THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Jiahua Stores Holdings Limited** (the "**Company**"), you should at once hand this circular and the enclosed form of proxy to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for onward transmission to the purchaser or the transferee.

This circular is for information only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of the Company.

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)

VERY SUBSTANTIAL ACQUISITIONS
AND CONNECTED TRANSACTION
IN RELATION TO THE CONNECTED LEASE AGREEMENTS
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

红日资本有限公司
RED SUN CAPITAL LIMITED

Capitalised terms used on this cover shall have the same meanings as those defined in this circular, unless the content requires otherwise.

A letter from the Board is set out on pages 5 to 19 of this circular. A letter from the Independent Board Committee to the Independent Shareholders is set out on pages 20 to 21 of this circular. A letter from the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 22 to 55 of this circular.

A notice convening the EGM to be held at 4/F., Jiahua Ming Yuan, 2146 Xinhu Road, Baoan Central District, Shenzhen, the PRC on Thursday, 13 July 2023 at 2:30 p.m., is set out on pages EGM-1 to EGM-4 of this circular. A form of proxy for use at the EGM is also enclosed. Such form of proxy is also published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (http://www.szbjh.com).

Whether or not you are able to attend the EGM in person, you are requested to complete and sign the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the EGM if they so wish and in such event, the form of proxy shall be deemed to be revoked.

27 June 2023

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In this circular, unless the context otherwise requires, the following expressions have the following meanings:

"associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Board"	the board of Directors
"Commercial Lease Agreement"	the commercial lease agreement entered into between the Landlord and Tenant II in respect of the leasing of Commercial Premises
"Commercial Premises"	中國廣東省深圳市新安街道大寶路南側佳華書苑雅閣1棟商場01層 (1st Floor, Building 1, Jiahua Shuyuan Yage, Dabao South Road, Xinan Street, Baoan District, Shenzhen, Guangdong Province, the PRC)
"Company"	Jiahua Stores Holdings Limited (佳華百貨控股有限公司) (stock code: 00602), an exempted company incorporated in Cayman Islands on 4 September 2006 and the issued shares of which are listed on the main board of the Stock Exchange
"Connected Landlord"	Shenzhen Jiahua Real Estate Development Company Limited (深圳市佳華房地產開發有限公司), a company incorporated in the PRC, which is held as to 18% by Mrs. Zhuang and 82% by Jiahua Group as at the Latest Practicable Date
"Connected Lease Agreements"	the Commercial Lease Agreement and the Long-Term Lease Agreement
"controlling shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"Director(s)"	director(s) of the Company
"EGM"	an extraordinary general meeting of the Company to be convened and to approve the Lease Agreements and the transactions contemplated thereunder
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong

"HKFRS 16"	the Hong Kong Financial Reporting Standard 16 – Leases issued by the Hong Kong Institute of Certified Public Accountants
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Independent Board Committee"	an independent board committee of the Board comprising all the independent non-executive Directors, formed for the purpose of advising the Independent Shareholders in relation to the Connected Lease Agreements and the transaction contemplated thereunder
"Independent Financial Adviser" or "Red Sun"	Red Sun Capital Limited, a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and the independent financial adviser that has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Lease Agreements and the transactions contemplated thereunder
"Independent Landlord"	Shenzhen Shajing Shayi Stock Cooperative Company (深圳市沙井沙一股份合作公司), a company incorporated in the PRC, which is held as to approximately 85% and 15% by village co-operative of Sha-i village and Shenzhen Sha-i Asset Management Association respectively as at the Latest Practicable Date
"Independent Lease Agreement"	the lease agreement entered into between the Independent Landlord and Tenant I in respect of the leasing of Independent Premises
"Independent Premises"	Certain retail spaces located at the intersection of Xinqiao Street Zhongxin Road West and Haoxiang Road South, Baoan District, Shenzhen, Guangdong Province, the PRC (深圳市寶安區新橋街道中心路西與蠔鄉路南交匯處) owned by the Independent Landlord
"Independent Shareholders"	Shareholders other than Mr. Zhuang and his associates

"Jiahua Group"	Shenzhen Baijiahua Group Company Limited (深圳市百佳華集團有限公司), a company incorporated in the PRC with limited liability, which is held as to 90% by Mr. Zhuang and 10% by Mrs. Zhuang as at the Latest Practicable Date
"Latest Practicable Date"	20 June 2023, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
"Lease Agreements"	the Commercial Lease Agreement, the Long-Term Lease Agreement and the Independent Lease Agreement
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Long-Term Lease Agreement"	the long-term lease agreement entered into between the Connected Landlord and Tenant I in respect of the leasing of Retail Premises
"Mr. Zhuang"	Mr. Zhuang Lu Kun, an executive Director
"Mrs. Zhuang"	Mrs. Zhuang Su Lan, spouse of Mr. Zhuang
"PRC"	the People's Republic of China, which for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Premises"	the Commercial Premises, the Retail Premises and the Independent Premises
"Retail Lease Agreements"	the Long-Term Lease Agreement and the Independent Lease Agreement
"Retail Premises"	Certain retail spaces located at the intersection of Xinqiao Street Zhongxin Road West and Haoxiang Road South, Baoan District, Shenzhen, Guangdong Province, the PRC (深圳市寶安區新橋街道中心路西與蠔鄉路南交匯處) owned by the Connected Landlord
"RMB"	Renminbi, the lawful currency of the PRC
"Share(s)"	Shares of the Company
"Shareholder(s)"	holder(s) of Share(s)

"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Tenants"	Tenant I and Tenant II
"Tenant I"	Shenzhen Baijiahua Commercial Management Limited (深圳市百佳華商業管理有限公司), a company incorporated in the PRC, a wholly-owned subsidiary of the Company
"Tenant II"	Shenzhen Baijiahua Department Stores Company Limited (深圳市百佳華百貨有限公司), a wholly owned subsidiary of the Company and a wholly foreign-owned enterprise incorporated in the PRC with limited liability
"%"	per cent.

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)

Executive Directors:
Mr. Zhuang Lu Kun *(Chairman)*
Mr. Zhuang Pei Zhong
Mr. Zhuang Xiao Xiong

Independent non-executive Directors:
Mr. Chin Kam Cheung
Mr. Sun Ju Yi
Mr. Ai Ji

Registered office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head office and principal place of business in Hong Kong:
Suite 715, 7th Floor
Ocean Centre, Harbour City
5 Canton Road
Tsimshatsui
Kowloon
Hong Kong

27 June 2023

To the Shareholders,

Dear Sirs or Madams,

VERY SUBSTANTIAL ACQUISITIONS AND CONNECTED TRANSACTION IN RELATION TO THE CONNECTED LEASE AGREEMENTS

1. INTRODUCTION

Reference is made to the announcement of the Company dated 27 April 2023 in relation to the entering into the Lease Agreements.

On 27 April 2023 (after trading hours), the Tenants entered into the Lease Agreements with the Connected Landlord and Independent Landlord in respect of the leasing of certain properties for the operation of the Group's shopping mall and for sub-leasing purposes respectively.

The purpose of this circular is to provide you with information regarding the resolutions proposed at the EGM in relation to (i) further details of the Lease Agreements and the transactions contemplated thereunder; (ii) a letter setting out the opinions and recommendations from the Independent Board Committee to the Independent Shareholders regarding the Connected Lease Agreements; (iii) the advice provided by the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders regarding the Lease Agreements; (iv) the valuation report on the market rent of the Premises and (v) a notice convening the EGM.

2. THE LEASE AGREEMENTS

(a) The Long-Term Lease Agreement

Parties:	Connected Landlord as the landlord of the Retail Premises Tenant I as the tenant of the Retail Premises
Premises:	The Retail Premises comprised of certain retail spaces located at the intersection of Xinqiao Street Zhongxin Road West and Haoxiang Road South, Baoan District, Shenzhen, Guangdong Province, the PRC (深圳市寶安區新橋街道中心路西與蠔鄉路南交匯處) with a total area of 34,945.39 sq.m. owned by the Connected Landlord
Term:	1 May 2023 to 30 April 2038 (both days inclusive)
Rent-Free period:	1 May 2023 to 31 October 2024
Rent:	An initial monthly rent of RMB1,223,088.65 per month (approximately RMB35 per sq.m. per month), with a 10% increment on the monthly rent for every 5 years

Period	Rent per sq.m	Rent per month
1 May 2023 to 31 October 2024	–	–
1 November 2024 to 31 October 2029	RMB35	RMB1,223,088.65
1 November 2029 to 31 October 2034	RMB38.5	RMB1,345,397.52
1 November 2034 to 30 April 2038	RMB42.35	RMB1,479,937.26

In the event Tenant I rents a premise located in the same area from an independent third party at a monthly rent per sq.m lower than that stipulated in the Long-Term Lease Agreement, the monthly rent per sq.m of the premises will be adjusted to match that amount offered by the independent third party

Monthly rent is payable by way of bank transfer before the 5th of each month and will be financed by internal resources of the Company

Deposit: A rental deposit of RMB1,223,088.65 payable by Tenant I to the Connected Landlord

Usage: For commercial purposes

(Tenant I intended to rent the Retail Premises together with Independent Premises, for the operation of the Group's shopping mall)

Sub-let: The Connected Landlord allows Tenant I to sub-lease any part of the Premises to other independent parties provided that the usage purpose and structure of the Retail Premises remain unchanged

Termination: The Long-Term Lease Agreement may be terminated among other things, the mutual agreement between Tenant I and the Connected Landlord

	Should the Long-Term Lease Agreement be terminated by Tenant I as a result of the compliance of the Listing Rules, Tenant I would not be responsible for any damages or payable to the Connected Landlord A shopping mall will be operated by occupying both the Retail Premises and the Independent Premises. Hence if the Independent Landlord early terminated the Independent Lease Agreement or does not renew the Independent Lease Agreement, Tenant I shall have the right to terminate the Long-Term Lease Agreement and Tenant I would not be responsible for any damages or payable to the Connected Landlord
Condition precedent:	Effectiveness of the Long-Term Lease Agreement is conditional upon obtaining approval in the EGM

Note: As at the Latest Practicable Date, the rental deposit has been settled. Should the Long-Term Lease Agreement will not be approved at the EGM, the deposit will be refunded by the Connected Landlord.

