	19,768
Deposits paid, prepayments and other receivables		**41,996**	52,966
Cash and bank balances		**330,781**	328,610
		457,024	454,165
Current liabilities			
Trade payables	*10*	**173,855**	192,469
Coupon liabilities, deposits received, other payables and accruals		**59,202**	60,262
Dividend payable		**17,924**	1,889
Amount due to a director		**59**	59
Provision for tax		**12,862**	12,392
		263,902	267,071
Net current assets		**193,122**	187,094
Total assets less current liabilities		**607,415**	608,242
Non-current liabilities			
Deferred tax liabilities		**16,661**	16,661
Net assets		**590,754**	591,581
EQUITY			
Share capital		**10,125**	10,125
Reserves		**580,629**	581,456
Equity attributable to the owners of the Company		**590,754**	591,581

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION AND BASIS OF PREPARATION

Jiahua Stores Holdings Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability. 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 and kiosks in the PRC.

The unaudited interim condensed consolidated financial statements ("Interim Condensed Financial Statements") of the Company and its subsidiaries (collectively known as the "Group") for the six months ended 30 June 2017 (the "period") have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange.

The Interim Condensed Financial Statements were prepared in accordance with the same accounting policies adopted in the financial statements for the year ended 31 December 2016.

The HKICPA has issued a number of amendments to Hong Kong Financial Reporting Standards ("HKFRSs") that are first effective for the current accounting period of the Group and the Company. None of these developments are relevant to the Group's results and financial position. The Group has not applied any new standard, amendment or interpretation that is not yet effective for the current accounting period.

The preparation of Interim Condensed Financial Statements in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a period to date basis. Actual results may differ from these estimates.

The Interim Condensed Financial Statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the audited financial information of the Company for the year ended 31 December 2016 (the "2016 Annual Financial Statements").

2. 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 (2016: operation and management of retail stores and other related businesses, provision of factoring services and food and catering for the period).

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 six months ended 30 June 2016 and 2017, "All other segments" includes provision of factoring services, and sales of food and catering. 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*
Six months ended 30 June 2017			
Segment revenue	**342,041**	**4,794**	**346,835**
Segment results	**42,539**	**(5,598)**	**36,941**
Other unallocated corporate expenses			**(2,653)**
Operating profit before income tax			**34,288**
Income tax expense			**(10,111)**
Profit for the period			**24,177**
Other segment information			
Interest income	**(2,731)**	**(19)**	**(2,750)**
Additions to non-current assets	**7,252**	**2,595**	**9,847**
Amortisation of intangible assets	**58**	**2,325**	**2,383**
Amortisation of prepaid land lease	**131**	**–**	**131**
Depreciation of property, plant and equipment	**14,578**	**1,282**	**15,860**
Obsolete inventories written off	**622**	**–**	**622**

	Operation and management of retail stores and other related businesses *RMB'000*	All other segments *RMB'000*	Consolidated *RMB'000*
At 30 June 2017			
Segment assets	**799,452**	**42,899**	**842,351**
Available-for-sales financial assets			**6,752**
Other unallocated corporate assets			**22,214**
Total assets			**871,317**
Segment liabilities	**248,797**	**1,327**	**250,124**
Provision for taxation			**12,862**
Deferred tax liability			**16,661**
Unallocated corporate liabilities			**916**
Total liabilities			**280,563**

	Operation and management of retail stores and other related businesses *RMB'000*	All other segments *RMB'000*	Consolidated *RMB'000*
Six months ended 30 June 2016			
Segment revenue	373,029	968	373,997
Segment results	35,694	(376)	35,318
Unallocated corporate expenses			(2,452)
Operating profit before income tax			32,866
Income tax expense			(8,070)
Profit for the period			24,796
Other segment information			
Interest income	(3,221)	(6)	(3,227)
Additions to non-current assets	23,839	160	23,999
Amortisation of prepaid land lease	131	–	131
Depreciation of property, plant and equipment	17,438	1	17,439
Loss on disposal of property, plant and equipment	263	–	263
Obsolete inventories written off	779	–	779

	Operation and management of retail stores and other related businesses *RMB'000*	All other segments *RMB'000*	Consolidated *RMB'000*
At 30 June 2016			
Segment assets	786,393	19,839	806,232
Available-for-sales financial assets			10,833
Other unallocated corporate assets			5,305
Total assets			822,370
Segment liabilities	224,773	184	224,957
Provision for taxation			8,105
Deferred tax liabilities			13,031
Unallocated corporate liabilities			785
Total liabilities			246,878

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 six months ended 30 June 2016 and 2017.

