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信基沙溪集团股份有限公司
XINJI SHAXI GROUP CO., LTD

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3603)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2019**

The board (the “**Board**”) of directors (the “**Directors**”) of Xinji Shaxi Group Co., Ltd (the “**Company**”) is pleased to announce the audited annual results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2019 (the “**FY2019**”) together with the comparative figures for the year ended 31 December 2018 (the “**FY2018**”). These annual results have been reviewed by the Company’s audit committee.

FINANCIAL HIGHLIGHTS

	For the year ended 31 December	
	2019 <i>(RMB'000)</i>	2018 <i>(RMB'000)</i>
Revenue	303,083	281,355
Profit for the year	101,450	250,226
Core net profit ⁽ⁱ⁾	109,800	87,289
Core net profit margin ⁽ⁱⁱ⁾	36%	31%
Earnings per share (expressed in RMB per share)	0.08	0.18

Notes:

- (i) Core net profit for FY2018 and FY2019 is a non-HKFRS measure, which is used for investors to evaluate the performance results of the underlying business of the Group, by excluding gains from increases in fair value of the investment properties, gains from the government compensation in July 2018, interest income from loans to a related party and adding back the listing expenses and further adjusted for income tax effects for the aforementioned items.
- (ii) Core net profit margin is arrived at by dividing core net profit by revenue of the Group for the respective years.

CONSOLIDATED INCOME STATEMENT

		Year ended 31 December	
		2019	2018
	Note	RMB'000	RMB'000
Revenue	3	303,083	281,355
Cost of sales		(28,180)	(27,463)
Fair value gains on investment properties		10,051	126,247
Selling and marketing expenses		(32,777)	(23,570)
Administrative expenses		(50,501)	(39,804)
Net impairment losses on financial assets and operating lease receivables		(432)	(275)
Other income	4	4,280	69,324
Other gains – net		2,053	90
Operating profit		207,577	385,904
Finance income	5	1,107	40,198
Finance expenses	5	(53,265)	(77,743)
Finance expenses – net		(52,158)	(37,545)
Profit before income tax		155,419	348,359
Income tax expenses	6	(53,969)	(98,133)
Profit for the year		101,450	250,226
Profit attributable to:			
– Owners of the Company		102,905	189,213
– Non-controlling interests		(1,455)	61,013
		101,450	250,226
Earnings per share for profit attributable to owners of the Company during the year (expressed in RMB per share)	7		
Basic and diluted earnings per share		0.08	0.18

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Profit for the year	101,450	250,226
Other comprehensive income		
<i>Item that will not be reclassified to profit or loss</i>		
Changes in fair value of financial assets at fair value through other comprehensive income, net of tax	–	(1,261)
Other comprehensive income for the year net of tax	–	(1,261)
Total comprehensive income for the year	101,450	248,965
Attributable to:		
– Owners of the Company	102,905	187,952
– Non-controlling interests	(1,455)	61,013
	101,450	248,965

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2019	2018
	Note	RMB'000	RMB'000
ASSETS			
Non-current assets			
Property and equipment		1,405	870
Investment properties	13	2,971,870	2,890,230
Intangible assets		817	974
Deferred income tax assets	12	4,304	5,612
		<u>2,978,396</u>	<u>2,897,686</u>
Current assets			
Inventories		1,450	1,514
Operating lease and trade receivables and other receivables	9	37,697	66,164
Amounts due from related parties		26	94,990
Cash and cash equivalents		272,400	11,283
		<u>311,573</u>	<u>173,951</u>
Total assets		<u>3,289,969</u>	<u>3,071,637</u>
EQUITY			
Share capital and premium		304,494	–
Other reserves		232,422	222,925
Retained earnings		1,347,140	1,253,732
		<u>1,884,056</u>	<u>1,476,657</u>
Non-controlling interests		<u>(2,287)</u>	<u>(832)</u>
Total equity		<u>1,881,769</u>	<u>1,475,825</u>

		As at 31 December	
		2019	2018
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
LIABILITIES			
Non-current liabilities			
Borrowings	<i>11</i>	466,220	578,805
Deferred revenue		2,637	5,802
Trade and other payables	<i>10</i>	29,454	25,334
Lease liabilities	<i>10</i>	131,006	141,217
Deferred income tax liabilities	<i>12</i>	414,945	403,169
		<u>1,044,262</u>	<u>1,154,327</u>
Current liabilities			
Borrowings	<i>11</i>	143,889	92,659
Trade and other payables	<i>10</i>	86,141	135,752
Lease liabilities	<i>10</i>	21,141	19,285
Amounts due to related parties		–	56,379
Advance from customers		65,159	103,304
Contract liabilities		7,516	4,116
Current income tax liabilities		40,092	29,990
		<u>363,938</u>	<u>441,485</u>
Total liabilities		<u>1,408,200</u>	<u>1,595,812</u>
Total equity and liabilities		<u>3,289,969</u>	<u>3,071,637</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GENERAL INFORMATION

Xinji Shaxi Group Co., Ltd (the “**Company**”) was incorporated in the Cayman Islands on 27 July 2018 as an exempted company with limited liability under the Companies Law (as revised) of the Cayman Islands. The address of the Company’s registered office is 71 Fort Street, PO Box 500, George Town, Grand Cayman KY1-1106, Cayman Islands.

The Company is an investment holding company and its subsidiaries are principally engaged in operating and managing hospitality supplies and home furnishing shopping malls, exhibition management services and online shopping mall (the “**Listing Business**”) in the People’s Republic of China (the “**PRC**”).

