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佳華百貨控股有限公司

Jiahua Stores Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00602)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

FINANCIAL HIGHLIGHTS

Revenue increased by 1.4% to approximately RMB434.2 million.

Gross profit margin of sales of goods decreased by 66.7% to approximately RMB14.2 million.

Loss attributable to the owners of the Company for the year amounted to approximately RMB100.1 million.

Basic loss per share was approximately RMB9.65 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 2021 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

		Year ended 31 December	
		2021	2020
	Notes	***RMB'000***	*RMB'000*
Revenue	4	**434,237**	428,057
Cost of inventories sold		**(236,566)**	(207,184)
		197,671	220,873
Other operating income	6	**47,199**	73,167
Decrease in fair value of investment properties		**(10,400)**	(7,500)
Selling and distribution costs		**(240,267)**	(250,254)
Administrative expenses		**(45,621)**	(50,226)
Other operating expenses		**(8,855)**	(131,606)
Reversal of impairment/(impairment loss) on loan receivables		**2,076**	(2,076)
Finance costs	7	**(42,066)**	(45,905)
Loss before income tax	8	**(100,263)**	(193,527)
Income tax credit/(expense)	9	**149**	(934)
Loss and total comprehensive income for the year and attributable to owners of the Company		**(100,114)**	(194,461)
Loss per share for loss attributable to the owners of the Company during the year:			
Basic and diluted *(RMB cents)*	11	**(9.65)**	(18.74)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

		As at 31 December	
		2021	2020
	Notes	***RMB'000***	*RMB'000*
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**205,470**	217,157
Right-of-use assets		**366,418**	437,402
Investment properties		**274,200**	284,600
Intangible assets		**5,902**	5,452
Deposits paid, prepayments and other receivables		**16,525**	27,198
Interests in an associate		**–**	–
		868,515	971,809
Current assets			
Inventories and consumables		**24,431**	26,395
Trade and loan receivables	12	**52,631**	59,929
Deposits paid, prepayments and other receivables		**51,273**	55,311
Tax recoverable		**388**	66
Restricted bank deposit		**2,000**	2,000
Cash and cash equivalents		**26,113**	76,624
		156,836	220,325
Current liabilities			
Trade payables	13	**66,808**	75,054
Contract liabilities		**20,058**	20,859
Deposits received, other payables and accruals		**101,864**	119,606
Amount due to a director		**59**	59
Lease liabilities		**56,522**	64,523
Borrowings		**3,280**	2,280
Provision for taxation		**10,266**	9,651
		258,857	292,032
Net current liabilities		**(102,021)**	(71,707)
Total assets less current liabilities		**766,494**	900,102

	Notes	As at 31 December **2021** *RMB'000*	2020 *RMB'000*
Non-current liabilities			
Lease liabilities		**416,954**	474,318
Borrowings		**90,133**	64,663
Deferred tax liabilities		**20,101**	21,701
		527,188	560,682
Net assets		**239,306**	339,420
EQUITY			
Share capital	14	**10,125**	10,125
Reserves		**229,181**	329,295
Total equity		**239,306**	339,420

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 COVID-19 related social distancing measures imposed by the local government authorities during the year has a negative impact on the Group's financial performance and financial position for the year. For the year ended 31 December 2021, the Group has incurred a loss of approximately RMB100,114,000 and at the end of the reporting period, its current liabilities exceeded its current assets by approximately RMB102,021,000. 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 2021. 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 2021:

(a) Up to the date of this announcement, the unutilised bank facility available for drawdown amounted to approximately RMB72,487,000; 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.

Management also performed a sensitivity analysis on the revenue growth by considering any possible negative impact on the effectiveness of its measures to improve profitability.

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

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/REVISED HKFRSs

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

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021 (early adopted)

None of these new or amended HKFRS 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 beyond 30 June 2021. Impact on the applications of these amended HKFRS are summarised below.

Amendment to HKFRS 16, Covid-19-Related Rent Concessions beyond 30 June 2021

Effective 1 June 2020, HKFRS 16 was amended to provide a practical expedient for lessees accounting for rent concessions that arise as a direct consequence of the COVID-19 pandemic and satisfy the following criteria:

(i) 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;

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

(iii) 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.

In the annual financial statements for the year ended 31 December 2020, the Group had elected to utilise the practical expedient for all rent concessions that meet the criteria.

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.

On 9 April 2021, the HKICPA issued another amendment to HKFRS 16: Covid-19-Related Rent Concessions beyond 30 June 2021, which extended the above practical expedient to reductions in lease payments that were originally due on or before 30 June 2022. This amendment is effective for annual periods beginning on or after 1 April 2021 with earlier application permitted including the financial statements not authorised for issue at 9 April 2021. The amendment is to be applied mandatorily by those entities that have elected to apply the previous amendment Covid-19-Related Rent Concessions. The Group has early adopted the amendment Covid-19-Related Rent Concessions beyond 30 June 2021 in the current annual financial statements.

The transition provisions of the extension to the practical expedient require retrospective application, with the cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of the annual reporting period in which the lessee first applies the amendment.

