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 2019

FINANCIAL HIGHLIGHTS

Revenue from continuing operations decreased by 9.2% to approximately RMB645.3 million

Gross profit margin of sales of goods except online sales from continuing operations decreased by 6.2% to approximately RMB78.6 million

Loss attributable to the owners of the Company for the year amounted to approximately RMB52.3 million

Basic loss per share was approximately RMB5.05 cents

No final dividend 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 2019 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	Year ended 31 December **2019** ***RMB'000***	 2018 *RMB'000*
Continuing operations			
Revenue	*4*	**645,329**	710,336
Cost of inventories sold		**(354,233)**	(410,424)
		291,096	299,912
Other operating income	*6*	**65,703**	71,509
Increase in fair value of investment properties		**800**	500
Selling and distribution costs		**(290,102)**	(284,905)
Administrative expenses		**(60,063)**	(49,997)
Other operating expenses		**(5,455)**	(3,465)
Finance costs	*7*	**(51,750)**	–
(Loss)/profit before income tax	*8*	**(49,771)**	33,554
Income tax expense	*9*	**(2,571)**	(9,085)
(Loss)/profit from continuing operations for the year		**(52,342)**	24,469
Discontinued operation			
Profit from discontinued operation for the year		**–**	734
(Loss)/profit for the year		**(52,342)**	25,203
Other comprehensive income			
Item that will not be reclassified to profit or loss:			
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		**(52,342)**	25,768

		Year ended 31 December	
		2019	2018
	Notes	***RMB'000***	*RMB'000*
(Loss)/profit for the year attributable to owners of the Company:			
– Continuing operations		**(52,342)**	24,469
– Discontinued operation		**–**	734
		(52,342)	25,203
Total comprehensive income attributable to owners of the Company:			
– Continuing operations		**(52,342)**	25,034
– Discontinued operation		**–**	734
		(52,342)	25,768
(Loss)/earnings per share for (loss)/profit attributable to the owners of the Company during the year:			
(Loss)/earnings per share – basic and diluted (RMB cents)			
– Continuing operations	*11*	**(5.05)**	2.36
– Discontinued operation	*11*	**–**	0.07
		(5.05)	2.43

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

		As at 31 December	
		2019	2018
	Notes	***RMB'000***	*RMB'000*
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**264,614**	182,046
Right-of-use assets		**643,753**	–
Investment properties		**292,100**	291,300
Prepaid land lease		**–**	12,401
Intangible assets		**4,970**	1,305
Deposits paid, prepayments and other receivables		**31,448**	23,282
Interests in an associate		**–**	–
		1,236,885	510,334
Current assets			
Inventories and consumables		**28,136**	52,576
Trade and loan receivables	*12*	**70,809**	60,859
Deposits paid, prepayments and other receivables		**51,955**	53,087
Cash and bank balances		**117,737**	270,896
Tax recoverable		**57**	–
		268,694	437,418
Current liabilities			
Trade payables	*13*	**98,057**	172,003
Contract liabilities		**20,242**	23,619
Deposits received, other payables and accruals		**143,651**	110,451
Amount due to a director		**59**	59
Lease liabilities		**75,840**	–
Provision for taxation		**3,723**	11,961
		341,572	318,093

		As at 31 December	
		2019	2018
	Note	***RMB'000***	*RMB'000*
Net current (liabilities)/assets		**(72,878)**	119,325
Total assets less current liabilities		**1,164,007**	629,659
Non-current liabilities			
Lease liabilities		**605,995**	–
Deferred tax liabilities		**24,131**	23,931
		630,126	23,931
Net assets		**533,881**	605,728
EQUITY			
Share capital	*14*	**10,125**	10,125
Reserves		**523,756**	595,603
Total equity		**533,881**	605,728

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, Cayman Islands and Level 4, Jiahua Ming Yuan, 2146 Xinhu Road, Baoan Central District, Shenzhen, Guangdong Province, the People's Republic of China (the "PRC") respectively. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are operation and management of retail stores and other related businesses and provision of financing services in the PRC (2018: operation and management of retail stores and other related businesses, food and catering, and provision of financing services).

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.

During the year, the Group has incurred a loss of RMB52,342,000 and at the end of the reporting period, its current liabilities exceeded its current assets by RMB72,878,000. The Group's operation, financial performance, cash flows and financial position for the year 2020 are expected to be adversely affected by the COVID-19 pandemic as disclosed in note 15. Notwithstanding these conditions, the directors of the Company (the "Directors") consider that the Group will be able to meet its financial obligations as they fall due for 12 months from 31 December 2019, on the basis that:

(a) a related company of the Group, 深圳市佳華房地產開發有限公司 (Shenzhen Jiahua Real Estate Development Company Limited#) has confirmed irrevocably and unconditionally to provide continuing financial support to the Group so as to enable the Group to meet its obligations and liabilities as and when they fall due and to continue its day-to-day business operations as a viable going concern notwithstanding any present or future financial difficulties for coming 12 months at least up to 31 December 2020;

