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 2019

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 2019 together with the comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 30 June	
	Notes	**2019** ***RMB'000*** **(Unaudited)**	2018 *RMB'000* (Unaudited)
Revenue	*4*	**376,651**	368,708
Cost of inventories sold		**(214,046)**	(211,219)
		162,605	157,489
Other operating income	*4*	**54,163**	51,466
Selling and distribution costs		**(159,053)**	(164,034)
Administrative expenses		**(27,559)**	(30,991)
Gain on disposal of a subsidiary		**–**	10,374
Finance cost		**(14,767)**	–
Other operating expenses		**(241)**	(1,091)
Operating profit before income tax	*5*	**15,148**	23,213
Income tax expense	*6*	**(7,139)**	(5,198)
Profit and total comprehensive income for the period attributable to:			
– Owners of the Company		**8,009**	18,015
Earnings per share for profit attributable to the owners of the Company during the period			
– Basic and diluted (RMB cents)	*8*	**0.77**	1.74

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	At 30 June 2019 RMB'000 (Unaudited)	At 31 December 2018 RMB'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**181,259**	182,046
Investment properties		**291,300**	291,300
Right-of-use assets		**841,393**	–
Prepaid land lease		**–**	12,401
Intangible assets		**1,215**	1,305
Deposits paid, prepayments and other receivables		**23,280**	23,282
		1,338,447	510,334
Current assets			
Inventories and consumables		**56,208**	52,576
Trade and loan receivables	*10*	**57,356**	60,859
Deposits paid, prepayments and other receivables		**83,805**	53,087
Cash and bank balances		**242,576**	270,896
		439,945	437,418
Current liabilities			
Trade payables	*11*	**153,450**	172,003
Coupon liabilities, deposits received, other payables and accruals		**104,474**	110,451
Contract liabilities		**15,805**	23,619
Lease liabilities		**124,533**	–
Dividend payable		**19,505**	–
Amount due to a director		**59**	59
Provision for tax		**8,689**	11,961
		426,515	318,093
Net current assets		**13,430**	119,325
Total assets less current liabilities		**1,351,877**	629,659
Non-current liabilities			
Lease liabilities		**733,714**	–
Deferred tax liabilities		**23,931**	23,931
		757,645	23,931
Net assets		**594,232**	605,728
EQUITY			
Share capital		**10,125**	10,125
Reserves		**584,107**	595,603
Total equity		**594,232**	605,728

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, and provision of financing services (2017: operation and management of retail store and other related business, food and catering, and provision of financing services).

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 2019 (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 2018 (the "2018 Annual Financial Statements"), except for the accounting policy changes that are expected to be reflected in the 2019 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 2018.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The HKICPA has issued a number of new or revised HKFRSs that are first effective for the current accounting period of the Group:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, Business Combinations
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 11, Joint Arrangements
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKAS 12, Income Taxes
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKAS 23, Borrowing Costs

Except for the impact of the adoption of HKFRS 16 Leases as described below, the application of the new and amendments to HKFRSs in the current period has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases

HKFRS 16 replaces HKAS 17, Leases, and the related interpretations, HK(IFRIC) 4, Determining whether an arrangement contains a lease, HK(SIC) 15, Operating leases – incentives, and HK(SIC) 27, Evaluating the substance of transactions involving the legal form of a lease. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less and do not contain a purchase option ("**short-term leases**") and leases contracts for which the underlying asset is of low value ("**low value assets**"). The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

Impacts for the period

As a result of initially applying HKFRS 16, in relation to the leases that were previously classified as operating leases, the Group recognised RMB841,393,000 of right-of-use assets and RMB858,247,000 of lease liabilities as at 30 June 2019.

Also in relation to those leases under HKFRS 16, the Group has recognised depreciation and interest expenses, instead of operating lease expense. During the six months ended 30 June 2019, the Group recognised RMB49,326,000 of depreciation charges and RMB14,767,000 of interest expenses from these leases.

