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 2020

FINANCIAL HIGHLIGHTS

Revenue decreased by 33.7% to approximately RMB428.1 million

Gross profit margin of sales of goods decreased by 45.7% to approximately RMB42.7 million

Loss attributable to the owners of the Company for the year amounted to approximately RMB194.5 million

Basic loss per share was approximately RMB18.74 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 2020 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	Year ended 31 December **2020** *RMB'000*	2019 *RMB'000*
Revenue	*4*	**428,057**	645,329
Cost of inventories sold		**(207,184)**	(354,233)
		220,873	291,096
Other operating income	*6*	**73,167**	65,703
(Decrease)/increase in fair value of investment properties		**(7,500)**	800
Selling and distribution costs		**(250,254)**	(290,102)
Administrative expenses		**(50,226)**	(60,063)
Other operating expenses		**(131,606)**	(5,455)
Impairment loss on loan receivables		**(2,076)**	–
Finance costs	*7*	**(45,905)**	(51,750)
Loss before income tax	*8*	**(193,527)**	(49,771)
Income tax expense	*9*	**(934)**	(2,571)
Loss and total comprehensive income for the year and attributable to owners of the Company		**(194,461)**	(52,342)
Loss per share for loss attributable to the owners of the Company during the year:			
Basic and diluted (RMB cents)	*11*	**(18.74)**	(5.05)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

		As at 31 December	
		2020	2019
	Notes	***RMB'000***	*RMB'000*
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**217,157**	264,614
Right-of-use assets		**437,402**	643,753
Investment properties		**284,600**	292,100
Intangible assets		**5,452**	4,970
Deposits paid, prepayments and other receivables		**27,198**	31,448
Interests in an associate		**–**	–
		971,809	1,236,885
Current assets			
Inventories and consumables		**26,395**	28,136
Trade and loan receivables	*12*	**59,929**	70,809
Deposits paid, prepayments and other receivables		**55,311**	51,955
Restricted bank deposit		**2,000**	–
Cash and cash equivalents		**76,624**	117,737
Tax recoverable		**66**	57
		220,325	268,694
Current liabilities			
Trade payables	*13*	**75,054**	98,057
Contract liabilities		**20,859**	20,242
Deposits received, other payables and accruals		**119,606**	143,651
Amount due to a director		**59**	59
Lease liabilities		**64,523**	75,840
Borrowings		**2,280**	–
Provision for taxation		**9,651**	3,723
		292,032	341,572

		As at 31 December	
		2020	2019
	Note	***RMB'000***	*RMB'000*
Net current liabilities		**(71,707)**	(72,878)
Total assets less current liabilities		**900,102**	1,164,007
Non-current liabilities			
Lease liabilities		**474,318**	605,995
Borrowings		**64,663**	–
Deferred tax liabilities		**21,701**	24,131
		560,682	630,126
Net assets		**339,420**	533,881
EQUITY			
Share capital	*14*	**10,125**	10,125
Reserves		**329,295**	523,756
Total equity		**339,420**	533,881

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.

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.

The outbreak of the COVID-19 pandemic and the lockdown measures imposed by PRC government in the PRC to contain the spreading of COVID-19 pandemic had negatively impacted the results of the Group during the reporting period and the liquidity position. For the year ended 31 December 2020, the Group has incurred a loss of approximately RMB194,461,000 and at the end of the reporting period, its current liabilities exceeded its current assets by approximately RMB71,707,000. These conditions may cast significant doubt about the Group's ability to continue as a going concern. The management of the Group has prepared a cash flow projection covering a period of 12 months from 31 December 2020. The Directors, after making due enquires and considering the management's projection and taking account of the followings, believe that there will be sufficient financial resources to continue its operations and to meet its financial obligation as and when they fall due within the next 12 months from 31 December 2020:

(a) Up to the date of this announcement, the unutilised bank facility available for drawdown amounted to approximately RMB82,487,000; and

(b) the management of the Group has been endeavouring to improve the Group's operating results and cash flows through various means, such as, transforming the business model by shifting the focus on sales of goods from traditional supermarkets to sub-leasing business.

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 AMENDED HKFRS

Adoption of new/amended HKFRS – effective 1 January 2020

The Hong Kong Institute of Certified Public Accountants has issued a number of new or amended HKFRS that are first effective for the current accounting period of the Group:

Amendments to HKFRS 3	*Definition of a business*
Amendments to HKAS 1 and HKAS 8	*Definition of material*
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*

Other than the amendments to HKFRS 3 and amendments to HKFRS 16, none of these new or amended HKFRSs has a material impact on the Group's results and financial position for the current or prior period. The Group has not early applied any new or amended HKFRS that is not yet effective for the current accounting period except for the amendment to HKFRS 16, COVID-19-Related Rent Concessions. Impact on the applications of these amended HKFRS are summarised below.

Amendments to HKFRS 3, Definition of a Business

The amendments clarify the definition of a business and introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The election to apply the concentration test is made for each transaction. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. If the concentration test is met, the set of activities and assets is determined not to be a business. If the concentration test is failed, the acquired set of activities and assets is further assessed based on the elements of a business.