(b) the management of the Group has prepared a cash flow projection covering a period of 12 months from 31 December 2019. The cash flow projection has taken into account the anticipated cash flows to be generated from the Group's business during the period under projection. The Directors, after making due enquires and considering the basis of the management's projection described above, believe that there will be sufficient financial resources to continue its operations and to meet its financial obligation as and when they fall due in the next 12 months from 31 December 2019;

 # For identification purpose only

(c) the management of the Group has been endeavouring to improve the Group's operating results and cash flows through various cost control measures; and

(d) the management of the Group will endeavour to seek for additional sources of financing.

Accordingly, the financial statements have been prepared on a going concern basis.

Should the Group be unable to continue in business as a going concern, adjustments would have to be made to reduce the values of the assets to net realisable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

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. ADOPTION OF NEW OR REVISED HKFRS

In 2019, the Group adopted the following new standards, amendments, improvement and interpretation which are relevant to its operations.

Impact on the financial statements

New standards, amendments, improvement and interpretation

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

The adoption of these new and revised HKFRS has had no significant financial effect on the Group's results of operation and financial position, except for HKFRS 16 Leases ("HKFRS 16") as described below.

HKFRS 16 Leases

(i) Impact of the adoption of HKFRS 16

HKFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces HKAS 17 Leases ("HKAS 17"), HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases-Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. From a lessee's perspective, almost all leases are recognised in the statement of financial position as a right-of-use assets and a lease liabilities, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor's perspective, the accounting treatment is substantially unchanged from HKAS 17. For details of HKFRS 16 regarding its new definition of a lease, its impact on the Group's accounting policies and the transition method adopted by the Group as allowed under HKFRS 16, please refer to section (ii) to (v) of this note.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach. The right-of-use asset is recognised at the date of initial application (1 January 2019) at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position immediately before the date of initial application. Comparative information has not been restated and continues to be reported under HKAS 17.

The following tables summarised the impact of transition to HKFRS 16 on consolidated statement of financial position as of 31 December 2018 to that of 1 January 2019 as follows (increase/(decrease)):

	RMB'000
Consolidated statement of financial position as at 1 January 2019	
Right-of-use assets	511,371
Prepaid land lease	(12,401)
Deposits paid, prepayments and other receivables	(644)
Deposits received, other payables and accruals	(17,112)
Lease liabilities	515,438

The following reconciliation explains how the operating lease commitments disclosed applying HKAS 17 at the end of 31 December 2018 could be reconciled to the lease liabilities at the date of initial application recognised in the consolidated statement of financial position as at 1 January 2019:

	RMB'000
Reconciliation of operating lease commitment to lease liabilities	
Operating lease commitment as of 31 December 2018	545,277
Less: short term leases for which lease terms end within 31 December 2019	(2,585)
Less: leases of low-value assets*	–
Add: leases included in extension option which the Group considers reasonably certain to exercise	223,708
Less: future interest expenses	(250,962)
Total lease liabilities as of 1 January 2019	515,438

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the statement of financial position as at 1 January 2019 is 8.83%.

* Represents the balance less than RMB1,000

(ii) The new definition of a lease

Under HKFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, unless the lessee apply the practical expedient which allows the lessee to elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

The Group has elected not to separate non-lease components and account for all each lease component and any associated non-lease components as a single lease component for all leases.

(iii) Accounting as a lessee

Under HKAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the statement of financial position of the lessee.

Under HKFRS 16, all leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but HKFRS 16 provides accounting policy choices for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

The Group recognised a right-of-use asset and a lease liability at the date of adoption of HKFRS 16, i.e. 1 January 2019.

Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Except for right-of-use asset that meets the definition of an investment property, the Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

For the leasehold land and buildings that were held for rental or capital appreciation purpose would continue to be accounted for under HKAS 40 and would be carried at fair value. For leasehold land and buildings which is held for own use would continue to be accounted for under HKAS 16 and would be carried at cost less any accumulated depreciation and any impairment losses. The adoption of HKFRS 16 therefore does not have any significant impact on these right-of-use assets. Other than the above right-of-use assets, the Group also has leased a number of properties under tenancy agreements which the Group exercises it judgement and determines that it is a separate class of asset apart from the leasehold land and buildings which is held for own use. As a result, the right-of-use asset arising from the properties under tenancy agreements are carried at depreciated cost.

Lease liability

The lease liability should be recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group shall use the Group's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable: (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

(iv) Accounting as a lessor

The Group has leased out its investment property to a number of tenants. As the accounting under HKFRS 16 for a lessor is substantially unchanged from the requirements under HKAS 17, the adoption of HKFRS 16 does not have significant impact on these financial statements.

