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佳華百貨控股有限公司
Jiahua Stores Holdings Limited
(incorporated in the Cayman Islands with limited liability)
(stock code: 00602)

FINAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL HIGHLIGHTS

Revenue from continuing operations increased by 2.9% to approximately RMB710.3 million

Gross profit margin of sales of goods except online sales from continuing operations decreased by 7.6% to approximately RMB84.0 million

Profit attributable to the owners of the Company for the year amounted to approximately RMB25.2 million

Basic earnings per share was approximately RMB2.43 cents

Proposed final dividend of RMB1.88 cents is recommended

ANNUAL RESULTS

The board (the “Board”) of directors (the “Directors”) of Jiahua Stores Holdings Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to the “Group”) for the year ended 31 December 2018 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

		Year ended 31 December	
		2018	2017
	Notes	RMB'000	RMB'000
			(Re-presented)
Continuing operations			
Revenue	4	710,336	690,124
Cost of inventories sold		(410,424)	(418,357)
		299,912	271,767
Other operating income	6	71,509	63,135
Increase in fair value of investment properties	12	500	20,100
Selling and distribution costs		(284,905)	(218,184)
Administrative expenses		(49,997)	(53,507)
Other operating expenses		(3,465)	(7,120)
Profit before income tax	7	33,554	76,191
Income tax expense	8	(9,085)	(26,665)
Profit from continuing operations for the year		24,469	49,526
Discontinued operation			
Profit/(loss) from discontinued operation for the year	9	734	(16,327)
Profit for the year		25,203	33,199

		Year ended 31 December	
		2018	2017
	Notes	RMB'000	RMB'000
			(Re-presented)
Other comprehensive income			
<i>Item that will not be reclassified to profit or loss:</i>			
Change in fair value of equity instrument at fair value through other comprehensive income		565	–
Other comprehensive income for the year		565	–
Total comprehensive income for the year		25,768	33,199
Profit/(loss) attributable to owners of the Company for the year:			
– Continuing operations		24,469	49,526
– Discontinued operation		734	(16,327)
		25,203	33,199
Total comprehensive income attributable to owners of the Company:			
– Continuing operations		25,034	49,526
– Discontinued operation		734	(16,327)
		25,768	33,199
Earnings/(loss) per share for profit/(loss) attributable to the owners of the Company during the year:			
Earnings/(loss) per share – basic and diluted (RMB cents)			
– Continuing operations	11	2.36	4.77
– Discontinued operation	11	0.07	(1.57)
		2.43	3.20

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

		As at 31 December	
		2018	2017
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		182,046	171,127
Investment properties	<i>12</i>	291,300	290,800
Prepaid land lease		12,401	12,662
Intangible assets		1,305	6,369
Deposits paid, prepayments and other receivables		23,282	19,517
Interests in an associate		–	–
Available-for-sale financial asset		–	3,235
		510,334	503,710
Current assets			
Inventories and consumables	<i>13</i>	52,576	47,190
Trade and loan receivables	<i>14</i>	60,859	45,493
Deposits paid, prepayments and other receivables		53,087	57,206
Cash and bank balances		270,896	288,817
		437,418	438,706
Current liabilities			
Trade payables	<i>15</i>	172,003	194,499
Contract liabilities		23,619	–
Coupon liabilities, deposits received, other payables and accruals		110,451	111,203
Amount due to a director		59	59
Provision for taxation		11,961	14,393
		318,093	320,154

		As at 31 December	
		2018	2017
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net current assets		119,325	118,552
Total assets less current liabilities		629,659	622,262
Non-current liabilities			
Deferred tax liabilities		23,931	22,486
Net assets		605,728	599,776
EQUITY			
Share capital	16	10,125	10,125
Reserves		595,603	589,651
Total equity		605,728	599,776

1. GENERAL INFORMATION

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

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

2. BASIS OF PREPARATION

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

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

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

3. ACCOUNTING POLICIES

In 2018, the Group adopted the following new standards, amendments, improvement and interpretation which are relevant to its operations.

(a) Impact on the financial statements

New standards, amendments, improvement and interpretation

HKFRSs	Annual Improvements 2014 – 2016 Reporting Cycle
HKFRS 2 (Amendment)	Classification and Measurement of Share-based Payment Transactions
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HKFRS 15 (Amendment)	Clarification to HKFRS 15
HKAS 40 (Amendment)	Transfer of Investment Property
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration

The adoption of the above new standards, amendments, improvement and interpretation to existing HKFRSs do not have a material impact on the Group, except for HKFRS 9 “Financial Instruments” as set out below:

HKFRS 9 “Financial Instruments” – Impact of adoption

The adoption of HKFRS 9 “Financial Instruments” from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. In accordance with the transitional provision in HKFRS 9, comparative figures have not been restated. The reclassification and adjustments arising from the new impairment rules are therefore not reflected in the consolidated statement of financial position as at 31 December 2017, but are recognised in the consolidated statement of financial position on 1 January 2018.

(i) Classification and measurement

On 1 January 2018 (the date of initial application of HKFRS 9), the Group’s management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories. The main effect resulting from the reclassification is:

Equity instrument previously classified as an available-for-sale financial asset

The equity investment previously classified as an available-for-sale financial asset which was measured at cost less impairment was reclassified as a financial asset at fair value through other comprehensive income as the investment is held as long-term strategic investment.