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property.

When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Transitional impact

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. The weighted average of the incremental borrowing rates used for determination of the remaining lease payments was approximately 4.9-6.09%.

To ease the transition to HKFRS 16, the Group applied a practical expedient at the date of initial application of HKFRS 16 whereby it elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019.

Based on the foregoing, as at 1 January 2019:

– Right-of-use assets of RMB615,534,000 were recognised and presented separately in the condensed consolidated statement of financial position.

– Lease liabilities of RMB621,652,000 were recognised and presented separately in the condensed consolidated statement of financial position.

The following table reconciles the operating lease commitments as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	At 1 January 2019
	RMB'000
Operating lease commitments disclosed as at 31 December 2018	545,277
Lease liabilities discounted at relevant incremental borrowing rates	432,568
Less: Recognition exemption discounted at relevant incremental borrowing rates – leases of low-value assets	(4,548)
Add: Extension options reasonably certain to be exercised	193,632
Lease liabilities relating to operating leases recognised upon application of HKFRS 16	621,652

Set out below are the new accounting policies of the Group upon adoption of HKFRS 16, which have been applied from the date of initial application:

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments payable over the lease term. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of property and equipment (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of assets that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Amounts recognised in the unaudited condensed consolidated statement of financial position and unaudited condensed consolidated statement of comprehensive income.

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, and provision of financing services (2018: operation and management of retail stores and other related businesses, food and catering, and provision of financing services).

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

	Operation and management of retail stores and other related businesses (Unaudited) *RMB'000*	Food and catering (Unaudited) *RMB'000*	Provision of financing services (Unaudited) *RMB'000*	Consolidated (Unaudited) *RMB'000*
Six months ended 30 June 2019				
Segment revenue	**374,846**	**–**	**1,805**	**376,651**
Segment results	**17,676**	**–**	**879**	**18,555**
Unallocated corporate expenses				**(3,407)**
Operating profit before income tax				**15,148**
Income tax expense				**(7,139)**
Profit for the period				**8,009**
Other segment information				
Interest income	**(2,302)**		**(6)**	**(2,308)**
Additions to non-current assets	**17,961**			**17,961**
Amortisation of intangible assets	**90**			**90**
Depreciation of property, plant and equipment	**18,573**		**2**	**18,575**
Depreciation of right-of-use assets	**49,326**			**49,326**
Interest expense on lease liabilities	**14,767**			**14,767**
Loss on disposal of property, plant and equipment	**62**			**62**
Obsolete inventories written off	**17**			**17**

	Operation and management of retail stores and other related businesses (Unaudited) *RMB'000*	Food and catering (Unaudited) *RMB'000*	Provision of financing services (Unaudited) *RMB'000*	Consolidated (Unaudited) *RMB'000*
At 30 June 2019				
Segment assets	**1,719,097**	**–**	**57,555**	**1,776,652**
Other unallocated corporate assets				**1,740**
Total assets				**1,778,392**
Segment liabilities	**1,149,782**	**–**	**356**	**1,150,138**
Provision for taxation				**8,689**
Deferred tax liabilities				**23,931**
Unallocated corporate liabilities				**1,402**
Total liabilities				**1,184,160**

	Operation and management of retail stores and other related businesses (Unaudited) *RMB'000*	Food and catering (Unaudited) *RMB'000*	Provision of financing 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
Other 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 (Audited) *RMB'000*	Provision of financing services (Audited) *RMB'000*	Consolidated (Audited) *RMB'000*
At 31 December 2018			
Segment assets	887,552	55,784	943,336
Other unallocated corporate assets			4,416
Total assets			947,752
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

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 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 2018 and 2019.

