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 2018

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 2018 together with the comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 30 June	
	Notes	**2018** ***RMB'000*** **(Unaudited)**	2017 *RMB'000* (Unaudited)
Revenue	*4*	**368,708**	346,835
Cost of inventories sold		**(211,219)**	(213,187)
		157,489	133,648
Other operating income	*4*	**51,466**	47,353
Selling and distribution costs		**(164,034)**	(116,392)
Administrative expenses		**(30,991)**	(30,111)
Gain on disposal of a subsidiary		**10,374**	–
Other operating expenses		**(1,091)**	(210)
Operating profit before income tax	*5*	**23,213**	34,288
Income tax expense	*6*	**(5,198)**	(10,111)
Profit and total comprehensive income for the period attributable to:			
– Owners of the Company		**18,015**	24,177
Earnings per share for profit attributable to the owners of the Company during the period			
– Basic and diluted (RMB cents)	*8*	**1.74**	2.33

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**At 30 June 2018 *RMB'000* (Unaudited)**	At 31 December 2017 *RMB'000* (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**160,179**	171,127
Investment properties		**290,800**	290,800
Prepaid land lease		**12,532**	12,662
Intangible assets		**872**	6,369
Deposits paid		**22,250**	19,517
Available-for-sale financial assets		**–**	3,235
Financial assets at fair value through other comprehensive income		**3,235**	–
		489,868	503,710
Current assets			
Inventories and consumables		**46,740**	47,190
Trade receivables	*10*	**63,042**	45,493
Deposits paid, prepayments and other receivables		**62,237**	57,206
Cash and bank balances		**265,803**	288,817
		437,822	438,706
Current liabilities			
Trade payables	*11*	**139,925**	194,499
Coupon liabilities, deposits received, other payables and accruals		**126,379**	111,203
Contract liabilities		**8,152**	–
Dividend payable		**19,816**	–
Amount due to a director		**59**	59
Provision for tax		**12,898**	14,393
		307,229	320,154
Net current assets		**130,593**	118,552
Total assets less current liabilities		**620,461**	622,262
Non-current liabilities			
Deferred tax liabilities		**22,486**	22,486
Net assets		**597,975**	599,776
EQUITY			
Share capital		**10,125**	10,125
Reserves		**587,850**	589,651
Equity attributable to the owners of the Company		**597,975**	599,776

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 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 2018 (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 have been prepared in accordance with the same accounting policies adopted in the audited financial information of the Company for the year ended 31 December 2017 (the "2017 Annual Financial Statements"), except for the accounting policy changes that are expected to be reflected in the 2018 annual financial statements. Details of these changes in accounting policies are set out in note 2.

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. 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 2017.

2. CHANGES IN ACCOUNTING POLICIES

(a) Overview

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 9, Financial instruments
- HKFRS 15, Revenue from contracts with customers

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The Group has been impacted by HKFRS 9 in relation to classification of financial assets and measurement of credit losses, and impacted by HKFRS 15 in relation to presentation of contract liabilities. Details of the changes in accounting policies are discussed in note 2(b) for HKFRS 9 and note 2(c) for HKFRS 15.

Under the transition methods chosen, the Group recognises the cumulative effects of the initial application of HKFRS 9 and HKFRS 15 as an adjustment to the opening statement of financial position at 1 January 2018. Comparative information is not restated.

(b) HKFRS 9, Financial instruments

HKFRS 9 replaces HKAS 39, Financial instruments: recognition and measurement. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening statement of financial position at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

(i) Classification of financial assets and financial liabilities

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Non-equity investments held by the Group are classified into one of the following measurement categories:

1 amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method;

2 FVOCI – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income. Any impairment, interest income (calculated using the effective interest method) and foreign exchange gains and losses are recognized in profit and loss. When the investment is derecognized, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or

3 FVPL, if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment and interests are recognised in profit or loss.

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI (non-recycling), are recognised in profit or loss.

The significant financial assets of the Group at 31 December 2017 included trade and loan receivables and cash and cash equivalents which are still measured at amortised cost under HKFRS 9, there is no material impact on the carrying amounts of the assets on adoption of HKFRS 9.

