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 2020

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 2020 together with the comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 30 June	
		2020	2019
	Notes	***RMB'000***	*RMB'000*
Revenue	4	**224,632**	376,651
Cost of inventories sold		**(107,496)**	(214,046)
		117,136	162,605
Other operating income	4	**54,049**	54,163
Selling and distribution costs		**(142,917)**	(159,053)
Administrative expenses		**(28,574)**	(27,559)
Finance cost		**(25,104)**	(14,767)
Other operating expenses		**(24,823)**	(241)
Operating (loss)/profit before income tax	5	**(50,233)**	15,148
Income tax expense	6	**(1,138)**	(7,139)
(Loss)/profit and total comprehensive income		**(51,371)**	8,009
Dividend		**–**	–
(Loss)/earnings per share for (loss)/profit attributable to the owners of the Company during the period			
– Basic and diluted (RMB cents)	8	**(4.95)**	0.77

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**229,846**	264,614
Investment properties		**292,100**	292,100
Right-of-use assets		**533,262**	643,753
Intangible assets		**5,268**	4,970
Deposits paid, prepayments and other receivables		**32,041**	31,448
Interests in an associate		**–**	–
		1,092,517	1,236,885
Current assets			
Inventories and consumables		**17,854**	28,136
Trade and loan receivables	*9*	**75,265**	70,809
Deposits paid, prepayments and other receivables		**39,342**	51,955
Cash and bank balances		**57,750**	117,737
Tax recoverable		**57**	57
		190,268	268,694
Current liabilities			
Trade payables	*10*	**73,229**	98,057
Deposits received, other payables and accruals		**96,436**	143,651
Contract liabilities		**24,575**	20,242
Lease liabilities		**76,423**	75,840
Amount due to a director		**59**	59
Provision for tax		**3,716**	3,723
		274,438	341,572
Net current liabilities		**(84,170)**	(72,878)
Total assets less current liabilities		**1,008,347**	1,164,007
Non-current liabilities			
Lease liabilities		**501,706**	605,995
Deferred tax liabilities		**24,131**	24,131
		525,837	630,126
Net assets		**482,510**	533,881
EQUITY			
Share capital		**10,125**	10,125
Reserves		**472,385**	523,756
Total equity		**482,510**	533,881

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 (2019: operation and management of retail stores and other related business, 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 2020 (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 2019 (the "2019 Annual Financial Statements"), except for the accounting policy changes that are expected to be reflected in the 2020 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 2019.

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:

Revised Conceptual Framework	Amendments to References to the Conceptual Framework in HKFRS Standards
Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 16	COVID-19 – Related Rental Concession

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.

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 two business components/operating segments, which are operation and management of retail stores and other related businesses, and provision of financing services (2019: operation and management of retail stores and other related businesses, 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 *RMB'000* **(Unaudited)**	**Provision of financing services** *RMB'000* **(Unaudited)**	**Consolidated** *RMB'000* **(Unaudited)**
Six months ended 30 June 2020			
Segment revenue	**221,600**	**3,032**	**224,632**
Segment results	**(50,435)**	**2,471**	**(47,964)**
Other unallocated corporate expenses			**(2,269)**
Operating loss before income tax			**(50,233)**
Income tax expense			**(1,138)**
Loss for the period			**(51,371)**
Other segment information			
Interest income	**(859)**	**(6)**	**(865)**
Additions to non-current assets	**12,579**		**12,579**
Amortisation of intangible assets	**162**	**58**	**220**
Depreciation of property, plant and equipment	**20,790**	**2**	**20,792**
Depreciation of right-of-use assets	**50,033**		**50,033**
Interest expense on lease liabilities	**25,104**		**25,104**
Loss on disposal of property, plant and equipment	**2,393**		**2,393**
Written off of property, plant and equipment	**21,096**		**21,096**

	Operation and management of retail stores and other related businesses *RMB'000* (Unaudited)	Provision of financing services *RMB'000* (Unaudited)	Consolidated *RMB'000* (Unaudited)
At 30 June 2020			
Segment assets	**1,217,855**	**63,521**	**1,281,376**
Tax recoverable			**57**
Other unallocated corporate assets			**1,352**
Total assets			**1,282,785**
Segment liabilities	**770,376**	**379**	**770,755**
Provision for taxation			**3,716**
Deferred tax liabilities			**24,131**
Other unallocated corporate liabilities			**1,673**
Total liabilities			**800,275**