Under HKFRS 16, when the Group acts as an intermediate lessor in a sublease arrangement, the Group is required to classify the sublease as a finance lease or an operating lease by reference to the right-of-use asset arising from the head lease, instead of by reference to the underlying asset. The adoption of HKFRS 16 does not have a significant impact on the Group's financial statements in this regard.

(v) *Transition*

As mentioned above, the Group has applied HKFRS 16 using the modified retrospective approach where the right-of-use asset is recognised at the date of initial recognition as an amount equal to the lease liability, using the lessee's prevailing incremental borrowing rate at the date of initial application (1 January 2019), adjusted for any prepaid or accrued lease payments relating to that lease that were recognised in the statement of financial position immediately before the date of initial application (1 January 2019). The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The Group has recognised the lease liabilities at the date of 1 January 2019 for leases previously classified as operating leases applying HKAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 January 2019.

The Group has elected to recognise all the right-of-use assets at 1 January 2019 for leases previously classified operating leases under HKAS 17. The Group chooses, on a lease-by-lease basis, to measure that right-of-use asset at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.

The Group has also applied the follow practical expedients: (i) applied the exemption of not to recognise right-of-use assets and lease liabilities for leases with term that will end within 12 months of the date of initial application (1 January 2019) and accounted for those leases as short-term leases; and (ii) used hindsight in determining the lease terms if the contracts contain options to extend or terminate the leases.

In addition, the Group has also applied the practical expedients such that: (i) HKFRS 16 is applied to all of the Group's lease contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and (ii) not to apply HKFRS 16 to contracts that were not previously identified as containing a lease under HKAS 17 and HK(IFRIC)-Int4.

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, commission from concessionaire sales, rental income and interest income from financing services.

	2019	2018
	RMB'000	*RMB'000*
Continuing operations		
Revenue from Contracts with Customers within the scope of HKFRS 15:		
Sales of goods	**432,804**	494,219
Commissions from concessionaire sales	**78,540**	101,761
	511,344	595,980
Revenue from other sources:		
Rental income from investment properties	**9,528**	10,081
Rental income from sub-leasing of shop premises	**64,629**	58,428
Rental income from sub-leasing of shopping malls	**52,940**	39,738
Interest income from financing services	**6,888**	6,109
	133,985	114,356
	645,329	710,336
Discontinued operation		
Revenue from Contracts with Customers within the scope of HKFRS 15:		
Sales of food and catering	**–**	7,902

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 two (2018: 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, and provision of financing services (2018: operation and management of retail stores and other related businesses, food and catering, and provision of financing services) for the year. The business of provision of supply chain financing services and factoring services are reported as provision of financing services.

	Continuing operations		
	Operation and management of retail stores and other related businesses *RMB'000*	**Provision of financing services** *RMB'000*	**Consolidated** *RMB'000*
Year ended 31 December 2019			
Revenue from external customers	**638,441**	**6,888**	**645,329**
Inter-segment revenue	**–**	**–**	**–**
Reportable segment revenue	**638,441**	**6,888**	**645,329**
Segment results	**(49,861)**	**6,166**	**(43,695)**
Unallocated corporate income			**4**
Unallocated corporate expenses			**(6,080)**
Loss before income tax			**(49,771)**
Income tax expense			**(2,571)**
Loss for the year			**(52,342)**

	Continuing operations		
	Operation and management of retail stores and other related businesses	Provision of financing services	Consolidated
	RMB'000	*RMB'000*	*RMB'000*
Year ended 31 December 2019			
Other segment information			
Interest income	**(4,079)**	**(16)**	**(4,095)**
Additions to non-current assets	**366,451**	**–**	**366,451**
Amortisation of intangible assets	**425**	**81**	**506**
Depreciation of right-of-use assets	**95,533**	**–**	**95,533**
Depreciation of property, plant and equipment	**45,702**	**23**	**45,725**
Loss on disposal of property, plant and equipment	**35**	**–**	**35**
Written off of an property, plant and equipment	**1,336**	**–**	**1,336**
Obsolete inventories written off	**84**	**–**	**84**
Increase in fair value of investment properties	**(800)**	**–**	**(800)**

	Operation and management of retail stores and other related businesses	Provision of financing services	Consolidated
	RMB'000	*RMB'000*	*RMB'000*
At 31 December 2019			
Reportable segment assets	**1,451,705**	**50,516**	**1,502,221**
Tax recoverable			**57**
Other unallocated corporate assets			**3,301**
Total assets			**1,505,579**
Reportable segment liabilities	**941,651**	**66**	**941,717**
Provision for taxation			**3,723**
Deferred tax liabilities			**24,131**
Other unallocated corporate liabilities			**2,127**
Total liabilities			**971,698**

	Continuing operations			Discontinued operation		
	Operation and management of retail stores and other related businesses *RMB'000*	Provision of financing services *RMB'000*	Sub-total *RMB'000*	Food and catering *RMB'000*	Inter-segment elimination *RMB'000*	Consolidated *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 *RMB'000*	Provision of financing services *RMB'000*	Sub-total *RMB'000*	Food and catering *RMB'000*	Consolidated *RMB'000*
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 *RMB'000*	Provision of financing services *RMB'000*	Consolidated *RMB'000*
At 31 December 2018			
Reportable segment assets	887,552	55,784	943,336
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
Other 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 years ended 31 December 2018 and 2019.