Amendment to HKFRS 16, COVID-19-Related Rent Concessions

HKFRS 16 was amended to provide a practical expedient to lessees in accounting for rent concessions arising as a result of the COVID-19 pandemic, by including an additional practical expedient in HKFRS 16 that permits entities to elect not to account for rent concessions as modifications. The practical expedient applies only to rent concessions occurring as a direct consequence of COVID-19 pandemic and only if all of the following criteria are satisfied:

(a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

(b) the reduction in lease payments affects only payments originally due on or before 30 June 2021; and

(c) there is no substantive change to other terms and conditions of the lease.

Rent concessions that satisfy these criteria may be accounted for in accordance with this practical expedient, which means the lessee does not need to assess whether the rent concession meets the definition of lease modification. Lessees shall apply other requirements of HKFRS 16 in accounting for the rent concession.

Accounting for rent concessions as lease modifications would have resulted in the Group remeasuring the lease liability to reflect the revised consideration using a revised discount rate, with the effect of the change in the lease liability recorded against the right-of-use asset. By applying the practical expedient, the Group is not required to determine a revised discount rate and the effect of the change in the lease liability is reflected in profit or loss in the period in which the event or condition that triggers the rent concession occurs.

The Group has elected to utilise the practical expedient for all rent concessions that meet the criteria. In accordance with the transitional provisions, the Group has applied the amendment retrospectively, and has not restated prior period figure. As the rent concessions have arisen during the current financial period, there is no retrospective adjustment to opening balance of retained earnings at 1 January 2020 on initial application of the amendment.

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.

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Revenue from Contracts with Customers within the scope of HKFRS 15:		
Sales of goods	**249,865**	432,804
Commissions from concessionaire sales	**32,705**	78,540
	282,570	511,344
Revenue from other sources:		
Rental income from investment properties	**7,545**	9,528
Rental income from sub-leasing of shop premises	**70,922**	64,629
Rental income from sub-leasing of shopping malls	**61,015**	52,940
Interest income from financing services	**6,005**	6,888
	145,487	133,985
	428,057	645,329

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 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.

	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 2020			
Revenue from external customers	**422,052**	**6,005**	**428,057**
Inter-segment revenue	**–**	**–**	**–**
Reportable segment revenue	**422,052**	**6,005**	**428,057**
Segment results	**(191,980)**	**3,073**	**(188,907)**
Other unallocated corporate income			**49**
Other unallocated corporate expenses			**(4,669)**
Loss before income tax			**(193,527)**

	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 2020			
Other segment information			
Interest income	**(1,171)**	**(66)**	**(1,237)**
Additions to non-current assets (other than financial instruments)	**120,860**	**–**	**120,860**
Amortisation of intangible assets	**553**	**98**	**651**
Depreciation of right-of-use assets	**89,348**	**–**	**89,348**
Depreciation of property, plant and equipment	**48,212**	**15**	**48,227**
Gain on disposal of property, plant and equipment	**(16)**	**–**	**(16)**
Written-off of property, plant and equipment	**36,225**	**–**	**36,225**
Obsolete inventories written-off	**143**	**–**	**143**
Inventories loss	**213**	**–**	**213**
Impairment loss on right-of-use assets	**47,278**	**–**	**47,278**
Impairment loss on property, plant and equipment	**42,587**	**–**	**42,587**
Impairment loss on loan receivables	**–**	**2,076**	**2,076**
Decrease in fair value of investment properties	**7,500**	**–**	**7,500**

	Operation and management of retail stores and other related businesses *RMB'000*	Provision of financing services *RMB'000*	Consolidated *RMB'000*
At 31 December 2020			
Reportable segment assets	**1,103,466**	**46,136**	**1,149,602**
Tax recoverable			**66**
Other unallocated corporate assets			**42,466**
Total assets			**1,192,134**
Reportable segment liabilities	**819,121**	**65**	**819,186**
Provision for taxation			**9,651**
Deferred tax liabilities			**21,701**
Other unallocated corporate liabilities			**2,176**
Total liabilities			**852,714**

	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)
Other unallocated corporate income			4
Other unallocated corporate expenses			(6,080)
Loss before income tax			(49,771)

	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			
Other segment information			
Interest income	(4,079)	(16)	(4,095)
Additions to non-current assets (other than financial instruments)	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 *RMB'000*	Provision of financing services *RMB'000*	Consolidated *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

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 2019 and 2020.

6. OTHER OPERATING INCOME

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Interest income	**1,237**	4,099
Net exchange gain	**–**	419
Government grants *(Note)*	**10,445**	2,608
Administration and management fee income	**36,492**	46,580
Gain on early termination of lease	**4,601**	–
COVID-19-related rent concessions	**7,199**	–
Gain on disposal of property, plant and equipment	**16**	–
Others	**13,177**	11,997
	73,167	65,703

Note: Various local government grants have been granted to subsidiaries of the Group during the years ended 31 December 2019 and 2020. The amounts mainly represented unconditional cash subsidies from government for subsidising enterprises as an encouragement for the contribution in specific industry in the region and remedy for COVID-19 pandemic. There were no unfulfilled conditions or contingencies attaching to these government grants.