The Group had negotiated several rent concessions with lessors during the year ended 31 December 2020 and none of these rent concessions affect payments originally due after 30 June 2021 but before 30 June 2022. Accordingly, there is no impact on the opening balance of equity at 1 January 2021. During the year ended 31 December 2021, the Group has entered into additional rent concessions that satisfy the criteria for the application of the extended practical expedient and the Group has applied the practical expedient to these rent concessions.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, Interest Rate Benchmark Reform – Phase 2

The amendments relate to changes in the basis for determining the contractual cash flows of financial assets, financial liabilities and lease liabilities as a result of interest rate benchmark reform, specific hedge accounting requirements and the related disclosure requirements applying HKFRS 7 Financial Instruments: Disclosures.

The application of the amendments had no impact on the Group's consolidated financial statements as none of the relevant contracts has been transferred to the relevant replacement rates during the year ended 31 December 2021. The Group expects no impact on the Group's designated hedged items/assessment of hedge effectiveness resulting from the reform on application of the amendments.

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	
	2021	2020
	RMB'000	*RMB'000*
Revenue from Contracts with Customers within the scope of HKFRS 15:		
Sales of goods	**250,765**	249,865
Commissions from concessionaire sales	**26,972**	32,705
	277,737	282,570
Revenue from other sources:		
Rental income from investment properties	**9,095**	7,545
Rental income from sub-leasing of shop premises	**60,896**	70,922
Rental income from sub-leasing of shopping malls	**80,672**	61,015
Interest income from financing services	**5,837**	6,005
	156,500	145,487
	434,237	428,057

5. SEGMENT INFORMATION

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 2021			
Revenue from external customers	**428,400**	**5,837**	**434,237**
Inter-segment revenue	**–**	**–**	**–**
Reportable segment revenue	**428,400**	**5,837**	**434,237**
Segment results	**(102,596)**	**7,037**	**(95,559)**
Other unallocated corporate income			**–***
Other unallocated corporate expenses			**(4,704)**
Loss before income tax			**(100,263)**

* The balance represents amount less than RMB1,000.

	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 2021			
Other segment information			
Interest income	**(600)**	**(24)**	**(624)**
Additions to non-current assets (other than financial instruments)	**74,647**	**–**	**74,647**
Amortisation of intangible assets	**835**	**97**	**932**
Depreciation of right-of-use assets	**69,601**	**–**	**69,601**
Depreciation of property, plant and equipment	**56,985**	**2,309**	**59,294**
Loss on disposal of property, plant and equipment	**578**	**–**	**578**
Written-off of an property, plant and equipment	**690**	**–**	**690**
Obsolete inventories written off	**173**	**–**	**173**
Inventories gain	**(187)**	**–**	**(187)**
Reversal of impairment loss on loan receivables	**–**	**(2,076)**	**(2,076)**
Written off of other receivable	**3,800**	**–**	**3,800**
Decrease in fair value of investment properties	**10,400**	**–**	**10,400**

	Operation and management of retail stores and other related businesses *RMB'000*	**Provision of financing services** *RMB'000*	**Consolidated** *RMB'000*
At 31 December 2021			
Reportable segment assets	**945,089**	**40,643**	**985,732**
Tax recoverable			**388**
Other unallocated corporate assets			**39,231**
Total assets			**1,025,351**
Reportable segment liabilities	**753,505**	**70**	**753,575**
Provision for taxation			**10,266**
Deferred tax liabilities			**20,101**
Other unallocated corporate liabilities			**2,103**
Total liabilities			**786,045**

	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

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 2020 and 2021.

6. OTHER OPERATING INCOME

	Year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Interest income	**624**	1,237
Government grants *(Note)*	**3,222**	10,445
Administration and management fee income	**30,250**	36,492
Gain on early termination of lease	**275**	4,601
COVID-19-related rent concessions	**837**	7,199
Gain on disposal of property, plant and equipment	**–**	16
Others	**11,991**	13,177
	47,199	73,167

Note: Various local government grants have been granted to subsidiaries of the Group during the years ended 31 December 2020 and 2021. 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	
	2021	2020
	RMB'000	*RMB'000*
Interest on lease liabilities	**37,356**	45,023
Interest on borrowings	**4,710**	882
	42,066	45,905

8. LOSS BEFORE INCOME TAX

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

	Year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Cost of inventories sold recognised as expense	**236,566**	207,184
Auditor's remuneration	**1,106**	1,151
Depreciation of property, plant and equipment	**59,294**	48,227
Depreciation of right-of-use assets:		
– Properties leased for own use	**69,340**	89,087
– Leasehold land for own use	**261**	261
Amortisation of intangible assets	**932**	651
Written off of other receivable	**3,800**	–
Loss/(gain) on disposal of property, plant and equipment	**578**	(16)
Short term lease expense	**671**	693
Low value lease expense	**–**	11
COVID-19-related rent concessions	**(837)**	(7,199)
Obsolete inventories written-off	**173**	143
Inventories (gain)/loss	**(187)**	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))*	**690**	36,225
Net exchange loss	**69**	162
Staff costs, including directors' emoluments		
Salaries and other benefits	**65,315**	73,468
Contributions to retirement schemes	**10,591**	6,889
	75,906	80,357
Rental income from investment properties	**(9,095)**	(7,545)
Income from subleasing of right-of-use assets		
– Base rents	**(139,525)**	(129,844)
– Contingent rents *(Note (ii))*	**(2,043)**	(2,093)
	(141,568)	(131,937)
Total gross rental income	**(150,663)**	(139,482)
Less: Direct operating expenses arising from investment properties that generated rental income during the year	**1,387**	1,952
Less: Outgoings of subleasing of right-of-use assets	**17,995**	14,770
Net rental income	**(131,281)**	(122,760)