3. REVENUE AND OTHER OPERATING INCOME

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue		
Sales of goods	**253,828**	287,419
Commission from concessionaire sales	**55,807**	55,586
Rental income from sub-leasing of shop premises	**27,123**	25,688
Rental income from investment properties	**5,283**	4,336
Interest income from factoring services	**637**	968
Sales of food and catering	**4,157**	–
	346,835	373,997
Other operating income		
Interest income	**2,750**	3,227
Government grants	**753**	168
Administration and management fee income from suppliers	**29,153**	26,983
Others	**14,697**	14,943
	47,353	45,321

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.

4. OPERATING PROFIT BEFORE INCOME TAX

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Operating profit is arrived at after charging:		
Depreciation of property, plant and equipment	**15,860**	17,439
Amortisation of prepaid land lease	**131**	131
Amortisation of intangible assets	**2,383**	–
Loss on disposal of property, plant and equipment	**–**	263
Operating lease rentals in respect of land and buildings	**27,589**	24,845
Obsolete inventories written-off	**622**	779
Staff costs, including directors' emoluments		
– salaries and other benefits	**43,149**	39,596
– contributions to pension scheme	**4,744**	4,306
and crediting:		
Rental income from investment properties	**5,283**	4,336
Sub-letting of properties		
– Base rents	**24,532**	23,490
– Contingent rents*	**2,591**	2,198
	27,123	25,688

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

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current income tax		
PRC enterprise income tax	**10,111**	8,070

The Group is not subject to any taxation under the jurisdiction of the Cayman Islands and British Virgin Islands during the period (six months ended 30 June 2016: Nil).

No provision for Hong Kong Profits Tax has been made as the Group had no estimated assessable profits in Hong Kong for the period (six months ended 30 June 2016: Nil).

Subsidiaries of the Company established in the PRC (except for Guangxi which corporate income tax rate was 15% (2016: 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 (2016: 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.

6. DIVIDEND

(a) The Board of Directors does not recommend the payment of an interim dividend for the period (six months ended 30 June 2016: Nil).

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

	For the six months ended	
	30 June 2017	30 June 2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Final dividend in respect of the previous year, approved and paid during the period, of RMB2.41 cents (six months ended 30 June 2016: RMB1.27 cents) per share	**25,004**	13,176

7. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to the owners of the Company for the period of approximately RMB24,177,000 (six months ended 30 June 2016: approximately RMB24,852,000) and the weighted average number of approximately 1,037,500,002 (six months ended 30 June 2016: approximately 1,037,500,002) ordinary shares in issue during the period.

Diluted earnings per share were 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 periods and there were no other potential dilutive ordinary shares in existence during the periods.

8. CAPITAL EXPENDITURES

During the period, the Group incurred capital expenditures of approximately RMB9,847,000 (six months ended 30 June 2016: approximately RMB23,999,000) which mainly related to the acquisition of leasehold improvements, plant and machinery and furniture, fixtures and equipment and motor vehicles and tools.

9. 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.