Save for the condition precedent above, the Long-Term Lease Agreement is not subject to any other conditions precedent. As at the Latest Practicable Date, none of the condition precedent of the Long-Term Lease Agreement has been fulfilled.

When determining the basis of the 10% increment on the monthly rent for every 5 years, the Company has taken into consideration the terms of the lease agreements entered into by the Group with independent third parties in relation to the leasing out of the Group's investment properties and noted that such increment adjustment clauses were also incorporated to such lease agreements. According to the management of the Group, the percentage of adjustment depends on among other things, the size of the rental property as well as the initial rent, with a relatively low initial rent, the adjustment will normally be higher. When estimating the 10% increment, the Company took into consideration the increment percentage of the Independent Lease Agreement, which was entered into with a independent third party, of which the increment percentage was also set at 10%.

The terms of the Long-Term Lease Agreement (including the rent) were determined after arm's length negotiations between the parties, with reference to standard terms of the lease agreements adopted for lease of similar properties and taking into account the initial market rental prices of the Independent Premises.

When determining the rent of the Long-Term Lease Agreement, the Company considered the rent agreed with the Independent Landlord for the leasing of the Independent Premises which are located at the same building complex of the Retail Premises. The initial rent of the Independent Premises was endorsed by a fair rent letter dated 27 April 2023 prepared by Valor Appraisal & Advisory Limited, an independent professional property valuer, that the initial monthly rent of the Independent Premises as of the date of the valuation certificate is reasonable in the market and on normal commercial terms.

As the size of the Retail Premises is larger than the Independent Premises, the Company further negotiated a discount on top of the initial rent of the Independent Premises (RMB42 per sq. meter) and agreed at the initial rent of RMB35 per sq. meter. for the Retail Premises.

(b) The Commercial Lease Agreement

Parties:	The Connected Landlord as the landlord of the Commercial Premises Tenant II as the tenant of the Commercial Premises
Premises:	The Commercial Premises are located at 1st Floor, Building 1, Jiahua Shuyuan Yage, Dabao South Road, Xinan Street, Baoan District, Shenzhen, Guangdong Province, the PRC (深圳市新安街道大寶路南側佳華書苑雅閣1棟商場01層) with a total area of 2,693.69 sq.m.
Term:	3 years commencing from 1 June 2023 to 31 May 2026 (both days inclusive)
Rent:	A monthly rent of RMB62,224.23 per month (approximately RMB23.1 per sq.m. per month) Monthly rent is payable before the 5th of each month by way of bank transfer and will be financed by internal resources of the Company
Deposit:	A rental deposit of RMB62,224.23 payable by Tenant II to the Connected Landlord upon handover
Usage:	For commercial purposes (Tenant II intended to sub-lease the Commercial Property to independent third parties)
Sub-let:	The Connected Landlord allows Tenant II to sub-lease part of or the entire Commercial Premises with the written approval of the Connected Landlord to other independent parties provided that the term is within the lease term of the Commercial Lease Agreement

First right of purchase:	In the event the Connected Landlord intends to transfer part of or its entire interest in the Commercial Premises to another party, the Landlord should inform Tenant II of its intention one month before the intended transfer by way of written notice and within 10 days of receiving such written notice Tenant II shall have the first right to purchase the interests in the Commercial Premises
Termination:	The Commercial Lease Agreement may be terminated among other things, the mutual agreement between Tenant II and the Connected Landlord Should the Commercial Lease Agreement be terminated by Tenant II by way of written notice as a result of the compliance of the Listing Rules, Tenant II would not be responsible for any damages or payable to the Landlord
Others:	Should the Commercial Lease Agreement be renewed in 3 years' time, a 5% increment on the rent will apply

Note: As at the Latest Practicable Date, the rental deposit has been settled. Should the Commercial Lease Agreement will not be approved at the EGM, the deposit will be refunded by the Connected Landlord.

The terms of the Commercial Lease Agreement (including the rent) were determined after arm's length negotiations between the parties, with reference to standard terms of the lease agreements adopted for lease of similar properties and taking into account the initial market rental of the Commercial Premises (which was endorsed by a fair rent letter dated 27 April 2023 prepared by Valor Appraisal & Advisory Limited, an independent professional property valuer, that such monthly rent as of the date of the valuation certificate is reasonable in the market and on normal commercial terms).

(c) The Independent Lease Agreement

Parties:	Independent Landlord as the landlord of the Independent Premises Tenant I as the tenant of the Independent Premises
Premises:	Independent Premises comprised of certain retail spaces located at the intersection of Xinqiao Street Zhongxin Road West and Haoxiang Road South, Baoan District, Shenzhen, Guangdong Province, the PRC (深圳市寶安區新橋街道中心路西與蠔鄉路南交匯處) with a total area of 18,730.09 sq.m. owned by the Independent Landlord

Term and rental payment period: 1 April 2024 to 28 February 2034 (both days inclusive)

Rent: An initial monthly rent of RMB786,663.78 per month (approximately RMB42 per sq.m. per month), with a 10% increment on the monthly rent for every 3 years

Period	**Rent per sq.m**	**Total rent per month**
1 April 2024 to 31 March 2027	RMB42.0	RMB786,663.78
1 April 2027 to 31 March 2030	RMB46.2	RMB865,330.16
1 April 2030 to 31 March 2033	RMB50.82	RMB951,863.17
1 April 2033 to 28 February 2034	RMB55.90	RMB1,047,012.03

First monthly rental payment shall be paid on or before 10 April 2024 by way of bank transfer and will be financed by internal resources of the Company

Monthly rent is payable before the 10th of each month. Late fee of 0.5% on the outstanding rental amount will be charged

Deposit: A rental deposit of RMB2,359,991.34 shall be payable by Tenant I to the Independent Landlord 3 days after the execution of the Independent Lease Agreement

Insurance: Tenant I shall purchase relevant property insurance in the benefit of the Independent Landlord in respect of the Independent Premises and the ancillary facilities within 30 days from the execution of the Independent Lease Agreement

Renovation and safety: Tenant I shall comply with relevant fire safety requirements

	Any renovation shall not alter the structure of the Independent Premises, advertisement signage shall be erected after complying with relevant government regulations and registration procedures
Usage:	For commercial purposes (Tenant I intended to rent the Independent Premises together with Retail Premises, for the operation of the Group's shopping mall) Usage of the Independent Premises shall not be altered prior to obtaining the Independent Landlord's approval and upon compliance of relevant rules and regulatory requirements
Sub-let:	The Independent Landlord allows Tenant I to sub-lease any part of the Premises to other independent parties provided that the usage purpose and structure of the Independent Premises remains unchanged, complies with relevant rules and regulations and the sub-let term shall not exceed the term of the Independent Lease Agreement
Termination and renewal:	The Independent Lease Agreement may only be terminated among other things, (i) the mutual agreement between Tenant I and the Independent Landlord; (ii) occurrence of force majeure events; and (iii) any change of rules and regulations If Tenant I intended to renew the Independent Lease Agreement, Tenant I shall notify the Independent Landlord by way of written notification 12 months prior to the expiry of the Independent Lease Agreement Tenant I shall have the first right to renew the Independent Lease Agreement should the terms offered by Tenant I are comparable to terms offered by other parties
Condition precedent:	Effectiveness of the Independent Lease Agreement is conditional upon obtaining approval in the EGM

Note: As at the Latest Practicable Date, the rental deposit has been settled. Should the Independent Lease Agreement will not be approved at the EGM, the deposit will be refunded by the Independent Landlord.

Saved for the condition precedent above, the Independent Lease Agreement is not subject to any other conditions precedent. As at the Latest Practicable Date, none of the condition precedent of the Independent Lease Agreement has been fulfilled.

When determining the basis of the 10% increment on the monthly rent for every 3 years, the Company has taken into consideration the terms of the lease agreements entered into by the Group with other independent third parties in relation to the leasing out of the Group's investment properties and noted that such increment adjustment clauses were also incorporated to such lease agreements. According to the management of the Group, increment adjustment clauses were common for long-term lease agreements. For determining the 10% increment, the Group had took into consideration the rental agreement of other third party with rental property in the same district with increment rates from 5–10%. In view of such, the Company considered a 10% increment to be acceptable.

The terms of the Independent Lease Agreement (including the rent) were determined after arm's length negotiations between the parties, with reference to standard terms of the lease agreements adopted for lease of similar properties. The initial rent of the Independent Premises was also endorsed by a fair rent letter dated 27 April 2023 prepared by Valor Appraisal & Advisory Limited, an independent professional property valuer that such monthly rent as of the date of the valuation certificate is reasonable in the market and on normal commercial terms.