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	
	2021	2020
	RMB'000	*RMB'000*
Current income tax		
– PRC enterprise income tax	**1,451**	2,744
Under-provision in respect of prior years	**–**	620
Deferred tax	**(1,600)**	(2,430)
	(149)	934

The Group is not subject to any taxation under the jurisdiction of the Cayman Islands and British Virgin Islands during the year (2020: 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 (2020: Nil).

For a subsidiary of the Company in Guangxi, its PRC Enterprise Income Tax has been provided at the preferential enterprise income tax rate of 15% (2020: 15%) for the year pursuant to the privilege under the China's Western Development Program.

A subsidiary of the Company 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 Company established in the PRC were mainly subject to PRC Enterprise Income Tax at the rate of 25% (2020: 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 2021 (2020: 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	
	2021	2020
Loss		
Loss for the purposes of basic and diluted loss per share *(RMB'000)*	**(100,114)**	(194,461)
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)*	**(9.65)**	(18.74)

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 2020 and 2021.

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 (2020: one to three months), while to customers from financing services are repayable on demand or one month (2020: repayable on demand or one month).

As at 31 December 2021, included in trade receivables of approximately RMB12,050,000 (2020: RMB17,969,000) represented rental income receivables from tenants.

As at 31 December 2021, included in trade receivables of approximately RMB115,000 (2020: RMB276,000) 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% (2020: 12% to 15%) per annum. The loan receivables are secured by the borrower's the trade receivables and with recourse.

	2021	2020
	RMB'000	*RMB'000*
Trade receivables *(note (i))*	**13,401**	19,504
Loan receivables *(note (ii))*	**39,230**	42,501
Less: Loss allowance	**–**	(2,076)
	39,230	40,425
	52,631	59,929

Notes:

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

	2021	2020
	RMB'000	*RMB'000*
Within 30 days	**12,495**	15,705
31 – 60 days	**123**	1,257
61 – 180 days	**269**	781
181 – 365 days	**381**	1,688
Over 365 days	**133**	73
	13,401	19,504

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

	2021	2020
	RMB'000	*RMB'000*
Repayable on demand or within one year	**39,230**	40,425

13. TRADE PAYABLES

The credit terms granted by suppliers are generally for a period of 30 to 60 days (2020: 30 to 60 days). The aging analysis of the trade payables, based on invoice dates, is as follows:

	2021	2020
	RMB'000	*RMB'000*
Within 30 days	**39,793**	35,649
31 – 60 days	**12,913**	20,482
61 – 180 days	**4,692**	9,718
181 – 365 days	**3,506**	3,527
Over 1 year	**5,904**	5,678
	66,808	75,054

14. SHARE CAPITAL

	2021		2020	
	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 2021, the COVID-19 (the "pandemic") has been volatile, the domestic double-loop pattern with a big circulation as the mainstream will accelerate its economic development. Consumption behavior and consumer market undergo significant changes. The retail industry has experienced both challenges and opportunities.

The concern and expectation on the development of "smart retail/business" have increased significantly compared with last year. The development of smart retail has been faster than last year. With the rapid development of new technologies and new marketing methods, and further development of consumers' online shopping habits, it has developed a more efficient and accurate matching of supply and demand through supply-side reform and upgrading; Retail companies realized that this industry changes will be driven by the innovative application of new technologies such as 5G retail, artificial intelligence, Internet of Things, augmented reality/virtual reality technology, etc. Through the usage of Intellectual Property, the construction of a full-channel marketing network, and the construction of large-scale consumption ecological resources, the industry's subversive upgrade and the breakthrough growth of enterprises are finally realized.

The development of brand chains has received the most attention, and traditional retail stores are rushing for transformation and upgrading. The development of retail formats has optimized about brand chains, followed by shopping malls, and then community commerce and e-commerce. Retail companies are placing importance to the development of brand name, shopping experience, online platform, and private domain traffic etc. Recently, brands have an increasing impact on business, and marketing costs are the biggest trouble for companies. The role of the brand in the business is increasing. In recent years, new consumer brands have continued to emerge, and emerging brands have developed rapidly in the past year; a number of domestic brands and traditional enterprises have actively reshaped their brand positions through various new models such as cross-industry, intellectual property creation, and blind boxes etc. With the continuous development and improvement of China's economy and international status, it has become a clear that domestic products and national trends will affect the world. In this process, the shaping of brand culture, image and value will play a decisive role.