The measurement categories for all financial liabilities remain the same, except for financial guarantee contracts, if any.

The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

(ii) *Credit losses*

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the expected credit loss ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to financial assets measured at amortised cost (including cash and cash equivalents, and trade and other receivables). As the Group's credit risk is limited by the nature of its retail sales model and the short maturity periods of the financial assets the Group invests in, this change in accounting policy does not have a significant impact.

(iii) *Transition*

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

1 Information relating to comparative periods has not been restated. The information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

2 The following assessment has been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Group):

– the determination of the business model within which a financial asset is held.

– the designation of certain investments in equity instruments not held for trading to be classified as at FVOCI (non-recycling).

(c) HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specified the accounting for construction contracts.

The Group has elected to use the cumulative effect transition method. Comparative information has not been restated and continues to be reported under HKAS 11 and HKAS 18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

(i) Presentation of contract assets and contract liabilities

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

To reflect these changes in presentation, the Group has made the following adjustment at 1 January 2018, as a result of the adoption of HKFRS 15:

"Coupon liabilities" amounting to RMB12.9 million as at 1 January 2018, which were mainly related to sales of prepaid cards are now shown as a separate line item as "contract liabilities" on the face of the consolidated statement of financial position.

(ii) Other impacts

The Group's assessment is that the impact of HKFRS 15 in other areas including customer rights of return, principle vs agent arrangements, customer financing and other income from aged unutilized prepaid cards is not significant as either the respective volume of transactions are not material or the new standard has not led to a change in accounting treatment.

3. 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, food and catering, and provision of factoring services (2017: operation and management of retail stores and other related businesses, food and catering, and provision of factoring services).

Certain comparative amounts in segment information have been re-presented to conform to the current year's presentation for better presentation.

	Operation and management of retail stores and other related businesses (Unaudited) *RMB'000*	Food and catering (Unaudited) *RMB'000*	Provision of factoring services (Unaudited) *RMB'000*	Consolidated (Unaudited) *RMB'000*
Six months ended 30 June 2018				
Segment revenue	**358,192**	**7,902**	**2,614**	**368,708**
Segment results	**23,503**	**(9,638)**	**1,637**	**15,502**
Gain on disposal of a subsidiary		**10,374**		**10,374**
Unallocated corporate expenses				**(2,663)**
Operating profit before income tax				**23,213**
Income tax expense				**(5,198)**
Profit for the period				**18,015**
Other segment information				
Interest income	**(2,791)**	**(4)**	**(15)**	**(2,810)**
Additions to non-current assets	**16,961**	**8,295**	**–**	**25,256**
Amortisation of intangible assets	**58**	**1,596**	**–**	**1,654**
Amortisation of prepaid land lease	**130**	**–**	**–**	**130**
Depreciation of property, plant and equipment	**13,877**	**2,901**	**12**	**16,790**
Loss on disposal of property, plant and equipment	**170**	**–**	**–**	**170**
Obsolete inventories written off	**467**	**–**	**–**	**467**

	Operation and management of retail stores and other related businesses (Unaudited) *RMB'000*	Food and catering (Unaudited) *RMB'000*	Provision of factoring services (Unaudited) *RMB'000*	Consolidated (Unaudited) *RMB'000*
At 30 June 2018				
Segment assets	**868,328**	**–**	**54,766**	**923,094**
Financial assets at fair value through other comprehensive income				**3,235**
Other unallocated corporate assets				**1,361**
Total assets	**868,328**	**–**	**54,766**	**927,690**
Segment liabilities	**293,025**	**–**	**385**	**293,410**
Provision for taxation				**12,898**
Deferred tax liabilities				**22,486**
Unallocated corporate liabilities				**921**
Total liabilities	**293,025**	**–**	**385**	**329,715**

	Operation and management of retail stores and other related businesses (Unaudited) *RMB'000*	Food and catering (Unaudited) *RMB'000*	Provision of factoring services (Unaudited) *RMB'000*	Consolidated (Unaudited) *RMB'000*
Six months ended 30 June 2017				
Segment revenue	342,041	4,157	637	346,835
Segment results	42,539	(5,936)	338	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)	(4)	(15)	(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	1,280	2	15,860
Obsolete inventories written off	622	–	–	622