	Operation and management of retail stores and other related businesses *RMB'000* (Unaudited)	Food and catering *RMB'000* (Unaudited)	Provision of financing services *RMB'000* (Unaudited)	Consolidated *RMB'000* (Unaudited)
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 *RMB'000* (Audited)	Provision of financing services *RMB'000* (Audited)	Consolidated *RMB'000* (Audited)
At 31 December 2019			
Segment assets	1,451,705	50,516	1,502,221
Tax recoverable			57
Other unallocated corporate assets			3,301
Total assets			1,505,579
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

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 2019 and 2020.

4. REVENUE AND OTHER OPERATING INCOME

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue		
Sales of goods	**129,378**	271,288
Commission from concessionaire sales	**18,469**	48,941
Rental income from sub-leasing of shop premises	**36,684**	29,216
Rental income from investment properties	**4,320**	5,308
Rental income from sub-leasing of a shopping mall	**32,748**	20,093
Interest income from financing services	**3,033**	1,805
	224,632	376,651
Other operating income		
Interest income	**865**	2,308
Government grants	**6,406**	843
Administration and management fee income	**19,635**	30,872
Gain arising on early termination of lease contracts	**5,077**	–
Others	**22,066**	20,140
	54,049	54,163

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.

5. (LOSS) PROFIT BEFORE INCOME TAX

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
(Loss)/profit is arrived at after charging:		
Depreciation of property, plant and equipment	**20,792**	18,575
Depreciation of right-of-use assets	**50,033**	49,326
Interest expense on lease liabilities	**25,104**	14,767
Amortisation of intangible assets	**220**	90
Loss on disposal of property, plant and equipment	**2,393**	62
Written off of property, plant and equipment	**21,096**	–
Operating lease rentals in respect of land and buildings	**1,586**	2,797
Obsolete inventories written-off	**–**	17
Staff costs, including directors' emoluments		
– salaries and other benefits	**39,685**	43,284
– contributions to pension scheme	**2,841**	6,431
and crediting:		
Rental income from investment properties	**4,320**	5,308
Sub-letting of properties		
– Base rents	**66,984**	47,657
– Contingent rents*	**2,448**	1,652
	69,432	49,309

* 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	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current income tax		
PRC enterprise income tax	**1,138**	7,139

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 2019: 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 2019: 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% (2019: 15%) for the period pursuant to the privilege under the China's Western Development Program (西部大開發計劃).

Other subsidiaries of the Group established in the PRC were mainly subject to PRC Enterprise Income Tax at the rate of 25% (2019: 25%) for the period under the income tax rules and regulations of the PRC.

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 2019: Nil).

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

	For the six months ended	
	30 June 2020	30 June 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Final dividend in respect of the previous year, approved and paid during the period, of Nil (six months ended 30 June 2019: RMB1.88 cents) per share	**–**	19,505

8. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the loss attributable to the owners of the Company for the period of approximately RMB51,371,000 (six months ended 30 June 2019: profit of approximately RMB8,009,000) and the weighted average number of approximately 1,037,500,002 (six months ended 30 June 2019: 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 there were no other potential dilutive ordinary shares in existence during the periods.

9. TRADE AND LOAN RECEIVABLES

All of the Group's sales are on cash basis except for trade receivables from certain bulk sales of merchandise to corporate customers, rental income receivables from tenants and loan receivables from provision of financing services. The credit terms offered to the customers from operation and management of retail stores are generally for a period of one to three months, while to customers from financing services are repayable on demand or one to seven months. Trade receivables were non-interest-bearing, except for loan receivables from provision of financing services.

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

	At 30 June 2020 *RMB'000* **(Unaudited)**	At 31 December 2019 *RMB'000* (Audited)
Within 30 days	**15,590**	22,320
31 – 60 days	**6,329**	973
61 – 180 days	**11,418**	726
181 – 365 days	**539**	313
	33,876	24,332

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

	At 30 June 2020 *RMB'000* **(Unaudited)**	At 31 December 2019 *RMB'000* (Audited)
Repayable on demand or within one year	**41,389**	46,477
Total	**75,265**	70,809

10. TRADE PAYABLES

The credit terms granted by suppliers are generally for a period of 30 to 60 days.