The development of e-commerce has become more mature and the trend of online consumers catalyzed by the pandemic intensifies, the importance of online channels is prominent. Regarding the development trend of online sales of branded products, the proportion of online channel sales will continue to rise; From the perspective of the brand's e-commerce development process, the emergence of brand in the early age of e-commerce platform development was very popular, but then declined rapidly. The succeeding brands, with e-commerce and data-based combination, have taken the lead in various sub-categories on the e-commerce platform in recent years, and have entered the development of online and offline integration. Brand attractiveness is the key to gain recognition of consumers. High cost of marketing and promotion is the most important factor among the various factors that affect the development of brand chains. And the other factors are the difficulty of online and offline integration, high operating costs and insufficient brand attractive.

As a one-stop business format integrating shopping, experience and leisure, shopping malls have brands and operation mode as their core subjects. Brand companies and shopping mall operators have different views on the development trend of shopping malls. First, there is a consensus on the development trend of shopping malls, with the obvious view on homogeneous competition. Both brand enterprises and shopping center operators believe that "intensive competition and homogeneity" is the most obvious characteristic of current shopping mall development. Moreover, there is still room for development in first-tier cities, and more differentiated positioning and experience-based shopping malls will appear. However, there is less agreement with tapping into the second- and third-tier cities. Overall, this shows a consistent development consensus. Second, there are differences between judgments and expectations of the two parties, and specialized development is more suitable for brand needs. On one hand, shopping mall companies believe that "the competition is fierce and the homogeneity is important". This reflects the differences in perceptions of the level of market competition from different perspectives. On the other hand, brand enterprises believe that more differentiated and unique themed shopping mall formats will emerge and more interactive experience-oriented formats such as art, culture, and lifestyle will emerge. There is also a certain difference in development expectations. Brand enterprises prefer to enter into a business environment with differentiation, characteristics and experience. Online companies may need to increase their public attention or future development in this regard.

Department stores and supermarkets need transformation and development, and elite and online mode are the main direction. Online and offline full-channel sales and services are the development trend of supermarket formats, supermarkets will continue to grow slower. It will be more affected by e-commerce and community group purchases and the shrinking of supermarket stores will become the norm. Regarding the development of department store formats, high-end and elite shopping malls are better than low-end stores. There are still room for development in first-tier cities such as Shenzhen. The development trend of traditional supermarkets and department stores will be hindered. But with the richer and diversified consumer ecology, real retail stores have irreplaceable value and positioning. On one hand, elite supermarkets, high-end department stores, and club warehouse stores are popular. This is an important direction for the transformation and upgrading of traditional business formats. On the other hand, traditional entities have rich offline resources and experience, increased community layout, and combined online services and new technologies. This model will become a breakthrough point for traditional pipeline companies.

Community business development is widely optimistic, and online and offline integrated marketing has more potential. Chain community stores have more development potential through online and offline marketing, online community group buying will continue to develop rapidly, large platforms will accelerate the layout and penetrate community commerce. The development of community commerce is a new growth area that the whole industry should focus. In the future, the traditional supermarkets, department stores, convenience stores etc will sharpen the community layout, and the e-commerce platform will also accelerate the penetration of online and offline communities. The competition will become more intense, the online and offline integrated development of community commerce will also be accelerated.

In 2021, 545 shopping malls has been opened nationwide, with a volume of over 47 million square meters. The newly opening projects in 2021 have innovations in operation, focusing on themes such as trendy experience, greenery, roof space, culture and art, Intellectual Property, theme topics, and architectural features. Shopping malls combined outlook appealing and spiritual shopping space and experiences. The distribution of brand formats at the entrance of Shenzhen shopping mall is relatively rich, involving clothing, drinks, new energy vehicles, gold jewelry, beauty and other categories. Among them, clothing is the most popular format, and the proportion of new tea drinks should not be underestimated. Next are automobiles, beauty products and gold jewelry, which together become the entrance format. Clothing and tea drinking are necessities of life, and have extensive coverage. It gathers popularity for the shopping mall and achieves a win-win situation between the brand and the shopping mall. The beauty economy is still in vogue, beauty products are attractive to Generation Z, the main consumer group in shopping malls. Gold jewelry is different from other formats. Although the rise of e-commerce has affected many real retailers in recent years, offline sales is still dominant. It has a high leasing capability and convenient to target consumer groups to achieve sales performance. The parent-child business has also become a highlight of the brand at the entrance of the mall.

According to the National Bureau of Statistics, the annual GDP of China of 2021 reached approximately RMB114 trillion, an increase of 8.1% YOY.