	Operation and management of retail stores and other related businesses (Audited) *RMB'000*	Food and catering (Audited) *RMB'000*	Provision of factoring services (Audited) *RMB'000*	Consolidated (Audited) *RMB'000*
At 31 December 2017				
Segment assets	864,666	23,884	47,313	935,863
Available-for-sales financial assets				3,235
Other unallocated corporate assets				3,318
Total assets				942,416
Segment liabilities	300,816	3,261	258	304,335
Provision for taxation				14,393
Deferred tax liabilities				22,486
Unallocated corporate liabilities				1,426
Total liabilities				342,640

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 2017 and 2018.

4. REVENUE AND OTHER OPERATING INCOME

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue		
Sales of goods	**252,330**	253,828
Commission from concessionaire sales	**56,510**	55,807
Rental income from sub-leasing of shop premises	**27,944**	27,123
Rental income from investment properties	**5,392**	5,283
Rental income from sub-leasing of a shopping mall	**16,014**	–
Interest income from factoring services	**2,614**	637
Sales of food and catering	**7,904**	4,157
	368,708	346,835
Other operating income		
Interest income	**2,810**	2,750
Government grants	**3,881**	753
Administration and management fee income from suppliers	**31,636**	29,153
Others	**13,139**	14,697
	51,466	47,353

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

5. OPERATING PROFIT BEFORE INCOME TAX

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Operating profit is arrived at after charging:		
Depreciation of property, plant and equipment	**16,790**	15,860
Amortisation of prepaid land lease	**130**	131
Amortisation of intangible assets	**1,654**	2,383
Loss on disposal of property, plant and equipment	**170**	–
Operating lease rentals in respect of land and buildings	**57,750**	27,589
Obsolete inventories written-off	**467**	622
Staff costs, including directors' emoluments		
– salaries and other benefits	**49,275**	43,149
– contributions to pension scheme	**5,553**	4,744
and crediting:		
Rental income from investment properties	**5,391**	5,283
Sub-letting of properties		
– Base rents	**25,496**	24,532
– Contingent rents*	**2,448**	2,591
	27,944	27,123

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

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current income tax		
PRC enterprise income tax	**5,198**	10,111

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 2017: 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 2017: Nil).

Subsidiaries of the Company established in the PRC (except for Guangxi which corporate income tax rate was 15% (2017: 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 (2017: 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.

7. DIVIDEND

(a) The Board of Directors does not recommend the payment of an interim dividend for the period (six months ended 30 June 2017: Nil).

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

	For the six months ended	
	30 June 2018	30 June 2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Final dividend in respect of the previous year, approved and paid during the period, of RMB1.91 cents (six months ended 30 June 2017: RMB2.41 cents) per share	**19,816**	25,004

8. 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 RMB18,015,000 (six months ended 30 June 2017: approximately RMB24,177,000) and the weighted average number of approximately 1,037,500,002 (six months ended 30 June 2017: 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.

9. CAPITAL EXPENDITURES

During the period, the Group incurred capital expenditures of approximately RMB25,256,000 (six months ended 30 June 2017: approximately RMB9,847,000) which mainly related to the acquisition of leasehold improvements, plant and machinery, furniture, fixtures and equipment and motor vehicles and tools.