3. METHODS AND PROCEDURES ADOPTED BY THE COMPANY TO DETERMINE THE PRICING AND TERMS OF THE LEASE AGREEMENTS

The Group would perform due diligence on properties prior to leasing them so as to ensure that the landlord is the real owner and has the right to lease the property in accordance with the PRC laws, rules and regulations.

The Company had conducted due diligence on the relevant premises before entering into the Lease Agreements and has already conducted due diligence on the relevant premises under the Lease Agreements. The Directors were satisfied that the relevant parties have the authority to enter into the respective Lease Agreements and have the right to lease such premises in accordance with the PRC laws, rules and regulations.

The terms of the Lease Agreements (including the monthly rent) were determined after arm's length negotiations between the Group and the respective lessors with reference to the prevailing market price of similar properties in the vicinity.

In determining whether the rents under the Lease Agreements were comparative to market level of similar properties in the locality, prior to entering into any property lease agreement, an independent professional valuer will be appointed by the Group to conduct relevant market research and to form an opinion that the rent charged in the relevant lease agreement will be in line with market price.

4. FINANCIAL INFORMATION OF THE PREMISES AND FINANCIAL EFFECTS OF THE LEASE AGREEMENTS OF THE GROUP

Pursuant to HKFRS16, the right to use the Premises leased under the Lease Agreements will be recognised as a right-of-use asset. Upon commencement of the lease, the value of the right-of-use asset would be calculated with reference to the aggregated present value of the fixed lease payments as discounted by a discount rate which is the theoretical incremental borrowing rate of the Company ranging from 13.095% to 13.647% as at 21 April 2023. Along with the recognition of the estimated value of the right-of-use asset of approximately RMB72.1 million, RMB1.8 million and RMB53.9 million for the Retail Premises, the Commercial Premises and the Independent Premises respectively, an estimated lease liability amounted to approximately RMB72.1 million, RMB1.8 million and RMB53.9 million for the Retail Premises, the Commercial Premises and the Independent Premises respectively will be recognized by the Group. The right-of-use asset and lease liability will be recognized at the discount rate prevailing at the point of recognition.

No identifiable net income was identified in respect of the Retail Premises and the Independent Premises, as the shopping mall to be operated at the Retail Premises and the Independent Premises has yet to commence operation. Set out below is the unaudited profit and loss statements of identifiable net income stream attributable to the Commercial Premise for the two years ended 31 December 2021 and 2022:

	For the year ended 31 December	
	2021	**2022**
	RMB'000	*RMB'000*
Revenue	807	820
Profit before income tax expenses	33	93
Profit after income tax expenses	25	70

5. REASONS FOR AND BENEFITS OF ENTERING INTO THE LEASE AGREEMENTS

The Group is principally engaged in property investment and operation and management of retail stores and shopping mall in the PRC. The Group commenced tapping into the operation of shopping mall in 2017 by opening its first shopping mall in Shenzhen. As at the Latest Practicable Date, there are 8 retail stores and 2 shopping malls under the Group's operation.

To further expand the retail network of the Group, the Group entered into the Retail Lease Agreements with the Connected Landlord and Independent Landlord, to rent the relevant retail space for the opening of a new shopping mall in Baoan District, Shenzhen, Guangdong Province, the PRC.

The Group have also been renting the Commercial Premises from the Connected Landlord since 2009 for sub-letting such space to the Group's tenants. As the current commercial lease agreement will expire in May 2023, Tenant II entered into the Commercial Lease Agreement with the Connected Landlord to renew the lease term for on-going sub-letting of the Commercial Premises.

In view of such, the Directors (including the independent non-executive Directors in respect of the Connected Lease Agreements) are of the view that the transactions contemplated under the Lease Agreements are conducted (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms; and that (iii) the terms contemplated under the Lease Agreements are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

6. LISTING RULES IMPLICATIONS

Pursuant to HKFRS 16, the entering into the Lease Agreements as a lessee will require the Group to recognise the right-of-use of the Premises as the right-of-use assets of an estimated aggregate value of approximately RMB127.8 million on its consolidated statement of financial position. Thus, the entering into the Lease Agreements and the transactions contemplated thereunder will be regarded as acquisition of assets by the Group under the Listing Rules.

As on an aggregate basis, certain applicable percentage ratios as defined under the Listing Rules in respect of the acquisition of right-of-use asset to be recognized by the Group under the Retail Lease Agreements are more than 100%, the entering into of the Retail Lease Agreements constitutes a very substantial acquisition of the Company and is subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, as at the Latest Practicable Date, Mr. Zhuang, the controlling Shareholder, executive Director and Chairman of the Company is interested in 535,485,000 Shares representing approximately 51.61% of the total issued Shares and is a connected person of the Company.

As the Connected Landlord is a company beneficially owned by Mr. Zhuang and Mrs. Zhuang, his spouse, the Connected Landlord is therefore also a connected person of the Company under the Listing Rules. Accordingly, the entering into the Connected Lease Agreements constitutes connected transactions of the Company. As the total lease payment in respect of the Connected Lease Agreements are more than HK$10 million, the entering into the Connected Lease Agreements is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As Mr. Zhuang and Mr. Zhuang Xiao Xiong are connected persons and have material interest in the transaction stipulated in the Connected Lease Agreements, they have abstained from voting on the board resolutions.

An Independent Board Committee has been formed to advise the Independent Shareholders in connection with the terms of the Connected Lease Agreements, and Red Sun has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the same matters.

The EGM will be convened and held for the relevant Shareholders to consider and, if thought fit, approve the Lease Agreements and the transactions contemplated thereunder. In view of the interest of Mr. Zhuang and Mrs. Zhuang in the Connected Landlord, Mr. Zhuang, Mrs. Zhuang and their respective associates (including Mr. Zhuang Xiao Xiong, son of Mr. Zhuang and Mrs. Zhuang, Ms. Chen Li Jun, daughter-in-law of Mr. Zhuang and Mrs. Zhuang, and Ms. Zhuang Xiao Yun, daughter of Mr. Zhuang and Mrs. Zhuang) will abstain from voting in relation to the resolution(s) to approve the Connected Lease Agreements at the EGM.

Save for the aforesaid and to the Directors' best knowledge, information and belief and having made all reasonable enquiries, as at the Latest Practicable Date, no other Shareholder has a material interest in the Lease Agreements and therefore no other Shareholder is required to abstain from voting on the resolution approving the Lease Agreements and the transactions contemplated thereunder at the EGM.

7. INFORMATION ON THE GROUP

The Group is principally engaged in property investment and operation and management of retail stores and shopping mall in the PRC. The Group commenced tapping into the operation of shopping mall in 2017 by opening its first shopping mall in Shenzhen. As at the Latest Practicable Date, there are 8 retail stores and 2 shopping malls under the Group's operation.

8. INFORMATION ON THE PREMISES, THE TENANTS AND THE LANDLORD

The Retail and Independent Premises

The Retail and Independent Premises are located in the intersection of Xinqiao Street Zhongxin Road West and Haoxiang Road South, Baoan District, Shenzhen, Guangdong Province, the PRC. The Retail and Independent Premises were developed by the Connected Landlord and was completed in August 2022 with a total cost of approximately RMB294.3 million and RMB157.7 million respectively, in total amounting to RMB452.0 million. The Retail and Independent Premises will be recognized as a right-of-use asset with estimated value of approximately RMB126.0 million as assessed by an independent professional valuer in April 2023. Tenant I is expected to occupy the Retail and Independent Premises and commence operation of a new shopping mall in 2023.

The Commercial Premises

The Commercial Premises are located at 1st Floor, Building 1, Jiahua Shuyuan Yage, Dabao South Road, Xinan Street, Baoan District, Shenzhen, Guangdong Province, the PRC. The Commercial Premises were developed by the Connected Landlord in 2008 at a total cost of approximately RMB47 million. The Commercial Premises will be recognized as a right-of-use asset with estimated value of approximately RMB1.8 million as assessed by an independent professional valuer in April 2023. The Commercial Premises have been sub-let by Tenant II to independent third parties for commercial purposes.

The Tenants

Tenant I is a wholly-owned subsidiary of the Company and is principally engaged in operation and management of shopping malls in the PRC.

Tenant II is a wholly owned subsidiary of the Company and a wholly foreign-owned enterprise incorporated in the PRC with limited liability and is principally engaged in the operation and management of retail stores in the PRC.

The Connected Landlord

The Connected Landlord is principally engaged in property development and property management in the PRC. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, the Connected Landlord is held as to 18% by Mrs. Zhuang and 82% by Jiahua Group which is held as to 90% by Mr. Zhuang and 10% by Mrs. Zhuang as at the Latest Practicable Date.

The Independent Landlord

The Independent Landlord is principally engaged in trading, property letting and building management in the PRC. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, the Independent Landlord is held as to approximately 85% and 15% by village co-operative of Sha-i village and Shenzhen Sha-i Asset Management Association respectively as at the Latest Practicable Date.

To the best of the knowledge of the Directors, the village co-operative of Sha-i village (the "**Co-operative**") is owned by over 500 individuals, with no individual holding more than 0.55% interest in the Independent Landlord, while Shenzhen Sha-i Asset Management Association is beneficially held by Shenzhen Administration For Market Regulation.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, the Independent Landlord and its ultimate beneficial owners are third parties independent of the Company and connected persons of the Company.