4. REVENUE AND OTHER OPERATING INCOME

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue		
Sales of goods	**271,288**	252,330
Commission from concessionaire sales	**48,941**	56,510
Rental income from sub-leasing of shop premises	**29,216**	27,944
Rental income from investment properties	**5,308**	5,392
Rental income from sub-leasing of a shopping mall	**20,093**	16,014
Interest income from financing services	**1,805**	2,614
Sales of food and catering	**–**	7,904
	376,651	368,708
Other operating income		
Interest income	**2,308**	2,810
Government grants	**843**	3,881
Administration and management fee income	**30,872**	31,636
Others	**20,140**	13,139
	54,163	51,466

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 financing services.

5. OPERATING PROFIT BEFORE INCOME TAX

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Operating profit is arrived at after charging:		
Depreciation of property, plant and equipment	**18,575**	16,790
Depreciation of right-of-use assets	**49,326**	–
Interest expense on lease liabilities	**14,767**	–
Amortisation of prepaid land lease	**–**	130
Amortisation of intangible assets	**90**	1,654
Loss on disposal of property, plant and equipment	**62**	170
Operating lease rentals in respect of land and buildings	**2,797**	57,750
Obsolete inventories written-off	**17**	467
Staff costs, including directors' emoluments		
– salaries and other benefits	**43,284**	49,275
– contributions to pension scheme	**6,431**	5,553
and crediting:		
Rental income from investment properties	**5,308**	5,391
Sub-letting of properties		
– Base rents	**47,657**	41,510
– Contingent rents*	**1,652**	2,448
	49,309	43,958

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

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current income tax		
PRC enterprise income tax	**7,139**	5,198

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 2018: 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 2018: Nil).

Subsidiaries of the Company established in the PRC (except for Guangxi which corporate income tax rate was 15% (2018: 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 (2018: 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 2018: Nil).

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

	For the six months ended	
	30 June 2019	30 June 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Final dividend in respect of the previous year, approved and paid during the period, of RMB1.88 cents (six months ended 30 June 2018: RMB1.91 cents) per share	**19,505**	19,816

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 RMB8,009,000 (six months ended 30 June 2018: approximately RMB18,015,000) and the weighted average number of approximately 1,037,500,002 (six months ended 30 June 2018: 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 RMB17,961,000 (six months ended 30 June 2018: approximately RMB25,256,000) which mainly related to the acquisition of leasehold improvements, plant and machinery, furniture, fixtures and equipment and motor vehicles and tools.

10. 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 or tenants 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 zero to seven months. Trade receivables were non-interest-bearing, except for trade receivables from financing services.

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

	At 30 June 2019	At 31 December 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 30 days	**11,676**	12,399
31 – 60 days	**955**	488
61 – 180 days	**570**	484
181 – 365 days	**4**	276
Over 1 year	**85**	–
	13,290	13,647

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

	At 30 June 2019	At 31 December 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 30 days	**930**	12,061
31 – 60 days	**1,044**	–
61 – 180 days	**3,400**	8,110
181 – 365 days	**38,692**	27,041
	44,066	47,212

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 2019	At 31 December 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 30 days	**55,068**	102,708
31 – 60 days	**76,734**	47,662
61 – 180 days	**15,206**	11,352
181 – 365 days	**1,234**	2,898
Over 1 year	**5,208**	7,383
	153,450	172,003

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

Overall, the global economy was weak in the first half of 2019, economic risk and problems have been reflected in the economic data. Growth rate of gross domestic products ("GDP") of major economic entities has been slowed down, together with decline in import/export of which purchasing manager index ("PMI") was under the passing reading. As per International Monetary Fund ("IMF"), the global economic growth rate was hampered in the first half of 2019. Apart from USA and Britain, other nations have different pace of decline. Among the top 10 economic entities, GDP of China ranked top with India following with sharp drop rate. Korea has just recorded 1.7% growth rate. In Asian region, except for Indonesia, other ASEANs ("Association of South-east Asian Nations") recorded decline in growth rate. Singapore dropped the most, and Vietnam, ranked the highest among them, has light declined. For the developed economic entities, both the Euro countries and Japan has decrease in growth rate. Italy has experienced negative growth rate. The reasons for the general decline in growth rate were Sino-US trade dispute, Brexit issue and geopolitics risk worldwide.