10. TRADE RECEIVABLES

All of the Group's sales are on cash basis except for trade receivables from certain bulk sales of merchandise to corporate customers, rental income receivables from tenants and loan receivables from provision of factoring services. The credit terms offered to the 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 nine 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 2018 *RMB'000* **(Unaudited)**	At 31 December 2017 *RMB'000* (Audited)
Within 30 days	**23,096**	8,795
31 – 60 days	**17,569**	25,027
61 – 180 days	**21,663**	11,242
181 – 365 days	**332**	282
Over 1 year	**382**	147
	63,042	45,493

11. 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 2018 *RMB'000* **(Unaudited)**	At 31 December 2017 *RMB'000* (Audited)
Within 30 days	**37,315**	105,662
31 – 60 days	**75,187**	56,804
61 – 180 days	**21,465**	19,530
181 – 365 days	**825**	4,345
Over 1 year	**5,133**	8,158
	139,925	194,499

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

In the first half of 2018, global economic risk increased. The growth of major economies slowed down with inflation rose and monetary policy tightened. Trade protectionism by United States ("the US") was pointing to China and Euro countries. The US economy was relatively stable providing for interest rate upward trend. Fund from new emerging market flew to the US. Even the political risk lessen and tight monetary policy sluggish, the Euro economies were weak making recovery dynamic slow. The Japanese economy was stable and growing. The emerging markets economies were risky due to massive incoming fund.

Domestic economy grew rapidly as a result of fast development of new industry and expansion of sales network of traditional retailer in China. Under the new technique brought by the Big Data, artificial intelligence and mobile internet, and the logistic advancement, traditional and e-commerce operators merged and produced new retail industry. Smart retailing begins with collecting consumer preference data, to explore product design in supply chain and delivery channel. This will lower the operating costs and speed up delivery time, enhancing customer shopping experience. Traditional retailers strengthen online to offline flow management, expand customer loyalty scheme, perform product management and value talent management, to keep its market share.

According to the statistics released by the National Bureau of Statistics of China, GDP on the Mainland amounted to RMB41,900 billion in the first half of 2018, representing a 6.8% increase over the same period last year.

In the first half of the year, total retail sales of social consumer goods was RMB18,000 billion, representing a year-on-year (YOY) growth of 9.4%. Among them, retail sales of consumer goods of the "over-the-threshold" enterprises grew by 7.5% on a YOY basis to approximately RMB7,000 billion. Based on the geographical locations of the operating units, retail sales of urban consumer goods rose by 9.2% to approximately RMB15,400 billion YOY, whereas retail sales of rural consumer goods increased by 10.5% to approximately RMB2,600 billion YOY. By consumption pattern, food and beverage revenue went up 9.9% to approximately RMB1,900 billion YOY, whereas retail sales of commodities went up 9.3% to approximately RMB16,000 billion YOY. In terms of retail sales of commodities, retail sales of commodities among "over-the-threshold" enterprises amounted to approximately RMB6,600 billion, representing an increase of 7.6%. In the first half, total domestic online retail sales amounted to RMB4,100 billion, representing a YOY growth of 30.1%. Among them, the commodity goods online retail sales grew by 29.8% on a YOY basis to approximately RMB3,100 billion, accounting for 17.4% of the total retail sales of social consumer goods. The online commodity sales for eat, wear and use categories amounted to 42.3%, 24.1% and 30.7% respectively.

Overall, China has stable economy and heading to a better development stage. This supports the development of a high quality product retail market in the country. Nevertheless, there are inconsistencies in external environment and makes domestic structure adjustments begin. The country tried to expand domestic demand to boost economy. According to slogan "To stable growth, to make reform, to adjust structure, to care for people's livelihood, and to prevent risk", the next half year will be a promising period.

BUSINESS REVIEW

For the six months ended 30 June 2018, the Group recorded revenue of approximately RMB368.7 million, representing a year-on-year (YOY) increase of approximately 6.3%. Gross profit amounted to approximately RMB49.0 million, representing a YOY increase of approximately 9.4%; while operating profit was approximately RMB23.2 million, representing a YOY decrease of approximately 32.3%. Profit attributable to owners of the Company was approximately RMB18.0 million, representing a YOY decrease of 25.5%. There were 12 stores (Bantian Shenzhen store commenced) during the period. Group revenue increased attributable to change of operating direction. To keep the strength of old stores by continuous upgrade renovation and redistribution of sales floor. To avoid loss incurred for assets misallocation by opening of new stores. More importantly, the Group has expanded the business scope to extend its marketing image, aiming to derive additional returns and to gain new retail experience, for the preparation of future development. Sales of goods decreased by approximately RMB1.5 million, commissions and rental income from concessionaire, increased by approximately RMB0.7 million and RMB0.8 million respectively, rental income from investment properties increased by approximately RMB0.1 million, sales of food and catering increased by approximately RMB3.7 million and interest income from factoring services increased by approximately RMB2.0 million. Besides, rental income from sub-leasing of shopping mall of RMB16.0 million started and received 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 2018, the Group has the following operation highlights.