The aging analysis of the trade payables, based on invoice dates, is as follows:

	At 30 June 2020 *RMB'000* **(Unaudited)**	At 31 December 2019 *RMB'000* (Audited)
Within 30 days	**8,219**	63,905
31 – 60 days	**7,863**	19,589
61 – 180 days	**34,383**	9,352
181 – 365 days	**17,288**	2,118
Over 1 year	**5,476**	3,093
	73,229	98,057

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

In the first half of 2020, the global economy has changed from slow growth to negative growth due to the COVID-19 pandemic. The progress of the first phase of the China-US trade agreement was slow and the lockout of second phase of negotiation. It is expected that the global economy will shrink dramatically by 4.9% in 2020. The growth rate of the gross national product of various countries has declined. Among them, the United States and the Euro zone may show negative growth. The European Union predicts that the real Gross Domestic Product ("GDP") will shrink by more than 7% in 2020, even though the government has taken measures to protect income and employment to support household consumption. The pandemic in Europe and the United States is severe, and the total economic output is predicted to shrink significantly. International Monetary Fund ("IMF") estimated that the growth rate of advanced economies in 2020 is expected to be -8.0%. The impact on economic activity in the first half of this year seems to be more severe than expected. The following countries are expected to experience simultaneous deep recessions. On the other hand, the 2020 growth rate of emerging markets and developing economies is expected to be -3.0%. By country, China's economy is recovering from the sharp contraction in the first quarter, and the growth rate in 2020 is expected to be around 1.0%. India's economic recovery will be even slower, and its economy is currently forecast to shrink by 4.5%. Brazil and Mexico, the two largest Latin America economies, are expected to contract by 9.0% and 10.5% respectively in 2020. The pandemic and trade negotiation are disrupting the economy, and oil exporting countries will experience a severe recession.

In China, the consumer goods market was significantly impacted by the pandemic in the first half of the year. Residents' shopping and dining activities decreased. With the continued consolidation of pandemic prevention and control, and the implementation of various consumer promotion campaign, residents increased their outing activities and market sales improved significantly. The rural consumer goods market has developed better than the urban market. Driven by multiple factors such as the continuous improvement of the logistics system in rural areas and the rapid development of rural e-commerce, the decline in retail sales of rural area in the first half of the year was lower than that of urban area. Online merchandise retail sales continued to grow. Driven by the consumption promotion campaign and the "618" shopping festival, the growth rate of online shopping continued to accelerate. Traditional retail store revenue continued to improve. With the orderly restoration of life order, more residents go for shopping, and traditional retail store business has steadily picked up. Commodity retail continued to improve, and the commodity structure continued to be optimized. The decline in income from catering and accommodation has significantly narrowed. The consumer goods market is well supplied. Policies to maintain stable supply in various regions have resulted in overall stable supply.

In Guangdong Province, the Shenzhen government has put forward measures to boost consumption, including creating a series of “Shopping at Shenzhen” event, promoting the night economy, and high-standard and distinguished business districts. In response to the stall economy, a night economic street was suggested, with the theme of “Night Shenzhen – Trendy Life”, to encourage the night economic demonstration street to extend its business hours. Foshan has been built a platform to promote consumption. Create major themes of the four seasons to promote consumption activities, “Home – Life” theme surrounding home renovation, electronic appliances, clothing, food and beverage, transportation and other quality spending activities, “Lingnan flavor – Foshan” food culture festival, and “do the Lunar New Year shopping” spending theme activities etc.