6. OTHER OPERATING INCOME

	2019	2018
	RMB'000	*RMB'000*
Continuing operations		
Interest income	**4,099**	4,307
Net exchange gain	**419**	279
Government grants *(Note)*	**2,608**	6,052
Administration and management fee income	**46,580**	45,622
Others	**11,997**	15,249
	65,703	71,509
Discontinued operation		
Interest income	**–**	2
Others	**–**	5
	–	7
	65,703	71,516

Note: Various local government grants have been granted to subsidiaries of the Group during the years ended 31 December 2018 and 2019. The amounts mainly represented unconditional cash subsidies from government for subsidising enterprises as an encouragement for the contribution in specific industry in the region. There were no unfulfilled conditions or contingencies attaching to these government grants.

7. FINANCE COSTS

	2019 *RMB'000*	2018 *RMB'000*
Interest on lease liabilities	**51,750**	–

8. (LOSS)/PROFIT BEFORE INCOME TAX

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

	2019 *RMB'000*	2018 *RMB'000*
Continuing operations		
Cost of inventories sold recognised as expense	**354,233**	410,424
Auditor's remuneration	**1,235**	1,602
Depreciation of property, plant and equipment	**45,725**	41,050
Amortisation of prepaid land lease	**–**	261
Depreciation of right-of-use assets:		
– Properties leased for own use	**95,272**	–
– Leasehold land for own use	**261**	–
Amortisation of intangible assets	**506**	115
Loss on disposal of property, plant and equipment	**35**	706
Operating lease rentals in respect of land and buildings under HKAS 17	**–**	108,612
Short term lease expense	**3,806**	–
Low value lease expense	**37**	–
Obsolete inventories written-off	**84**	127
Inventories loss	**–**	122
Impairment loss on other receivables	**–**	1,828
Written-off of property, plant and equipment	**1,336**	–
Staff costs, including directors' emoluments		
Salaries and other benefits	**92,357**	86,227
Contributions to retirement schemes	**14,628**	10,360
	106,985	96,587
Net exchange gain	**(419)**	(279)
Rental income from investment properties	**(9,528)**	(10,081)
Income from subleasing of right-of-use assets		
– Base rents	**(114,097)**	(94,712)
– Contingent rents *(Note (i))*	**(3,472)**	(3,454)
	(117,569)	(98,166)
Total gross rental income	**(127,097)**	(108,247)
Less: Direct operating expenses arising from investment properties that generated rental income during the year	**2,058**	2,058
Less: Outgoings of subleasing of right-of-use assets	**16,261**	14,801
Net rental income	**(108,778)**	(91,388)

	2019	2018
	RMB'000	*RMB'000*
Discontinued operation		
Cost of inventories sold recognised as expense	–	3,366
Auditor's remuneration	–	15
Depreciation of property, plant and equipment	–	2,901
Amortisation of intangible assets	–	1,548
Operating lease rentals in respect of land and buildings	–	2,115
Written-off of an intangible asset	–	1,399
Staff costs, including directors' emoluments		
Salaries and other benefits	–	5,168
Contributions to retirement schemes	–	449
	–	5,617

Note:

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

9. INCOME TAX

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Current income tax		
– PRC enterprise income tax	**2,371**	4,540
– PRC withholding income tax	**–**	3,100
	2,371	7,640
Deferred tax	**200**	1,445
	2,571	9,085

The Group is not subject to any taxation under the jurisdiction of the Cayman Islands and British Virgin Islands during the year (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 year (2018: 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% (2018: 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% (2018: 25%) for the year under the income tax rules and regulations of the PRC.

10. DIVIDENDS

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Proposed final dividend for the year ended 31 December 2019 of approximately RMB Nil (2018: RMB1.88 cents) per ordinary share	**–**	19,505

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. (LOSS)/EARNINGS PER SHARE

(i) Continuing and discontinued operations

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

	2019	2018
(Loss)/earnings		
(Loss)/earnings for the purposes of basic and diluted (loss)/earnings per share *(RMB'000)*	**(52,342)**	25,203
Number of shares		
Weighted average number of ordinary shares	**1,037,500,002**	1,037,500,002
Basic and diluted (loss)/earnings per share *(RMB cents)*	**(5.05)**	2.43

Diluted (loss)/earnings per share equals to basic (loss)/earnings per share, as there were no potential dilutive ordinary shares issued during the years ended 31 December 2018 and 2019.