The adjustments on the opening balances of reserves and retained earnings as of 1 January 2018 are summarised below:

	<i>RMB’000</i>
Retained earnings	
Retained earnings as at 31 December 2017	238,703
Reclassify impairment loss previously recognised in profit or loss for available-for-sale financial asset to investment revaluation reserve	7,565
Restated retained earnings as at 1 January 2018	246,268
Investment revaluation reserve	
Reserves balances at 31 December 2017	–
Reclassify impairment loss previously recognised in profit or loss for available-for-sale financial asset to investment revaluation reserve	(7,565)
Restated reserves balance as at 1 January 2018	(7,565)

(ii) *Impairment of financial assets*

The Group has adopted the new impairment models in which the recognition of impairment provision is based on expected credit losses rather than only incurred credit losses.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 supersedes HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations. HKFRS 15 has established a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has adopted HKFRS 15 using the cumulative effect method. The Group has recognised the cumulative effect of initially applying HKFRS 15 as an adjustment to the opening balance of retained earnings at the date of initial application (that is, 1 January 2018). As a result, the financial information presented for 2017 has not been restated. There is no impact of transition to HKFRS 15 on the opening balances of retained earnings. However, additional disclosures have been presented in the consolidated financial statements for the year ended 31 December 2018 as a result of adoption of HKFRS 15.

(b) New standards, amendments, improvement and interpretation to existing standards but not yet effective to the Group

		Effective for accounting periods beginning on or after
HKAS 28 (Amendment)	Long-term Interests in Associates and Joint Ventures	1 January 2019
HKFRSs	Annual Improvements 2015 - 2017 Reporting Cycle	1 January 2019
HKFRS 9 (Amendment)	Prepayment Features with Negative Compensation	1 January 2019
HKAS 19 (Amendment)	Plan Amendment, Curtailment or Settlement	1 January 2019
HKFRS 16	Leases	1 January 2019
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments	1 January 2019
HKAS 1 and HKAS 8 (Amendments)	Definition of Material	<i>Note</i>
HKFRS 3 (Amendment)	Definition of a Business	1 January 2020
HKFRS 17	Insurance Contracts	1 January 2021
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be announced

The directors of the Company are in the process of assessing the impact of these new/revised HKFRS and do not intend to adopt them before their respective effective dates. Other than HKFRS 16, the directors of the Company expect that the adoption of the new/revised HKFRS above will have no material impact on the financial statements in the period of initial application.

Note: Effective for transactions that occur on or after 1 January 2020.

HKFRS 16 “Leases”

HKFRS 16 will affect primarily the accounting for the Group’s operating leases. Under HKFRS 16, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised in the consolidated statement of financial position. Management considers the operating lease commitments will result in the recognition of an asset and a liability for future payments and will affect the Group’s results and classification of cash flows.

4. REVENUE

Revenue, which is also the Group’s turnover, represents invoiced value of goods sold, net of value added tax and after allowances for returns and discounts, rental income, food and catering and interest income.

	2018 <i>RMB’000</i>	2017 <i>RMB’000</i> (Re-presented)
Continuing operations		
Revenue from Contracts with Customers within the scope of HKFRS 15:		
Sales of goods	494,219	509,167
Commissions from concessionaire sales	101,761	109,525
	595,980	618,692
Revenue from other sources:		
Rental income from investment properties	10,081	10,146
Rental income from sub-leasing of shop premises	58,428	51,581
Rental income from sub-leasing of a shopping mall	39,738	6,897
Interest income from financing services	6,109	2,808
	114,356	71,432
	710,336	690,124
Discontinued operation		
Revenue from Contracts with Customers within the scope of HKFRS 15:		
Sales of food and catering	7,902	10,059

5. SEGMENT INFORMATION

On adoption of HKFRS 8 Operating Segments, the Group has identified its operating segments and prepared segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and review of these components' performance. There are three business components/operating segments in the internal reporting to the executive directors, which are operation and management of retail stores and other related businesses, food and catering, and provision of financing services (2017: operation and management of retail stores and other related businesses, food and catering, and provision of factoring services) for the year. The business of provision of supply chain financing services started during the year ended 31 December 2018. The business of provision of supply chain financing services and factoring services are reported as provision of financing services.

	Continuing operations			Discontinued operation		
	Operation and management of retail stores and other related businesses	Provision of financing services	Sub-total	Food and catering	Inter-segment elimination	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2018						
Revenue from external customers	704,227	6,109	710,336	7,902	–	718,238
Inter-segment revenue	448	–	448	–	(448)	–
Reportable segment revenue	704,675	6,109	710,784	7,902	(448)	718,238
Segment results	35,344	4,967	40,311	734	–	41,045
Other unallocated corporate income						1
Other unallocated corporate expenses						(6,758)
Profit before income tax						34,288
Income tax expense						(9,085)
Profit for the year						25,203

	Continuing operations			Discontinued operation	
	Operation and management of retail stores and other related businesses <i>RMB'000</i>	Provision of financing services <i>RMB'000</i>	Sub-total <i>RMB'000</i>	Food and catering <i>RMB'000</i>	Consolidated <i>RMB'000</i>

Year ended 31 December 2018

Other segment information

Interest income	(4,298)	(8)	(4,306)	(2)	(4,308)
Additions to non-current assets	68,769	146	68,915	7,363	76,278
Amortisation of intangible assets	115	–	115	1,548	1,663
Amortisation of prepaid land lease	261	–	261	–	261
Written-off of an intangible asset	–	–	–	1,399	1,399
Depreciation of property, plant and equipment	41,027	23	41,050	2,901	43,951
Loss on disposal of property, plant and equipment	706	–	706	–	706
Obsolete inventories written-off	127	–	127	–	127
Inventories loss	122	–	122	–	122
Impairment loss on other receivable	1,828	–	1,828	–	1,828
Increase in fair value of investment properties	(500)	–	(500)	–	(500)

	Operation and management of retail stores and other related businesses <i>RMB'000</i>	Provision of financing services <i>RMB'000</i>	Consolidated <i>RMB'000</i>
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At 31 December 2018

Reportable segment assets	887,552	55,784	943,336
Other unallocated corporate assets			4,416
Total assets			947,752
Reportable segment liabilities	304,153	494	304,647
Provision for taxation			11,961
Deferred tax liabilities			23,931
Unallocated corporate liabilities			1,485
Total liabilities			342,024