Commence its first shopping mall to pave way for future development

The first shopping mall operated by the Group has commenced business in Longgang Bantian. During the period, it was under its infant stage and has built up its own customer base and reputation. It was located at the busiest street in the district and provided adequate shopping choice and leisure activities to the neighborhood residents and visitors within 3 km shopping circle. There were large-scale promotional activities and festival shows. Among them, these included hot topics activities focusing on recreational and love affair targeting the youth and teenager. There was also festival based such as lantern festival and women's day. Some are children based such as the talent show and singing contest. Some are western style such as the Las Vegas carnival etc. As part of the tenants are still under the privileged rent-free period, net operating loss incurred from the shopping mall during the period. It is expected that the shopping mall business will bring profitable result to the Group upon expansion of customer base, change of sales mix and tight cost control etc.

Enhance layout of main stores to provide new shopping environment

To overcome the fierce competition from competitors and online operators, some measures have been carried out in our main stores. Frequent replacement of popular brand name, addition of snack food court (say Sichuan noodle, Guangdong beef combo, meat muffin and Taiwanese dessert in Gongming store), opening of cinema, organizing outdoor bargain sales and festival activities, coordinate stock management, and introduction of virtual reality game house. Training course was held for management and salesperson for selling technique. Promotional technique was provided to promoter of concessionaire counter. In addition, the Group has maintained good relationship with suppliers and concessionaire in order to make promotional and sales campaign running smooth.

Dispose of a subsidiary operating the main theme restaurants and goose pot restaurant to alleviate investment fund pressure

The Group has disposed of its subsidiary operating four Hello Kitty restaurants (located at Nanshan district, Longgang district (Longgang Center and Bantian) and Baoan district of Shenzhen) and one Chinese style goose pot restaurant (located at Longgang district of Shenzhen). As the restaurants are still in its infant stage, there is longer investment horizon and will create pressure on the investment fund of the Group. After careful consideration and market survey, the Group has found an interested buyer for package buyout. The western restaurant targeted on youth and family for their quality spending. The Chinese restaurant produced village style tasting and cooking recipe targeting on the matured and old fashioned customers. As the disposal price was reasonable and has positive effect to the Group, it was decided to proceed the disposal to obtain fund for other alternative investments.

Reform corporate risk management mechanism to reduce corporate risk

The risk management department has put forward various measures to enhance the management and monitoring program. The three divisions perform different functions. The internal audit division enacted and established operational audit framework by defining job boundary and limit, and by updating office manual for workflow control. Besides, internal scrutineering and supervision of the tendering and goods acceptance have been extended. The internal audit division reformed the anti-corruption system and mechanism, addressed integrity undertaking on the job and established audit procedure system and scope on project base. The legal division revised the staff reward and punishment regulation, rule of contract management, and control approval procedure as a mean to avoid possible legal risk.

OUTLOOK AND PROSPECT

In the first half of 2018, 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 explored new commercial retail mode, including shopping mall, trial experience, internet plus, and tasteful consumption. With the online resource and shopping outlets, and the synergy of online offline capacity, the Group is able to provide a one-stop shopping experience to customers.

The year 2018 has both opportunity and challenge existed, the Group has prepared to cope with all difficulties, to make use of our core competency in the industry.

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

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

FINANCIAL REVIEW

Revenue

The Group's revenue amounted to RMB368.7 million for the six months ended 30 June 2018, representing an increase of 6.3% as compared to RMB346.8 million in the corresponding period of 2017. The increase was principally attributable from the increase in rental income from sub-leasing of shopping mall, with the improvement of income from sales of food and catering, and interest income from factoring services. In addition, commission from concessionaire sales, and rental income from sub-leasing of shop premises have also recorded mild increase. However, the drop in sales of goods has partly offset the overall increase of income.