The Nanning City of Guangxi organized the Nanning Cloud Shopping Festival to extend the online consumption scenes of department stores, supermarkets, automobiles, catering and other industries to stimulate consumption potential. This is to support retail, accommodation, catering companies, large commercial complexes, and pedestrian streets to carry out various forms of consumption promotion activities by a one-off subsidy. Organise home appliance trade-in activities, cultivate emerging business formats, support the construction of cross-border e-commerce pilot zones, and encourage traditional foreign trade companies to use cross-border e-commerce to explore international markets. Support traditional business enterprises to expand online sales, develop O2O business with touchless delivery services, “Old Streets and Alleys” pedestrian area as a high-quality night economic gathering area, and upgrade “Night Boat Ride Yongjiang” as a special tourist attraction. Besides, build a “late night canteen” for special dining place, and subsidize the image enhancement project and supporting facilities construction of the night economic landmark projects.

According to the statistics released by the National Bureau of Statistics of China, GDP on the Mainland amounted to RMB45,600 billion in the first half of 2020, representing a 1.6% decrease over the same period last year.

In the first half of the year, total retail sales of social consumer goods was approximately RMB17,200 billion, representing a year-on-year (YOY) decline of 11.4%. Among them, retail sales of consumer goods of the “over-the-threshold” enterprises drop by 10.3% on a YOY basis to approximately RMB6,200 billion. Based on the geographical locations of the operating units, retail sales of urban consumer goods down by 11.5% to approximately RMB14,900 billion YOY, whereas retail sales of rural consumer goods decreased by 10.9% to approximately RMB2,300 billion YOY. By consumption pattern, food and beverage revenue down by 32.8% to approximately RMB1,500 billion YOY, whereas retail sales of commodities down by 8.7% to approximately RMB15,800 billion YOY. In terms of retail sales of commodities, among “over-the-threshold” enterprises amounted to approximately RMB5,900 billion, representing a decrease of 9.0%. In the first half, total domestic online retail sales amounted to RMB5,200 billion, representing a YOY growth of 7.3%. Among them, the commodity goods online retail sales grew by 14.3% on a YOY basis to approximately RMB4,300 billion, accounting for 25.2% of the total retail sales of social consumer goods. The online commodity sales for eat and use categories grew by 38.8% and 17.3% respectively, while for wear category drop by 2.9%. According to business model, the growth rate for supermarket amounted to 3.8%, while the drop rates for department store, specialty store and exclusive store amounted to 23.6%, 14.1% and 14.4% respectively during the period.

All in all, in the first half of 2020, due to sharp decline in international market demand, China's foreign trade has been severely affected. In order to help some foreign trade companies to overcome the crisis, various provinces have successively introduced the internal loop economy of export to domestic sales. The impact of the new pandemic on foreign trade has shifted to a demand side. The transfer of export products to domestic sales will further enrich market supply, meet new consumer demand, increase consumer choice, promote consumption upgrades, and help promote the overall recovery of the consumer market. With the implementation of the "six stability" and "six support" policies, and the effects of various preliminary customer promotion policies, the consumer market is expected to continue its upward trend.

BUSINESS REVIEW

For the six months ended 30 June 2020, the Group recorded revenue of approximately RMB224.6 million, representing a year-on-year (YOY) decrease of approximately 40.4%. Gross profit amounted to approximately RMB21.9 million, representing a YOY decrease of approximately 61.8%; while operating loss was approximately RMB50.2 million, representing a YOY decrease of approximately 431.6%. Loss attributable to owners of the Company was approximately RMB51.4 million, representing a YOY decrease of 741.4%. There were 8 stores and 2 shopping malls at the end of the period. During the period, there were closure of 3 stores, namely Shajing store, Sanlian store and Xixiang store. Revenue dropped attributable to the outbreak of the novel coronavirus pneumonia (COVID-19) pandemic in China since January 2020, the adoption of new Hong Kong Financial Reporting Standard 16 – Leases, the infant stage of operation and competitive business environment of shopping malls operation, and the additional expenses on disposal of fixed assets and fixed assets written off upon closure of three stores. The main task was reduction of expenditure to keep resources for future challenge during the period. Sales of goods decreased by approximately RMB141.9 million, commissions income from concessionaire decreased by approximately RMB30.5 million, rental income from sub-leasing of shop premises increased by RMB7.5 million, rental income from investment properties decreased by approximately RMB1.0 million, rental income from sub-leasing of shopping malls increased by approximately of RMB12.6 million, and interest income from financing services increased by approximately RMB1.2 million. The Group has adopted positive operating strategy with value-added service in retail stores, and continuously exploring and developing other potential profit opportunities and planned for the expansion of store and shopping mall network.