9. EGM

A notice convening the EGM to be held at 4/F., Jiahua Ming Yuan, 2146 Xinhu Road, Baoan Central District, Shenzhen, the PRC on Thursday, 13 July 2023 at 2:30 p.m., is set out on pages EGM-1 to EGM-4 of this circular.

A form of proxy for use at the EGM is enclosed with this circular and such form of proxy is also published on the websites of Hong Kong Exchange and Clearing Limited (www.hkexnews.hk) and the Company (www.szbjh.com). To be valid, the form of proxy must be completed and signed in accordance with the instructions printed thereon and deposited, together with the power of attorney or other authority (if any) under which it is signed or a certified copy of such power or authority to the Company's branch share registrar in Tricor Investor Services Limited of 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting if you so wish and in such event, the instrument appointing a proxy shall be deemed to be revoked. A Shareholder being a depositor whose name appears in the Depository Register is entitled to appoint a proxy to attend and vote in his/her stead. A proxy need not be a member of the Company.

10. RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 20 to 21 of this circular and the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out on pages 22 to 55 of this circular in connection with the transactions contemplated under the Lease Agreements and the principal factors and reasons considered by the Independent Financial Adviser in arriving at such advice. Mr. Zhuang and Mr. Zhuang Xiao Xiong, who have material interests in the Connected Lease Agreements and the transactions contemplated thereunder, have abstained from voting on the Board resolutions approving the Connected Lease Agreements and the transactions contemplated thereunder.

Accordingly, the Independent Board Committee, having taken into account the advice of Independent Financial Adviser, considers that the Connected Lease Agreements was entered into in the ordinary and usual course of business of the Group and on normal commercial terms. In addition, the Independent Board Committee considers that the Connected Lease Agreements and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution to approve the Connected Lease Agreements, the transactions contemplated under it at the EGM. The Board (including the independent non-executive Directors) also recommends the Independent Shareholders to vote in favour of the resolution to approve the Connected Lease Agreements and the transactions contemplated thereunder at the EGM as set out in the notice of EGM.

In respect of the Independent Lease Agreement, the Directors consider that the terms of the Independent Lease Agreement are fair and reasonable so far as the Company and the Shareholders are concerned, and is in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolution to be proposed at the EGM to approve Independent Lease Agreement and the transactions contemplated thereunder.

11. VOTING BY POLL

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Therefore, the resolution put to the vote at the EGM will be taken by way of poll. The chairman of the EGM will explain the detailed procedures for conducting a poll at the commencement of the EGM.

After the conclusion of the EGM, the poll results will be published on the respective websites of the Stock Exchange and the Company.

12. ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the Appendixes to this circular.

Yours faithfully,
For and on behalf of the Board
Jiahua Stores Holdings Limited
Mr. Zhuang Lu Kun
Chairman

The following is the letter of advice from the Independent Board Committee to the Independent Shareholders, which has been prepared for the purpose of this circular.

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)

27 June 2023

To: the Independent Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE CONNECTED LEASE AGREEMENTS

We refer to the circular of the Company dated 27 June 2023 (the "**Circular**") of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used herein.

We have been appointed by the Board to form the Independent Board Committee to consider and advise the Independent Shareholders as to whether, in our opinion, the Connected Lease Agreements and the transactions contemplated, thereunder was entered into in the ordinary and usual course of business of the Group on normal commercial terms, and the terms of the Connected Lease Agreements and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Having considered the terms of the Connected Lease Agreements and the advice of Independent Financial Adviser in relation thereto as set out on pages 22 to 55 of this Circular, we are of the opinion that the Connected Lease Agreements was entered into in the ordinary and usual course of business of the Group; on normal commercial terms, and the terms of the Connected Lease Agreements and the transactions contemplated thereunder are in the interests of the Company and its Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned.

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Connected Lease Agreements and the transactions thereunder.

Yours faithfully,
Independent Board Committee

Mr. Chin Kam Cheung	**Mr. Sun Ju Yi**	**Mr. Ai Ji**

Independent Non-executive Director

The following is the full text of the letter from the Independent Financial Adviser which sets out its advice to the Independent Board Committee and Independent Shareholders regarding the Lease Agreements and the transactions contemplated thereunder, which has been prepared for the purpose of inclusion in this circular.

紅日資本有限公司
RED SUN CAPITAL LIMITED

Room 310, Floor 3,
China Insurance Group Building,
141 Des Voeux Road Central,
Hong Kong

Tel: (852) 2857 9208
Fax: (852) 2857 9100

27 June 2023

To: The Independent Board Committee and the Independent Shareholders of
Jiahua Stores Holdings Limited

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITIONS
AND CONNECTED TRANSACTION
IN RELATION TO THE CONNECTED LEASE AGREEMENTS

I. INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Lease Agreements and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company to the Shareholders dated 27 June 2023 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 27 April 2023 (after trading hours), the Tenants entered into the Lease Agreements with the Connected Landlord and Independent Landlord in respect of the leasing of certain properties for the operation of the Group's shopping mall and for sub-leasing purposes respectively.

Pursuant to HKFRS 16, the entering into the Lease Agreements as a lessee will require the Group to recognise the right-of-use of the Premises as the right-of-use assets of an estimated aggregate value of approximately RMB127.8 million on its consolidated statement of financial position. Thus, the entering into the Lease Agreements and the transactions contemplated thereunder will be regarded as acquisition of assets by the Group under the Listing Rules.

As on an aggregate basis, certain applicable percentage ratios as defined under the Listing Rules in respect of the acquisition of right-of-use asset to be recognized by the Group under the Retail Lease Agreements are more than 100%, the entering into of the Retail Lease Agreements constitutes a very substantial acquisition of the Company and is subject to the reporting, announcement, circular and Shareholder's approval requirements under Chapter 14 of the Listing Rules.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, as at the Latest Practicable Date, Mr. Zhuang, the controlling Shareholder, executive Director and Chairman of the Company is interested in 535,485,000 Shares representing approximately 51.61% of the total issued Shares and is a connected person of the Company.

As the Connected Landlord is a company beneficially owned by Mr. Zhuang and Mrs. Zhuang, his spouse, the Connected Landlord is therefore also a connected person of the Company under the Listing Rules. Accordingly, the entering into the Connected Lease Agreements constitutes connected transactions of the Company. As the total lease payment in respect of the Connected Lease Agreements are more than HK$10 million, the entering into the Connected Lease Agreements is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

In view of the interest of Mr. Zhuang and Mrs. Zhuang in the Connected Landlord, Mr. Zhuang, Mrs. Zhuang and their respective associates (including Mr. Zhuang Xiao Xiong, son of Mr. Zhuang and Mrs. Zhuang, Ms. Chen Li Jun, daughter-in-law of Mr. Zhuang and Mrs. Zhuang, and Ms. Zhuang Xiao Yun, daughter of Mr. Zhuang and Mrs. Zhuang) will abstain from voting in relation to the resolution(s) to approve the Connected Lease Agreements at the EGM.

Should there be any subsequent material changes which occur during the period from the Latest Practicable Date up to the date of the EGM, we will notify the Independent Board Committee and the Independent Shareholders as soon as possible.

II. THE INDEPENDENT BOARD COMMITTEE

The Board consists of six Directors, namely Mr. Zhuang Lu Kun (Chairman), Mr. Zhuang Pei Zhong (Chief Financial Officer) and Mr. Zhuang Xiao Xiong as executive Directors, Mr. Chin Kam Cheung, Mr. Sun Ju Yi and Mr. Ai Ji as independent non-executive Directors.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Chin Kam Cheung, Mr. Sun Ju Yi and Mr. Ai Ji, has been formed to advise the Independent Shareholders as to whether the terms of the Connected Lease Agreements are on normal commercial terms and in the ordinary and usual course of business of the Group, and are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

We have been appointed to advise the Independent Board Committee and the Independent Shareholders in these respects and to give our opinion in relation to the Lease Agreements, for the Independent Board Committee's consideration when making their recommendation to the Independent Shareholders.

III. OUR INDEPENDENCE

As at the Latest Practicable Date, we were independent from and not connected with the Company, the Connected Landlord and their respective shareholders, directors or chief executives, or any of their respective associates and accordingly, are qualified to give independent advice to the Independent Board Committee and the Independent Shareholders regarding the Lease Agreements.

Save for our appointment as the independent financial adviser for the discloseable and connected transaction in relation to the long-term lease agreement, the circular of which was dated 22 December 2021, there was no engagement between the Company and Red Sun Capital Limited in the last two years.

Apart from the normal professional fees paid or payable to us in connection with this appointment and the engagement as stated above as the Independent Financial Adviser, no arrangement exists whereby we have received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant in assessing our independence. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.

IV. BASIS AND ASSUMPTIONS OF THE ADVICE

In formulating our advice, we have relied solely on the statements, information, opinions, beliefs and representations for matters relating to the Group and their respective shareholders and management contained in the Circular and the information and representations provided to us by the Group and/or its senior management (the "**Management**") and/or the Directors. We have assumed that all information, representations and opinions contained or referred to in the Circular, which have been provided by the Company, the Directors and the Management and for which they are solely and wholly responsible, were true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have assumed that all such statements, information, opinions, beliefs and representations contained or referred to in the Circular (including this letter) or otherwise provided or made or given by the Group and/or the Management and/or the Directors and for which it is/they are solely responsible were true and accurate, and valid and complete in all material respects at the time they were made and given and continue to be true and accurate, and valid and complete in all material respects as at the date of the Circular. We have assumed that all the opinions, beliefs and representations for matters relating to the Group, made or provided by the Management and/or the Directors contained in the Circular have been reasonably made after due and careful enquiry. We have also sought and obtained confirmation from the Company and/or the Management and/or the Directors that no material facts have been omitted from the information provided and referred to in the Circular.