Sales of goods decreased by 0.6% to RMB252.3 million for the six months ended 30 June 2018 from RMB253.8 million in the corresponding period of 2017, principally due to the external competitive environment and enhancement of store outlook in two main stores. The new store in Bantian was still in infant stage and yet contribute significantly to the overall sales turnover. Sales of goods as a percentage of the Group's total revenue was 68.4% for the six months ended 30 June 2018 as compared to 73.2% in the corresponding period of 2017.

Commission from concessionaire sales increased slightly by 1.3% to RMB56.5 million for the six months ended 30 June 2018 from RMB55.8 million in the corresponding period of 2017, mainly due to addition of new store in Bantian and extensive promotional activities of stores. Commission from concessionaire sales as a percentage of the Group's total revenue was 15.3% for the six months ended 30 June 2018 as compared to 16.1% for the corresponding period of 2017.

Rental income from sub-leasing of shop premises going up by 3.0% to RMB27.9 million for the six months ended 30 June 2018 from RMB27.1 million for the corresponding period in 2017, mainly due to signing of new tenancy agreements and expansion of leasing floor area in Guangxi stores. Rental income as a percentage of the Group's total revenue was 7.6% for the six months ended 30 June 2018 as compared to 7.8% for the corresponding period of 2017.

Rental income from investment properties increased slightly by 2.1% to RMB5.4 million for the six months ended 30 June 2018 from RMB5.3 million for the corresponding period in 2017, mainly due to entering of new rental increment period of some tenancies. Rental income from investment properties as a percentage of the Group's total revenue was 1.5% for the six months ended 30 June 2018 as compared to 1.5% for the corresponding period of 2017.

Rental income from sub-leasing of a shopping mall was RMB16.0 million for the six months ended 30 June 2018 due to the commencement of rental income tenancy from September 2017 onward in Bantian shopping mall. Rental income from sub-leasing of a shopping mall as a percentage of the Group's total revenue was 4.3% for the six months ended 30 June 2018.

Interest income from factoring services tripled to RMB2.6 million for the six months ended 30 June 2018 from RMB0.6 million for the corresponding period in 2017, mainly due to the addition of a new customer which is a major supplier of a telecommunication giant. Interest income from factoring services as a percentage of the Group's total revenue was 0.7% for the six months ended 30 June 2018 as compared to 0.2% for the corresponding period of 2017.

Sales of food and catering doubled to RMB7.9 million for the six months ended 30 June 2018 from RMB4.2 million for the corresponding period in 2017, mainly due to the opening of Uniwalk store in late October 2017, making altogether two main theme restaurant stores. Sales of food and catering as a percentage of the Group's total revenue was 2.1% for the six months ended 30 June 2018 as compared to 1.2% for the corresponding period of 2017.

Other operating revenue

Other operating revenue increased by 8.7% to RMB51.5 million for the six months ended 30 June 2018 from RMB47.4 million in the corresponding period in 2017, mainly due to increase in government subsidies.

Purchase of and changes in inventories

Purchase of and changes in inventories amounted to RMB211.2 million for the six months ended 30 June 2018, representing a decrease of 0.9% as compared with RMB213.2 million in the corresponding period of 2017, due to decline in sales of goods and tight cost control measure. As a percentage of sales of goods, purchase of and changes in inventories was 81.2% for the six months ended 30 June 2018 as compared with 82.6% in the same period of 2017.

Staff costs

Staff costs increased by 14.5% to RMB54.8 million for the six months ended 30 June 2018 from RMB47.9 million in the corresponding period of 2017, primarily due to the commencement of business in shopping mall and new restaurant.

Depreciation

Depreciation increased by 5.9% to RMB16.8 million for the six months ended 30 June 2018 from RMB15.9 million in the corresponding period in 2017. The increase was mainly due to commencement of business in shopping mall and new restaurant.