In the whole year, the total retail sales of consumer goods were approximately RMB44.1 trillion, a YOY increase of 12.5%. Among them, the retail sales of consumer goods by enterprises over the threshold size were approximately RMB16.4 trillion, a YOY increase of 13.4%. Based on the location of business units, retail sales of consumer goods in city were approximately RMB38.2 trillion, a YOY increase of 12.5%; while retail sales of consumer goods in rural areas were approximately RMB5.9 trillion, a YOY increase of 12.1%. In terms of consumption patterns, catering revenue was approximately RMB4.7 trillion, an increase of 18.6%; retail sales of goods were approximately RMB39.4 trillion, an increase of 11.8%. The retail sales of communications equipment, cosmetics, and goldsmith and jewellery products of over the threshold units were increased by 14.6%, 14.0%, and 29.8% respectively YOY. During the year, online retail sales across the country reached RMB13.1 trillion, a YOY increase of 14.1%. Among them, the online retail sales of physical goods was RMB10.8 trillion, an increase of 12.0%, accounting for 24.5% of the total retail sales of consumer goods. Among the online retail sales of physical goods by categories, eat, wear and use consumer goods were increased by 17.8%, 8.3% and 12.5% respectively. By retail format, the retail sales above the threshold units of supermarket, convenience stores, department stores, specialty stores, and exclusive stores increased by 6.0%, 16.9%, 11.7% 12.8% and 12.0%, respectively.

In general, the main measures of the Chinese government are the continuous growth of the middle class, the concept of green development, and the development goal of "common prosperity". The main consumer force in China, led by the younger generation, has begun to pursue higher-quality and more innovative products and services, and has a soft spot for local national trendy brands. The commercial sector has undergone green transformation, many commercial enterprises embrace the concept of green development, and consumers are keen to buy environmentally friendly products. In addition, the government is also committed to expanding rural consumption and rural e-commerce development. These changes will bring new opportunities for domestic and foreign companies. According to the "double circulation" development strategy, building a modern, efficient and competitive circulation industry is an important strategic task during the "14th Five-Year Plan" period. China will make use of its resource advantages, cultivate a strong domestic market, expand domestic demand and promote consumption. In addition, the government will also focus on improving the logistics, wholesale and retail systems, and further integrate the urban and rural markets. Consumption upgrade is still the main theme of China's consumer market in 2021. Consumer demand for high-quality, high-end products and services continues to increase. Physical stores are actively implementing O2O strategies and are committed to providing customers with a seamless omni-channel shopping experience. At the same time, new business models such as social e-commerce and live-streaming e-commerce are booming, and these trends are expected to continue to develop further in 2022.

(B) Business Review

For the year ended 31 December 2021, the Group recorded revenue of approximately RMB434.2 million, representing a year-on-year (YOY) increase of approximately 1.4%. Gross profit amounted to approximately RMB14.2 million, representing a YOY decrease of approximately 66.7%. Loss attributable to owners of the Company was approximately RMB100.1 million, representing a YOY decrease of 48.5%. There were 8 stores and 2 shopping malls at the end of the year. During the year, there were closure of 2 stores, namely Foshan Yanbu store and Guangxi Taoyuan store. Net loss increased attributable to the persistent of the Novel Coronavirus Pneumonia (COVID-19) pandemic in China since January 2020, the competitive business environment of shopping malls operation, the declining market value of commercial properties in the PRC, and the additional expenses on closure of two stores. The main task was reduction of expenditure to keep resources for future challenge during the year. Sales of goods increased by approximately RMB0.9 million, commissions income from concessionaire decreased by approximately RMB5.7 million, rental income from sub-leasing of shop premises decreased by RMB10 million, rental income from investment properties increased by approximately RMB1.5 million, rental income from sub-leasing of shopping malls increased by approximately of RMB19.6 million, and interest income from financing services decreased by approximately RMB0.2 million. The Group has adopted positive operating strategy with refreshment of outlook and 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 2021, the Group has the following operation highlights.

(1) Implement a series of business enhancement measures in response to the economic environment and pandemic situation

During the year, the marketing department put forward a series of measures on the operating conditions. First, we strengthen research on consumer needs and preferences, and formulating product needs especially for young customers. Besides, we delivered actively promotional information to neighboring communities to catch customer attention. In term of product structure, we optimized the category structure and brand mix to increase attractiveness of sales floor, and engaged professional data researchers to analyze customer needs. Longhua store, our flagship store, has been undergoing operating floor enhancement to create a lifestyle, fashionable and quality living sales floor. In Supermarket portion, we offered diversified formats and full scale way of life spirit to meet consumer needs, and created a fourth generation Baijiahua supermarket, with improved customer shopping experience by adding a gourmet area to taste various local cuisine. Consumers can feel a elite supermarket as well as the high-end fashion lifestyle. In addition, we expanded online promotion channels through media, and cooperated with video taking companies to launch Tiktok and visual video announcements. Our Mini program is used to expand the sales scope through accurate promotion to the community, and timely promote marketing activities. During the year, the Group increased group purchases, conducted visits to the surrounding communities, and regularly entered the communities to provide convenience and value-added services. We increased sales and business income, by increasing group purchase market share, and fully utilize the floor space. We also relocated product display and increased shopping signs for the slow-moving items to stimulate sales. For joint sales and concessionaire cooperators, we aligned shop floor proportion, launched special promotional activities to enhance buying spirit and attract customer flow into the store. Finally, we target to build a talent succession program and young sales team to add sales force vigor.