The ultimate controlling parties of the Company are Mr. Cheung Hon Chuen (張漢泉, “**Mr. Cheung**”), Mr. Mei Zuoting (梅佐挺, “**Mr. Mei**”) and Mr. Zhang Weixin (張偉新, “**Mr. Zhang**”) (the “**ultimate controlling shareholders**”).

On 8 November 2019, the Company’s shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

1 BASIS OF PREPARATION

(i) Compliance with HKFRSs and HKCO

The consolidated financial statements of the Group have been prepared in accordance with the Hong Kong Financial Reporting Standards (“**HKFRSs**”) and requirements of the Hong Kong Companies Ordinance Cap. 622. In particular, the Group has consistently adopted HKFRS 16 for the years ended 31 December 2019 and 2018.

(ii) Historical cost convention

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties which are carried at fair value.

Pursuant to the Reorganisation, the Listing Business was transferred to and held by the Company. The Company and its subsidiaries set up during the Reorganisation are new companies which have not been involved in any business prior to the Reorganisation and their operations do not meet the definition of a business. The Reorganisation is merely a recapitalisation of the Listing Business and does not result in any changes in management of such business and the ultimate controlling shareholders of the Listing Business remain the same. The Group resulting from the Reorganisation is regarded as a continuation of the Listing Business. Accordingly, the consolidated financial statements is presented using the carrying values of the Listing Business for the two years ended 31 December 2019 and 2018.

The consolidated financial statements of the Group for the year ended 31 December 2018 included certain financial information of a business segment of Panyu Xinji Real Estate Development Co., Ltd (“**Panyu Real Estate**”), an entity under common control of the ultimate controlling shareholders which was engaged in the same business of the Group, the basis of which are set out below:

- Transactions and balances specifically identified as relating to the Included Business were consolidated in the historical financial information.

Expenses incurred by Panyu Real Estate that were not specifically identified as relating to the Included Business and comprised mainly general administrative expenses were allocated as appropriate as expenses of the Group.

- Current and deferred income taxes on profits attributable to the Included Business calculated on the above basis are provided for using the PRC corporate income tax rate of 25% during the relevant periods in accordance with the Group’s accounting policies; and
- Inter-company transactions and balances between group companies including the Included Business were eliminated on consolidation.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies.

(iii) Going concern

As at 31 December 2019 the Group’s current liabilities exceeded its current assets by RMB52,365,000. In addition, as at 31 December 2019, the Group’s total bank borrowings amounted to RMB610,109,000, of which RMB143,889,000 were repayable within the next twelve months from 31 December 2019. Such liquidity shortfall was mainly attributable to certain of the Group’s non-current assets including investment properties being financed mainly by the Group’s internal funding and borrowings.

In view of these circumstances, the directors of the Company have given careful consideration to the future liquidity position and financial performance of the Group and its available sources of financing in assessing whether the Group has sufficient financial resources to continue as a going concern. A number of measures have been put in place by the directors of the Company to further improve profitability, control operating costs and contain capital expenditures in order to improve the Group’s operating performance and alleviate its liquidity risk:

- (a) Included in current liabilities was advance from customers of RMB65,159,000 and contract liabilities of RMB7,516,000 of which no future cash outflow is expected.
- (b) As at 31 December 2019, the Group had unutilised financing facilities of RMB400,000,000 which can be used to cover any shortfall liquidity in the next twelve months.
- (c) Management has become more cost conscious and is reducing unnecessary expenditures to improve its operating cash flows.

The Company’s directors have reviewed the Group’s cash flow projections prepared by the management. The cash flow projections cover a period of not less than twelve months from the year ended 31 December 2019. Based on these cash flow projections, the Group will have sufficient financial resources to meet its financial obligations as and when they fall due in the coming twelve months from the year ended 31 December 2019. Management’s projections make key assumptions with regard to the anticipated cash flows from the Group’s operations, capital expenditures and the continuous availability of the Group’s financing facilities. The Group’s ability to achieve the projected cash flows depends on management’s ability to successfully implement the aforementioned improvement measures on profitability and liquidity, and the continuous availability of bank facilities from its banks. The directors, after making due enquiries and considering the basis of management’s projections described above and after taking into account the operational performance and the availability of the financing facilities, believe that there will be sufficient financial resources to meet its financial obligations as and when they fall due in the coming twelve months from the year ended 31 December 2019. Accordingly, the historical financial information have been prepared on a going concern basis.

(iv) **New standards and interpretations not yet adopted**

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

		Effective for annual periods beginning on or after
HKAS 1 and HKAS 8 (Amendments)	Definition of Material	1 January 2020
HKFRS 3 (Amendments) Revised Conceptual Framework for Financial Reporting	Definition of a Business	1 January 2020 1 January 2020
HKFRS 17	Insurance Contracts	1 January 2021
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The Group has already commenced an assessment of the impact of these new or revised standards and amendments, certain of which are relevant to the Group's operations. According to the preliminary assessment made by the Group, no significant impact on the financial performance and position of the Group is expected when these new or revised standards and amendments become effective.

2 **SEGMENT INFORMATION**

The Executive Directors of the Company have been identified as the CODM. Management has determined the operating segments based on the reports reviewed by the Executive Directors, which are used to allocate resources and assess performance.