Recapping on the first half of 2020, the Group has the following operation highlights.

(1) Sales of supermarkets and concessionaire have fallen, gross profit has been affected

The local governments of Guangdong and Guangxi and merchants distributed discount spending vouchers which are helpful to retail businesses in supermarkets and department stores. However, the persistent of the pandemic has forced resident's spending more cautious, sales have fallen. The Group implemented a series of remedial measures. In terms of display layout, it is planned to uplift the shelves to enhance the visual feeling, and increase the variety in the daily sundries category to boost sales. In addition, we introduce some popular cooked food and pastry to attract customers through market research. In terms of commodity management, we will focus on the essence of commodities and perform fine management. By enhancing marketing activities and promotion leaflets, we set sales targets, order management, display method, publicity, follow-up procedure and results review of popular products, and push forward seasonal and thematic promotion campaign in stores. We encourage concessionaires/vendors promotional sales not only to create sales for the supermarket section, but also solve the problem of manpower shortage. Expanding online sales by promoting the in-house online sales channel and outside online sales platform. The main reason for the gross profit gap is decline in sales. Increase sales, look for high-margin products in the market to introduce special promotions, increase vendor activities and gift promotions, plan promotional activities to obtain thin profits but quicker sales, and carry out product management to speed up product turnover which in return reduce maturity arrival, minimize damaged goods, and avoid price cuts.

(2) Improving the furnishings of shopping malls, introducing catering and entertaining providers in stores

The shopping center strengthens decoration spirit to attract online community discussion, and incorporates amusement facilities (such as kid's ball pool) to highlight the parent-child experience and youthful vitality. Using vacant shops for temporary promotional activities and earning additional income. Add fragrance dispenser and decorating green plants in toilets to enhance the style of the mall. We are considering to provide an "professional service room" amenity for shoppers free consultation service. During the period, we have implemented four types of reforms. Standardize operations for system construction, initiate system compilation and active team building to increase training and market research work. Target management, rent collection is strictly controlled to strengthen cash flow. Enhance the operating diversification to increase other income. Vacant shops pending for business invitation, commencement and renovation will be closely followed-up to reduce operating losses. Improve quality, conduct customer satisfaction surveys, and formulate improvement plans. Strengthen quality inspection and supervision, and emphasize on quality stores.

(3) Closure of stores to reduce operational risks, renovation enhancement of major stores to enhance store attractiveness

Upon the expiration of the lease agreement in Xixiang Store, the group decided not to renew the contract due to the rapid deterioration of the surrounding business environment during the period. Besides, due to declining geographical advantage and surrounding environmental factors, the performance of Sanlian Store and Shajing Store was badly affected. The Group has decided to terminate the lease agreements before expiry of lease term after granting waiver for compensation of early termination from the respective landlords.

The group continues to upgrade and adjust its stores layout to accommodate with the new retail era. In the food section, the shelves have been uplift and adjusted to make the overall display more coordinated and leisurable, and more convenient for customers to select goods. In the daily necessities section, the shelves are rearranged to expand the best-selling categories of feminine products. In the fresh food section, key items are reviewed every weekend to ensure the best price offered to customers. We have competitive advantage in the fruits category. Meat stalls and vegetables are selling well when the pandemic is severe. All in all, we have increased the product variety for food and daily necessities, relocated the self-service cash counters, introduced renowned daily necessities brand name, and increased the number of food shelves and product variety to refresh the outlook of sales floor.

(4) Implement measures to increase revenue, reduce distribution and administration expenditure

To open up revenue sources, the store and operation department attach great importance to sales, diversification, customer flow, marketing, and Online and Offline (O2O) work; enrich online brands and varieties. In addition, the marketing department expands group purchases, develops member base, and promotes the sales of shopping cards. Information and intelligence enhancement must be made on all level: natural loss of employees, reducing personnel complexity, and reducing labor costs. Manage vacant shelves, vacant store and new business invitation, improving area utilization and floor efficiency, making full use of physical space to improve efficiency, and properly resolve defective brands in advance.