We consider that we have been provided with sufficient information and documents to enable us to reach an informed view in compliance with Rule 13.80 of the Listing Rules, which included, among others (i) the Lease Agreements and reviewed the terms thereunder; (ii) the announcement of the Company dated 27 April 2023 (the "**Announcement**"); (iii) reviewed the contents as set out in the Circular, including the reasons for and benefits of entering into the Lease Agreements; (iv) reviewed the information as set out in the 2021 Annual Report (defined hereafter), the 2022 Annual Report (define hereafter) and the 2022 Interim Report (defined hereafter) for our analysis on the background and historical financial performance of the Group; (v) conducted market research on the background information on the retail industry in the PRC; (vi) reviewed the valuation report (the "**Valuation Report**") and the fair rent letters prepared by Valor Appraisal & Advisory Limited (the "**Valuer**"); and (vii) conducted market research in assessing the leasing term of the Lease Agreements. The Management has assured us no material information has been withheld from us to allow us to reasonably rely on the information provided so as to provide a reasonable basis for our advice. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions, beliefs and representations provided to us by the Group and/or the Management and/or the Directors and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into information provided by the Directors and the Management, background, business or affairs or future prospectus of the Company and their respective shareholder(s) and subsidiaries or affiliates, and their respective history, experience and track records, or the prospects of the markets in which they respectively operate.

This letter is issued to the Independent Board Committee and the Independent Shareholders solely for their consideration of the Lease Agreements, and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

V. PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendations to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Lease Agreements, we have taken into consideration the following principal factors and reasons:

1. Background information of the Group

As set out in the Letter from the Board, the Group is principally engaged in property investment and operation and management of retail stores and shopping mall in the PRC.

Set out below is a summary of (i) the audited consolidated statements of profit or loss and comprehensive income and consolidated statements of financial position for the years ended 31 December 2020, 2021 and 2022 as extracted from the Company's annual report for the year ended 31 December 2021 (the "**2021 Annual Report**"); (ii) the annual report for the year ended 31 December 2022 (the "**2022 Annual Report**"); and (iii) unaudited consolidated financial results for the six months ended 30 June 2021 and 2022 as set out in the Company's interim report for the six months ended 30 June 2022 (the "**2022 Interim Report**"), respectively:

Summary of consolidated statements of profit or loss and comprehensive income

	For the year ended 31 December			**For the six months ended 30 June**	
	2020	**2021**	**2022**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Unaudited)
Revenue					
– Operation and management of retail stores and other related businesses	422,052	428,400	330,001	243,715	165,934
– Provision of financing services	6,005	5,837	5,271	3,283	2,774
Total revenue	428,057	434,237	335,272	246,998	168,708
Loss before tax	(193,527)	(100,263)	(110,389)	(29,253)	(25,053)
Loss attributable to owners of the Company	**(194,461)**	**(100,114)**	**(107,897)**	**(30,364)**	**(26,335)**

For the six months ended 30 June 2022 compared to the six months ended 30 June 2021

For the six months ended 30 June 2022, the revenue decreased by approximately RMB78.3 million or approximately 31.7%, from approximately RMB247.0 million for the six months ended 30 June 2021 to approximately RMB168.7 million for the six months ended 30 June 2022. The decrease in revenue of the Group was mainly attributable to the decrease in revenue from (i) operation and management of retail stores and other related businesses; and (ii) provision of financing services.

As set out in the 2022 Interim Report, revenue from operation and management of retail stores and other related businesses decreased to approximately RMB165.9 million for the six months ended 30 June 2022 from approximately RMB243.7 million for the corresponding period of 2021, representing a period-on-period decrease of approximately 31.9%. Revenue from provision of financing services decreased to approximately RMB2.8 million for the six months ended 30 June 2022 from approximately RMB3.3 million for the corresponding period of 2021, representing a period-on-period decrease of approximately 15.2%. The decrease in revenue was mainly attributable to (i) decrease of approximately RMB65.0 million in sales of good which mainly due to the closure of three retail stores, namely Shajing Shenzhen, Yanbu Foshan, and Taiyuan Guangxi stores (the "**Closure Stores**"), the divestment of foreign enterprise resulting in closure of factory, and the persistent of the pandemic; (ii) decrease of approximately RMB1.0 million in commissions from concessionaire sales which mainly due to the Closure Stores, the divestment of foreign enterprise resulting in closure of factory, and the persistent of the pandemic; (iii) decrease of approximately RMB10.0 million in rental income from sub-leasing shop premises which mainly due to the Closure Stores, the divestment of foreign enterprise resulting in closure of factory, and the persistent of the pandemic; (iv) decrease of approximately RMB2.0 million in rental income from sub-leasing shopping malls which mainly due to the persistent of the pandemic; and (v) decrease of approximately RMB0.5 million in interest income from financing business which mainly due to the decrease in business from a major customer. However, there was an increase of approximately RMB0.2 million in rental income from investment properties, partly offsetting the overall decrease in revenue. The decrease in revenue was mainly due to the general decline in consumption spirit in the society during the pandemic, the enhancement work of the some of the stores of the Group, and the closure of three stores.

It is noted that loss attributable to owners of the Company decreased by approximately RMB4.1 million or approximately 13.5%, from approximately RMB30.4 million for the six months ended 30 June 2021 to approximately RMB26.3 million for the six months ended 30 June 2022. Such decrease was mainly attributable to the decrease in other operating expenses of approximately RMB1.3 million from approximately RMB1.5 million for the six months ended 30 June 2021 to approximately RMB0.2 million for the six months ended 30 June 2022, mainly due to cost control as set out in the 2022 Interim Report.

For the year ended 31 December 2022 compared to the year ended 31 December 2021

For the year ended 31 December 2022, the revenue of the Group decreased by approximately RMB98.9 million or approximately 22.8%, from approximately RMB434.2 million for the year ended 31 December 2021 to approximately RMB335.3 million for the year ended 31 December 2022. The decrease in revenue of the Group was mainly attributable to the decrease in revenue from (i) operation and management of retail stores and other related businesses; and (ii) provision of financing services.

As disclosed in the 2022 Annual Report, revenue from operation and management of retail stores and other related businesses decreased from approximately RMB428.4 million for the year ended 31 December 2021 to approximately RMB330.0 million for the year ended 31 December 2022, representing a period-on-period decrease of approximately 23.0%. Revenue from provision of financing services decreased to approximately RMB5.3 million for the year ended 31 December 2022 from approximately RMB5.8 million for the corresponding period of 2021, representing a period-on-period decrease of approximately 8.6%. The decrease in revenue was mainly attributable to (i) decrease of approximately RMB68.0 million in sales of goods which principally due to 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; (ii) decrease of approximately RMB3.9 million in commission from concessionaire sales which mainly due to the persistence of pandemic and closure of two stores in 2021; (iii) decrease of approximately RMB18.4 million in rental income from sub-leasing of shop premises which mainly due to the persistence of pandemic and closure of two stores in 2021; (iv) decrease of approximately RMB8.0 million in rental income from sub-leasing of shopping malls which due to the persistence of pandemic; (v) decrease of approximately RMB25,000 in investment property income which mainly due to offering of rent free period for long relationship tenants under the persistence of pandemic; and (vi) decrease of approximately RMB0.6 million in interest income from financing services which mainly due to the decrease in business of the major customer which has been affected by the pandemic. Such decrease in overall was mainly attributable to the general decline in consumption spirit in the society during the pandemic, the enhancement work of the some of the stores of the Group, and the closure of two stores in 2021.

It is noted that loss attributable to owners of the Company increased by approximately RMB7.8 million or approximately 7.8%, from approximately RMB100.1 million for year ended 31 December 2021 to approximately RMB107.9 million for year ended 31 December 2022. Such increase was mainly attributable to the provision of impairment loss on existing loss-making retail stores.

For the year ended 31 December 2021 compared to the year ended 31 December 2020

For the year ended 31 December 2021, the revenue of the Group increased by approximately RMB6.1 million or approximately 1.4%, from approximately RMB428.1 million for the year ended 31 December 2020 to approximately RMB434.2 million for the year ended 31 December 2021. The increase in revenue of the Group was mainly attributable to the increase in revenue from operation and management of retail stores and other related businesses. However, there was a decrease of approximately RMB0.2 million in provision of financing services, partly offsetting the overall increase in revenue.