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

	At 30 June 2017 *RMB'000* **(Unaudited)**	At 31 December 2016 *RMB'000* (Audited)
Within 30 days	**10,116**	2,611
31 – 60 days	**2,718**	2,397
61 – 180 days	**11,176**	14,667
181 – 365 days	**1,396**	53
Over 1 year	**219**	40
	25,625	19,768

10. 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:

	At 30 June 2017 *RMB'000* **(Unaudited)**	At 31 December 2016 *RMB'000* (Audited)
Within 30 days	**47,702**	107,603
31 – 60 days	**88,634**	57,413
61 – 180 days	**25,309**	17,610
181 – 365 days	**7,059**	2,860
Over 1 year	**5,151**	6,983
	173,855	192,469

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

In the first half of the year, domestic retailing industry was growing stably. Except for the structural changes, residential household income was increasing with the economic growth. Spending pattern has been upgraded. Consumable goods market has been expanding which became the main dynamic for economic growth. From an international standpoint, U.S.A. was getting out from economic depression in 2016 and domestic consumption power was maintained at an acceptable level. European economy was slowly recovered, but helped improving the labour force market, and the European Central Bank kept the easing policy under the current inflation level. The improvement in corporate perspective in Japan has increased the corporate investment, and the Japan Central Bank will uphold the existing monetary easing policy. The global economy was under positive atmosphere.

Internally, the consumable goods market was growing steadily to lead the economy. Spending expenditure was still occupying the first place among the three forces of economic growth. Online sales was surging, traditional retail industry was recovering. Convenience stores and community shopping mall were developing into its golden era. With successive changes in business type in traditional retail industry, consumption goods pattern has been upgraded. With appearance of servicing retailing market, travelling, entertainment and leisure spending markets were developing rapidly. Travelling became a necessary need for nowadays families and a giant demand.

According to the statistics released by the National Bureau of Statistics of China, GDP on the Mainland amounted to RMB38,100 billion in the first half of 2017, representing a 6.9% increase over the same period last year.

In the first half of the year, total retail sales of social consumer goods was RMB17,200 billion, representing a year-on-year (YOY) growth of 10.4%. Among them, retail sales of consumer goods of the "over-the-threshold" enterprises grew by 8.7% on a YOY basis to approximately RMB7,700 billion. Based on the geographical locations of the operating units, retail sales of urban consumer goods rose by 10.1% to approximately RMB14,800 billion YOY, whereas retail sales of rural consumer goods increased by 12.3% to approximately RMB2,400 billion YOY. By consumption pattern, food and beverage revenue went up 11.2% to approximately RMB1,800 billion YOY, whereas retail sales of commodities went up 10.3% to approximately RMB15,400 billion YOY. In terms of retail sales of commodities, retail sales of commodities among "over-the-threshold" enterprises amounted to approximately RMB7,200 billion, representing an increase of 8.8%. In the first half, total domestic online retail sales amounted to RMB3,100 billion, representing a YOY growth of 33.4%. Among them, the commodity goods online retail sales grew by 28.6% on a YOY basis to approximately RMB2,400 billion, accounting for 13.8% of the total retail sales of social consumer goods, a 2.2% up compared with last year.

Overall, China has been running stably by putting forward structural tuning and changes in development mode, and has obtained advancement in protection and improvement in people's livelihood. The target of "growth with stability" has been achieved. According to slogan "To consolidate the stable situation to produce a better condition", the next half year will be a promising period.

BUSINESS REVIEW

For the six months ended 30 June 2017, the Group recorded revenue of approximately RMB346.8 million, representing a year-on-year (YOY) decrease of approximately 7.3%. Gross profit amounted to approximately RMB44.8 million, representing an YOY increase of approximately 14.9%; while operating profit was approximately RMB34.3 million, representing an YOY increase of approximately 4.3%. Profit attributable to owners of the Company was approximately RMB24.2 million, representing a YOY decrease of 2.5%. There were 11 stores during the period. The drop in operating businesses was attributable to overall weak economic condition, fierce attack from the online retail business, long negotiation time for renewal of lease agreement with landlord, and enhancement of supplier profile etc. But with the addition of new side businesses, conversion of self-operated to supplier-operated fresh counters, and the commencement of business of brand named restaurant and kiosks, the drop in sales of goods has been partly offset. Sales of goods decreased by approximately RMB33.6 million, commissions and rental income from concessionaire, increased by approximately RMB0.2 million and RMB1.4 million respectively, rental income from investment properties increased by approximately RMB1.0 million, sales of food and catering increased by approximately RMB4.1 million and interest income from factoring services decreased by approximately RMB0.4 million. During the period, the Group has adopted positive operating strategy with value-added service in retail stores. Besides, we continuously searched for other potential profit opportunities and planned for the expansion of store network.