To reduce expenditure, all unnecessary expenses will be cut down. Promote mobile office, paperless office, and information office. Strictly control on all expenses and expenditure audit. Simplify organizational structure and personnel structure, fair and efficient appraisal system. Improve the monthly performance appraisal report of the manager of the supermarket and operation department personnel. Improve work efficiency and enforcement. Advocate self-discipline and professional ethics to enhance execution and sense of responsibility.

(5) Active development in online sales channel, expand customer base

Currently, Baijiahua's O2O business is divided into two aspects: private and public domain. Private domain refers to our Baijiahua Mini Program ("Mini Program") Mall. Public domain encompasses the three mainstream O2O e-commerce platform of Meituan, Ele.me and Jingdong. Since February, online sales have been going up. The three major O2O platforms of Meituan, JD Daojia, and Ele.me have already been connected and launched. Next, we will be devoted to refine system operations, and improve sales turnover and customer experience. For live events, as there is currently no live broadcast team, and customers have not developed their live shopping consumption habits, large-scale investment has not yet been made. Soon, we will try team purchase activities to increase customer adhesiveness and increase sales. As a new e-commerce provider, Pin Duo Duo integrates entertainment and social elements into e-commerce operations. Through the "social + e-commerce" model, more users can share benefits with fun and enjoy a new shared shopping experience. We try to activate the Mini Program shopping mall module, put all merchants on the Mini Program, increase the overall sales atmosphere, and drive the sales of the Group and merchants.

OUTLOOK AND PROSPECT

In the first half of 2020, 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.

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 RMB224.6 million for the six months ended 30 June 2020, representing a decrease of 40.4% as compared to approximately RMB376.7 million in the corresponding period of 2019. The drop was principally attributable from the decrease in sales of goods of approximately RMB141.9 million, the decrease in commission from concessionaire sales of approximately RMB30.5 million and the decrease in rental income from investment properties of approximately RMB1.0 million. However, there were increase in rental income from sub-leasing of shop premises of approximately RMB7.5 million, increase in rental income from subleasing of shopping mall of approximately RMB12.6 million, and increase in interest income from financing services of approximately RMB1.2 million, which altogether partly offset the overall decrease of income.

Sales of goods decreased by 52.3% to RMB129.4 million for the six months ended 30 June 2020 from RMB271.3 million in the corresponding period of 2019, principally due to the outbreak of new pandemic in Mainland China which imposed measures including the lockdown of cities and borders and the management of people flow within community. This reduced the customer flow in stores and the Group has closed three stores in response to the pandemic during the period. Besides, the Group has adjusted the sales floor area of direct sales to introduce more leisure experiencing shopping mode. Sales of goods as a percentage of the Group's total revenue was 57.6% for the six months ended 30 June 2020 as compared to 72.0% in the corresponding period of 2019.

Commission from concessionaire sales dropped by 62.2% to RMB18.5 million for the six months ended 30 June 2020 from RMB49.0 million in the corresponding period of 2019, mainly due to outbreak of pandemic and closure of three stores. Commission from concessionaire sales as a percentage of the Group's total revenue was 8.2% for the six months ended 30 June 2020 as compared to 13.0% for the corresponding period of 2019.

Rental income from sub-leasing of shop premises up by 25.7% to RMB36.7 million for the six months ended 30 June 2020 from RMB29.2 million for the corresponding period in 2019, 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 16.3% for the six months ended 30 June 2020 as compared to 7.8% for the corresponding period of 2019.

Rental income from investment properties down by 18.6% to RMB4.3 million for the six months ended 30 June 2020 from RMB5.3 million for the corresponding period in 2019, mainly due to early termination of two tenancies which are still pending for leasing. Rental income from investment properties as a percentage of the Group's total revenue was 1.9% for the six months ended 30 June 2020 as compared to 1.4% for the corresponding period of 2019.

Rental income from sub-leasing of a shopping mall increased by 63.0% of RMB32.7 million for the six months ended 30 June 2020 as compared with RMB20.1 million for the corresponding period in 2019 due to i) the commencement of business of Shenzhen Guanlan shopping mall in the last quarter of 2019; and ii) the entering of mature stage of the Shenzhen 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 14.6% for the six months ended 30 June 2020 as compared to 5.3% for the corresponding period of 2019.