(2) Strengthen the store safety management to reduce potential safety hazards

During the year, the group conducted a thorough store inspection and maintenance of fire prevention system, electrical and supporting facilities, and operating equipment (including elevators, air-conditioning systems, smoke exhaust pipes, etc.), and provided safety knowledge training and drills to all employees to enhance disaster prevention awareness. In addition, regular monthly safety meetings were held to solve hidden safety hazards in stores, and comprehensive inspections of facilities were carried out to ensure normal daily operation. Replacement of parts of cooling tower and ventilation cabinet to ensure normal operation and save costs. Irregular inspection of store decoration site was taken to prevent improper operations by workers during the process. The Company strengthened internal control by carrying out regular fixed assets count in stores, procurement center, shopping malls and head office, to ensure matching balance and reasonable retirement. This was used to update system data and keep accurate records. In addition, the job assignment mechanism was established to reduce operation and man-made losses and protect the group's property. Periodic adjustments and rotation to staff positions, detailed allocation plans were used to support comprehensive performance appraisal, and improve incentive plans. In addition, safety management was introduced to old store adjustment and upgrade plan, and new store preparation works, so as to make full use of resources and reduce construction costs. Strengthening the maintenance work and mechanisms by introducing effective alert system. The Company will conduct anti-terrorism and flood prevention drills and trainings to ensure the safety of employees, customers and group property.

(3) Enhance supermarket operation management and coordinate with online shopping development

During the year, the Group actively carried out the renovation of supermarket stores to increase the on-site shopping experience and online shopping. We have refreshed the image and shopping experience of the supermarket store of Longhua store. The area has tripled in size, touting in-house merchandise and enhancing interactivity with the department store. The overall image of the Songgang supermarket has been improved, regardless of the entrance door, the in-house appearance, and the hardware equipment. The store was fashionable and youthful, and displayed with mid-to-high-end products and prominent brand name. The Bantian store has been upgraded to meet the high-end living standard of surrounding residents. During the year, in terms of business model, we have turned all the fresh stalls to self-operated operation. In this regard, the Group has, through review of self-purchasing process, training of personnel, formulating inventory keeping procedure and pricing standards, improved the diversity and integration of fresh commodity operations, and achieved food safety standards and loss management. In addition, we optimized the online to offline shopping mode, by using online short video to promote trendy products, entering the life circle of young people, and attracting young customers to shop in the store. Moreover, we used live broadcasts to sell products and make use the influence of internet celebrities to increase shopping interactivity and motivation. In the offline aspect, the latest promotion techniques were used to increase the attractiveness of the products sold and better use of resources, reduce wastage and save costs. All these linked with increased promotional activities to stimulate sales.

(4) Implement measures to enhance shopping mall income source and reduce expenditure to cope with fierce competition in the industry

The group currently operates two large shopping malls to adapt to the new retail era. Operating performance continues to improve, and the business model has also been modified. Shenzhen Bantian Ling Hui shopping mall was awarded the "China Shopping Mall Industry Star Award 2020" during the year by continuously optimizing the brand name and upgrading services. In order to give customers a fresh outlook for a one-stop shopping environment, we have reassessed the market and customer flow of the mall, completed a large-scale brand upgrade, accurately positioned the customer group, and enriched the offering category. The enhancement is basically focused on theme, differentiation, and refined operations, and will bring up new and exciting shopping environments to become the Key Opinion Leader in Bantian area. Newly added brands included Green Tea, Hanyang Ting, Yue Dexian Tea House, Pang Gelia, Walaida, Xiabu Xiabu, Luckin Coffee etc. On the other hand, Shenzhen Guanlan Ling Yu shopping mall successfully introduced a variety of shopping mode such as supermarket, cinema, catering, retail, entertainment, and kid's accessories. The shopping mall has introduced various popular food and beverage brands, including global brands – Starbucks, pioneers in the grilled fish industry – Tan Yu, Hunan traditional food – Da Fulan, as well as snack food Fook, Mei Yi Mei and A Gan Guo Kui etc. In addition, various kid's brands, including Nike kid's clothing, Balabala, Annil, Xiaotiancai and Bobogao. The offering of various kid's accessories provides more choices for children's childhood life! In response to the needs of families and young consumers, Ling Yu shopping mall has provided a combination of retail brands. Fashion brands such as Hot Wind and The Green Party can satisfy young people's personalities, Huaqiwu-china can also provide fruitful life. In times which outlook and enjoyment are important, we have inroduced well-known brand name to our malls. Among them, Zhongying Dejin Cinema, Sishi Beauty Salon, MINISO, and Taimokaka are in our malls.

(5) Develop online sales and expand member customer base

Currently, Baijiahua's O2O business is divided into two aspects: private domain and public domain. Private domain traffic is the mall of Baijiahua's Mini program ("Mini program"). Public domain is linked to Meituan Supermarket, Ele.me, JD Daojia and Seafood Da platforms. During the year, the registration rate of the Mini program continued to increase. Through Jiahua Farm, daily check-in, new interactive strategies and increasing the number of products, we hope to cultivate users' repeated shopping habits. Besides, we start to offer movie tickets, catering, entertainment, and education to bring up traffic flow, increase diversity and attractiveness. The Group has optimized promotional activities by peer group and public account notifications, and improved Mini program and customer account management system. Live events and pages for customers are used to stimulate sales. The cooperation with three major O2O platforms, namely Meituan Supermarket, JD Daojia, and Ele.me, has been refined and systematic, and has been matured to enhance sales and customer experience. Among them, the sales platform of Ele.me's is relatively good, due to combination of supplier subsidy promotion and in-store marketing activities. We will probably engage Tmall supermarkets, banks, telecommunications providers and brand alliances to increase customer contact and increase sales.