Domestically, economic growth rate lessened and consumption spending shifted. It forced the retail industry to make changes. Business size shrinkage, retreat of capital by foreign investors, and risky attempts for new business resulted in closure of stores. Besides, profit margin in online business has saturated. Retailers turned back to traditional business mode by O2O business model. Turnover and rental income was stable in shopping mall. Landlords used Big Data and new retail technique to their shopping mall. The top 10 spending cities across the countries were Shanghai, Beijing, Guangzhou, Chongqing, Wuhan, Chengdu, Shenzhen, Nanjing, Suzhou and Hangzhou.

In 2019, the Fast Moving Consumer Goods ("FMCG") market moved quickly with innovated products, enhanced service, real store pickup and e-operator. The variety of goods encompassed lady, kids, young housewife, oldies, men or pets. During this rational consumption era, consumers were more price sensitive. Promotion in social connection media became more important. Products sellers focused not only on general product description but also related product function to stimulate buying action. Currently, attractive packaging and product functioning were critical. The success of these FMCG depended on four main criterion, appearance, function, healthiness and occasion. In the supermarket business, fresh goods and commodities were decisive. Traditional stores supplemented each other with different goods and operating hours to satisfy customers. They have stable customer base and flow. New products competed for best location, sales mix and display arrangement. Quality products and shopping experience co-existed in store. In 2019, specific scenario was provided to link products to store layout. The new store will include scene, content, products, channel, media and model.

According to the statistics released by the National Bureau of Statistics of China, GDP on the Mainland amounted to RMB45,100 billion in the first half of 2019, representing a 6.3% increase over the same period last year.

In the first half of the year, total retail sales of social consumer goods was RMB19,500 billion, representing a year-on-year (YOY) growth of 8.4%. Among them, retail sales of consumer goods of the "over-the-threshold" enterprises grew by 4.9% on a YOY basis to approximately RMB7,100 billion. Based on the geographical locations of the operating units, retail sales of urban consumer goods rose by 8.3% to approximately RMB16,700 billion YOY, whereas retail sales of rural consumer goods increased by 9.1% to approximately RMB2,800 billion YOY. By consumption pattern, food and beverage revenue went up 9.4% to approximately RMB2,100 billion YOY, whereas retail sales of commodities went up 8.3% to approximately RMB17,400 billion YOY. In terms of retail sales of commodities, retail sales of commodities among "over-the-threshold" enterprises amounted to approximately RMB6,700 billion, representing an increase of 4.7%. In the first half, total domestic online retail sales amounted to RMB4,800 billion, representing a YOY growth of 17.8%. Among them, the commodity goods online retail sales grew by 21.6% on a YOY basis to approximately RMB3,800 billion, accounting for 19.6% of the total retail sales of social consumer goods. The online commodity sales for eat, wear and use categories amounted to 29.3%, 21.4% and 20.9% 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 2019, the Group recorded revenue of approximately RMB376.7 million, representing a year-on-year (YOY) increase of approximately 2.2%. Gross profit amounted to approximately RMB57.2 million, representing a YOY increase of approximately 16.8%; while operating profit was approximately RMB15.1 million, representing a YOY decrease of approximately 34.7%. Profit attributable to owners of the Company was approximately RMB8.0 million, representing a YOY decrease of 55.5%. There were 11 stores and two shopping malls during the period. Group revenue increased attributable to change of operating strategy. To keep the strength of old stores by continuous enhancement renovation and redistribution of sales floor. To explore new earning ability from potential profiting stores and avoid loss incurred for assets misallocation. 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 future development. Sales of goods increased by approximately RMB19.0 million, commissions income from concessionaire decreased by approximately RMB7.6 million, rental income from sub-leasing of shop premises increased by RMB1.3 million, rental income from investment properties decreased by approximately RMB0.1 million, rental income from sub-leasing of shopping mall increased by approximately of RMB4.1 million, and interest income from financing services decreased by approximately RMB0.8 million. Sales of food and catering business have been disposed of in June last year, so there was nil income 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 2019, the Group has the following operation highlights.