	Continuing operations			Discontinued operation		
	Operation and management of retail stores and other related businesses <i>RMB'000</i>	Provision of factoring services <i>RMB'000</i>	Sub-total <i>RMB'000</i>	Food and catering <i>RMB'000</i>	Inter-segment elimination <i>RMB'000</i>	Consolidated <i>RMB'000</i> (Re-presented)
Year ended 31 December 2017						
Revenue from external customers	687,316	2,808	690,124	10,059	–	700,183
Inter-segment revenue	191	–	191	–	(191)	–
Reportable segment revenue	687,507	2,808	690,315	10,059	(191)	700,183
Segment results	82,116	1,986	84,102	(16,327)	–	67,775
Impairment loss on an available-for-sale financial asset						(3,484)
Unallocated corporate income						692
Other unallocated corporate expenses						(5,119)
Profit before income tax						59,864
Income tax expense						(26,665)
Profit for the year						33,199

Continuing operations			Discontinued operation	
Operation and management of retail stores and other related businesses	Provision of factoring services	Sub-total	Food and catering	Consolidated
<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
(Re-presented)				

Year ended 31 December 2017

Other segment information

Interest income	(5,095)	(21)	(5,116)	(11)	(5,127)
Additions to non-current assets	96,873	403	97,276	11,767	109,043
Amortisation of intangible assets	115	–	115	4,741	4,856
Amortisation of prepaid land lease	261	–	261	–	261
Impairment loss on intangible assets	–	–	–	1,773	1,773
Depreciation of property, plant and equipment	32,601	12	32,613	3,066	35,679
Written-off of property, plant and equipment	1	–	1	475	476
Loss on disposal of property, plant and equipment	12	–	12	–	12
Obsolete inventories written-off	178	–	178	–	178
Inventories loss	10	–	10	–	10
Increase in fair value of investment properties	(20,100)	–	(20,100)	–	(20,100)
Provision for a legal claim	3,159	–	3,159	–	3,159

	Continuing operations			Discontinued operation	
	Operation and management of retail stores and other related businesses	Provision of factoring services	Sub-total	Food and catering	Consolidated
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 31 December 2017					
Reportable segment assets	864,666	47,313	911,979	23,884	935,863
Available-for-sale financial assets					3,235
Other unallocated corporate assets					3,318
Total assets					942,416
Reportable segment liabilities	300,816	258	301,074	3,261	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-sale financial assets, are principally attributable to a single geographical region, which is the PRC.

Information about a major customer

There was no single customer that contributed to 10% or more of the Group's revenue for the years ended 31 December 2017 and 2018.

6. OTHER OPERATING INCOME

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i> (Re-presented)
Continuing operations		
Interest income	4,307	5,116
Net exchange gain	279	692
Government grants (Note)	6,052	1,318
Administration and management fee income	45,622	42,197
Others	15,249	13,812
	71,509	63,135
Discontinued operation		
Interest income	2	11
Administration and management fee income	–	117
Others	5	9
	7	137
	71,516	63,272

Note: Various local government grants have been granted to subsidiaries of the Group during the years ended 31 December 2017 and 2018. There were no unfulfilled conditions or contingencies attaching to these government grants.

7. PROFIT BEFORE INCOME TAX

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

	2018 RMB'000	2017 RMB'000 (Re-presented)
Continuing operations		
Cost of inventories sold recognised as expense	410,424	418,357
Auditor's remuneration	1,602	1,185
Depreciation of property, plant and equipment	41,050	32,613
Amortisation of prepaid land lease	261	261
Amortisation of intangible assets	115	115
Loss on disposal of property, plant and equipment	706	12
Operating lease rentals in respect of land and buildings	108,612	65,376
Obsolete inventories written-off	127	178
Inventories loss	122	10
Impairment loss on an available-for-sale financial asset (<i>Note (i)</i>)	–	3,484
Impairment loss on other receivables (<i>Note (i)</i>)	1,828	–
Written-off of property, plant and equipment	–	1
Provision for legal claims (<i>Note (i)</i>)	–	3,159
Staff costs, including directors' emoluments		
Salaries and other benefits	86,227	82,616
Contributions to retirement schemes	10,360	9,992
	96,587	92,608
Net exchange gain	(279)	(692)
Rental income from investment properties	(10,081)	(10,146)
Sub-letting of properties		
– Base rents	(94,712)	(54,574)
– Contingent rents (<i>Note (ii)</i>)	(3,454)	(3,904)
	(98,166)	(58,478)
Total gross rental income	(108,247)	(68,624)
Less: Direct operating expenses arising from investment properties that generated rental income during the year	2,058	–
Less: Outgoings of sub-letting of properties	14,801	15,906
Net rental income	(91,388)	(52,718)

	2018 RMB'000	2017 RMB'000 (Re-presented)
Discontinued operation		
Cost of inventories sold recognised as expense	3,366	3,104
Auditor's remuneration	15	2
Depreciation of property, plant and equipment	2,901	3,066
Amortisation of intangible assets	1,548	4,741
Operating lease rentals in respect of land and buildings	2,115	2,475
Impairment loss on an intangible asset (<i>Note (i)</i>)	–	1,773
Written-off of property, plant and equipment	–	475
Written-off of an intangible asset	1,399	–
Staff costs, including directors' emoluments		
Salaries and other benefits	5,168	6,043
Contributions to retirement schemes	449	502
	5,617	6,545

Notes:

- (i) Impairment loss on an available-for-sale financial asset, an intangible asset and other receivables, and provision for legal claims had been included in other operating expenses.
- (ii) Contingent rents are calculated based on a percentage of the relevant sales of the tenants pursuant to the rental agreements.

8. INCOME TAX EXPENSE

	Year ended 31 December 2018 RMB'000	2017 RMB'000
Current income tax		
– PRC enterprise income tax	4,540	18,040
– PRC withholding income tax	3,100	2,800
	7,640	20,840
Deferred tax	1,445	5,825
	9,085	26,665

The Group is not subject to any taxation under the jurisdiction of the Cayman Islands and British Virgin Islands during the year (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 year (2017: Nil).