7. FINANCE COSTS

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Interest on lease liabilities	**45,023**	51,750
Interest on borrowings	**882**	–
	45,905	51,750

8. LOSS BEFORE INCOME TAX

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

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Cost of inventories sold recognised as expense	**207,184**	354,233
Auditor's remuneration	**1,151**	1,235
Depreciation of property, plant and equipment	**48,227**	45,725
Depreciation of right-of-use assets:		
– Properties leased for own use	**89,087**	95,272
– Leasehold land for own use	**261**	261
Amortisation of intangible assets	**651**	506
(Gain)/loss on disposal of property, plant and equipment	**(16)**	35
Short term lease expense	**693**	3,806
Low value lease expense	**11**	37
COVID-19-related rent concessions	**(7,199)**	–
Obsolete inventories written-off	**143**	84
Inventories loss	**213**	–
Impairment loss on property, plant and equipment *(Note (i))*	**42,587**	–
Impairment loss on right-of-use assets *(Note (i))*	**47,278**	–
Written-off of property, plant and equipment *(Note (i))*	**36,225**	1,336
Staff costs, including directors' emoluments		
Salaries and other benefits	**73,468**	92,357
Contributions to retirement schemes	**6,889**	14,628
	80,357	106,985
Net exchange loss/(gain)	**162**	(419)
Rental income from investment properties	**(7,545)**	(9,528)
Income from subleasing of right-of-use assets		
– Base rents	**(129,844)**	(114,097)
– Contingent rents *(Note (ii))*	**(2,093)**	(3,472)
	(131,937)	(117,569)
Total gross rental income	**(139,482)**	(127,097)
Less: Direct operating expenses arising from investment properties that generated rental income during the year	**1,952**	2,058
Less: Outgoings of subleasing of right-of-use assets	**14,770**	16,261
Net rental income	**(122,760)**	(108,778)

Notes:

(i) Impairment loss on property, plant and equipment and right-of-use assets and written-off of property, plant and equipment had been included in other operating expenses.

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

9. INCOME TAX EXPENSE

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Current income tax		
– PRC enterprise income tax	**2,744**	2,371
Under-provision in respect of prior years	**620**	–
Deferred tax	**(2,430)**	200
	934	2,571

The Group is not subject to any taxation under the jurisdiction of the Cayman Islands and British Virgin Islands during the year (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 year (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 year pursuant to the privilege under the China's Western Development Program.

A subsidiary of the Group in Shenzhen, namely 深圳市百佳華網絡科技有限公司, is qualified as a High and New Technology Enterprise and enjoys a preferential income tax of 15% as approved by the PRC tax authority for the years ended 31 December 2020, 2021 and 2022. The High and New Technology Enterprise qualification is subjected to be renewed every three years.

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 year under the income tax rules and regulations of the PRC.

10. DIVIDENDS

No dividend has been paid or declared by the Company for the year ended 31 December 2020 (2019: Nil).

11. LOSS PER SHARE

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

	Year ended 31 December	
	2020	2019
Loss		
Loss for the purposes of basic and diluted loss per share *(RMB'000)*	**(194,461)**	(52,342)
Number of shares		
Weighted average number of ordinary shares	**1,037,500,002**	1,037,500,002
Basic and diluted loss per share *(RMB cents)*	**(18.74)**	(5.05)

Diluted loss per share equals to basic loss per share, as there were no potential dilutive ordinary shares issued during the years ended 31 December 2019 and 2020.

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 (2019: one to three months), while to customers from financing services are repayable on demand or one month (2019: repayable on demand or one to seven months).

As at 31 December 2020, included in trade receivables of approximately RMB17,969,000 (2019: RMB20,009,000) represented rental income receivables from tenants.

As at 31 December 2020, included in trade receivables of approximately RMB276,000 (2019: Nil) represented trade receivables due from related companies.

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% (2019: 12% to 15%) per annum. The loan receivables are secured and with recourse.

	2020	2019
	RMB'000	*RMB'000*
Trade receivables *(note (i))*	**19,504**	24,332
Loan receivables *(note (ii))*	**42,501**	46,477
Less: Loss allowance	**(2,076)**	–
	40,425	46,477
	59,929	70,809

Notes:

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

	2020	2019
	RMB'000	*RMB'000*
Within 30 days	**15,705**	22,320
31 – 60 days	**1,257**	973
61 – 180 days	**781**	726
181 – 365 days	**1,688**	313
Over 365 days	**73**	–
	19,504	24,332

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

	2020	2019
	RMB'000	*RMB'000*
Repayable on demand or within one year	**40,425**	46,477

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:

	2020	2019
	RMB'000	*RMB'000*
Within 30 days	**35,649**	63,905
31 – 60 days	**20,482**	19,589
61 – 180 days	**9,718**	9,352
181 – 365 days	**3,527**	2,118
Over 1 year	**5,678**	3,093
	75,054	98,057