The Group is principally engaged in managing owned/leased portfolio shopping mall which derives revenue from leasing floor areas to the tenants and providing comprehensive and continuous operation and management support to them in the PRC. Management reviews the operating results of the business as one segment to make decisions about resources to be allocated. Therefore, the Executive Directors of the Company regards that there is only one segment which is used to make strategic decisions.

The major operating entities of the Group are domiciled in the PRC. All of the Group's revenue are derived in the PRC during the year.

As at 31 December 2019 and 2018, all of non-current assets of the Group were located in the PRC.

There was no revenue derived from a single external customer that accounted for 10% or more of the Group's revenues during the year.

3 REVENUE

	Year ended 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Rental income:		
– Properties lease income	254,691	243,949
Revenue from contracts with customers:		
– Sales of goods (a)	15,057	7,858
– Exhibition management service (b)	4,991	5,697
– Properties management service (b) & (c)	28,344	23,851
	<u>48,392</u>	<u>37,406</u>
	<u>303,083</u>	<u>281,355</u>

- (a) Revenue generated from sales of goods is recognised at a point in time when the customer obtains control of the asset.
- (b) Revenue generated from exhibition management and properties management service are recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation.
- (c) The following table shows unsatisfied performance obligations resulting from fixed-price long-term property management services contracts:

	As at 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Aggregate amount of the transaction price allocated to long-term property management services contracts that the performance obligations of which are partially or fully unsatisfied as at 31 December		
Expected to be recognised over one year	24,783	27,180
Expected to be recognised within one year	21,753	19,348
	<u>46,536</u>	<u>46,528</u>

The amount disclosed above does not include any variable consideration.

For exhibition management service, they are rendered in short period of time and there is no unsatisfied performance obligation as at 31 December 2018 and 2019.

4 OTHER INCOME

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Forfeiture of advances received from customers	499	560
Commission income due to amendment of rental contracts	324	670
Compensation for demolition	–	65,545
Dividend income from financial assets at fair value through other comprehensive income	–	1,275
Other service income	–	961
Others	3,457	313
	<u>4,280</u>	<u>69,324</u>

5 FINANCE INCOME AND FINANCE EXPENSES

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Finance income:		
– Interest income from bank deposits	(1,107)	(34)
– Interest income from related parties	–	(40,164)
	<u>(1,107)</u>	<u>(40,198)</u>
Finance expenses:		
– Leasing finance expenses	8,952	9,179
– Interest expenses	44,502	68,734
– Less: capitalised interest	(189)	(170)
	<u>53,265</u>	<u>77,743</u>
Finance expenses – net	<u>52,158</u>	<u>37,545</u>

6 INCOME TAX EXPENSES

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Current income tax		
– PRC corporate income tax	40,885	40,260
Deferred income tax (Note 12)	13,084	57,873
	<u>53,969</u>	<u>98,133</u>

(a) **PRC corporate income tax**

The Group's subsidiaries in the PRC are subject to corporate income tax at tax rate of 25% during the years ended 31 December 2019 and 2018.

(b) **PRC withholding income tax**

PRC withholding income tax of 10% shall be levied on the dividends declared by companies established in the PRC to their foreign investors out of their profits earned after 1 January 2008. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%.

(c) **Cayman Islands income tax**

The Company is incorporated in Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands and accordingly, is exempted from Cayman Islands income tax.

(d) **Hong Kong profits tax**

Hong Kong profits tax has not been provided as the Group did not have any assessable profits during the year.

(e) The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rates applicable to profits or losses of the consolidated entities as follows:

	Year ended 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before income tax	<u>155,419</u>	<u>348,359</u>
Tax calculated at tax rates applicable to profits or losses in the respective countries or regions	38,855	87,090
Tax effects of:		
Expenses not deductible for tax purposes	4,033	1,362
Tax losses for which no deferred income tax asset was recognised	11,081	10,000
Income not subject to tax	<u>–</u>	<u>(319)</u>
Income tax expenses	<u>53,969</u>	<u>98,133</u>

7 EARNINGS PER SHARE

(a) Basic

In determining the weighted average number of ordinary shares in issue during the years ended 31 December 2019 and 2018, the ordinary shares issued to the then shareholders of the Group and the capitalisation issue of 1,199,947,368 shares of the Company on 3 October 2019, were deemed to be issued on 1 January 2018 or since new shares have been issued for the Pre-IPO investor.

	Year ended 31 December	
	2019	2018
Profit attributable to owners of the Company (<i>RMB'000</i>)	102,905	189,213
Weighted average number of ordinary shares in issue (<i>thousands</i>)	1,239,616	1,070,842
Basic earnings per share (<i>RMB</i>)	0.08	0.18

(b) Diluted

The Company did not have any potential dilutive ordinary shares outstanding during the years ended 31 December 2019 and 2018. Diluted earnings per share are the same as the basic earnings per share.

8 DIVIDEND

- (i) No dividend has been paid or declared by the Company or the companies now comprising the Group during the year ended 31 December 2019 (2018: nil).
- (ii) Dividends not recognised at the end of the reporting period

At the meeting of the directors of the Company held on 20 March 2020, the directors proposed a final dividend of RMB0.013 (equivalent to HK\$0.014 calculated at the exchange rate of HK\$1.00 to RMB0.9155, which was the People's Bank of China rate prevailing on 20 March 2020) per ordinary share for the year ended 31 December 2019, which is subject to the approval by the shareholders in general meeting. The dividend payable to the shareholders will be declared in Renminbi and paid in Hong Kong dollars, the exchange rate of which will be calculated based on the average exchange rate of Renminbi against Hong Kong dollars published by the People's Bank of China five business days prior to the general meeting. The aggregate amount of the proposed dividend expected to be paid out of retained earnings at 31 December 2019, but not recognised as a liability at year end, is around RMB20,000,000.