Recapping on the first half of 2017, the Group has the following operation highlights.

Prepare the shopping mall in Bantian, Shenzhen to cater for the new generation shopping mode

The Group has come to a final stage to prepare for the inauguration of the first shopping mall of the Group at Shenzhen Bantian Linghui Plaza. During the period, various in-depth research of the newly opened shopping mall has been carried out to identify the future development, inject new retail concept and technique, position the supermarket, and the advance brand name sale mix. The shopping mall will embody a large screen cinema, elite supermarket, timeline brand name, global gourmet, parenthood education and fitness centre etc. The Group is organizing staff recruitment, member registration, arcade promotion, opening ceremony and communication application set up etc. The shopping mall is planned to commence on the last quarter of the year, and it will provide another revenue source and sales channel to the Group.

Consolidate Enterprise Resource Planning (ERP) to implement an integration system network

To overcome the multi-operation of various operating system and the start-up of the first shopping mall, the Group has implemented an integration system encompassing an ERP, front end point-of-sales and mobile cashier. This system merged various business activities together. In addition, Baijiahua online application possessed several functions, including "cross border purchase", "community supermarket" selling perishable and livelihood goods, mobile auto payment, electronic shopping card and membership card etc. Providing online and offline shopping experience to customers.

Commence Hello Kitty theme restaurants and kiosks to attract on the new consumption generation

The sales turnover of the Hello Kitty theme restaurant (Secret Path) and kiosks (Bubble) which were open last year has gradually increased. During the period, the Group has visited onsite the theme restaurant and backup office in Taiwan. Through exchange of business workflow, the Group has gained more knowledge from its counterpart. In the second half year, the Group planned to commence three more restaurants located at Shenzhen Bantian Linghui Plaza, Shenzhen One central city, and Shenzhen Longgang Vanke Longcheng Plaza, ranging from 350 to 500 square metres. Besides, the Group has planned to open a tea and snack shop, targeting on cosmopolitan lady which are youth, elegance, and independent thinking, on the healthy food. This hopes to create another sense of belonging to the brand name.

Line up internal procedural mechanism to establish corporate culture

The Group has explored various new business projects in these few years. Other than expanding the staff base, the staff background has also been broadened. During the period, the achievement review and staff grade promotion mechanism has been renewed to enhance staff compensation and initiative. Apart from this, the Group has strengthened corporate culture. Other than annual sports day, staff touring for old staff, staff purchase benefit etc., there are more staff activities, including working fitness, constellation gathering etc, to enrich the life balance of staff.

Expand supply chain financing business to extend business scope

The commercial factoring service has been introduced in 2015 to provide a stable income to the Group. From the nature of business, in-house suppliers and supply chain financing were dominating with approximately 37% each, totally approximately 75% of total business. Wherea external core corporate business and notes-related business composed around 17% and 9% respectively. In the second half of the year, the notes-related business will form the major part of business to over 60%. The Group will develop the commercial factoring business cautiously, with a well-protected assessment policy to safeguard any default and doubtful debt financing risk.

OUTLOOK AND PROSPECT

In the first half of 2017, the Group has formulated a series of measure to enhance sales turnover and to avoid unnecessary costs, so as to achieve management target. Moreover, the Group aimed to consolidate the existing stores by reform and innovation. By this, improvement in sales mix, upgrade brand name, enhance shopping experience to provide new shopping experience to customers.

In addition, the Group has explore new commercial retail mode, such as comprehensive retailing including catering, parenthood and leisure, or topic covering mother care and baby care products. With the resource and operating capacity of the catering business, the online business, the Group is able to provide a one-stop shopping experience to customers.

The year 2017 has both opportunity and challenge existed, the Group has prepared to cope with all difficulties, to make use of our core competency in the industry.