For a subsidiary of the Group in Guangxi, its PRC Enterprise Income Tax has been provided at the preferential enterprise income tax rate of 15% (2017: 15%) for the year pursuant to the privilege under the China's Western Development Program.

Other subsidiaries of the Group established in the PRC were mainly subject to PRC Enterprise Income Tax at the rate of 25% (2017: 25%) for the year under the income tax rules and regulations of the PRC.

9. DISCONTINUED OPERATION

On 30 June 2018, the Group completed its disposal of the entire interests in a subsidiary, Shenzhen Qianhai Baijiahua Beverage Management Limited ("Baijiahua Beverage") which was principally engaged in food and catering to an independent third party.

The sales, results and cash flows of the disposed subsidiary were as follows:

	1 January to 30 June 2018	1 January to 31 December 2017
	RMB'000	RMB'000
Revenue	7,902	10,059
Cost of inventories sold	(3,366)	(3,104)
	4,536	6,955
Other operating income	7	137
Selling and distribution costs	(10,976)	(12,695)
Administrative expenses	(3,715)	(8,372)
Other operating expenses	(1,459)	(2,352)
Loss before income tax	(11,607)	(16,327)
Income tax expense	–	–
Loss after tax from discontinued operation	(11,607)	(16,327)
Gain on disposal of a subsidiary	12,341	–
Profit/(loss) for the year from discontinued operation	734	(16,327)
Operating cash flows	7,418	9,805
Investing cash flows	(8,057)	(10,086)
Total cash flows	(639)	(281)

10. DIVIDENDS

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Proposed final dividend for the year ended 31 December 2018 of approximately RMB1.88 cents (2017: RMB1.91 cents) per ordinary share	19,505	19,816

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

11. EARNINGS/(LOSS) PER SHARE

(i) Continuing and discontinued operations

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

	2018	2017
		(Re-presented)
Earnings		
Earnings for the purposes of basic and diluted earnings per share (RMB'000)	25,203	33,199
Number of shares		
Weighted average number of ordinary shares	1,037,500,002	1,037,500,002
Basic and diluted earnings per share (RMB cents)	2.43	3.20

Diluted earnings per share equals to basic earnings per share, as there were no potential dilutive ordinary shares issued during the years ended 31 December 2017 and 2018.

(ii) Continuing operations

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i> (Re-presented)
Profit attributable to owners of the Company for the year	25,203	33,199
Less: Profit/(loss) from discontinued operation for the year	734	(16,327)
	24,469	49,526
Basic and diluted earnings per share from continuing operations (<i>RMB cents</i>)	2.36	4.77

(iii) Discontinued operation

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i> (Re-presented)
Profit/(loss) attributable to owners of the Company for the year	734	(16,327)
Basic and diluted earnings/(loss) per share from discontinued operation (<i>RMB cents</i>)	0.07	(1.57)

12. INVESTMENT PROPERTIES

	As at 31 December 2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
At beginning of the year	290,800	270,700
Increase in fair value of investment properties	500	20,100
At end of the year	291,300	290,800

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

13. INVENTORIES AND CONSUMABLES

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Merchandise for resale	50,289	44,051
Low value consumables	2,287	3,139
	52,576	47,190

14. TRADE AND LOAN RECEIVABLES

All of the Group's sales are on cash basis except for trade receivables from certain bulk sales of merchandise to corporate customers, rental income receivables from tenants and loan receivables from provision of financing services. The credit terms offered to the customers from operation and management of retail stores are generally for a period of one to three months, while to customers from financing services are generally for a period of nil to seven months (2017: one to nine months).

As at 31 December 2018, included in trade receivables of approximately RMB13,274,000 (2017: RMB811,000) represented rental income receivables from tenants.

Trade receivables were non-interest-bearing. Loan receivables from provision of financing services which bore interest at fixed rates with effective interest rates ranging from 12% to 15% (2017: 6% to 24%) per annum.

	2018	2017
	RMB'000	RMB'000
Trade receivables (<i>note (i)</i>)	13,647	10,031
Loan receivables (<i>note (ii)</i>)	47,212	35,462
	60,859	45,493

Notes:

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

	2018	2017
	RMB'000	RMB'000
Within 30 days	12,399	8,311
31-60 days	488	667
61-180 days	484	624
181-365 days	276	282
Over 1 year	–	147
	13,647	10,031

(ii) The aging analysis of the Group's loan receivables, based on drawdown dates, is as follows:

	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Within 30 days	12,061	484
31-60 days	–	24,360
61-180 days	8,110	10,618
181-365 days	27,041	–
	47,212	35,462

15. TRADE PAYABLES

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

	As at 31 December	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Within 30 days	102,708	105,662
31-60 days	47,662	56,804
61-180 days	11,352	19,530
181-365 days	2,898	4,345
Over 1 year	7,383	8,158
	172,003	194,499

16. SHARE CAPITAL

	2018		2017	
	Number of		Number of	
	shares		shares	
	(<i>'000</i>)	<i>RMB'000</i>	(<i>'000</i>)	<i>RMB'000</i>
Authorised:				
Ordinary shares of Hong Kong Dollars				
("HK\$") 0.01 each				
At 1 January and 31 December	10,000,000	97,099	10,000,000	97,099
Issued and fully paid:				
Ordinary shares of HK\$0.01 each				
At 1 January and 31 December	1,037,500	10,125	1,037,500	10,125

17. LITIGATIONS

Guangxi Yulin Store

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

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

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

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

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

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

In July 2014, the court has announced its judgement that the Group was required to bear the alleged damage to Shengyuan with a total of approximately RMB60,000; Shengyuan was required to return the prepaid management fee and deposit to the Group of approximately RMB1,097,000 and RMB731,000 respectively; the Group was required to bear the partial court processing fee of approximately RMB16,000.

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

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

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

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

In August 2016, the court has announced that the judgements made in July 2014 have been sustained. Shengyuan lodged appeal to the intermediate court immediately but has been turned down.