9 OPERATING LEASE AND TRADE RECEIVABLES AND OTHER RECEIVABLES

	As at 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Operating lease receivables	20,111	36,796
Less: allowance for impairment of operating lease receivables	(2,342)	(3,615)
	<hr/>	<hr/>
Operating lease receivables – net	17,769	33,181
Trade receivables	6,125	8,824
Less: allowance for impairment of trade receivables	(629)	(797)
	<hr/>	<hr/>
Trade receivables – net	5,496	8,027
Other receivables	7,993	14,070
Less: allowance for impairment of other receivables	(202)	(147)
	<hr/>	<hr/>
Other receivables – net	7,791	13,923
Prepaid listing expense	–	3,740
Prepaid tax and other levies	738	1,165
Other prepayments	2,805	3,592
Input VAT available for future deduction	3,098	2,536
	<hr/>	<hr/>
	37,697	66,164
	<hr/>	<hr/>

The aging analysis of trade receivables at the respective balance sheet dates is as follows:

	As at 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Less than 1 year	6,125	8,824
	<hr/>	<hr/>

The maximum exposure to credit risk at 31 December 2019 is the credit losses of each class of receivables mentioned above.

10 TRADE AND OTHER PAYABLES AND LEASE LIABILITIES

(i) Trade and other payables

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Trade payables	3,634	3,121
Construction contract payables	42,912	64,880
Salary payables	15,529	10,992
Other tax liabilities	748	1,491
Deposits from tenants	43,674	40,745
Payable for acquisition of non-controlling interests	–	22,439
Other payables	9,098	17,418
	<u>115,595</u>	<u>161,086</u>
Less: non-current portion		
Deposits from tenants	<u>(29,454)</u>	<u>(25,334)</u>
Current portion	<u>86,141</u>	<u>135,752</u>

The aging analysis of the trade and construction contract payables based on invoice date is as follows:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Less than 1 year	15,644	24,020
Over 1 year	<u>30,902</u>	<u>43,981</u>
	<u>46,546</u>	<u>68,001</u>

As at 31 December 2019 and 2018, trade payables and construction contract payables were denominated in RMB and their fair values approximated their carrying amounts.

(ii) Lease liabilities

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Balance at beginning of the year	160,502	149,851
Additions	1,028	15,802
Leasing finance expenses recognised	8,952	9,179
Settlement of lease liabilities	(18,335)	(14,330)
	<u>152,147</u>	<u>160,502</u>
Less: non-current portion	<u>(131,006)</u>	<u>(141,217)</u>
Current portion of lease liabilities	<u>21,141</u>	<u>19,285</u>

- (a) The Group mainly leases land use right and properties. Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. The right-of-use assets are presented as investment properties and property and equipment.

11 BORROWINGS

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Borrowings included in non-current liabilities:		
Bank borrowings – Secured (<i>Note (a)</i>)	580,056	671,464
Less: current portion of non-current borrowings	<u>(113,836)</u>	<u>(92,659)</u>
	<u>466,220</u>	<u>578,805</u>
Borrowings included in current liabilities:		
Bank borrowings – Secured (<i>Note (a)</i>)	30,053	–
Current portion of non-current borrowings	<u>113,836</u>	<u>92,659</u>
	<u>143,889</u>	<u>92,659</u>
Total borrowings	<u>610,109</u>	<u>671,464</u>

- (a) As at 31 December 2019, bank borrowings of RMB610,109,000 (2018: RMB671,464,000) bore interest ranging from 6.30% to 7.36% per annum and were secured by investment properties of the Group. The value of investment properties pledged as collateral for the Group's borrowings was RMB1,468,300,000 (2018: RMB1,440,100,000).

- (b) The exposure of bank borrowings to interest-rate changes and the contractual repricing dates at the balance sheet dates are as follows:

	As at 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
6 months or less	610,109	671,464

The maturity of the borrowings is as follows:

	As at 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Less than 1 year	143,889	92,659
1–2 years	124,066	112,584
2–5 years	172,092	237,039
Over 5 years	170,062	229,182
	610,109	671,464

The weighted average effective interest rates of borrowings are as follows:

	For the year ended	
	2019	2018
Bank borrowings	6.85%	7.15%

- (c) The carrying amounts of current borrowings approximate their fair values due to their short-term maturities.

The fair values of non-current borrowings are estimated based on discounted cash flow using the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics at the balance sheet date, which are categorised as level 2 fair value measurement. As at 31 December 2019 and 2018, the carrying amounts of borrowings are primarily denominated in RMB and approximate their fair values at each of the reporting dates.