(ii) Continuing operations

	2019	2018
	RMB'000	*RMB'000*
(Loss)/profit attributable to owners of the Company for the year	**(52,342)**	25,203
Less: Profit from discontinued operation for the year	**–**	(734)
	(52,342)	24,469
Basic and diluted (loss)/earnings per share from continuing operations *(RMB cents)*	**(5.05)**	2.36

(iii) Discontinued operation

	2019	2018
	RMB'000	*RMB'000*
Profit attributable to owners of the Company for the year	**–**	734
Basic and diluted earnings per share from discontinued operation *(RMB cents)*	**–**	0.07

12. 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 and other related businesses are generally for a period of one to three months, while to customers from financing services are repayable on demand or one to seven months (2018: repayable on demand or one to seven months).

As at 31 December 2019, included in trade receivables of approximately RMB20,009,000 (2018: RMB13,274,000) 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% (2018: 12% to 15%) per annum. The loan receivables are secured and with recourse.

	2019	2018
	RMB'000	*RMB'000*
Trade receivables *(note (i))*	**24,332**	13,647
Loan receivables *(note (ii))*	**46,477**	47,212
	70,809	60,859

Notes:

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

	2019	2018
	RMB'000	*RMB'000*
Within 30 days	**22,320**	12,399
31 – 60 days	**973**	488
61 – 180 days	**726**	484
181 – 365 days	**313**	276
	24,332	13,647

(ii) The aging analysis of the Group's loan receivables is as follows:

	2019	2018
	RMB'000	*RMB'000*
Repayable on demand or within one year	**46,477**	47,212

13. 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	
	2019	2018
	RMB'000	*RMB'000*
Within 30 days	**63,905**	102,708
31 – 60 days	**19,589**	47,662
61 – 180 days	**9,352**	11,352
181 – 365 days	**2,118**	2,898
Over 1 year	**3,093**	7,383
	98,057	172,003

14. SHARE CAPITAL

	2019 Number of shares *('000)*	2019 *RMB'000*	2018 Number of shares *('000)*	2018 *RMB'000*
Authorised:				
Ordinary shares of Hong Kong Dollars ("HK$") 0.01 each				
At 1 January and 31 December	**10,000,000**	**97,099**	10,000,000	97,099
Issued and fully paid:				
Ordinary shares of HK$0.01 each				
At 1 January and 31 December	**1,037,500**	**10,125**	1,037,500	10,125

15. SUBSEQUENT EVENTS

There has been an outbreak of pneumonia caused by a new coronavirus which was subsequently named as COVID-19 by the World Health Organization ("WHO") since the beginning of the year 2020. On 30 January 2020, WHO declared the outbreak of COVID-19 to constitute a public health emergency of international concern. WHO has characterised COVID-19 as a pandemic on 11 March 2020. The government in the PRC has implemented various severe measures in controlling the spread of COVID-19 such as imposing travel restrictions and quarantine arrangements to travellers, home confinement of residents and border controls that may adversely affect the retail business in the PRC and economic activities of the Group to some extent. The Group's operation, financial performance, cash flows and financial position for the year 2020 are expected to deteriorate as compared to those of the year 2019 due to the impact from the COVID-19 pandemic and the related control measures.

In preparing the consolidated financial statements, the Group applies fair value model to measure its investment property. In 2020, fair value of the Group's investment property may be subject to fluctuations due to the COVID-19 pandemic.

Up to the date of this announcement, the Group is currently unable to reasonably estimate the financial impact of the COVID-19 pandemic on the Group as the duration and intensity of this global health emergency and the related disruptions are uncertain. The management of the Group will closely monitor the development of the COVID-19 pandemic and react proactively to its impact on the Group's operation, financial performance, cash flows and financial position for the year 2020.

The implementations of the control measures in response to the COVID-19 pandemic are non-adjusting events after the financial year end of 31 December 2019 and do not result in any adjustments to the consolidated financial statements for the year ended 31 December 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

(A) Industry Review

The global economic condition was slowing down with international investment decline and the use of quantitative easing (QE) monetary policy by major countries in 2019. Major developed economic powers, except Japan, experienced decline in economic growth. The economy of most of the developing countries went down or facing economic crisis with the growth rate of Gross Domestic Product (GDP) of China dropped as well. The GDP in newly emerging market was generally decreased in 2019 compared with 2018.

The inflation rate in developed nations has been decreasing, with both the growth rate of inflation and GDP dropped simultaneously. This made the global demand declined. The United States has fixed the target personal spending rate at 1.5%. The inflation in European countries has been decreasing and kept in low level, and spending index was comparatively decreased. Japan, with inflation rate at 0.5% only, is likely to go into deflation. The inflation rate of newly emerging market was dropping, with specific countries undergoing severe inflation.