As disclosed in the 2021 Annual Report, revenue from operation and management of retail stores and other related businesses increased from approximately RMB422.1 million for the year ended 31 December 2020 to approximately RMB428.4 million for the year ended 31 December 2021, representing a period-on-period increase of approximately 1.5%. Revenue from provision of financing services decreased to approximately RMB5.8 million for the year ended 31 December 2021 from approximately RMB6.0 million for the corresponding period of 2020, representing a period-on-period decrease of approximately 3.3%. Such increase in overall was mainly attributable to (i) increase in sales of goods of approximately RMB0.9 million which principally due to adjustment in the sales floor area of direct sales to introduce more leisure experiencing shopping mode; (ii) increase in rental income from subleasing of shopping malls of approximately RMB19.6 million which due to the entering into mature stage of operation of the shopping malls during the year; and (iii) increase in rental income from investment properties of approximately RMB1.5 million which mainly due entering into new tenancies for vacant premises. However, there were (i) decrease in commission from concessionaire sales of approximately RMB5.7 million which mainly due to reduction of sales floor area of concessionaire, the persistence of pandemic and closure of two stores; (ii) decrease in rental income from subleasing of shop premises of approximately RMB10.0 million which mainly due to the persistence of pandemic and closure of two stores; and (iii) decrease in interest income from financing services of approximately RMB0.2 million which mainly due to the decrease in business of the major customer which has been affected by the pandemic, which altogether partly offset the overall increase of income.

It is noted that loss attributable to owners of the Company decreased by approximately RMB94.4 million or approximately 48.5%, from approximately RMB194.5 million for year ended 31 December 2020 to approximately RMB100.1 million for year ended 31 December 2021. Such decrease in loss was mainly attributable to the absence of provision of impairment loss on existing loss-making shopping malls, and the written off of assets upon closure of stores in 2021 as set out in the 2021 Annual Report.

Summary of consolidated statement of financial position

	As at 31 December		
	2020	**2021**	**2022**
	RMB million	*RMB million*	*RMB million*
	(Audited)	(Audited)	(Audited)
Total assets	**1,192.1**	**1,025.4**	**896.4**
Total liabilities	**852.7**	**786.0**	**765.0**
Net assets	**339.4**	**239.3**	**131.4**

Financial position of the Group as at 31 December 2022 compared to 31 December 2021

The Group's total assets decreased by approximately RMB129.0 million or approximately 12.6% from approximately RMB1,025.4 million as at 31 December 2021 to approximately RMB896.4 million as at 31 December 2022. Such decrease was primarily attributable to (i) the decrease in property, plant and equipment from approximately RMB205.5 million as at 31 December 2021 to approximately RMB150.9 million as at 31 December 2022; (ii) the decrease in right-of-use assets from approximately RMB366.4 million as at 31 December 2021 to approximately RMB296.1 million as at 31 December 2022; and (iii) the decrease in investment properties from approximately RMB274.2 million as at 31 December 2021 to approximately RMB258.6 million as at 31 December 2022. As at 31 December 2022, assets of the Group mainly comprised of right-of-use assets of approximately RMB296.1 million, investment properties of approximately RMB258.6 million and property, plant and equipment of approximately RMB150.9 million, which accounted for approximately 33.0%, 28.8% and 16.8% of the total assets, respectively.

The Group's total liabilities decreased by approximately RMB21.0 million or approximately 2.7%, from approximately RMB786.0 million as at 31 December 2021 to approximately RMB765.0 million as at 31 December 2022. Such decrease was mainly attributable to (i) the decrease in trade payables of approximately RMB12.8 million from approximately RMB66.8 million as at 31 December 2021 to approximately RMB54.0 million as at 31 December 2022; (ii) the decrease in deposits received, other payables and accruals of approximately RMB11.0 million from approximately RMB101.9 million as at 31 December 2021 to approximately RMB90.9 million as at 31 December 2022; and (iii) the decrease in lease liabilities of approximately RMB55.9 million from approximately RMB473.5 million as at 31 December 2021 to approximately RMB417.6 million as at 31 December 2022. As at 31 December 2022, liabilities of the Group mainly comprised of lease liabilities of approximately RMB417.6 million and borrowings of approximately RMB157.2 million, which accounted for approximately 54.6% and 20.5% of the total liabilities, respectively.

Financial position of the Group as at 31 December 2021 compared to 31 December 2020

The Group's total assets decreased by approximately RMB166.7 million or approximately 14.0% from approximately RMB1,192.1 million as at 31 December 2020 to approximately RMB1,025.4 million as at 31 December 2021. Such decrease was primarily attributable to the decrease in cash and cash equivalents from approximately RMB76.6 million as at 31 December 2020 to approximately RMB26.1 million as at 31 December 2021. As at 31 December 2021, assets of the Group mainly comprised of right-of-use assets of approximately RMB366.4 million, investment properties of approximately RMB274.2 million and property, plant and equipment of approximately RMB205.5 million, which accounted for approximately 35.7%, 26.7% and 20.0% of the total assets, respectively.

The Group's total liabilities decreased by approximately RMB66.7 million or approximately 7.8%, from approximately RMB852.7 million as at 31 December 2020 to approximately RMB786.0 million as at 31 December 2021. Such decrease was mainly attributable to the decrease in lease liabilities of approximately RMB65.3 million from approximately RMB538.8 million as at 31 December 2020 to approximately RMB473.5 million as at 31 December 2021. As at 31 December 2021, liabilities of the Group mainly comprised of lease liabilities of approximately RMB473.5 million and deposits received, other payables and accruals of approximately RMB101.9 million, which accounted for approximately 60.2% and 13.0% of the total liabilities, respectively.

2. Background information on the retail industry in the PRC

With reference to the website of the National Bureau of Statistics of the PRC (http://www.stats.gov.cn), and the PRC 2021 Gross Domestic Product Final Verification Announcement* (2021年國內生產總值最終核實的公告), the PRC recorded year-on-year growth in gross domestic product ("**GDP**") in 2021 of approximately 8.4% compared to the twelve months ended 31 December 2020. With reference to the website of the National Bureau of Statistics of the PRC Fourth Quarter 2022 Gross Domestic Product Preliminary Results* (2022年四季度國內生產總值初步核算結果), the PRC recorded a year-on-year growth on the GDP of approximately 3.0% compared to the twelve months ended 31 December 2021 based on preliminary published figures. Such relatively moderate GDP growth for the twelve months ended 31 December 2022 was partly attributable to the re-emergence of COVID-19 cases in various regions or cities of the PRC from time to time. In this connection, the PRC government has introduced various regulations and measures to manage and contain the re-emergence of these COVID-19 cases, some of which may have temporarily affected the level of business activities in the subject area.

According to the 14th Five Year Plan (the "**14th FYP**")* (十四五規劃) announced by the PRC government around March 2021, the target urbanisation rate of the resident population* (常住人口城鎮化率) is set at 65.0% by 2025. In this connection, the PRC government had implemented policies to promote urbanisation in the PRC through to, among others, (i) accelerate the agricultural population urbanisation* (加快農業轉移人口市民化) by implementing three main strategies, namely further reform of the household registration system* (深化戶籍制度改革), implementation of the residence permit system* (實施居住證制度) and improvement on the system for promoting urbanisation of agricultural population* (健全促進農業轉移人口市民化的機制); and (ii) optimise urbanisation layout* (優化城鎮化佈局和形態) by implementing three main strategies, namely the acceleration of the construction and advancement of urban agglomeration* (加快城市群建設發展), enhance the drive of activities by central cities* (增強中心城市輻射帶動功能) and speeding up of the development of small and medium-sized cities and characteristic towns* (加快發展中小城市和特色鎮).

Furthermore, based on publication by the PRC government in relation to the 14th FYP, the PRC government will focus on enhancing the quality and efficacy of the overall economy with a view to attain sustainable and healthy development through, among others, (i) the improvement of supply chain modernisation* (提升產業鏈供應鏈現代化水平); (ii) the development of strategical new industries* (發展戰略性新興產業); (iii) the acceleration of modern service industries development* (加快發展現代服務業); (iv) the coordination of infrastructure construction advancement* (統籌推進基礎設施建設); and (v) the acceleration of the development of digitalisation* (加快數位化發展).

Moreover, based on publication on the State Council Information Office of the PRC on 9 February 2023, domestic tourist trips during the holiday (i) increased by approximately 23.1% compared to the correspondence prior year period; and (ii) recovering to around 90% of the pre-pandemic level compared to the correspondence period of 2019, while tourism spending increased by approximately 30% to the correspondence prior year period. In addition, with reference to the website of the National Bureau of Statistics of the PRC (http://www.stats.gov.cn), and the article namely Total retail sales of consumer goods increased by 18.4% on April 2023* (2023年4月份社會消費品零售總額增長18.4%), the total retail sales of consumer goods increased by 18.4% as compared with the corresponding prior year period. The total retail sales of shopping mart, convenience stores, brand stores and department stores increased by 0.7%, 8.1%, 2.9% and 11.1% as compared with the corresponding prior year period, respectively, showing the consumer market continued to perform in positive trend.

It is expected that the development of the PRC real estate market will continue to be influenced by changes in PRC government policies at a national and regional level which is intended to promote sustainable and healthy long-term development, the then prevailing market environment as well as the overall economic development of the PRC. In light of the aforementioned, we concur with the Management that it is beneficial to the PRC property market as well as the retail and commercial market in PRC.

3. Reasons for and benefits of entering into the Lease Agreement

As stated in the Letter from the Board, the Group is principally engaged in property investment and operation and management of retail stores and shopping mall in the PRC. The Group commenced tapping into the operation of shopping mall in 2017 by opening its first shopping mall in Shenzhen. As at the Latest Practicable Date, there are 8 retail stores and 2 shopping malls under the Group's operation.