- (d) The Group has the following undrawn borrowing facilities:

	As at 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
At floating rates:		
– expiring beyond one year	400,000	400,000

12 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The amounts of deferred tax assets and liabilities of the Group after offsetting are as follows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Deferred income tax assets:		
– to be recovered after 12 months	<u>(4,304)</u>	<u>(5,612)</u>
Deferred income tax liabilities:		
– to be settled within 12 months	5,285	6,344
– to be settled after 12 months	<u>409,660</u>	<u>396,825</u>
	<u>414,945</u>	<u>403,169</u>
Deferred income tax liabilities, net	<u>410,641</u>	<u>397,557</u>

The net movements on deferred taxation are as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Balance at beginning of the year	397,557	359,959
Charged to the consolidated income statements (<i>Note 6</i>)	13,084	57,873
Credited to other comprehensive income	–	(420)
Deemed distributions to the then shareholders	<u>–</u>	<u>(19,855)</u>
Balance at end of the year	<u>410,641</u>	<u>397,557</u>

The movement in deferred income tax assets before offsetting during the years ended 31 December 2019 and 2018 are as follows:

Deferred income tax assets	Temporary difference on recognition of cost of sales and expenses <i>RMB'000</i>	Tax losses <i>RMB'000</i>	Bad debt provision <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2018	10,775	374	1,775	12,924
(Charged)/credited to income statement	<u>(1,127)</u>	<u>(374)</u>	<u>69</u>	<u>(1,432)</u>
At 31 December 2018	9,648	–	1,844	11,492
(Charged)/credited to income statement	<u>(558)</u>	<u>–</u>	<u>108</u>	<u>(450)</u>
At 31 December 2019	<u>9,090</u>	<u>–</u>	<u>1,952</u>	<u>11,042</u>

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB49,971,000 (2018: RMB41,860,000) in respect of losses amounting to RMB199,882,000 (2018: RMB167,442,000) of certain subsidiaries that can be carried forward against future taxable income as at 31 December 2019. These tax losses will expire up to and including years 2019 to 2024.

The movement in deferred income tax liabilities before offsetting during the years ended 31 December 2019 and 2018 are as follows:

Deferred income tax liabilities	Temporary difference of investment properties <i>RMB'000</i>	Revaluation of Financial assets at fair value through other comprehensive income <i>RMB'000</i>	Deferred Revenue <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2018	372,463	420	–	372,883
Deemed distributions to the then shareholders of the Group	(19,855)	–	–	(19,855)
Credited to other comprehensive income	–	(420)	–	(420)
Charged to income statement	<u>44,811</u>	<u>–</u>	<u>11,630</u>	<u>56,441</u>
At 31 December 2018	<u>397,419</u>	<u>–</u>	<u>11,630</u>	<u>409,049</u>
Charged/(credited) to income statement	<u>18,978</u>	<u>–</u>	<u>(6,344)</u>	<u>12,634</u>
At 31 December 2019	<u>416,397</u>	<u>–</u>	<u>5,286</u>	<u>421,683</u>

As at the year ended 31 December 2019, deferred income tax liabilities amounting to RMB32,300,000 (2018: RMB22,804,000), have not been recognised for withholding tax and other taxes that would be payable on the unremitted earnings of the Group's subsidiaries in the PRC. Such amounts are permanently reinvested.

13 INVESTMENT PROPERTIES

	As at 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Opening net book amount	2,890,230	2,874,370
Additions	71,400	29,863
Capitalised interests	189	170
Deemed distribution to the then shareholders of the Group	–	(140,420)
Fair value changes	10,051	126,247
	<hr/> 2,971,870 <hr/>	<hr/> 2,890,230 <hr/>
Closing net book amount		
Analysis of investment properties:		
– properties on land use right certificates owned by the Group	1,496,670	1,468,470
– properties on right of use assets	1,475,200	1,421,760
	<hr/> 2,971,870 <hr/>	<hr/> 2,890,230 <hr/>

FINAL DIVIDEND

The Board recommends the payment of a final dividend of RMB0.013 (equivalent to HK\$0.014 calculated at the exchange rate of HK\$1.00 to RMB0.9155, which was the People's Bank of China rate prevailing on 20 March 2020) per share for FY2019 to the shareholders of the Company (the "Shareholders") subject to the approval of the Shareholders at the forthcoming annual general meeting (the "AGM"). The dividend payable to the Shareholders will be declared in Renminbi and paid in Hong Kong dollars, the exchange rate of which will be calculated based on the average exchange rate of Renminbi against Hong Kong dollars published by the People's Bank of China five business days prior to the AGM.

The proposed final dividend is expected to be despatched to the Shareholders on 26 June 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

For the FY2019, the total revenue recorded an increase of 8% to approximately RMB303.1 million compared with RMB281.4 million for the FY2018. Such increase was driven by the increase in revenue from our rental income, sales of goods and the properties management service.

The table below sets forth the breakdown of the Group's revenue by business line as indicated:

	For the year ended 31 December			
	2019		2018	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Rental Income	254,691	84	243,949	87
Properties Management Service	28,344	9	23,851	8
Exhibition Management Service	4,991	2	5,697	2
Sales of Goods	15,057	5	7,858	3
Total	303,083	100	281,355	100

Rental Income

Rental income is revenue received by the Group from the tenants who signed up lease contracts with us to run business at the Group's owned/leased portfolio shopping malls. For the FY2019, revenue from our rental income increased by RMB10.8 million or 4% to RMB254.7 million (FY2018: RMB243.9 million), representing 84% of our total revenue, driven by all of the five shopping malls of the Group.

Properties Management Service

Revenue from our property management services income is the management fee paid by the tenants under the property management agreements. Income from property management services increased by RMB4.4 million or 18% to RMB28.3 million (FY2018: RMB23.9 million). The increase in property management service income was mainly attributable to (i) the increase in the gross floor area subject to management of Xinji Shaxi Hospitality Supplies Expo Center, Xinji Shaxi Hospitality Supplies Expo Center (Shenyang) and Xinji Shaxi Home Furnishings Expo Center (Shenyang); and (ii) the increase in unit price under the new management fee agreements.