In August 2017, Shengyuan has lodged appeal to high court against the decision by the intermediate court but has been turned down. The Group has lodged application for compulsory execution of the decision by the court immediately and the compulsory execution has been approved by the court in January 2018.

In December 2017, the court has announced its judgements that the Group was required to bear the counterclaims of alleged damage to Yulin Hongyuan of approximately RMB3,159,000; Yulin Hongyuan was required to return the prepaid rentals and deposit to the Group of approximately RMB1,407,000 and RMB938,000 respectively; the Group was required to bear partial court processing fee of approximately RMB65,000.

During the year ended 31 December 2018, the Group has received the repayments of prepaid rentals and rental deposit of approximately RMB2,345,000 in aggregate, and settled the provision of counterclaims of alleged damage of approximately RMB3,159,000 to Yulin Hongyuan. The directors of the Company are of the view that, as pursuant to legal opinion from the Group's legal advisor, the litigation against Yulin Hongyuan had been concluded and settled.

The directors of the Company are of the view that, as pursuant to legal opinion from the Group's legal advisor, prepaid management fee and deposit with amounts of approximately RMB1,828,000 should be refunded to the Group from Shengyuan. Provision of counterclaims of alleged damage granted by the court of approximately RMB60,000 to Shengyuan was made in prior years and included in other payables as at 31 December 2018. The directors of the Company considered that the prepaid management fee and deposit to be credit-impaired, impairment loss on prepaid management fee and deposits with amounts totalling RMB1,828,000 was made, which has been recorded in other operating expenses for the year ended 31 December 2018.

As at 31 December 2018, the directors of the Company are of the view that there is no contingent liabilities regarding the litigations with Shengyuan.

Furthermore, the directors of the Company are of the view that adequate provision for legal fees in relation to the proceedings has been made as at 31 December 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

(A) Industry Review

The year 2018 was the tenth anniversary of the global financial crisis. The global economy was still weak and the high level risk unresolved. Trade protectionism reappears and brings pressure to the world economy. On one side, the growing trend of world economy did not prolong to current year. The recovery pace of economic zones in Euro-American diverged with major economic entities, reached their climax, but the new economies experienced financial unrest. On the other side, the USA has launched trade dispute which was against the trade globalization, arousing civil rights, and promoting political conflicts, which posted threats to the economic development.

During the year, the global economic expansion slowed down with multiple factors including world trade tension, USA tight monetary policy, appreciation of and strict control on US dollars etc. From the economic viewpoint, USA performed well, the Euro zone was dragging, the emerging entities kept high growth rate, and the remaining grew slowly. From the financial viewpoint, the developed countries was growing stably but still lagged behind, the emerging entities experienced currency depression, capital outflow, stock market declined and loan repayment pressure increased.

China was putting forward the “Belt and Road initiative” to boost domestic employment and economy in 2018. The social consumable retail goods was kept stable, with high-tech and service spending grew fast. The portion of resident service spending increased steadily, especially in cosmetic, electric appliance and tele-communication products. This was accelerated by the integration of supply chain, e-commerce and digital spending advancement.

Online retail turnover has breakthrough during the year. China retail industry has reformed to adapt the new world, such as closure of stores, operating transition, withdrawal of overseas brand name, online to offline integration, closure of famous star stores, luxury products online offering, de-popularize of foreign brand name, acquisition of international brand, and water-testing of local beverage operator abroad etc.

According to the statistics released by the National Bureau of Statistics of China, GDP for the year amounted to RMB90,000 billion, representing a 6.6% increase over last year. Total retail sales of social consumer goods for the year was RMB38,100 billion, representing an year-on-year (“YOY”) growth of 9.0%. Among them, retail sales of “over-the-threshold” consumer goods grew by 5.7% on an YOY basis to RMB14,500 billion. Retail sales of urban consumer goods rose by 8.8% to RMB32,600 billion YOY, while retail sales of rural consumer goods rose by 10.1% to RMB5,500 billion YOY. By consumption pattern, retail sales of commodities went up 8.9% to RMB33,800 billion YOY. During the year, total domestic online retail sales amounted to RMB9,000 billion, representing an YOY growth of 23.9%. Among them, commodity goods online retail sales grew by 25.4% on an YOY basis to RMB7,000 billion, accounting for 18.4% of the total retail sales of social consumer goods. The growth in the food and drink, apparel and daily consumption categories were 33.8%, 22.0% and 25.9% respectively. The annual per capita income amounted to RMB28,000. On further breakdown, per capita disposable income of urban residents amounted to RMB39,000, increased by 7.8% as compared with last year; Per capita disposable income of rural residents amounted to RMB15,000, increased by 8.8% as compared with last year.

Overall, online sales grew significantly attributable to expansion of internet users and logistic channel. With the new techniques derived from Big Data, artificial intelligence and mobile internet, supermarkets and professional stores explored new sales channel. This resulted in the fast growing of some traditional retail, and integration of newly emerge and traditional industry.

(B) Business Review

At year end date, the Group has directly operated 11 retail stores and 1 shopping mall with a total gross floor area of approximately 183,000 square meters, principally located in Guangdong (including Shenzhen and Foshan) and Guangxi provinces. Among them, ten retail stores (total gross floor area of approximately 146,000 square meters) are operating as retail outlets and one (total gross floor area of approximately 2,000 square meters) is used for leasing purpose. For the ten retail outlets, eight of them are in Guangdong (seven in Shenzhen and one in Foshan) and the remaining two are in Nanning Guangxi. In the first half year, the Group has been operating 5 restaurants (four main theme restaurants located in Nanshan, Longgang (Bantian and Longcheng) and Baoan Central District of Shenzhen) and one Chinese restaurant (located in Longgang Shenzhen). The subsidiary which operated these restaurants has been disposed of during the year due to operating loss.