(6) Closing stores to reduce operational risks and increase the market share of department stores and shopping malls

During the year, due to the expiration of the lease agreement for Guangxi Taoyuan store and the rapid deterioration of the surrounding operating environment, the Group decided not to renew the contract to reduce the operating burden. In addition, the Group has decided to early terminate the lease agreement Foshan Yanbu store after discussing with the owner and obtaining an exemption from termination compensation due to the surrounding environmental factors. The pandemic has changed consumption patterns, and the Group continues to upgrade and adjust its stores to meet new retail trends. We introduced online celebrity brands, attracted new members to shopping malls and online shopping malls, organized festivals and themed events, developed online promotions, and connected cross-industry cooperation. In terms of online promotion, it mainly operates through public corporate accounts, mini program live broadcasts, and short video operations. The Group posts event tweets, new shops opening announcements, and merchant promotion on its public corporate account. In the aspect of mini program live broadcast, it mainly conducts live sales of goods, store visits and live events. In terms of short videos, the main content of the group is the promotion and distribution of online and offline event videos, as well as store check in and touring. In this way, the flow of following and readings increased, which led to an increase in sales.

(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 2022 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 macroeconomic 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 RMB434.2 million for the year ended 31 December 2021, representing an increase of 1.4% as compared to approximately RMB428.1 million in the corresponding period of 2020. The increase was principally attributable from the increase in sales of goods of approximately RMB0.9 million, the increase in rental income from subleasing of shopping malls of approximately RMB19.7 million, and the increase in rental income from investment properties of approximately RMB1.6 million. However, there were decrease in commission from concessionaire sales of approximately RMB5.7 million, the decrease in rental income from sub-leasing of shop premises of approximately RMB10.0 million and the decrease in interest income from financing services of approximately RMB0.2 million, which altogether partly offset the overall increase of income.

Sales of goods increased by 0.4% to RMB250.8 million for the year ended 31 December 2021 from RMB249.9 million in the corresponding period of 2020, principally due to adjustment in the sales floor area of direct sales to introduce more leisure experiencing shopping mode. The persistence of 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 two stores in response to the pandemic during the year. Sales of goods as a percentage of the Group's total revenue was 57.7% for the year ended 31 December 2021 as compared to 58.4% in the corresponding period of 2020.

Commission from concessionaire sales dropped by 17.4% to RMB27.0 million for the year ended 31 December 2021 from RMB32.7 million in the corresponding period of 2020, mainly due to reduction of sales floor area of concessionaire, the persistence of pandemic and closure of two stores. Commission from concessionaire sales as a percentage of the Group's total revenue was 6.2% for the year ended 31 December 2021 as compared to 7.6% for the corresponding period of 2020.

Rental income from sub-leasing of shop premises down by 14.1% to RMB60.9 million for the year ended 31 December 2021 from RMB70.9 million for the corresponding period in 2020, mainly due to the persistence of pandemic and closure of two stores. Rental income from sub-leasing of shop premises as a percentage of the Group's total revenue was 14.0% for the year ended 31 December 2021 as compared to 16.6% for the corresponding period of 2020.

Rental income from sub-leasing of a shopping mall increased by 32.3% to RMB80.7 million for the year ended 31 December 2021 as compared with RMB61.0 million for the corresponding period in 2020 due to the entering into mature stage of operation of the Shenzhen Bantian and Guanlan shopping malls during the year. Rental income from sub-leasing of a shopping mall as a percentage of the Group's total revenue was 18.6% for the year ended 31 December 2021 as compared to 14.3% for the corresponding period of 2020.

Rental income from investment properties up by 19.7% to RMB9.1 million for the year ended 31 December 2021 from RMB7.6 million for the corresponding period in 2020, mainly due entering into new tenancies for vacant premises. Rental income from investment properties as a percentage of the Group's total revenue was 2.1% for the year ended 31 December 2021 as compared to 1.8% for the corresponding period of 2020.

Interest income from financing services down by 3.3% to RMB5.8 million for the year ended 31 December 2021 from RMB6.0 million for the corresponding period in 2020, 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 1.3% for the year ended 31 December 2021 as compared to 1.4% for the corresponding period of 2020.

Purchase of and changes in inventories

Purchase of and changes in inventories amounted to RMB236.6 million for the year ended 31 December 2021, representing an increase of 14.2% as compared with RMB207.2 million in the corresponding period of 2020, mainly due to increase in sales of goods. As a percentage of sales of goods, purchase of and changes in inventories was 94.3% for the year ended 31 December 2021 as compared with 82.9% in the same period of 2020.