In China, the government has putting forward various fiscal and monetary measures under the advocacy six stability targets to cope with economic decline by stimulating domestic demand to boost employment and economy. Annual social consumable goods retailing amount was kept in stable and accelerating manner. There were changes in the retail industry, entry or exit by foreign investors, vertical integration into different market, opening or closure of stores, expanding or contracting in fresh market, use of digital information exchange, and selection of new or traditional retail methods etc. Retail entities have reviewed its organizational structure to tackle for the future challenge.

In 2019, the Guangdong retail sales of social consumer goods for the year reached RMB4,270 billion, representing a year-on-year ("YOY") growth of 8.0%. The province has successfully implemented consumer spending mechanism by enhancing city spending and expanding rural spending. Accordingly, there were numerous measures to stimulate spending behavior by encouraging motor car purchase, exploring sightseeing destinations, promoting Pearl River delta night economic circle, improving city-rural logistic linkage. In addition, Guangdong has adopted the poverty alleviation through commercial reform by advancing electronic commerce factors in local community. To enrich the city and village households by their residents themselves is the main task. Major strategic plans included strengthening cooperation in east-west districts and enhancing communication network between government departments.

In 2019, the online retail sales of commodity and service for the year reached RMB10,600 billion, composing 25.7% of the total retail sales of social consumer goods. The market was growing its importance due to its convenience but produced various problems. Funding shortage caused suspension or removal of items from categories. Over supply of fresh goods providers caused quality, after-sale service and supply chain problems. High gross profit of perishable goods was attractive but high waste loss pushed the profit down. Social exchange has passed through its peak as the method of using bonus to attract new users has been non-profit making. Sellers of fashion, cosmetic and luxury goods were hard to survive as the market was occupied by industry giants. Cross-border e-commercers were affected by the Sino-US trade tension. Food and toy sellers was blocked by lack of entry barrier to cause quality and management problems. Second hand commodity sellers were affected by the inconsistent product description, poor delivery arrangement, and unsecured after-sale protection.

Shopping malls appeared upon the enhancement of shopping standard. They offered different ways of consumption including scenario producing, experiencing and social spending. There were new products or payment methods and targeted on the youth spending. According to statistics, there were about 520 new shopping malls with total operational size of 44,000,000 meter square. The trend was stable with slight decrease of 2% YOY. By region, the East China composed of approximately 48% of new stores which led the seven major districts. The South-west region ranked afterward with the contribution of two established cities – namely Chengdu and Chongqing. Overall, the first tier cities has been saturated and characterized by product similarity while the remote areas has limited spending power, the new first tier cities has been activated by the high growing speed, fast growing population, better traffic network and well business environment. One stop commercial complex encompassed basic shopping and dining places, added with experiencing amenities including theatre, entertainment hub, cinema, and pet parks etc. Shopping mall with size below 50,000 square meters was increasing. This was due to closer to local community and lower distribution costs for these shopping malls in the major cities.

According to the statistics released by the National Bureau of Statistics of China, GDP for the year amounted to RMB99,100 billion, representing an 6.1% increase over last year. Total retail sales of social consumer goods for the year was RMB41,200 billion, representing a YOY growth of 8.0%. Among them, retail sales of "over-the-threshold" consumer goods grew by 3.9% on an YOY basis to RMB14,800 billion. Retail sales of urban consumer goods rose by 7.9% to RMB35,100 billion YOY, while retail sales of rural consumer goods rose by 9.0% to RMB6,000 billion YOY. By consumption pattern, retail sales of commodities went up 7.9% to RMB36,500 billion YOY. During the year, total domestic online retail sales amounted to RMB10,600 billion, representing an YOY growth of 16.5%. Among them, commodity goods online retail sales grew by 19.5% on an YOY basis to RMB8,500 billion, accounting for 20.7% of the total retail sales of social consumer goods. The growth in the beverage, apparel and daily consumption categories were 30.9%, 15.4% and 19.8% respectively. The annual per capita income amounted to RMB31,000. On further breakdown, per capita disposable income of urban residents amounted to RMB42,000, increased by 7.9% as compared with last year; Per capita disposable income of rural residents amounted to RMB16,000, increased by 9.6% as compared with last year.

In 2019, GDP of Guangdong for the year amounted to RMB10,800 billion, representing an 6.2% increase over last year. Total wholesale and retail sales growth was 4.9%, while accommodation and beverage growth was 3.3%. Among them, retail sales of "over-the-threshold" servicing corporation achieved RMB3,100 billion, grew by 11.8% YOY.

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 2 shopping malls with a total gross floor area of approximately 214,000 square meters, principally located in Guangdong province (including Shenzhen and Foshan) and Guangxi Autonomy Zone. 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 sub-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 Guangxi Nanning.