During the year, the Group has operated its first shopping mall with approximately 35,000 square meters located at Bantian Longgang of Shenzhen. All stores have commenced business in the busy zone nearby. At year end, the Group has started the preparation works of its second shopping mall with approximately 32,000 square meters located at Guanlan Longhua of Shenzhen. Business invitation and interior design works has begun. The shopping mall is located the central district of the Guanlan street which is the intersection point of the Shenzhen metro station and tram station with high people flow.

Besides, the Group also owns a four-floor commercial property located in Baoan Central District, Shenzhen, Guangdong. Except for part of one floor being used as the Group's own headquarters, all other commercial floors have been fully leased out for rental purpose.

Reform the content of main stores to introduce the new spending mode

During the year, the Group has transformed its first store to outlet store in Shajing to adapt to the new retail trend. Shajing Baijiahua Outlet is located near to the Shenzhen Baoan International Airport, the connection point to the major cities around the country. It targeted to be a best quality products selling point in western Shenzhen and provided the largest brand name discount store in the 20km spending circle. With the commencement of business in September 2018, the consumer group is gradually formed and expanding. The Group will launch more promotion activities to stimulate customer flow, renew and update more brand name, and provide better service to customers. The Shajing Outlet will become the attractive shopping arcade in the western Shenzhen.

Besides, the Group has established a cinema in Songgang store. This aimed to explore more shopping and leisure experience for customers. After the cinema in Longhua store, the Songgang cinema was another trial run. The cinema brought new shopping experience to customers and stimulated the flow of the store in both headcount and revenue. The Group will continue to try new shopping mode to boost customer flow and enhance customer loyalty.

Establish the in-house training department to assist operating procedure enhancement

Baijiahua Institute was set up in 2018 to promote learning spirit and talent development. Managers will act as speakers on various topics covering basic knowledge and technique in retail industry, personal behavior and life planning. This aimed to provide on-the-job training, career development and leadership ability.

On the training area, irregular seminar equipped with electronic software platform will be held. Discussion topics included management skill, technical knowledge and general operation technique will be covered. On the career development, practical knowledge including learning path, mentorship program, ability matching model, career path orientation, and rotation training etc will be introduced. On the leadership aspect, ability development, team building skills, and manpower reserve will be the highlights of the seminar. The Institute, as a corporate university, focused on learning and talent development, and provided support to the Group for long term development.

Prepare another shopping mall to compete for market share

At year end, the Group has prepared for the second shopping mall in Guanlan Shenzhen, after the Bantian shopping mall. It is located at the old centre of Guanlan, and will be the intersection point of the Shenzhen Metro line (construction in progress) and the Shenzhen Tram, which has a definite competitive advantage in future. The Guanlan shopping mall has been interiorised by renowned design house in China focusing on scenario, experience and trendy style. The mall will provide a one-stop shopping arcade advocating family gathering, social networking and leisure enjoying platform for the residents and visitors nearby. On the brand name selection, we have invited online best sellers to station in our store with strategic planning on sales floor mix. The portion of sales floor for entertaining, catering, and product selling will be strictly control and stick to overall planning of the mall. We have signed lease agreements with supermarket and cinema operators, and the liaison with other well-known catering and leisure brand name is underway. The Guanlan shopping mall will attract many potential customers in the surrounding area which are mainly the luxury residential district. The consumption community is young and life enjoying. This will have a positive impact to the result of the Group after its commencement of business targeted at the third season in 2019.

Implement operational accountability system to streamline working procedure

At the end of 2018, the Group has reformed its organizational structure of five major stores. This encompassed from business to management area. Each store was divided into two main operating divisions – supermarket and commercial affair. Each division has its own manager-in-charge with independent authority and responsibilities. The human resources of the stores have been fully utilized to avoid duplication of duties and communication problems. Under the leadership of a division manager, a working group has been formed to implement its own policies and pursue its own goal. The main aim of the separation of operating sections and defining duties and responsibilities of division managers was to promote entrepreneurship in the operating divisions. Together with the establishment of Baijiahua Institute and the reformed staff incentive scheme, we hope to increase the market competitiveness of the two core business divisions.

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 (Longcheng 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 a 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.

Obtain multiple awards to recognize the corporate contributions

During the year, the Group has obtained various awards from the public sector. In August 2018, the major operating subsidiary of the Group – Shenzhen Baijiahua Department Stores Co Limited (“Baijiahua Department Stores”) received honorary certification from Guangdong Chain Operations Association as “Top 50 Guangdong Chain Store in 2017” for recognition of its leading position in the retail industry of the province. In December 2018, Baijiahua Department Stores received title from Shenzhen Chain Operations Association and Shenzhen Retail Business Association as “40th Anniversary of Economic Reform – Famous Store in Shenzhen” for recognition of its good reputation and corporate responsibility towards Shenzhen. In January 2019, Baijiahua Department Stores received title from the joint award ceremony of Shenzhen General Chamber of Commerce, Shenzhen Media Group and Shenzhen Newspaper Group as “The ninth session – Shenzhen Traditional Store” for recognition of its well-established and reputable business in the past. The Group will do our best in future to thank for the compliment and appreciation.

(C) Outlook

During the year, 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 2019 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.

FINANCIAL REVIEW

Revenue

The Group's revenue from continuing operations (that is, the aggregate proceeds from sales of goods, commissions from concessionaire sales, rental income from sub-leasing of shop premises, rental income from investment properties, rental income from sub-leasing of a shopping mall, and interest income from financing services) amounted to RMB710.3 million for the year ended 31 December 2018, representing an increase of 2.9% as compared to RMB690.1 million in the corresponding period of 2017. The increase was principally attributable to the increase in rental income from sub-leasing of a shopping mall, interest income from financing services, and rental income from sub-leasing of shop premises. However, the drop in sales of goods and commissions from concessionaire sales have partly offset the overall increase of income.

Sales of goods decreased by 2.9% to RMB494.2 million for the year ended 31 December 2018 from RMB509.2 million in the corresponding period of 2017, principally due to the external competitive environment and effect on enhancement of store appearance 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 from continuing operations was 69.6% for the year ended 31 December 2018 as compared to 73.8% in the corresponding period of 2017.