Operating lease rental expenses

Operating lease rental expenses increased by 109.3% to RMB57.8 million for the six months ended 30 June 2018 from RMB27.6 million in the corresponding period of 2017. The increase was mainly due to commencement of business in shopping mall and new restaurant, and the adjustment of rental expenses upon renewal of tenancies of two main stores.

Other operating expenses

Other operating expenses, increased by RMB0.9 million from RMB0.2 million for the six months ended 30 June 2017 to RMB1.1 million in the corresponding period of 2018. This was primarily due to commencement of business in shopping mall.

Operating profit

As a result of the reasons mentioned above, the Group's operating profit amounted to RMB23.2 million for the six months ended 30 June 2018 as compared with the operating profit of the Group of RMB34.3 million for the six months ended 30 June 2017.

Income tax expense

Income tax expense amounted to RMB5.2 million for the six months ended 30 June 2018, representing a decrease of 48.6% from RMB10.1 million in the corresponding period of 2017, mainly due to decrease of operating profit before tax. The effective tax rate applicable to the Group for the six months ended 30 June 2018 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 RMB18.0 million for the six months ended 30 June 2018, representing a drop of 25.5% as compared with the profit of RMB24.2 million in the corresponding period of 2017.

Subsequent Events

The Group has disposed of the financial assets at fair value through other comprehensive income subsequent to 30 June 2018.

The Group did not have any other significant events taken place subsequent to 30 June 2018.

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

For the operation and management of retail stores and other related businesses and food and catering business, the Group has no significant concentrations of credit risk. Most of the sales transactions were settled in cash basis or by credit card payment. Credit risk on cash and bank balances is mitigated as cash is deposited in banks of high credit rating. The Group's exposure to credit risk mainly arises from loan receivables from factoring business. In respect of loan receivables, the Group's policy is that all customers who wish to obtain loans from the Group are subject to management review. The Group holds collaterals directly or indirectly to cover its risks associated with loan receivables. The credit and investment policies have been followed by the Group since prior years and are considered to have been effective in limiting the Group's exposure to credit risk to a desirable level.

(iii) Interest rate risk

The Group's exposure to interest rate risk mainly arises on 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 2018, the Group had 1,419 full-time employees (as at 30 June 2017: 1,360). 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 2018, approximately HK$206,957,000 of the proceeds so raised was used, and the unused proceeds of approximately HK$58,043,000 was deposited with banks, the security of which was adequately ensured.

Details of the used proceeds raised of approximately HK$206,957,000 are set out as follows:

- as to approximately HK$29,000,000 for acquisition of the business of a retail chain in Shenzhen, the PRC;
- as to approximately HK$28,300,000 for opening of new stores in Yanbu Foshan and Ronggui Foshan, the PRC;
- as to approximately HK$8,750,000 for opening of a new store in Nanning Guangxi, the PRC;
- as to approximately HK$4,350,000 for opening of two new stores in Xinan Baoan Shenzhen, the PRC;
- as to approximately HK$10,400,000 for opening of a new store in Luohu Shenzhen, the PRC;
- as to approximately HK$15,800,000 for opening of a new store in Buji Shenzhen, the PRC;
- as to approximately HK$14,300,000 for opening of another new store in Nanning Guangxi, the PRC;
- as to approximately HK$3,690,000 for opening of a new supermarket in Bantian Longgang, Shenzhen, the PRC;
- as to approximately HK$8,800,000 for opening of a theme restaurant and two beverage kiosks in Shenzhen, the PRC;
- as to approximately HK$3,600,000 for opening of a theme restaurant and a Chinese restaurant in Baoan and Longgang Shenzhen, the PRC respectively;

- as to approximately HK$9,200,000 for setting up of a procurement centre in Shiyan Shenzhen, the PRC;
- as to approximately HK$12,042,000 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 2018, 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, one Independent Non-executive Director of the Company had not attended the annual general meeting of the Company held on 30 May 2018.

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 30 May 2018 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 2018.

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 2018. The financial statements of the Company for the six months ended 30 June 2018 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 2018 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 2018

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

Executive Directors:
Zhuang Lu Kun, Zhuang Pei Zhong, Zhuang Xiao Xiong

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