As stated in the Letter from the Board, to further expand the retail network of the Group, the Group entered into the Retail Lease Agreements with the Connected Landlord and Independent Landlord, to rent the relevant retail space for the opening of a new shopping mall in Baoan District, Shenzhen, Guangdong Province, the PRC.

As stated in the Letter from the Board, the Group have also been renting the Commercial Premises from the Connected Landlord since 2009 for sub-letting such space to the Group's tenants. As the current commercial lease agreement will expire in May 2023, Tenant II entered into the Commercial Lease Agreement with the Connected Landlord to renew the lease term for on-going sub-letting of the Commercial Premises.

In view of such, the Directors (including the independent non-executive Directors in respect of the Connected Lease Agreements) are of the view that the transactions contemplated under the Lease Agreements are conducted (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms; and that (iii) the terms contemplated under the Lease Agreements are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

In order to assess the fairness and reasonableness of the Lease Agreements, we have conducted relevant research in relation to the Baoan District in Shenzhen, where the Premises locates.

According to the Shenzhen Statistical Yearbook 2022 published on 19 January 2023 edited by Shenzhen Municipality Bureau Statistics and Survey Office of the National Bureau of Statistics in Shenzhen, in 2022, Baoan District was the largest region in Shenzhen, with a total area of approximately 396.61 square kilometres, had population in 2021 of approximately 4.48 million, decreased by approximately 0.2% as compared to approximately 4.49 million in 2020. Furthermore, the annual gross domestic product ("**GDP**") of Baoan District was approximately RMB470.2 billion in 2022, increased by approximately 3.5% as compared with approximately RMB444.2 billion in 2021. Baoan District recorded a period-on-period growth in GDP of approximately 3.0% for the nine months ended 30 September 2022 compared to the correspondence prior year period, based on preliminary data published by the local Government of Baoan District on 14 November 2022. Considering (i) Baoan District was the largest region in Shenzhen in 2022; and (ii) period-on-period growth in GDP for the nine months ended 30 September 2022 compared to the correspondence prior year period, which may have positive impact on the spending power.

In addition, according to a list issued by the Development and Reform Commission of Shenzhen Municipality* (深圳市發展和改革委員會) on 27 February 2023, the "Shenzhen Municipality Major Project Plan List in 2023*" (深圳市2023年重大項目計劃清單). As mentioned in the plan, there would be at least 27 major projects in relation to the Baoan District. As mentioned in a government working report by the District Mayor of Baoan District of the Shenzhen Municipality* (深圳市寶安區人民政府區長), it is necessary to accelerate the realization of Shenzhen to become the new significant influentially international consumption city centre. In view of the large scale and long-term project plan which is expected to speed up the development of Baoan District and therefore potentially drive the demand of properties as commercial purposes, we concur with the Management that the Group will benefit from the plan as mentioned above.

Having considered that (i) the continue recovery of the retail and consumer market; (ii) the largest region of Baoan District in Shenzhen and period-on-period growth in GDP as mentioned above which represents the potential growing spending power; (iii) project plan of Baoan District and Shenzhen as mentioned above speed up the development of Baoan District; and (iv) the Lease Agreements would maintain the revenue stream of the Company and may generate greater return potential to the Shareholders, we concur with the Directors' view that the Lease Agreements is in the ordinary and usual course of business of the Group, beneficial to the Group's development in the Baoan District and in the interests of the Company and Shareholders as a whole.

4. Principal terms of the Lease Agreements

The following information has been extracted from the Letter from the Board:

The Long-Term Lease Agreement

Parties:	Connected Landlord as the landlord of the Retail Premises. Tenant I as the tenant of the Retail Premises.
Premises:	The Retail Premises comprised of certain retail spaces located at the intersection of Xinqiao Street Zhongxin Road West and Haoxiang Road South, Baoan District, Shenzhen, Guangdong Province, the PRC (深圳市寶安區新橋街道中心路西與蠔鄉路南交匯處) with a total area of 34,945.39 sq.m. owned by the Connected Landlord.
Term:	1 May 2023 to 30 April 2038 (both days inclusive).
Rent-Free period:	1 May 2023 to 31 October 2024.
Rent:	An initial monthly rent of RMB1,223,088.65 per month (approximately RMB35 per sq.m. per month), with a 10% increment on the monthly rent for every 5 years.

Period	Rent per sq.m	Rent per month
1 May 2023 to 31 October 2024	–	–
1 November 2024 to 31 October 2029	RMB35	RMB1,223,088.65
1 November 2029 to 31 October 2034	RMB38.5	RMB1,345,397.52
1 November 2034 to 30 April 2038	RMB42.35	RMB1,479,937.26

In the event Tenant I rents a premise located in the same area from an independent third party at a monthly rent per sq.m. lower than that stipulated in the Long-Term Lease Agreement, the monthly rent per sq.m. of the premises will be adjusted to match that amount offered by the independent third party.

Monthly rent is payable by way of bank transfer before the 5th of each month and will be financed by internal resources of the Company.

Deposit: A rental deposit of RMB1,223,088.65 payable by Tenant I to the Connected Landlord.

Usage: For commercial purposes.

(Tenant I intended to rent the Retail Premises together with Independent Premises, for the operation of the Group's shopping mall).

Sub-let: The Connected Landlord allows Tenant I to sub-lease any part of the Premises to other independent parties provided that the usage purpose and structure of the Retail Premises remain unchanged.

Termination:	The Long-Team Lease Agreement may be terminated among other things, the mutual agreement between Tenant I and the Connected Landlord. Should the Long-Term Lease Agreement be terminated by Tenant I as a result of the compliance of the Listing Rules, Tenant I would not be responsible for any damages or payable to the Connected Landlord. A shopping mall will be operated by occupying both the Retail Premises and the Independent Premises. Hence if the Independent Landlord early terminated the Independent Lease Agreement or does not renew the Independent Lease Agreement, Tenant I shall have the right to terminate the Long-Term Lease Agreement and Tenant I would not be responsible for any damages or payable to the Connected Landlord.
Condition precedent:	Effectiveness of the Long-Term Lease Agreement is conditional upon obtaining approval in the EGM.

Note: As at the Latest Practicable Date, the rental deposit has been settled. Should the Long-Term Lease Agreement will not be approved at the EGM, the deposit will be refunded by the Connected Landlord.

As stated in the Letter from the Board, when determining the basis of the 10% increment on the monthly rent for every 5 years, the Company has taken into consideration the terms of the lease agreements entered into by the Group with independent third parties in relation to the leasing out of the Group's investment properties and noted that such increment adjustment clauses were also incorporated to such lease agreements. According to the Management, the percentage of adjustment depends on among other things, the size of the rental property as well as the initial rent, with a relatively low initial rent, the adjustment will normally be higher. When estimating the 10% increment, the Company took into consideration the increment percentage of the Independent Lease Agreement, which was entered into with an independent third party, of which the increment percentage was also set at 10%. Further details of the principal terms of the Long-Term Lease Agreement are set out in the Letter from the Board.

The Commercial Lease Agreement

Parties:	The Connected Landlord as the landlord of the Commercial Premises. Tenant II as the tenant of the Commercial Premises.
Premises:	The Commercial Premises are located at 1st Floor, Building 1, Jiahua Shuyuan Yage, Dabao South Road, Xinan Street, Baoan District, Shenzhen, Guangdong Province, the PRC (深圳市新安街道大寶路南側佳華書苑雅閣1棟商場01層) with a total of area of 2,693.69 sq.m..
Term:	3 years commencing from 1 June 2023 to 31 May 2026 (both days inclusive).
Rent:	A monthly rent of RMB62,224.23 per month approximately RMB23.1 per sq.m. per month. Monthly rent is payable before the 5th of each month by way of bank transfer and will be financed by internal resources of the Company.
Deposit:	A rental deposit of RMB62,224.23 payable by Tenant II to the Connected Landlord upon handover.
Usage:	For commercial purposes. (Tenant II intended to sub-lease the Commercial Property to independent third parties).
Sub-let:	The Connected Landlord allows Tenant II to sub-lease part of or the entire Commercial Premises with the written approval of the Connected Landlord to other independent parties provided that the term is within the lease term of the Commercial Lease Agreement.

First right of purchase:	In the event the Connected Landlord intends to transfer part of or its entire interest in the Commercial Premises to another party, the Landlord should inform Tenant II of its intention one month before the intended transfer by way of written notice and within 10 days of receiving such written notice Tenant II shall have the first right to purchase the interests in the Commercial Premises.
Termination:	The Commercial Lease Agreement may be terminated among other things, the mutual agreement between Tenant II and the Connected Landlord. Should the Commercial Lease Agreement be terminated by Tenant II by way of written notice as a result of the compliance of the Listing Rules, Tenant II would not be responsible for any damages or payable to the Landlord.
Others:	Should the Commercial Lease Agreement be renewed in 3 years' time, a 5% increment on the rent will apply.

Note: As at the Latest Practicable Date, the rental deposit has been settled. Should the Commercial Lease Agreement will not be approved at the EGM, the deposit will be refunded by the Connected Landlord.

Further details of the principal terms of the Commercial Lease Agreement are set out in the Letter from the Board.

The Independent Lease Agreement

Parties:	Independent Landlord as the landlord of the Independent Premises. Tenant I as the tenant of the Independent Premises.

Premises: Independent Premises comprised of certain retail spaces located at the intersection of Xinqiao Street Zhongxin Road West and Haoxiang Road South, Baoan District, Shenzhen, Guangdong Province, the PRC (深圳市寶安區新橋街道中心路西與蠔鄉路南交匯處) with a total of area of 18,730.09 sq.m. owned by the Independent Landlord.