Position the operating direction of Supermarket section to protect market share

During the period, the Group has repositioned the Supermarket section to accommodate the factors of area and business circle. Accordingly, different models have been put forward elite supermarket, experience stores, discount flagship stores and intelligent stores etc. Apart from this, there were new adjustment strategies in the operation through internal structure and system reform. For the staffing, the main focus is on recruiting, training and appraisal. This hopes to build up positive working atmosphere. For the commodity, the main focus is on shelving, location, replacement of obsolete goods, introducing and scenario creating. This hopes to bring up customer flow. For the sales floor, the main focus is on warehousing, display and presenting, decorating and improving shopping environment.

Obtain multiple awards to recognize the corporate contributions

During the period, the Group has obtained various awards from the public sector. In May 2019, the operating subsidiary of the Group – Shenzhen Baijiahua Internet Technology Limited ("Baijiahua Technology") passed the Corporate Intellectual Property Management Standard certified by the Country and obtained the relevant management certificate. This aimed to build scientific and standardized intellectual property management system for corporation to maintain sustainable development. Besides, the major operating subsidiary of the Group – Shenzhen Baijiahua Department Stores Co Ltd ("Baijiahua Department Stores") was named "Top 50 Shenzhen Chain Store in 2018" by the Shenzhen Chain Operation Association for recognition of its leading position in the retail industry of the Shenzhen region. In June 2019, Baijiahua Department Stores received title from Guangdong Chain Operations Association as "Top 50 Honorary Guangdong Chain Stores in 2018" for recognition of its good reputation and corporate responsibility in the province. The Group will work hard to provide best quality retail service to the community to acknowledge recognition from the public.

Prepare for its second shopping mall to pave way for future development

The second shopping mall operated by the Group will be located at the Longhua Guanlan new district, targeted to operate by the fourth season of the year. It is located at the old district centre of Guanlan, above the intersection point of the Shenzhen Metro line (construction in progress) and the Shenzhen Tram, which has a definite competitive advantage in future. Guanlan shopping environment has been interiorised by renowned design house in China focusing on in-house design, scenario, experience and trendy style. The theme surrounded family gathering, social networking and leisure providing platform for the residents and visitors nearby. Among the brand name selection, famous online best sellers were invited 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 controlled and adhered to the overall planning of the mall. Currently, lease agreements with supermarket and cinema operators have been signed, and the liaison with other well-known catering and leisure brand name is nearly finished. The mall will attract many potential customers in the surrounding area which are mainly the luxury residential district with consumption community composed of young and life enjoying generation. This will have a positive impact to the result of the Group.

Reform corporate risk management mechanism to reduce corporate risk

The risk management department has put forward various measures on the practical issues faced by the subsidiary of the Group to enhance the management and monitoring program. 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 to avoid loss. On the other hand, 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 to protect Group assets. The legal division revised the staff reward and punishment regulation, rule of contract management, and control approval procedure as a mean to avoid possible non-legal risk.

OUTLOOK AND PROSPECT

In the first half of 2019, 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.

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 approximately RMB376.7 million for the six months ended 30 June 2019, representing an increase of 2.2% as compared to approximately RMB368.7 million in the corresponding period of 2018. The increase was principally attributable from the increase in sales of goods of approximately RMB19.0 million, and rental income from subleasing of shopping mall of approximately RMB4.1 million. However, the drop in commission from concessionaire sales of approximately RMB7.6 million and sales of food and catering of approximately RMB7.9 million has partly offset the overall increase of income.