14. SHARE CAPITAL

	2020		2019	
	Number of shares *('000)*	***RMB'000***	Number of shares *('000)*	*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

MANAGEMENT DISCUSSION AND ANALYSIS

(A) Industry Review

In 2020, the COVID-19 pandemic has hit the global economy. The blockade measures across countries caused large-scale economic shutdown and soared unemployment rate. Amid the balance between "life preservation" and "livelihood protection", the recovery momentum has obviously been slowed down. The International Monetary Fund (IMF) predicts that the global economy will shrink by 4.4% while the Organization for Economic Cooperation and Development (OECD) predicts that the global economy will shrink by 4.2% in 2020. The economy of United States of America (US) has been suffered, but the overall performance was still better than most developed countries.

The widespread pandemic outbreak caused the financial market plummeted successively. In order to stabilize the market, the US Federal Reserve cut interest rates twice and announced quantitative easing measures without caps. It successively launched monetary policy tools to inject liquidity into the market and provided credit support to entities. In order to stabilize the economy, the US government has introduced four batches of US dollar fiscal stimulus measures. With these unprecedented monetary policy and fiscal measures, the US stock market bounced back. The recovery of the US economy will largely depend on the progress of pandemic control. The number of confirmed cases of COVID-19 in the US and overseas has fluctuating, posing challenges to economic recovery.

The road to economic recovery in Europe is long and rugged. The outbreak in Europe predates the US, and the social distancing measures adopted by governments to prevent and control the pandemic are generally stricter than those in the US. Europe has also introduced loose monetary and fiscal stimulus policies that are larger than those during the financial crisis, but they are limited by the collective decision-making mechanism of the European Union (EU) and the Eurozone. The policy strength is not as strong as that of the US and the speed of action is also slower than that of the US. These caused the European economy to shrink more than the US in the pandemic. In the first half of 2020, the euro zone's Gross Domestic Product (GDP) fell by 11.8% YOY. Spain fell by 21.5% and was the worst. Germany, the best performer, also fell by 9.8%, which was higher than the 9% decline in the US over the same period. The decline in the United Kingdom (UK) was as deep as 19.8%, the worst recession in 300 years. Under the "second pandemic" and "second blockade", the recovery momentum of the European economy has slowed down significantly, and the economic outlook of the euro zone has deteriorated. The ASEAN economy has been hit hard by the pandemic, but better than that of Europe and the US. In 2020, the GDP of emerging ASEAN economies (Indonesia, Malaysia, the Philippines, Thailand, and Vietnam) is expected to decline by 4.3%, outperforming Europe and the US. The BRICS countries (excluding China) have regained their vitality. As large developing countries, the BRICS countries are located at different continents of the world, with different development conditions, different development pace, and different industrial structures, and their performance in this pandemic varies. In terms of pandemic prevention and control, the BRICS countries are lacking. The cumulative number of confirmed cases in India, Brazil, and Russia ranks second to fourth in the world. In terms of economic performance, the economies of the BRIC countries will shrink significantly during the year. Brazil has experienced the biggest economic recession in nearly 120 years, and the actual pandemic situation is serious. In Brazil's economic structure, the service industry accounts for approximately 63% of GDP, the highest among the BRIC countries (54% in Russia). The service industry is most affected by social distancing measures including large-scale closure of commercial activities and lockdown. The economy is expected to shrink by 5.1% throughout the year.

Within China, facing the attack by the pandemic, the prime tasks are the prevention and control of the pandemic, the coordination of economic and social development work, the recovery of economic operations, and the restoration of employment and people's livelihoods. On the demand side, total retail sales of consumer goods for the year were RMB39,198 billion, a decrease of 3.9% YOY. National investment in fixed assets increased by 2.9% YOY, and investment in high-tech industries and social horizon increased rapidly. The total volume of imports and exports of goods for the year increased by 1.9% YOY, and the trade structure continued to be improved. Consumer price index rose by 2.5% throughout the year, which was lower than the 2.9% increase in the previous year. The employment rate is generally stable, with 11.86 million new jobs in the city. The urban unemployment rate in 2020 is 5.6%, which is lower than the expected target of around 6%. The annual per capita disposable income of residents nationwide was RMB32,189, a real increase of 2.1% after deducting price factors, which was basically in line with economic growth. In 2020, China's domestic consumption recovered steadily. Consumption is still the "core stone" for the stable economic growth. The main characteristics of domestic consumption are the continuous recovery of commodity trading, the recovery of service spending, the rapid development of new consumption mode, the recovery of urban and rural markets, and the overall stable of prices. As China has become the world's second largest economy, the per capita income level has gradually increased, with the disposable portion has increased correspondingly. China's consumer market has entered a stage of rapid growth. Therefore, in addition to the expansion of the scale of China's consumer market, the standard of consumer market has also enhanced. Future consumption will move towards high-end, diversified and personalized characteristics.