Other operating income

Other operating income decreased by 35.5% to RMB47.2 million for the year ended 31 December 2021 from RMB73.2 million in the corresponding period in 2020. The decrease in bank interest income of approximately RMB0.6 million was due to drop in bank balances. The decrease in government grants of approximately RMB7.2 million was due to limitation of local government incentive. The decrease in administration and management fee income of approximately RMB6.2 million and decrease in rent concession from some of the stores of approximately RMB6.4 million were due to the continuance of pandemic condition. The decrease in net gain on termination of leases approximately RMB4.3 million was due to closure of two (three in last year) stores this year.

Staff costs

Staff costs decreased by 5.6% to RMB75.9 million for the year ended 31 December 2021 from RMB80.4 million in the corresponding period of 2020, primarily due to the closure of two stores and streamline of manpower during the year.

Depreciation of right-of-use assets

Depreciation of right-of-use assets decreased by 22.1% to RMB69.6 million for the year ended 31 December 2021 from RMB89.3 million in the corresponding period of 2020, primarily due to the impact of impairment loss provided in last year.

Depreciation of property, plant and equipment

Depreciation of property, plant and equipment increased by 23.0% to RMB59.3 million for the year ended 31 December 2021 from RMB48.2 million in the corresponding period in 2020. The increase was mainly due to enhancement of main stores in Shenzhen and the final construction works of Shenzhen Guanlan shopping mall.

Reversal of impairment/(Impairment loss) on loan receivables

Reversal of impairment loss on loan receivables of approximately RMB2.1 million in the year ended 31 December 2021 represented reversal of expected credit loss on loan receivables from financing business during the year. Impairment loss on loan receivables was approximately RMB2.1 million in the year ended 31 December 2020.

Other operating expenses

Other operating expenses decreased by approximately RMB122.7 million, from RMB131.6 million in the corresponding period of 2020 to RMB8.9 million for the year ended 31 December 2021. This was mainly due to written-off of property, plant and equipment, impairment loss on property, plant and equipment, and impairment loss on right-of-use assets of RMB36.2 million, RMB42.6 million, and RMB47.3 million respectively in last year while there was only a written-off of other receivable of RMB3.8 million during the year.

Finance costs

Finance costs, arising from the effect of adoption of HKFRS 16, from lease liabilities decreased by approximately RMB7.7 million, from approximately RMB45.0 million for the year ended 31 December 2020 to approximately RMB37.3 million in the corresponding period of 2021, primarily due to the aging of existing leases and closure of two stores during the year.

Finance costs arising from bank borrowings increased by approximately RMB3.8 million, from approximately RMB0.9 million for the year ended 31 December 2020 to approximately RMB4.7 million in the corresponding period of 2021 due to the increase in bank borrowings compared to last year.

Income tax credit/(expense)

Income tax credit amounted to approximately RMB0.1 million for the year ended 31 December 2021 was due to incurrence of taxable losses during the year. There was income tax expense of approximately RMB0.9 million in the corresponding period of 2020. The effective tax rate applicable to the Group for the year ended 31 December 2021 were 25% for general subsidiaries (15% for Guangxi subsidiary and subsidiary qualified as High and New Technology Enterprise). 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 RMB100.1 million for the year ended 31 December 2021 as compared with loss of approximately RMB194.5 million in corresponding period of 2020.

FINAL DIVIDEND

The Board does not recommend the payment of final dividend for the year ended 31 December 2021.

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 bank balances, borrowings, loan receivables and lease liabilities. 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 2021.

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 2021, the Group had 660 full-time employees (year ended 31 December 2020: 721). 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 2021, 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 2020: 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 2021, 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 2021, the Group had cash and cash equivalents of approximately RMB26.1 million (31 December 2020: approximately RMB76.6 million), while the restricted bank deposits amounted to approximately RMB2.0 million (31 December 2020: RMB2.0 million). Total borrowings of the Group included bank loans of approximately RMB93.4 million as at 31 December 2021 (31 December 2020: RMB66.9 million).

As at 31 December 2021, the Group had a net current liabilities of approximately RMB102.0 million, as compared to amount of approximately RMB71.7 million as at 31 December 2020. As at 31 December 2021, the gearing ratio of the Group was approximately 2.25 (31 December 2020: 1.55), 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 RMB50.3 million for the year (2020: approximately RMB80.1 million).

Charges of Assets

As at 31 December 2021, the carrying amount of investment properties amounted to approximately RMB257.3 million (2020: RMB266.8 million) 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 2021, the Group has no significant contingent liabilities (2020: Nil).

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 2021 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 8 June 2021 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 2021.

ANNUAL GENERAL MEETING

The 2022 Annual General Meeting of the Company will be held on 9 June 2022, Thursday and the Notice of Annual General Meeting will be published and dispatched in the manner as required by the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the annual general meeting of the Company to be held on 9 June 2022, the register of members of the Company will be closed from 3 June 2022 to 9 June 2022, 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 2022, HK time.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the year ended 31 December 2021, 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 2021. 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 2021 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 2021 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 2021 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 2021 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 2022

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.