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

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

FINANCIAL REVIEW

Revenue

The Group's revenue amounted to RMB346.8 million for the six months ended 30 June 2017, representing a decrease of 7.3% as compared to RMB374.0 million in the corresponding period of 2016. Resulting from the slack environment of the traditional retail industry, the decrease was principally attributable from the decrease in sales of goods and interest income from factoring services, but partly offset by the increase in commission from concessionaire sales, rental income from sub-leasing of shop premises and investment properties, and sales of food and catering.

Sales of goods decreased by 11.7% to RMB253.8 million for the six months ended 30 June 2017 from RMB287.4 million in the corresponding period of 2016, principally due to the decrease in sales in existing stores, prolonged negotiation on renewal of tenancy agreements with landlords of two main stores which affected the sales floor planning and turnover. Sales of goods as a percentage of the Group's total revenue was 73.2% for the six months ended 30 June 2017 as compared to 76.8% in the corresponding period of 2016.

Commission from concessionaire sales increased by 0.4% to RMB55.8 million for the six months ended 30 June 2017 from RMB55.6 million in the corresponding period of 2016, mainly due to the extensive promotional sales activities of stores. Commission from concessionaire sales as a percentage of the Group's total revenue was 16.1% for the six months ended 30 June 2017 as compared to 14.8% for the corresponding period of 2016.

Rental income from sub-leasing of shop premises slightly up by 5.6% to RMB27.1 million for the six month ended 30 June 2017 from RMB25.7 million for the corresponding period in 2016, mainly due to the additions of complementary facilities in stores. Rental income as a percentage of the Group's total revenue was 7.8% for the six months ended 30 June 2017 as compared to 6.9% for the corresponding period of 2016.

Rental income from investment properties increased gradually by 21.8% to RMB5.3 million for the six month ended 30 June 2017 from RMB4.3 million for the corresponding period in 2016, mainly due to the rise in rental income of certain floors. Rental income from investment properties as a percentage of the Group's total revenue was 1.5% for the six months ended 30 June 2017 as compared to 1.2% for the corresponding period of 2016.

Interest income from factoring services decreased gradually by 34.2% to RMB0.6 million for the six month ended 30 June 2017 from RMB1.0 million for the corresponding period in 2016, mainly due to the decrease of factoring service business in the first half year. Rental income from investment properties as a percentage of the Group's total revenue was 0.2% for the six months ended 30 June 2017 as compared to 0.3% for the corresponding period of 2016.

Sales of food and catering amounted to RMB4.1 million for the six month ended 30 June 2017, mainly due to opening of restaurant and kiosks from July 2016. Sales of food and catering as a percentage of the Group's total revenue was 1.2% for the six months ended 30 June 2017.

Other operating revenue

Other operating revenue increased by 4.5% to RMB47.4 million for the six months ended 30 June 2017 from RMB45.3 million in the corresponding period in 2016, mainly due to increase in administration and management fee income from suppliers.

Purchase of and changes in inventories

Purchase of and changes in inventories amounted to RMB213.2 million for the six months ended 30 June 2017, representing a decrease of 14.2% as compared with RMB248.4 million in the corresponding period of 2016, due to decline in sales of goods and tight cost control measure. As a percentage of revenue from sales of goods, purchase of and changes in inventories was 82.6% for the six months ended 30 June 2017 as compared with 86.4% in the same period of 2016.

Staff costs

Staff costs increased by 9.1% to RMB47.9 million for the six months ended 30 June 2017 from RMB43.9 million in the corresponding period of 2016, primarily due to the recruitment of new personnel for the development of the Group's new businesses.

Depreciation

Depreciation decreased by 9.1% to RMB15.9 million for the six months ended 30 June 2017 from RMB17.4 million in the corresponding period in 2016. The drop was mainly due to the decrease in additions to fixed assets during the period.

Operating lease rental expenses

Operating lease rental expenses increased by 11.0% to RMB27.6 million for the six months ended 30 June 2017 from RMB24.8 million in the corresponding period of 2016. The increase was mainly due to the rental expenses for the Group's new business.

Other operating expenses

Other operating expenses, decreased by 62.0% to RMB0.2 million for the six months ended 30 June 2017 from RMB0.6 million in the corresponding period of 2016. This was primarily due to absence of disposal of fixed assets during the period.