Commission from concessionaire sales decreased by 7.1% to RMB101.8 million for the year ended 31 December 2018 from RMB109.5 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 from continuing operations was 14.3% for the year ended 31 December 2018 as compared to 15.9% for the corresponding period of 2017.

Rental income from sub-leasing of shop premises going up by 13.3% to RMB58.4 million for the year ended 31 December 2018 from RMB51.6 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 from sub-leasing of shop premises as a percentage of the Group's total revenue from continuing operations was 8.2% for the year ended 31 December 2018 as compared to 7.5% for the corresponding period of 2017.

Rental income from investment properties decreased slightly by 0.6% to RMB10.1 million for the year ended 31 December 2018 from RMB10.1 million for the corresponding period in 2017, mainly due to no change to existing tenancies. Rental income from investment properties as a percentage of the Group's total revenue from continuing operations was 1.4% for the year ended 31 December 2018 as compared to 1.5% for the corresponding period of 2017.

Rental income from sub-leasing of a shopping mall increased significantly by 476.2% to RMB27 million for the year ended 31 December 2018 from RMB6.9 million for the corresponding period in 2017 due to the full year operation of Bantian shopping mall. Rental income from subleasing of a shopping mall as a percentage of the Group's total revenue from continuing operations was 5.6% for the year ended 31 December 2018 as compared to 1.0% for the corresponding period of 2017.

Interest income from financing services increased by 2.2 times to RMB6.1 million for the year ended 31 December 2018 from RMB2.8 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 financing services as a percentage of the Group's total revenue from continuing operations was 0.9% for the year ended 31 December 2018 as compared to 0.4% for the corresponding period of 2017.

Other operating income

Other operating income from continuing operations, which mainly comprised of interest income, net exchange gain, administration and management fee income, government grants and miscellaneous income, increased by 13.3% to RMB71.5 million for the year ended 31 December 2018 from RMB63.1 million in the corresponding period in 2017, mainly due to increase in administration and management fee income and government subsidies.

Purchase of and changes in inventories

Purchase of and changes in inventories from continuing operations amounted to RMB410.4 million for the year ended 31 December 2018, representing a decrease of 1.9% as compared with RMB418.4 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 83.0% for the year ended 31 December 2018 as compared with 82.2% in the same period of 2017.

Increase in fair value of investment properties

Increase in fair value of investment properties decreased from approximately RMB20.1 million for the year ended 31 December 2017, to approximately RMB0.5 million for this year, representing a decrease of approximately 97.5% due to changing conditions in real estate market.

Staff costs

Staff costs from continuing operations increased by 4.3% to RMB96.6 million for the year ended 31 December 2018 from RMB92.6 million in the corresponding period of 2017, primarily due to full year operation of Bantian shopping mall.

Depreciation

Depreciation from continuing operations increased by 25.9% to RMB41.1 million for the year ended 31 December 2018 from RMB32.6 million in the corresponding period in 2017. The increase was mainly due to full year operation of Bantian shopping mall.

Operating lease rental expenses

Operating lease rental expenses from continuing operations increased by 66.1% to RMB108.6 million for the year ended 31 December 2018 from RMB65.4 million in the corresponding period of 2017. The increase was mainly due to full year operation of Bantian shopping mall and the large scale upward adjustment of rental expenses upon renewal of tenancies of two main stores.

Other operating expenses

Other operating expenses from continuing operations, decreased by RMB3.6 million from RMB7.1 million for the year ended 31 December 2017 to RMB3.5 million in the corresponding period of 2018. This was primarily due to impairment loss on an available-for-sale financial asset and provision for compensation on legal claim last year.

Discontinued operation

The Group was carrying on the food and beverage business through a subsidiary during the year. It served both Chinese and Western cuisine with well-known brand names. Due to competitive market environment and the high amortisation charge in both tangible and intangible assets, the business suffered a loss during the year. The results of the food and beverage business and the gain on disposal of the subsidiary have been disclosed under note 9 to the financial statement.

Profit before income tax

As a result of the reasons mentioned above, the Group's profit before income tax from continuing operations decreased by RMB42.6 million to RMB33.6 million for the year ended 31 December 2018 as compared with the profit before income tax from continuing operations of the Group of RMB76.2 million for the year ended 31 December 2017.

Income tax expense

Income tax expense amounted to RMB9.1 million for the year ended 31 December 2018, representing a decrease of 65.9% from RMB26.7 million in the corresponding period of 2017, mainly due to tax deductible disposal loss on subsidiaries during the year. The tax rate applicable to the Group for the year ended 31 December 2018 were 25% for general PRC 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 RMB25.2 million for the year ended 31 December 2018, representing a drop of 24.1% as compared with the profit of RMB33.2 million in the corresponding period of 2017.

SUBSEQUENT EVENTS

The Group did not have any significant subsequent events subsequent to 31 December 2018.

PROPOSED FINAL DIVIDEND

The Board recommends the payment of final dividend for the year ended 31 December 2018 of RMB1.88 cents per ordinary share (inclusive of tax). The total amount of final dividends to be distributed shall be approximately RMB19,505,000, of which dividends paid to non-resident corporate shareholders will be subject to the corporate tax applicable on the PRC sourced income pursuant to the PRC Corporate Income Tax Law and the Regulations on the Implementation of the PRC Corporate Income Tax Law that became effective on 1 January 2008 and the applicable tax rate is 10%. The Company will be responsible for withholding the relevant amount of tax from the dividend payment and the dividends to be received by the non-resident corporate shareholders will be net of withholding tax. This proposal is subject to shareholders' approval at the annual general meeting to be held on 30 May 2019, Thursday. The proposed final dividend shall be declared in RMB and paid in Hong Kong dollars. The final dividend payable in Hong Kong dollars will be converted from RMB at the average middle rate of RMB to Hong Kong dollars of 1.167 as announced by the People's Bank of China as at 28 March 2019. Upon the approval to be obtained from the Annual General Meeting, the final dividend will be payable on 17 July 2019 to the shareholders whose name appears on register of members of the Company at close of business on 6 June 2019.