Exhibition Management Service

Revenue from our exhibition management service income includes fees received from exhibitors. For the FY2019, revenue generated from our exhibition management services income decreased slightly by RMB0.7 million or 12% to RMB5.0 million (FY2018: RMB5.7 million).

Sales of Goods

Revenue from sales of goods is the revenue we generated from sales of hospitality products through our online shopping mall. For the FY2019, the sales of goods increased by RMB7.2 million or 91% to RMB15.1 million (FY2018: RMB7.9 million). Such increase was mainly due to the launch of online shopping mall business on 30 April 2018, resulting in an increase for the FY2019 as compared with the FY2018.

Cost of Sales

Our cost of sales increased slightly by RMB0.7 million or 3% from RMB27.5 million for the FY2018 to RMB28.2 million for the FY2019.

Fair Value Gains on Investment Properties

Our fair value gains on investment properties decreased significantly by RMB116.1 million or 92% from RMB126.2 million for the FY2018 to RMB10.1 million for the FY2019, which was primarily attributable to the absence of significant number of contract renewal with higher market rents for the FY2019 as compared to the FY2018, as well as no positive effect of increased leased floor area of Xinji Shaxi Hospitality Supplies Expo Center for the FY2018.

Selling and Marketing Expenses

Our selling and marketing expenses increased by RMB9.2 million or 39% from RMB23.6 million for the FY2018 to RMB32.8 million for the FY2019. This was primarily attributable to (i) an increase of RMB3.3 million in employee benefit expenses as a result of the business growth including online shopping mall; (ii) an increase of RMB4.5 million in marketing and advertising expenses as we enhanced our marketing efforts to assist new tenants to promote their business; and (iii) an increase of RMB1.4 million due to the operation expenses of the online platform and transportation expenses of the online shopping mall and other promotion expenses regarding the commercial operation of the Group.

Administrative Expenses

Our administrative expenses increased by RMB10.7 million or 27% from RMB39.8 million for the FY2018 to RMB50.5 million for the FY2019, which was mainly attributable to (i) an increase in the listing expenses of RMB2.6 million; (ii) an increase in the annual report fee for 2019 of RMB2.3 million; and (iii) an increase in the Directors' fees and employees' remuneration of RMB2.5 million.

Other Income

Our other income decreased by RMB65.0 million or 94% from RMB69.3 million for the FY2018 to RMB4.3 million for the FY2019. Such decrease was mainly due to the fact that in the FY2019, there was no one-off compensation for demolition from the government of Panyu District, Guangzhou, the PRC for the compensation of the removal of part of the investment properties of the Group in order to develop the Guangzhou Shaxi metro station in July 2018.

Operating Profit and Operating Profit Margin

As a result of the foregoing, our operating profit decreased by RMB178.3 million or 46% from RMB385.9 million for the FY2018 to RMB207.6 million for the FY2019. Our operating profit margin decreased from 137% for the FY2018 to 68% for the FY2019, which was mainly attributable to the decrease of the fair value gains on investment properties and other income.

Finance income

Our finance income decreased by RMB39.1 million or 97% from RMB40.2 million for the FY2018 to RMB1.1 million for the FY2019. This was primarily due to the cessation of interest income from a related party.

Profit for the Year and Net Profit Margin

As a result of the foregoing, our profit for FY2019 decreased by RMB148.7 million or 59% from RMB250.2 million for the FY2018 to RMB101.5 million for the FY2019. Our net profit margin decreased from 89% for the FY2018 to 33% for the FY2019, which was mainly attributable to the following one-off or non-recurring items: (i) the decrease in fair value gains on investment properties of RMB116.1 million; (ii) the decrease in income of one-off compensation from the government of RMB65.5 million; (iii) the decrease in interest income from loans to a related party of RMB40.2 million; and (iv) the decrease in income tax expenses in relation to the abovementioned non-recurring profit and loss of RMB53.3 million.

Core net profit

Our management believe core net profit will be useful for investors in evaluating the performance results of our underlying business across accounting periods by eliminating the effects of certain one-off or non-recurring items including the fair value gains on investment properties, compensation for demolition and interest income from loans to a related party, which are considered not indicative for evaluation of the actual performance of our business.

Our core net profit increased by RMB22.5 million or 26% from RMB87.3 million for the FY2018 to RMB109.8 million for the FY2019, which was mainly attributable to the increase in the Group's revenue of RMB21.7 million.

USE OF NET PROCEEDS FROM LISTING

The net proceeds from the global offering of the Company for the FY2019 were approximately RMB217.2 million. With reference to the prospectus of the Company dated 25 October 2019 (the “**Prospectus**”), we intend to use the net proceeds of (i) approximately 26.1% for repayment of the Group’s bank borrowings for the construction cost and sales and marketing cost for our shopping malls; and (ii) approximately 73.9% used for project development of three new shopping malls located in Chengdu, Zhengzhou and Fuzhou in China to align with the Group’s business expansion. As at 31 December 2019, the Company has utilised a total of RMB21.8 million for repayment of the Group’s bank loans; and the remaining unutilised net proceeds of RMB195.4 million have been placed as bank balances/time deposits and will be applied in accordance with the proposed applications as disclosed in the Prospectus.