Sales of goods increased by 7.5% to RMB271.3 million for the six months ended 30 June 2019 from RMB252.4 million in the corresponding period of 2018, principally due to the enhancement of store outlook and aggressive promotion campaign in main stores. Besides, the new store in Bantian entered into its full operation and contributed positively to the overall sales turnover. Sales of goods as a percentage of the Group's total revenue was 72.0% for the six months ended 30 June 2019 as compared to 68.4% in the corresponding period of 2018.

Commission from concessionaire sales dropped by 13.4% to RMB49.0 million for the six months ended 30 June 2019 from RMB56.5 million in the corresponding period of 2018, mainly due to enhancement works of store. Commission from concessionaire sales as a percentage of the Group's total revenue was 13.0% for the six months ended 30 June 2019 as compared to 15.3% for the corresponding period of 2018.

Rental income from sub-leasing of shop premises slightly up by 4.6% to RMB29.2 million for the six months ended 30 June 2019 from RMB27.9 million for the corresponding period in 2018, mainly due to renewal of tenancy agreements and expansion of sales floor area. Rental income as a percentage of the Group's total revenue was 7.8% for the six months ended 30 June 2019 as compared to 7.6% for the corresponding period of 2018.

Rental income from investment properties increased slightly down by 1.6% to RMB5.3 million for the six months ended 30 June 2019 from RMB5.4 million for the corresponding period in 2018, mainly due to early termination of one tenancy which is still pending for leasing. Rental income from investment properties as a percentage of the Group's total revenue was 1.4% for the six months ended 30 June 2019 as compared to 1.5% for the corresponding period of 2018.

Rental income from sub-leasing of a shopping mall increased by 25.5% of RMB20.1 million for the six months ended 30 June 2019 as compared with RMB16.0 million for the corresponding period in 2018 due to the full operation of the Bantian shopping mall during the period. Rental income from sub-leasing of a shopping mall as a percentage of the Group's total revenue was 5.3% for the six months ended 30 June 2019 as compared to 4.3% for the corresponding period of 2018.

Interest income from financing services dropped by 30.9% to RMB1.8 million for the six months ended 30 June 2019 from RMB2.6 million for the corresponding period in 2018, mainly due to the drop in business by the major supplier. Interest income from financing services as a percentage of the Group's total revenue was 0.5% for the six months ended 30 June 2019 as compared to 0.7% for the corresponding period of 2018.

Sales of food and catering business have been disposed of in the mid of 2018. There was RMB7.9 million for the six months ended 30 June 2018. 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.

Other operating revenue

Other operating revenue increased by 5.2% to RMB54.2 million for the six months ended 30 June 2019 from RMB51.5 million in the corresponding period in 2018, mainly due to increase in utilities recharge income to tenants of Bantian shopping mall of RMB6.2 million. Nevertheless, decrease in government subsidies of RMB3.0 million has partly offset the overall increase.

Purchase of and changes in inventories

Purchase of and changes in inventories amounted to RMB214.0 million for the six months ended 30 June 2019, representing an increase of 1.3% as compared with RMB211.0 million in the corresponding period of 2018, due to increase in sales turnover. As a percentage of sales of goods, purchase of and changes in inventories was 78.9% for the six months ended 30 June 2019 as compared with 81.2% in the same period of 2018.

Staff costs

Staff costs decreased by 9.3% to RMB49.7 million for the six months ended 30 June 2019 from RMB54.8 million in the corresponding period of 2018, primarily due to the streamline of manpower in all level.

Depreciation

Depreciation increased by 10.6% to RMB18.6 million for the six months ended 30 June 2019 from RMB16.8 million in the corresponding period in 2018. The increase was mainly due to renovation of store in Shajing Outlet and Bantian shopping mall.