In Guangdong, retail chains are facing the domestic trade circulation, the pandemic challenge, the small store economy, community team purchase, livestreaming, touchless delivery, and blind box economy etc. In 2020, the total retail sales of consumer goods in Guangdong Province exceed RMB4.0 trillion. Governments at all levels have formulated policies to promote consumption, focused on supplementing the consumption infrastructure, through distribution of subsidies, consumer vouchers, to promote the sale of automobiles and home appliances in rural area, to encourage information consumption, rural consumption, cultural and travel consumption, and develop online education and remote medical care services. There were some highlights. First, support Guangzhou and Shenzhen to build international consumption cities, establish city duty-free shops with local characteristics to redirect overseas spending. Secondly, implement the "same production line, same standard, same quality" product for domestic and export sales. The "Guangdong Trade" plan to explore the domestic market. Then, the construction of high-quality business circles and building of consumer festive brands. In addition, accelerate rural consumer demand and potential by promoting the replacement of old motor cars, home appliances and necessities. Besides, support the development of new types of consumption, expand consumption on information platforms, develop new business forms such as smart stores and restaurants etc to form new service consumption. Finally, increase public spending by enhancing public service efficiency including education, culture, medical care, aged services, childcare, and sports etc.

Resident consumers affected by the pandemic have shifted from "physical stores + platform-based e-commerce" shopping behavior to "integrated e-commerce, social networking websites, vertical platforms, brand name websites, livestreaming, private domain traffic" multi-purpose cloud living platform. In order to meet customer needs, retailers build the digital connection of people, goods and market place, making transaction through intelligent operation and automated transactions, and completely shift from seller-oriented information to customer-oriented digitization. Through digitization of customer, commodity, marketing and supply chain, the operator could meet customer needs by data combination, analysis and decision. This will enhance operational efficiency, sales technique optimization and core value reconstruction. To further promote the efficient integration and core value development of the entire supply chain such as commodity production, circulation and supporting services. In 2020, "digitalization" has not only surpassed "new retailing" and "smart retailing", it has even surpassed network technology in the business world. The pandemic has indirectly promoted the improvement of digital service standards and the urgency of enterprises to apply digital technology.

In 2020, the economy of Guangxi's region showed a good momentum of recovery and improvement. The region's GDP was RMB2,215.7 billion, an increase of 3.7% YOY. The condition of agricultural production is good. The annual value of agriculture, pasturage and fishery was increased by 5.0% YOY. The annual grain output was 13.7 million tons, an increase of 2.9% YOY. Industrial production has accelerated significantly, and the output of major products has increased rapidly. The annual incremental value of industrial enterprises over the threshold was increased by 1.2% YOY. From the perspective of major industries, six out of the total ten major industries have recorded growth. In terms of products, 18 products achieved positive output growth. Service industry is growing steadily, and the emerging service industry was gaining momentum. The value of the financial industry was increased by 6.8%, the wholesale and retail industry was increased by 3.1%, and the other service industry was increased by 7.6%. Consumer prices rose moderately, while industrial producer prices fell slightly. The consumer price of the whole year was increased by 2.8% YOY. Residents' income has grown steadily and the employment condition was stable. The annual average disposable income of residents in the district was RMB24,562 per person, or 2.4% after deducting price factors.

According to the National Bureau of Statistics, the annual GDP of China of 2020 reached approximately RMB102 trillion, an increase of 2.3% YOY.

In the whole year, the total retail sales of consumer goods were approximately RMB39.2 trillion, a YOY decrease of 3.9%. Among them, the retail sales of consumer goods by enterprises over the threshold size were approximately RMB14.3 trillion, a YOY decrease of 1.9%. According to the location of business units, retail sales of consumer goods in city were approximately RMB33.9 trillion, a YOY decrease of 4.0%; retail sales of consumer goods in rural areas were approximately RMB5.3 trillion, a YOY decrease of 3.2%. In terms of consumption patterns, catering revenue was approximately RMB4.0 trillion, a decrease of 16.6%; retail sales of goods were approximately RMB35.2 trillion, a decrease of 2.3%. The retail sales of communications equipment, cosmetics, and goldsmith and jewellery products of over the threshold units were increased by 26.0%, 21.2%, and 17.3% respectively YOY. During the year, online retail sales across the country reached RMB11.8 trillion, a YOY increase of 10.9%. Among them, the online retail sales of physical goods was RMB9.8 trillion, an increase of 14.8%, accounting for 24.9% of the total retail sales of consumer goods, an increase of 4.2% YOY. Among the online retail sales of physical goods, eat, wear and use consumer goods were increased by 30.6%, 5.8% and 16.2% respectively. By retail format, the retail sales of supermarkets in above the threshold units were increased by 3.1% YOY during the period, while department stores, specialty stores, and exclusive stores decreased by 9.8%, 5.4%, and 1.4%, respectively.

In general, China's export trade has been severely impacted by the sharp decline in international market demand in 2020. In order to help some export trader to tide over the crisis, all provinces have introduced targeted policies and measures on the inner circle economy where exports are transferred to domestic sales. The impact of the pandemic on foreign trade has shifted to the 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 establishment of a new development pattern with the internal circulation policy as the main body and the dual circulation policy mutually supplementing each other, policies to expand domestic demand and promote consumption will continue to exert force. The consumer market will recover steadily, and it is expected to rebound to a positive trend.