During the year, the Group has operated two shopping malls – Bantian and Guanlan stores located at Longgang and Longhua districts of Shenzhen respectively, with total approximately 66,000 square meters, in the busiest zones of the districts. Bantian shopping mall commenced business at end of year 2018 with approximately 35,000 square meters. Guanlan shopping mall commenced business at end of year 2019 with approximately 31,000 square. It is located in the city center district of the Guanlan Street which is the intersection point of the proposed Shenzhen metro station and tram station (Xinlan 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.

Recapping on the year 2019, the Group has the following operation highlights.

Position the operating direction of Supermarket section to protect market share

During the year, the Group has repositioned the Supermarket section to accommodate the location factor and business circle. Accordingly, different models have been put forward including 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 potential products 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 year, the Group has obtained various awards from the public sector. In May 2019, the operating subsidiary of the Group – Shenzhen Baijiahua Network Technology Limited ("Baijiahua Technology") attained 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 to maintain corporate sustainable development. Besides, the major operating subsidiary of the Group – Shenzhen Baijiahua Department Stores Co. Ltd ("BJH 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, BJH Department Stores received title from Guangdong Chain Operations Association as "Top 50 Honorary Guangdong Chain Stores in 2018". In December 2019, BJH Department Stores received honour from Shenzhen Corporate Union and Shenzhen Entrepreneur Association as "2019 Top 500 Enterprises in Shenzhen". In addition, it also received the titles of "2019 Top 100 Private-Owned Enterprises in Shenzhen" and "2019 Top 100 Quality Products Enterprises in Shenzhen" for recognition of its good reputation and corporate responsibility in the province and city. 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 is located at the Longhua Guanlan new district, Shenzhen, which has commenced business on the fourth quarter 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. The shopping mall has been interiorised by renowned design house in China focusing on creating a scence-oriented, experiential and trendy shopping environment. The theme of the mall is to provide a platform for the residents and visitors nearby for family gathering, social networking and leisure. Among the brand name selection, famous online best sellers were invited to station in our shopping mall 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. The mall has attracted many potential customers in the surrounding area which are mainly the luxury residential district with consumption community composed of high income earners, 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 process 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 reviewed the staff reward and punishment system, rule of contract management, and control approval procedure as a mean to avoid possible non-legal risk.

(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 2020 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 shopping malls, and interest income from financing services) amounted to RMB645.3 million for the year ended 31 December 2019, representing a decrease of 9.2% as compared to RMB710.3 million in the corresponding period of 2018. The decrease was principally attributable to the decrease in sales of goods and commissions from concessionaire sales. Nevertheless, rental income from sub-leasing of shop premises and rental income from sub-leasing of shopping malls have increased which partly offset the overall decrease of income.

Sales of goods decreased by 12.4% to RMB432.8 million for the year ended 31 December 2019 from RMB494.2 million in the corresponding period of 2018, principally due to the external competitive market environment and effect on store enhancement and change in sales floor usage in three main stores. There were substantial changes in sales floor usage in Longhua, Songgang and Gongming stores from supermarket to concessionaires, food and beverage and other supplemental service which affect the amount of sales of goods. Sales of goods as a percentage of the Group's total revenue from continuing operations was 67.0% for the year ended 31 December 2019 as compared to 69.6% in the corresponding period of 2018.

Commission from concessionaire sales decreased by 22.8% to RMB78.5 million for the year ended 31 December 2019 from RMB101.8 million in the corresponding period of 2018, mainly due to temporary suspense of business from enhancement works. Commission from concessionaire sales as a percentage of the Group's total revenue from continuing operations was 12.2% for the year ended 31 December 2019 as compared to 14.3% for the corresponding period of 2018.

Rental income from sub-leasing of shop premises going up by 10.6% to RMB64.6 million for the year ended 31 December 2019 from RMB58.4 million for the corresponding period in 2018, mainly due to increase in unit rental income after completion of enhancement works. Rental income from sub-leasing of shop premises as a percentage of the Group's total revenue from continuing operations was 10.0% for the year ended 31 December 2019 as compared to 8.2% for the corresponding period of 2018.

Rental income from investment properties decreased slightly by 5.5% to RMB9.5 million for the year ended 31 December 2019 from RMB10.1 million for the corresponding period in 2018, mainly due to early termination of some existing tenancies. Rental income from investment properties as a percentage of the Group's total revenue from continuing operations was 1.5% for the year ended 31 December 2019 as compared to 1.4% for the corresponding period of 2018.

Rental income from sub-leasing of shopping malls increased moderately by 33.2% to RMB52.9 million for the year ended 31 December 2019 from RMB39.7 million for the corresponding period in 2018 due to the full operation of Bantian shopping mall and commencement of business of Guanlan shopping mall. Rental income from subleasing of shopping malls as a percentage of the Group's total revenue from continuing operations was 8.2% for the year ended 31 December 2019 as compared to 5.6% for the corresponding period of 2018.