Operating lease rental expenses

Operating lease rental expenses decreased by 95.2% to RMB2.8 million for the six months ended 30 June 2019 from RMB57.8 million in the corresponding period of 2018. This was mainly due to initial adoption of new HKFRS to capitalize operating leases as right-of-use assets and depreciate accordingly. During the period, the depreciation charge on right-of-use assets included in selling and distribution costs amounted to RMB49.3 million.

Other operating expenses

Other operating expenses, decreased by RMB0.9 million, from RMB1.1 million for the six months ended 30 June 2018 to RMB0.2 million in the corresponding period of 2019. This was primarily due to decrease in maintenance expenses in shopping mall and loss on disposal of fixed assets of RMB0.5 million and RMB0.1 million respectively.

Finance costs

This represented interest on lease liabilities amounted to RMB14.8 million for the six months ended 30 June 2019 due to the effect of adoption of HKFRS 16 this year.

Operating profit

As a result of the reasons mentioned above, the Group's operating profit amounted to RMB15.1 million for the six months ended 30 June 2019 as compared with RMB23.2 million for the six months ended 30 June 2018.

Income tax expense

Income tax expense amounted to RMB7.1 million for the six months ended 30 June 2019, representing an increase of 37.3% from RMB5.2 million in the corresponding period of 2018, mainly due to increase of operating profit before tax. The effective tax rate applicable to the Group for the six months ended 30 June 2019 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 RMB8.0 million for the six months ended 30 June 2019, representing a decrease of 55.5% as compared with the profit of RMB18.0 million in the corresponding period of 2018.

Subsequent Events

The Group did not have any other significant events taken place subsequent to 30 June 2019.

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*

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's maximum exposure to credit risk is the carrying amounts of cash and bank balances, trade and loan receivables, deposits paid and other receivables. 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 terms are only offered to corporate customers with whom the Group has an established and ongoing relationship. Regarding trade receivables arising from rental income, the Group maintains a defined credit policy including stringent credit evaluation on and payment of a rental deposit from tenants. Receivables are regularly reviewed and closely monitored to minimise any associated credit risk. The Group's trade receivables, deposits paid and other receivables are actively monitored to avoid significant concentrations of credit risk. The Group is not exposed to any significant credit risk from any single counterparty or any group of counterparties having similar characteristics. The Group's bank deposits were deposited with major financial institutions in Hong Kong and the PRC, which management believes are of high-credit-quality without significant credit risk.

(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

As at 30 June 2019, the Group had 1,270 full-time employees (as at 30 June 2018: 1,419). 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 2019, 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 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$12,919,000 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 and subsequent announcements related to the adjustment of use of IPO proceeds.

Contingent Liabilities

As at 30 June 2019, 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, there Independent Non-executive Director of the Company had not attended the annual general meeting of the Company held on 30 May 2019.

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 2019 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 2019.

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, 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 Audit Committee consists of three non-executive Directors, namely Mr. Chin Kam Cheung, Mr. Sun Ju Yi and Mr. Ai Ji. Mr. Chin Kam Cheung, who holds the appropriate professional qualifications as required under Rule 3.10(2) and Rule 3.21 of the Listing Rules, serves as the chairman of the Audit Committee. The primary duties of the Audit Committee include examining independently the financial positions of the Company, overseeing the Company's financial reporting system, risk management and internal control system, the audit process and proposals of internal management, communicating independently with, monitoring and verifying the work of internal audit and external auditors. The Audit Committee reviewed the financial reporting system, compliance procedures, internal control (including the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting and financial reporting function), risk management systems and processes and the reappointment of the external auditor and fulfilled duties as required aforesaid. The Board had not deviated from any recommendation given by the Audit Committee on the selection, appointment, resignation or dismissal of external auditor. They also reviewed the unaudited interim result for the six months ended 30 June 2019. There are proper arrangements for employees, in confidential, to raise concerns about possible improprieties in financial reporting, internal control and other matters. The written terms of reference of the Audit Committee are available on the websites of the Company and the Stock Exchange.

INTERIM REPORT

The 2019 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, 29 August 2019

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