BUSINESS REVIEW

During the year, the Group was principally engaged in the operation of the shopping malls for hospitality supplies and home furnishings which generated rental revenue in China. Our business operations comprise four main business segments: (i) our shopping malls, including three shopping malls for hospitality supplies and two shopping malls for home furnishings; (ii) our managed shopping mall; (iii) our online shopping mall; and (iv) our exhibition management business. Our Group’s revenue is derived mainly from the operating lease rental income of our Group’s owned/leased portfolio shopping malls.

Business Segment Review

Shopping Malls

We have five shopping malls, including three shopping malls for hospitality supplies and two shopping malls for home furnishings.

Shopping Malls for Hospitality Supplies

- (1) Xinji Shaxi Hospitality Supplies Expo Center (信基沙溪酒店用品博覽城)
- (2) Xinji Hotelex Hospitality Supplies Center (信基豪泰酒店用品城)
- (3) Xinji Shaxi Hospitality Supplies Expo Center (Shenyang) (瀋陽信基沙溪酒店用品博覽城)

Shopping Malls for Home Furnishings

- (4) Xinji Dashi Home Furnishings Center (信基大石傢俬城)
- (5) Xinji Shaxi Home Furnishings Expo Center (Shenyang) (瀋陽信基沙溪國際家居用品博覽中心)

The table below sets out the total revenue generated by our shopping malls for the FY2019:

Shopping Malls	Total Revenue	
	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Xinji Shaxi Hospitality Supplies Expo Center (信基沙溪酒店用品博覽城)	153,245	143,352
Xinji Hotelex Hospitality Supplies Center (信基豪泰酒店用品城)	66,480	63,239
Xinji Shaxi Hospitality Supplies Expo Center (Shenyang) (瀋陽信基沙溪酒店用品博覽城)	18,119	14,941
Xinji Dashi Home Furnishings Center (信基大石傢俬城)	12,174	11,475
Xinji Shaxi Home Furnishings Expo Center (Shenyang) (瀋陽信基沙溪國際家居用品博覽中心)	33,017	34,793

Managed Shopping Mall

In this segment, we provide shopping mall operation services to other shopping mall owners. Under this business model, we would be responsible for managing the shopping mall marketing and daily operation, and grant to them the right to use and market with our brand name while the shopping mall owners would be responsible for bearing all the operating expenses of the shopping mall and pay us brand licencing fee and operation management fee. Our operation management fee would be determined with reference to the length of operation and the rental income of relevant shopping mall.

In October 2018, we entered into a cooperation agreement with Hunan Hongyue Commercial Management Company Limited* (湖南省泓岳商業管理有限公司), an independent third party. Pursuant to the cooperation agreement, we agreed to act as the shopping mall manager for a planned hospitality supplies shopping mall located in Yuetang International Trade City (岳塘國際商貿城) in No. 88 Hetang Section, Furong Avenue, Yuetang District, Xiangtan City, Hunan Province, China, a commercial complex developed by Hunan Hongyue Commercial Management Company Limited. It is expected that this shopping mall would have a total operating area of approximately 120,000 sq.m. and accommodated a maximum of 400 tenants.

This is the first managed hospitality supplies shopping mall of the Group and, as affected by the outbreak of Coronavirus Disease 2019 (“**COVID-19 outbreak**”), the mall is expected to commence operation in the second half of 2020.

Online Shopping Mall

To capture the business opportunities in the e-commerce industry and to complement the operation and sales of our traditional physical shopping malls, we expanded and diversified our operation into the online shopping mall business, which has entered into a strategic cooperation agreement with Beijing JingDong Century Trade Co., Ltd for the purpose of setting up an online shopping mall for hospitality supplies and home furnishings at www.jd.com which commenced operation in September 2017. Since then, it has provided an alternative trading platform to hospitality suppliers and home furnishings.

For the FY2019, our online shopping mall generated revenue of approximately RMB15.1 million, for the sales of goods. The sales of goods were entirely the hospitality goods and the operating margin decreased slightly to -9% for the FY2019 as we increased the sales proportion of business-to-business (B2B) with lower gross profit margin.

Exhibition Management Business

We provide exhibition management services for the China Hospitality Expo (華南酒店業博覽會) (“**CHE**”) (formerly known as China (Guangzhou) International Hospitality Supplies Fair (中國(廣州)國際酒店用品展覽會), in China annually. Under this business model, we are responsible for overall strategic planning, coordination and management of the exhibitions which include coordination with suppliers for setting up venues of the exhibitions, on-site supervision and post-exhibition review. We charge exhibitors exhibit fee calculated by the size of exhibition spaces multiplies a fixed unit price which is determined with reference to (i) estimated fee and charges payable to the suppliers; (ii) estimated labour costs; and (iii) our desired profit margin.

The major managed exhibitions during the year was the annual CHE. It provided an one-stop trade platform for global hospitality supplies providers and purchasers to broaden their sale and purchase channel.

For the FY2019, we generated revenue in the amount of RMB5.0 million (FY2018: RMB5.7 million) from the annual CHE.

CORPORATE GOVERNANCE

The Company’s corporate governance practices are based on the principles and the code provisions as set out in the Corporate Governance Code (“**CG Code**”) contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”). During the FY2019, the Company has complied with the applicable code provisions of the CG Code, except for the deviation disclosed herein.