Interest income from financing services up by 68.0% to RMB3.0 million for the six months ended 30 June 2020 from RMB1.8 million for the corresponding period in 2019, mainly due to the increase in business by the major customer. Interest income from financing services as a percentage of the Group's total revenue was 1.4% for the six months ended 30 June 2020 as compared to 0.5% for the corresponding period of 2019.

Other operating revenue

Other operating revenue decreased by 0.2% to RMB54.1 million for the six months ended 30 June 2020 from RMB54.2 million in the corresponding period in 2019, mainly due to decrease in bank interest income and administration and management fee income of approximately RMB1.4 million and RMB11.2 million respectively. Nevertheless, increase in government subsidies, net gain on disposal of right-of-use assets and lease liabilities, and credit from rent concession from some of the landlord of stores have largely offset the overall decrease.

Purchase of and changes in inventories

Purchase of and changes in inventories amounted to RMB107.5 million for the six months ended 30 June 2020, representing a decrease of 49.8% as compared with RMB214.0 million in the corresponding period of 2019, due to decrease in sales turnover. As a percentage of sales of goods, purchase of and changes in inventories was 83.1% for the six months ended 30 June 2020 as compared with 78.9% in the same period of 2019.

Staff costs

Staff costs decreased by 14.5% to RMB42.5 million for the six months ended 30 June 2020 from RMB49.7 million in the corresponding period of 2019, primarily due to the closure of three stores during the period.

Depreciation of right-of-use assets

Depreciation of right-of-use assets increased slightly by 1.4% to RMB50.0 million for the six months ended 30 June 2020 from RMB49.3 million in the corresponding period of 2019, primarily due to full period amortization of some of the leases during the period.

Depreciation on property, plant and equipment

Depreciation on property, plant and equipment increased by 11.8% to RMB20.8 million for the six months ended 30 June 2020 from RMB18.6 million in the corresponding period in 2019. The increase was mainly due to enhancement of main stores in Shenzhen and the final construction works of Shenzhen Guanlan shopping mall.

Operating lease rental expenses

Operating lease rental expenses decreased by 42.9% to RMB1.6 million for the six months ended 30 June 2020 from RMB2.8 million in the corresponding period of 2019. This was attributable to reduction of short leases during the period.

Other operating expenses

Other operating expenses increased by approximately RMB24.6 million, from RMB0.2 million for the six months ended 30 June 2019 to RMB24.8 million in the corresponding period of 2020. This was primarily due to written off of property, plant and equipment and loss on disposal of property, plant and equipment of approximately RMB21.0 million and RMB2.4 million respectively upon closure of three stores during the period.

Finance costs

Finance costs, arising from the effect of adoption of HKFRS 16, increased by approximately RMB10.3 million, from approximately RMB14.8 million for the six months ended 30 June 2019 to approximately RMB25.1 million in the corresponding period of 2020. This was mainly due to full period interest expenses for some of leases during the period.

Operating loss/profit

As a result of the reasons mentioned above, the Group's operating loss amounted to approximately RMB50.2 million for the six months ended 30 June 2020 as compared with operating profit amounted to approximately RMB15.1 million for the six months ended 30 June 2019.

Income tax expense

Income tax expense amounted to approximately RMB1.1 million for the six months ended 30 June 2020, representing a significant decrease of 84.5% from approximately RMB7.1 million in the corresponding period of 2019, mainly due to decrease of operating profit before tax. The effective tax rate applicable to the Group for the six months ended 30 June 2020 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%.

Loss/profit attributable to equity Shareholders of the Company

As a result of the aforementioned, loss attributable to Shareholders amounted to approximately RMB51.4 million for the six months ended 30 June 2020 as compared with the profit of approximately RMB8.0 million in the corresponding period of 2019.

Subsequent Events

The Group did not have any other significant events taken place subsequent to 30 June 2020.

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 2020, the Group had 725 full-time employees (as at 30 June 2019: 1,270). 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 2020, 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 2020, 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 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 4 June 2020 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 2020.

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 2020. 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 2020 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, 27 August 2020

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