(B) Business Review

For the year ended 31 December 2020, the Group recorded revenue of approximately RMB428.1 million, representing a year-on-year (YOY) decrease of approximately 33.7%. Gross profit amounted to approximately RMB42.7 million, representing a YOY decrease of approximately 45.7%. Loss attributable to owners of the Company was approximately RMB194.5 million, representing an YOY increase of 271.5%. There were 9 stores and 2 shopping malls at the end of the year. During the year, there were closure of 3 stores, namely Shajing store, Sanlian store and Xixiang store. Net loss increased attributable to the outbreak of the Novel Coronavirus Pneumonia (COVID-19) pandemic in China since January 2020, the infant stage of operation and competitive business environment of shopping malls operation, the additional expenses on forfeiture of rental deposit and written off of leasehold improvements upon closure of three stores, and impairment loss on non-financial assets. The main task was reduction of expenditure to keep resources for future challenge during the year. Sales of goods decreased by approximately RMB182.9 million, commissions income from concessionaire decreased by approximately RMB45.8 million, rental income from sub-leasing of shop premises increased by RMB6.3 million, rental income from investment properties decreased by approximately RMB2.0 million, rental income from sub-leasing of shopping malls increased by approximately of RMB8.1 million, and interest income from financing services decreased by approximately RMB0.9 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 year of 2020, the Group has the following operation highlights.

(1) *Sales of supermarkets and concessionaire have fallen, gross profit from sales 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 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. By encouraging concessionaires/vendors promotional sales, we 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 developed online sales channel and external 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 tenants in stores

The shopping center strengthens decoration spirit to attract online community discussion, and incorporates amusement facilities to highlight the family experience and youthful vitality. Using vacant shops for temporary promotional activities and earning additional income. Adding fragrance dispenser and decorating green plants in toilets to enhance the style of the mall. Providing an "professional service room" amenity for shoppers free consultation service. During the year, the shopping malls have been undergoing four types of changes. Standardize operations for system construction, initiate system compilation and active team building to increase training and market research. Target management, rent collection is strictly controlled to strengthen cash flow. Enhance 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 products 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 increase 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 year. 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 enhance 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 lady products. In the fresh food section, key items are reviewed every weekend to ensure the best price offered to customers. 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 group, and promotes the sales of shopping cards by focusing on information and intelligence resources. Natural loss of employees, reducing personnel complexity, and reducing labor costs. Managing vacant shelves, idle 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. Strict control on the approval procedures of all expenses and expenditure. 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 help execution and sense of responsibility.

(5) *Active development in online sales channel to 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 refine system operations, and improve sales turnover and customer experience. For livestreaming, as there is no live broadcast team and customers have not developed their live shopping habits, large scale investment has not yet been made. Soon, we will try team purchase activities to increase customer adhesiveness and increase sales. The Group tries to make reference to other e-commerce provider to integrate 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 shopping experience. Activate the Mini Program shopping mall module and bring all merchants to the Mini Program, increase the overall sales atmosphere, and drive the sales of the Group and merchants.

(6) The impact of the COVID-19 pandemic and the Group's response

Due to the impact of the pandemic, people are confined at home to minimize unnecessary outings. Coupled with concerns about the risk of infection in closed spaces such as shopping arcades and shopping malls, the customer flow in retail industry has been mostly affected. The customer base of supermarkets mainly comes from the residents' demand for daily necessities, but the frequency of purchases of materials has been decreased. At the same time, the purchase demand is competed with online shopping and the customer flow of supermarket is greatly affected. The Group managed inventory level, ensured adequate supply, food safety and daily disinfection work in supermarkets to combat the pandemic. In addition, the group has developed online home delivery business, and worked with third-party platforms to build online ordering and distribution network to meet the needs of people to buy fresh daily necessities online. The impact to online shopping malls is minimal.

Revenue for the year of 2020 dropped by 33.7%. Among them, supermarket and concessionaire revenue fell by 42.3% and 58.4% respectively, and shopping mall revenue increased by 15.3%. For supermarkets, although the customer flow is affected, future revenue is expected to be flat or even grow. The main reason is that the demand for catering and daily necessities of the people is still strong. Although the frequency of personal purchases of materials has decreased, the number of single purchases has increased, and the online home delivery service has been launched. The impact on the income of supermarket stores is not very significant.

There are factors affecting the decline in corporate turnover. The main reasons for the impact on the sales are logistics, the restriction on staff crew to attend duty, the closure of business premises, and the decline in customer demand. Logistics have a major impact on supermarkets and department stores. Insufficient quantity of stocks, difficulties in delivery to customers, and insufficient manpower for order delivery are the main challenges. In the short term, industry inventory sharing, through cross-industry cooperation, can assist other industries to share their inventory and alleviate procurement problems. In the long run, the Group will plan the supply chain strategic network to improve the comprehensive capabilities of supply adequacy, logistics timeliness, and digital transformation.