Operating profit

As a result of the reasons mentioned above, the Group's operating profit amounted to RMB34.3 million for the six months ended 30 June 2017 as compared with the operating profit of the Group of RMB32.9 million for the six months ended 30 June 2016.

Income tax expense

Income tax expense amounted to RMB10.1 million for the six months ended 30 June 2017, representing an increase of 25.3% from RMB8.1 million in the corresponding period of 2016. The effective tax rate applicable to the Group for the six months ended 30 June 2017 were 25% for general subsidiaries (15% for Guangxi subsidiary). In addition, pursuant to the PRC Corporate Income Tax Law, the Group is liable to withholding taxes on dividends distributed by subsidiaries established in China. The applicable tax rate is 10%.

Profit attributable to equity shareholders of the Company

As a result of the aforementioned, profit attributable to Shareholders amounted to RMB24.2 million for the six months ended 30 June 2017, representing a slight decrease of 2.7% as compared with the profit of RMB24.9 million in the corresponding period of 2016.

Subsequent Events

The Group did not have any significant events taken place subsequent to 30 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 currency risk

The Group has operation in the PRC so that the majority of the Group's revenues, expenses and cash flows are denominated in 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.

(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 30 June 2017, the Group had 1,360 full-time employees (six months ended 30 June 2016: 1,341). 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.

Use of Proceeds raised from listing

The net proceeds raised from the Company's newly issued and listed shares on the Stock Exchange in 8 May 2007 (after deduction of related issuance expenses) amounted to approximately HK$265,000,000. As of 30 June 2017, 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 and subsequent announcements related to the adjustment of use of IPO proceeds.

Contingent Liabilities

As at 30 June 2017, the Group has no significant contingent liabilities.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

CORPORATE GOVERNANCE CODE

The Company has adopted the code provisions of the Corporate Governance Code (the "Code") set out in Appendix 14 to the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). The Company had complied with the provisions of the Code throughout the Period save as disclosed below.

Code Provision A.6.7 of the Code requires that Independent Non-executive Directors should attend general meeting. Due to other commitments, two Independent Non-executive Directors of the Company had not attended the annual general meeting of the Company held on 29 May 2017.

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 29 May 2017 due to his other business engagements.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Mode 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 detailed enquiries made with all Directors, the Company confirms that all Directors have fully complied with the required standards set out in the Model Code during the six months ended 30 June 2017.

REMUNERATION COMMITTEE

The Company has established a remuneration committee on 30 April 2007. The remuneration committee, which comprises the three Independent Non-executive Directors and one Executive Director, is responsible for reviewing and determining the appropriate remuneration policies of the Directors and senior management and making recommendations to the Board from time to time.

NOMINATION COMMITTEE

The Company has established a nomination committee on 30 April 2007. The nomination committee, which comprises the three Independent Non-executive Directors and one Executive Directors, is responsible for determining the criteria for identifying candidates suitably qualified, reviewing nominations for the appointment of Directors to the Board and making recommendations to the Board regarding any proposed changes.

AUDIT COMMITTEE

The Company has established an audit committee on 30 April 2007 in compliance with the Rule 3.21 of the Listing Rules. The audit committee, which comprises the three Independent Non-executive Directors, has reviewed the accounting principles and practices adopted by the Company as well as internal control and financial reporting matters, including the review of the unaudited interim results for the six months ended 30 June 2017. The financial statements of the Company for the six months ended 30 June 2017 have been reviewed and approved by the audit committee, who are of the opinion that such statements comply with the applicable accounting standards, the Listing Rules and legal requirements, and that adequate disclosures have been made.

INTERIM REPORT

The 2017 Interim Report will be despatched to shareholders and published on the Stock Exchange's website (www.hkex.com.hk) and the Company's website (www.szbjh.com) in due course.

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

Shenzhen, the PRC, 30 August 2017

As at the date of this announcement, the Board comprises:

Executive Directors:
Zhuang Lu Kun, Zhuang Pei Zhong, Gu Wei Ming, Zhuang Xiao Xiong

Independent Non-executive Directors:
Chin Kam Cheung, Sun Ju Yi, Ai Ji