Interest income from financing services increased by 13.1% to RMB6.9 million for the year ended 31 December 2019 from RMB6.1 million for the corresponding period in 2018, mainly due to continued business with a 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 1.1% for the year ended 31 December 2019 as compared to 0.9% for the corresponding period of 2018.

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, dropped by 8.1% to RMB65.7 million for the year ended 31 December 2019 from RMB71.5 million in the corresponding period in 2018, mainly due to decrease in local government subsidies.

Purchase of and changes in inventories

Purchase of and changes in inventories from continuing operations amounted to RMB354.2 million for the year ended 31 December 2019, representing a decrease of 13.7% as compared with RMB410.4 million in the corresponding period of 2018, due to decline in sales of goods and tight cost control measure. As a percentage of sales of goods, purchase of and changes in inventories was 81.8% for the year ended 31 December 2019 as compared with 83.0% in the same period of 2018.

Increase in fair value of investment properties

Increase in fair value of investment properties increased from approximately RMB0.5 million for the year ended 31 December 2018, to approximately RMB0.8 million for this year, representing an increase of approximately 60.0% due to changing conditions in real estate market.

Staff costs

Staff costs from continuing operations increased by 10.8% to RMB107.0 million for the year ended 31 December 2019 from RMB96.6 million in the corresponding period of 2018, primarily due to commencement of business in Guanlan shopping mall and modification of staff structure in headquarters.

Depreciation

Depreciation from continuing operations increased by 11.2% to RMB45.7 million for the year ended 31 December 2019 from RMB41.1 million in the corresponding period in 2018. The increase was mainly due to addition of plant and equipment of Guanlan shopping mall and enhancement works.

Depreciation on right-of-use assets

Depreciation on right-of-use assets from continuing operations was approximately RMB95.5 million for the year ended 31 December 2019 due to adoption of HKFRS 16 – Leases, with effect from 1 January 2019 for most of the store, office and staff quarters tenancies.

Operating lease rental expenses

Operating lease rental expenses from continuing operations decreased by 100% to RMB nil million for the year ended 31 December 2019 from RMB108.6 million in the corresponding period of 2018. The decrease was mainly due to adoption of HKFRS 16 – Leases, with effect from 1 January 2019 for most of the store, office and staff quarters tenancies.

Interest on lease liabilities

Interest on lease liabilities from continuing operations was approximately RMB51.8 million for the year ended 31 December 2019 due to adoption of HKFRS 16 – Leases, with effect from 1 January 2019 for most of the store, office and staff quarters tenancies.

Other operating expenses

Other operating expenses from continuing operations, increased by RMB2.0 million from RMB3.5 million for the year ended 31 December 2018 to RMB5.5 million in the corresponding period of 2019. This was primarily due to compensation to tenants for early termination of tenancies and written off of plant and equipment upon enhancement works.

Loss before income tax

As a result of the reasons mentioned above, the Group's loss before income tax from continuing operations was approximately by RMB49.8 million for the year ended 31 December 2019 as compared with the profit before income tax from continuing operations of the Group of RMB33.6 million for the year ended 31 December 2018.

Income tax expense

Income tax expense amounted to RMB2.6 million for the year ended 31 December 2019, representing a decrease of 71.7% from RMB9.1 million in the corresponding period of 2018, mainly due to loss incurred on major operating business during the year. The tax rate applicable to the Group for the year ended 31 December 2019 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%.

Loss attributable to equity Shareholders of the Company

As a result of the aforementioned, loss attributable to Shareholders amounted to RMB52.3 million for the year ended 31 December 2019, representing a drop of 307.7% as compared with the profit of RMB25.2 million in the corresponding period of 2018.

FINAL DIVIDEND

The Board does not recommend the payment of final dividend for the year ended 31 December 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 and investment policies have been followed by the Group since prior years and are considered to have been effective in limiting the Group's exposure to credit risk to a desirable level.

(iii) Interest rate risk

The Group's exposure to interest rate risk mainly arises on cash and bank balances 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 did not use any financial instrument for hedging purposes and the Group did not have any hedging instrument outstanding during the year ended 31 December 2019.

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 2019, the Group had 1,011 full-time employees (year ended 31 December 2018: 1,282). 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 2019, 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 2018: 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 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 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 2019, 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 2019 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, three Independent Non-executive Directors 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 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 2019.

ANNUAL GENERAL MEETING

The 2020 Annual General Meeting of the Company will be held on 4 June 2020, 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 4 June 2020, the register of members of the Company will be closed from 1 June 2020 to 4 June 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 29 May 2020, HK time.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the year ended 31 December 2019, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Audit Committee consists of three Independent 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. The Audit Committee has reviewed the annual results of the Company for the year ended 31 December 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.

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 2019 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 2019 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 2019 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 2019 containing all information required by Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange and dispatched to shareholders in due course.

ACKNOWLEDGMENT

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

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

Shenzhen, the PRC, 30 March 2020

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.