The group has no funding risk in the coming 12 months. The financial pressure of the Group comes from labor cost, rental expenditures and payment to suppliers. Plan to improve cash flow, obtain provision of credit and preferential interest rate with existing banks. In order to protect the business environment of the retail industry, local governments have issued relevant financial policies or measures. The Group actively communicates with financial institutions, seeks the policy privilege offered by regulatory agencies, and obtains credit support. The Group took measures to reduce costs, such as reducing staff and salaries, to alleviate pressure, complying with relevant laws and regulations, and reduce risks. New financing, including short-term loans, can be obtained when funds are tight to solve short-term liquidity problems under the pandemic.

The Group has managed working capital, including formulating cash flow forecasts and monitoring mechanisms, and assessed the impact of potential cash shortages in advance. Working capital management will be made through early negotiation with upstream and downstream partners. On one hand, the Group strived to shorten the collection time of accounts receivable with downstream and minimize the scale of receivables, and on the other hand, strived for longer credit period with upstream suppliers. Actively manage inventory levels, digest inventory or minimize the inventory level to ease the liquidity risk and avoid the financial pressure caused by excessive inventory. Dispose of non-core assets to improve tight cash flow. Identify the under-performing businesses and/or non-core assets of the company. By improving these businesses or selling these assets, it can reduce potential losses during instable period. As such, the Group can keep funds and use resources to concentrate on maintaining major business operations.

The Group has closely contacted with the landlord as soon as possible, negotiated the closure, and actively obtained rent reduction or deferral during the closure period; The Group communicated with the supplier to solve the problems and difficulties, and strive to extend the payment cycle. The Group communicates with the financial institution to maintain good relationship and seek credit support. By lowering loan interest rates, increasing credit loans and term loans, the Group will strive for preferential financing conditions to reduce the pressure on cash flow related to principal and interest repayment. The Group attends closely to relevant policies issued by government, such as preferential policies such as tax reduction or extension, social security refund or deferred payment. For the Group employees, establish an employee protection mechanism to stabilize labour force. Under legal circumstances, advise the staff to take holidays or cut salaries, and work with employees to overcome difficulties.

(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 catering business. 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 2021 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 amounted to approximately RMB428.1 million for the year ended 31 December 2020, representing a decrease of 33.7% as compared to approximately RMB645.3 million in the corresponding period of 2019. The drop was principally attributable from the decrease in sales of goods of approximately RMB182.9 million, the decrease in commission from concessionaire sales of approximately RMB45.8 million, the decrease in rental income from investment properties of approximately RMB2.0 million, and decrease in interest income from financing services of approximately RMB0.9 million. However, there were increase in rental income from sub-leasing of shop premises of approximately RMB6.3 million and increase in rental income from subleasing of shopping malls of approximately RMB8.1 million, which altogether partly offset the overall decrease of income.

Sales of goods decreased by 42.3% to RMB249.9 million for the year ended 31 December 2020 from RMB432.8 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 58.4% for the year ended 31 December 2020 as compared to 67.0% in the corresponding period of 2019.

Commission from concessionaire sales dropped by 58.4% to RMB32.7 million for the year ended 31 December 2020 from RMB78.5 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 7.6% for the year ended 31 December 2020 as compared to 12.2% for the corresponding period of 2019.

Rental income from sub-leasing of shop premises up by 9.7% to RMB70.9 million for the year ended 31 December 2020 from RMB64.6 million for the corresponding period in 2019, mainly due to renewal of some existing tenancy agreements and expansion of sales floor area. Rental income as a percentage of the Group's total revenue was 16.6% for the year ended 31 December 2020 as compared to 10.0% for the corresponding period of 2019.

Rental income from sub-leasing of a shopping mall increased by 15.3% of RMB61.0 million for the year ended 31 December 2020 as compared with RMB52.9 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 into mature stage of operation 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 14.2% for the year ended 31 December 2020 as compared to 8.2% for the corresponding period of 2019.

Rental income from investment properties down by 20.8% to RMB7.5 million for the year ended 31 December 2020 from RMB9.5 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 1.8% for the year ended 31 December 2020 as compared to 1.5% for the corresponding period of 2019.

Interest income from financing services down by 12.8% to RMB6.0 million for the year ended 31 December 2020 from RMB6.9 million for the corresponding period in 2019, mainly due to the decrease in business of the major customer which has been affected by the pandemic. Interest income from financing services as a percentage of the Group's total revenue was 1.4% for the year ended 31 December 2020 as compared to 1.1% for the corresponding period of 2019.

Purchase of and changes in inventories

Purchase of and changes in inventories amounted to RMB207.2 million for the year ended 31 December 2020, representing a decrease of 41.5% as compared with RMB354.2 million in the corresponding period of 2019, mainly due to decrease in sales of goods. As a percentage of sales of goods, purchase of and changes in inventories was 82.9% for the year ended 31 December 2020 as compared with 81.8% in the same period of 2019.