Since 8 November 2019 (the “**Listing Date**”) to 31 December 2019, the Company has complied with the applicable code provisions of the CG Code as set out in Appendix 14 to the Listing Rules other than code provision A.2.1, which stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Mr. Cheung Hon Chuen (“**Mr. Cheung**”) is one of our founders, chairman of the Board and chief executive officer. Being as the industry leader and industry development vane for China hospitality supplies industry, Mr. Cheung has extensive experience in hospitality supplies industry. Mr. Cheung is responsible for formulating strategic direction and overseeing the management and business operation of our Group. He is the key reason for our Group’s development and he will not undermine our Group’s interests in any way under any circumstances, our Board considers that vesting the roles of chairman and chief executive officer in the same person, Mr. Cheung, would not create any potential harm to the interest of our Group and it is, on the contrary, beneficial to the management of our Group. In addition, the operation of the senior management and our Board, which are comprised of experienced individuals, effectively checks and balances the power and authority of Mr. Cheung, as both the chairman and chief executive officer of our Group. Our Board currently comprises four executive Directors (including Mr. Cheung), three non-executive Directors and four independent non-executive Directors and therefore has a fairly strong independence element in its composition.

The Company has an internal audit function which primarily carries out the analysis and independent appraisal of the adequacy and effectiveness of the Company’s risk management and internal control systems, and reports their findings to the Board on, at least, an annual basis.

The Group’s internal control system includes a well-established organisational structure with clearly defined lines of responsibility and authority. The day-to-day departmental operations are entrusted to individual department which is accountable for its own conduct and performance and is required to operate its own department’s business within the scope of the delegated authority and to implement and strictly adhere to the strategies and policies set by the Company from time to time. Each department is also required to keep the Board informed of material developments of the department’s business and implementation of the policies and strategies set by the Board on a regular basis so as to identify, evaluate and manage significant risks in a timely manner.

COMPLIANCE WITH MODEL CODE OF THE LISTING RULES

The Company has 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 its own code of conduct regarding Directors’ securities transactions, the Group’s senior management, and employees who, because of his/her office or employment, is likely to possess inside information in relation to the Group or the Company’s securities. Upon specific enquiry, all Directors, confirmed that they have complied with the Model Code since the Listing Date to 31 December 2019. In addition, the Company was not aware of any non-compliance with the required standard as set out in the Model Code regarding securities transactions by senior management of the Group during the year under review.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the period from the Listing Date to 31 December 2019, neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

EVENTS AFTER REPORTING PERIOD

Upon the COVID-19 outbreak in early 2020 in the PRC, a series of precautionary and control measures have been and continued to be implemented across the country/region. Pending development of such subsequent non-adjusting event, the Group's financial results may be affected, the extent of which could not be estimated as at the date on which this announcement were authorised for issue.

PUBLIC FLOAT

As at the date of this announcement, according to the information that is publicly available to the Company and within the knowledge of the Directors, the Company maintains a sufficient public float with more than 25% of the issued shares of the Company being held by the public.

AUDIT COMMITTEE

The Company established the audit committee with written terms of reference in compliance with the CG Code. The audit committee comprises three members, namely Dr. Liu Eping, Mr. Zheng Decheng and Mr. Tan Michael Zhen Shan. Dr. Liu Eping is the chairman of the audit committee.

The audit committee has considered and reviewed the Group's annual results for the FY2019, the accounting principles and practices adopted by the Company and the Group and discussed matters in relation to internal control and financial reporting with the management. The audit committee considers that the annual financial results for the FY2019 are in compliance with the relevant accounting standards, rules and regulations and appropriate disclosures have been duly made.

SCOPE OF WORK OF THE COMPANY'S AUDITORS

The figures in respect of the Group's consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income and the related notes thereto for FY2019 as set out in this annual results announcement have been agreed by the Company's auditors to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by the Company's auditors 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 the Company's auditors on this annual results announcement.

CLOSURE OF REGISTER OF MEMBERS

The Company will hold the AGM on Tuesday, 26 May 2020.

The register of members of the Company (“**Register of Members**”) will be closed during the following periods and during these periods, no transfer of shares will be registered:

(i) To attend and vote at the AGM

For the purpose of ascertaining the Shareholders’ entitlement to attend and vote at the AGM, the Registers of Members will be closed from Thursday, 21 May 2020 to Tuesday, 26 May 2020, both days inclusive.

In order to be eligible to attend and vote at the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrar (“**Branch Share Registrar**”) of the Company in Hong Kong, Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 20 May 2020.

(ii) To qualify for the proposed final dividend

For the purpose of ascertaining the Shareholders’ entitlement to the proposed final dividend, the Register of Members will be closed from Wednesday, 10 June 2020 to Friday, 12 June 2020, both days inclusive.

In order to qualify for the proposed final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Branch Share Registrar for registration not later than 4:30 p.m. on Tuesday, 9 June 2020.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This results announcement is published on the websites of the Stock Exchange at www.hkexnews.hk and the Company at www.xjsx.net.cn. The 2019 annual report containing all the information required by the Listing Rules will be despatched to the Shareholders in April 2020 and will be published on the websites of the Company and the Stock Exchange.

By order of the Board
Xinji Shaxi Group Co., Ltd
Cheung Hon Chuen
Chairman

Guangzhou, The PRC, 20 March 2020

As at the date of this announcement, the Board comprises Mr. Cheung Hon Chuen as chairman and executive Director; Mr. Mei Zuoting, Mr. Zhang Weixin and Ms. Jin Chunyan as executive Directors; Mr. Yu Xuecong, Mr. Lin Lie and Mr. Wu Jianxun as non-executive Directors; and Dr. Liu Eping, Mr. Chen Tusheng, Mr. Tan Michael Zhen Shan and Mr. Zheng Decheng as independent non-executive Directors.