Risk Management

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

(i) Foreign exchange risk

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

(ii) *Credit risk*

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

The Group's exposure to credit risk mainly arises from loan receivables from factoring and supply chain financing businesses. 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 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 and loan receivables. The Group has not used any derivative contracts to hedge its exposure to interest rate risk. The Group has not formulated a policy to manage the interest rate risk.

(iv) *Liquidity risk*

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

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

Employee Information, Remuneration Policies and Share Option Scheme

As at 31 December 2018, the Group had 1,282 full-time employees (year ended 31 December 2017: 1,503). The salaries of the Group's employees were determined by the individual performance, professional qualification, industry experience of the employee and relevant market trends. The management reviews the remuneration policy of the Group on a regular basis and evaluates the working performance of the employees. The remuneration of the employees includes salaries, allowances, year-end bonus, social insurance or mandatory pension etc.

As at 31 December 2018, no share in respect of which options had been granted under the share option scheme (the "Scheme") adopted by the Company and remained outstanding (year ended 31 December 2017: Nil).

Use of Proceeds from the IPO

The net proceeds raised from the Company's newly issued and listed shares on the Stock Exchange in May 2007 (after deduction of related issuance expenses) amounted to approximately HK\$265,000,000. As of 31 December 2018, approximately HK\$207,834,000 of the proceeds so raised was used, and the unused proceeds of approximately HK\$57,166,000 was deposited with banks, the security of which was adequately ensured.

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

- as to approximately HK\$29,000,000 for acquisition of the business of a retail chain in Shenzhen, the PRC;
- as to approximately HK\$28,300,000 for opening of new stores in Yanbu Foshan and Ronggui Foshan, the PRC;
- as to approximately HK\$8,750,000 for opening of a new store in Nanning Guangxi, the PRC;
- as to approximately HK\$4,350,000 for opening of two new stores in 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\$3,690,000 for opening of a new supermarket in Bantian Longgang, Shenzhen, the PRC;
- as to approximately HK\$8,800,000 for opening of a restaurant and two beverage kiosks in Shenzhen, the PRC;
- as to approximately HK\$3,600,000 for opening of a theme restaurant and a Chinese restaurant in Baoan and Longgang Shenzhen, the PRC respectively;
- as to approximately HK\$9,200,000 for setting up of a procurement centre in Shiyan Shenzhen, the PRC;
- as to approximately HK\$12,919,000 for the purchase of transportation equipment;
- as to approximately HK\$15,000,000 for the purchase of office equipment;
- as to approximately HK\$3,000,000 for the upgrade of the MIS;
- as to approximately HK\$725,000 to promote the Company's brand image; and
- as to approximately HK\$40,000,000 for the refurbishments of existing retail stores.

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

Contingent Liabilities

As at 31 December 2018, the Group has no significant contingent liabilities.

CORPORATE GOVERNANCE

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

The Board is of the view that the Company has complied with the code provisions set out in the Corporate Governance Code during the year ended 31 December 2018 as contained in Appendix 14 of the Listing Rules, except for the following deviations:

Code Provision A.6.7 of the Code requires that Independent Non-executive Directors should attend general meeting. Due to other commitments, one Independent Non-executive 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 of the Company had adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) as set out in Appendix 10 to the Listing Rules as the Company’s own code for securities transactions by its Directors. Following specific enquiry made with all Directors, the Company has confirmed that all Directors had been in compliance with the required standard mentioned above for the year ended 31 December 2018.

ANNUAL GENERAL MEETING

The 2018 Annual General Meeting of the Company will be held on 30 May 2019, Thursday and the Notice of Annual General Meeting will be published and dispatched in the manner as required by the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the annual general meeting of the Company to be held on 30 May 2019, the register of members of the Company will be closed from 27 May 2019 to 30 May 2019, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the above meeting, unregistered holders of shares of the Company should ensure that all transfer forms accompanied by the relevant share certificates must be lodged with the Branch Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 24 May 2019, HK time.

For determining the entitlement to the proposed final dividend for the year ended 31 December 2018 (subject to approval by the shareholders at the annual general meeting), the register of members of the Company will be closed from 5 June 2019 to 6 June 2019, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible for the above proposed final dividend, unregistered holders of shares of the Company should ensure that all transfer forms accompanied by the relevant share certificates must be lodged with our Branch Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 4 June 2019, HK time.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the year ended 31 December 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

An Audit Committee was established by the Company on 30 April 2007 with specific written terms of reference which set out clearly its authority and duties. The Audit Committee currently comprises three Independent Non-executive Directors of the Company, namely, Mr. Chin Kam Cheung (Chairman of the committee), Mr. Sun Ju Yi and Mr. Ai Ji, is responsible for reviewing and providing supervision on the Group's financial reporting process and internal control systems. The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and the auditing, internal control and financial reporting aspects of the Company including the review of the annual results of the Company for the year ended 31 December 2018.

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

REVIEW OF FINANCIAL STATEMENTS

A meeting of the audit committee was held to review the Group's annual results for the year ended 31 December 2018 before they presented the same to the board of directors of the Company for approval. The audit committee has reviewed with the senior management of the Company the accounting principles and practice adopted by the Group, discussed auditing, financial reporting matters and has reviewed the annual results for the year ended 31 December 2018 before they presented the same to the board of directors of the Company for approval.

SCOPE OF WORK OF BDO LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in the announcement have been agreed by the Group's auditor, BDO Limited ("BDO"), to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by BDO in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO on this preliminary announcement.

PUBLICATION OF FURTHER INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

The Annual Report of the Company for the year ended 31 December 2018 containing all information required by Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange and dispatched to shareholders in due course.

ACKNOWLEDGMENT

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

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

Shenzhen, the PRC, 28 March 2019

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