Other operating income

Other operating income increased by 11.4% to RMB73.2 million for the year ended 31 December 2020 from RMB65.7 million in the corresponding period in 2019, mainly due to increase in government subsidies, net gain on disposal on termination of lease, and rent concession from some of the stores. Nevertheless, decrease in bank interest income and administration and management fee income of approximately RMB2.9 million and RMB10.1 million respectively have largely offset the overall increase.

Staff costs

Staff costs decreased by 24.9% to RMB80.4 million for the year ended 31 December 2020 from RMB107.0 million in the corresponding period of 2019, primarily due to the closure of three stores and streamline of manpower during the year.

Depreciation of right-of-use assets

Depreciation of right-of-use assets decreased by 6.5% to RMB89.3 million for the year ended 31 December 2020 from RMB95.5 million in the corresponding period of 2019, primarily due to the closure of three stores during the year.

Depreciation of property, plant and equipment

Depreciation of property, plant and equipment increased by 5.5% to RMB48.2 million for the year ended 31 December 2020 from RMB45.7 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.

Impairment loss on loan receivables

Impairment loss on loan receivables of approximately RMB2.1 million in the year ended 31 December 2020 represented expected credit loss on loan receivables from financing business during the period.

Other operating expenses

Other operating expenses increased by approximately RMB126.1 million, from RMB5.5 million for the year ended 31 December 2019 to RMB131.6 million in the corresponding period of 2020. This was primarily due to forfeiture of rental deposit and written off of leasehold improvements of approximately RMB0.6 million and approximately RMB36.2 million respectively upon closure of three stores, and impairment loss on non-financial assets of approximately RMB89.9 million during the year.

Finance costs

Finance costs, arising from the effect of adoption of HKFRS 16, decreased by approximately RMB5.9 million, from approximately RMB51.8 million for the year ended 31 December 2019 to approximately RMB45.9 million in the corresponding period of 2020, primarily due to the closure of three stores during the year.

Finance costs arising from borrowings during the year was approximately RMB0.9 million.

Income tax expense

Income tax expense amounted to approximately RMB0.9 million for the year ended 31 December 2020, representing a decrease of 63.7% from approximately RMB2.6 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 year ended 31 December 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 attributable to Shareholders of the Company

As a result of the aforementioned, loss attributable to Shareholders amounted to approximately RMB194.5 million for the year ended 31 December 2020 as compared with loss of approximately RMB52.3 million in the corresponding period of 2019.

FINAL DIVIDEND

The Board does not recommend the payment of final dividend for the year ended 31 December 2020.

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 revenue, expenses and cash flows are denominated in RMB. Assets and liabilities of the Group are mostly denominated in RMB or 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 concentration 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 financing business. In respect of loan receivables, the Group's policy is that all customers who wish to obtain loans from the Group are subject to management review. The Group holds collaterals directly or indirectly to cover its risks associated with loan receivables.

The credit and investment policies have been followed by the Group since prior years and are considered to have been effective in limiting the Group's exposure to credit risk to a desirable level.

(iii) Interest rate risk

The Group's exposure to interest rate risk mainly arises on cash and bank balances 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 2020.

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 2020, the Group had 721 full-time employees (year ended 31 December 2019: 1,011). 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 2020, 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 2019: 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 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 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.

Liquidity and Financial Resources

As at 31 December 2020, the Group had cash and cash equivalents of approximately RMB76.6 million (31 December 2019: approximately RMB117.7 million), while the restricted bank deposits amounted to approximately RMB2.0 million (31 December 2019: RMB Nil). Total borrowings of the Group included bank loans of approximately RMB66.9 million as at 31 December 2020 (31 December 2019: RMB Nil).

As at 31 December 2020, the Group had a net current liabilities of approximately RMB71.7 million, as compared to amount of approximately RMB72.9 million as at 31 December 2019. As at 31 December 2020, the gearing ratio of the Group was approximately 1.55 (31 December 2019: 1.06), which was calculated on the basis of the net debt divided by total equity. Net debt was calculated as total borrowings (including current and non-current bank loans and lease liabilities) less total cash (including cash and cash equivalents and restricted bank deposit).

Capital Expenditure

The total spending on the additions of property, plant and equipment amounted to approximately RMB80.1 million for the year (2019: approximately RMB130.3 million).

Charges of Assets

As at 31 December 2020, the carrying amount of investment properties amounted to approximately RMB266.8 million (2019: RMB Nil) was pledged as security for the Group's bank loans granted in relation to the Group's retail business.

Contingent Liabilities

As at 31 December 2020, 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 2020 as contained in Appendix 14 of the Listing Rules, except for the following deviations:

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 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 2020.

ANNUAL GENERAL MEETING

The 2021 Annual General Meeting of the Company will be held on 8 June 2021, Tuesday 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 8 June 2021, the register of members of the Company will be closed from 3 June 2021 to 8 June 2021, 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 2 June 2021, HK time.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the year ended 31 December 2020, 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 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.

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 2020 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 2020 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 2020 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 2020 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, 29 March 2021

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.