Term and rental payment period: 1 April 2024 to 28 February 2034 (both days inclusive).

Rent: An initial monthly rent of RMB786,663.78 per month (approximately RMB42 per sq.m. per month), with a 10% increment on the monthly rent for every 3 years.

Period	**Rent per sq.m.**	**Total rent per month**
1 April 2024 to 31 March 2027	RMB42.0	RMB786,663.78
1 April 2027 to 31 March 2030	RMB46.2	RMB865,330.16
1 April 2030 to 31 March 2033	RMB50.82	RMB951,863.17
1 April 2033 to 28 February 2034	RMB55.90	RMB1,047,012.03

First monthly rental payment shall be paid on or before 10 April 2024 by way of bank transfer and will be financed by internal resources of the Company.

Monthly rent is payable before the 10th of each month. Late fee of 0.5% on the outstanding rental amount will be charged.

Deposit: A rental deposit of RMB2,359,991.34 shall be payable by Tenant I to the Independent Landlord 3 days after the execution of the Independent Lease Agreement.

Insurance:	Tenant I shall purchase relevant property insurance in the benefit of Independent Landlord in respect of the Independent Premises and the ancillary facilities within 30 days from the execution of the Independent Lease Agreement.
Renovation and safety:	Tenant I shall comply with relevant fire safety requirements. Any renovation shall not alter the structure of the Independent Premises, advertisement signage shall be erected after complying with relevant government regulations and registration procedures.
Usage:	For commercial purposes. (Tenant I intended to rent the Independent Premises together with Retail Premises, for the operation of the Group's shopping mall). Usage of the Independent Premises shall not be altered prior to obtaining the Independent Landlord's approval and upon compliance of relevant rules and regulatory requirements.
Sub-let:	The Independent Landlord allows Tenant I to sub-lease any part of the Premises to other independent parties provided that the usage purpose and structure of the Independent Premises remains unchanged, complies with relevant rules and regulations and the sub-let term shall not exceed the term of the Independent Lease Agreement.
Termination and renewal:	The Independent Lease Agreement may only be terminated among other things, (i) the mutual agreement between Tenant I and the Independent Landlord; (ii) occurrence of force majeure events; and (iii) any change of rules and regulations.

	If Tenant I intended to renew the Independent Lease Agreement, Tenant I shall notify the Independent Landlord by way of written notification 12 months prior to the expiry of the Independent Lease Agreement. Tenant I shall have the first right to renew the Independent Lease Agreement should the terms offered by Tenant I are comparable to terms offered by other parties.
Condition precedent:	Effectiveness of the Independent Lease Agreement is conditional upon obtaining approval in the EGM.

Note: As at the Latest Practicable Date, the rental deposit has been settled. Should the Independent Lease Agreement will not be approved at the EGM, the deposit will not be approved at the EGM, the deposit will be refunded by the Independent Landlord.

As stated in the Letter from the Board, when determining the basis of the 10% increment on the monthly rent for every 3 years, the Company has taken into consideration the terms of the lease agreements entered into by the Group with other independent third parties in relation to the leasing out of the Group's investment properties and noted that such increment adjustment clauses were also incorporated to such lease agreements. According to the Management, increment adjustment clauses were common for long-term lease agreements. For determining the 10% increment, the Group had taken into consideration the rental agreement of other third party with rental property in the same district with increment rates from 5–10%. In view of such, the Company considered a 10% increment to be acceptable. Further details of the principal terms of the Independent Lease Agreement are set out in the Letter from the Board.

5. Our analysis on the Agreements

5.1 Basis of rent and terms

The Long-Term Lease Agreement

The monthly rent of the Long-Term Lease Agreement will be RMB1,223,088.65 per month (approximately RMB35 per square meter per month), with a 10% increment on the monthly rent for every 5 years. The monthly rent was determined after arm's length negotiations between Connected Landlord and Tenant I with reference to (i) standard terms of the lease agreements adopted for lease of similar properties; and (ii) the initial market rental prices of the Independent Premises.

Having reviewed (i) the standard terms of the Long-Term Lease Agreement as compared to the template 《深圳市房屋租賃合同》 issued by the Housing and Construction Bureau of Shenzhen* (深圳市住房和建設局), we notice and are given to understand (i) from the Management and the legal opinion which we concur that the terms are commonly seen in a lease agreement in Shenzhen; and (ii) from the Valuer that the monthly rent of the Long-Term Lease Agreement is fair and reasonable and consistent with the prevailing market rents for similar properties in the area provided that the range of adjusted unit market rent is from RMB33 to RMB55 per square meter per month of which the monthly rent of RMB35 per square meter per month of the Long-Term Lease Agreement is within the range.

We noted that a 10% increment on the monthly rent for every five years (equivalent to a compound annual growth rate of approximately 1.92%) for the subject property as stipulated in the Long-Term Lease Agreement has been taken into account by the Company. We considered that the consumer price index ("**CPI**") released by the National Bureau of Statistics of China and the inflation rate of the PRC should be taken into reference in determining the reasonableness of the 10% increment on the monthly rent for every five years as stated in the terms in the Long-Term Lease Agreement. We therefore reviewed from publicly available information and noted that the CPI increased for approximately 2.5%, 0.9% and 2.0% for 2020, 2021 and 2022, respectively and the inflation rate of the PRC released by the World Bank and noted that the inflation rate of the PRC was approximately 2.4%, 1.0% and 2.0% for 2020, 2021 and 2022, respectively. Considering the CPI growth rate and inflation rate which may have relevant impact on the rental market for property owners since the property owners may tend to increase the rental income to account for the increased costs resulting from the inflation, therefore, we considered that the 10% increment for every five years is fair and reasonable for the Group to estimate the increase of monthly rent by referencing CPI growth rate and inflation rate in the PRC.

The Commercial Lease Agreement

The monthly rent of the Commercial Lease Agreement will be RMB62,224.23 per month (approximately RMB23.1 per square meter per month), with a 5% increment on the monthly rent for every 3 years. The monthly rent was determined after arm's length negotiations between Connected Landlord and Tenant II with reference to (i) standard terms of the lease agreements adopted for lease of similar properties; and (ii) the initial market rental of the Commercial Premises which was endorsed by a fair letter dated 27 April 2023 prepared by the Valuer that such monthly rent as of the date of the valuation certificate is fair and reasonable and consistent with the prevailing market rents for similar premises in similar location, which are to be let on normal commercial term of three years.

Having reviewed (i) the fair rent letter as to the monthly rent in the Commercial Lease Agreement prepared by the Valuer; and (ii) standard terms of the Commercial Lease Agreement as compared to the template《深圳市房屋租賃合同》issued by the Housing and Construction Bureau of Shenzhen* (深圳市住房和建設局), we are given to understand (i) from the Management and the legal opinion which we concur the terms are commonly seen in a lease agreement in Shenzhen; and (ii) from the Valuer that the monthly rent of the Commercial Lease Agreement is fair and reasonable and consistent with the prevailing market rents for similar properties in the area provided that the range of adjusted unit market rent is from RMB20 to RMB30.40 per square meter per month of which the monthly rent of RMB23.1 per square meter per month of the Commercial Lease Agreement is within the range.

We have reviewed the fair rent letter issued by the Valuer dated 27 April 2023 and noted that the Valuer has adopted the direct comparison approach by making reference to comparable market rentals as available in the subject locality. This approach rests on the wide acceptance of the market rent as the best indicator and pre-supposes that evidence of relevant rentals in the market place can be extrapolated to similar properties, subject to allowances for variable factors and adjustments such as location, size, etc. Given the fact that the monthly rent could be reflected by referring to the consideration of comparable market rentals to similar properties and having considered the above, we agree with the direct comparison approach adopted by the Valuer. In light of the above, we are of the view that the fair rent opinion has been reasonably prepared and is normal in nature without any unusual assumption, and the relevant basis is fair and reasonable.

We noted that a 5% increment on the monthly rent for every three years (equivalent to a compound annual growth rate of approximately 1.64%) for the subject property as stipulated in the Commercial Lease Agreement has been taken into account by the Company. We considered that the CPI released by the National Bureau of Statistics of China and the inflation rate of the PRC should be taken into reference in determining the reasonableness of the 5% increment on the monthly rent for every three years as stated in the terms in the Commercial Lease Agreement. We therefore reviewed from publicly available information and noted that the CPI increased for approximately 2.5%, 0.9% and 2.0% for 2020, 2021 and 2022, respectively and the inflation rate of the PRC released by the World Bank and noted that the inflation rate of the PRC was approximately 2.4%, 1.0% and 2.0% for 2020, 2021 and 2022, respectively. Considering the CPI growth rate and inflation rate which may have relevant impact on the rental market for property owners since the property owners may tend to increase the rental income to account for the increased costs resulting from the inflation, therefore, we considered that the 5% increment for every three years is fair and reasonable for the Group to estimate the increase of monthly rent by referencing CPI growth rate and inflation rate in the PRC.

The Independent Lease Agreement

The monthly rent of the Independent Lease Agreement will be RMB786,663.78 per month (approximately RMB42 per square meter per month), with a 10% increment on the monthly rent for every 3 years. The monthly rent was determined after arm's length negotiations between Independent Landlord and Tenant I with reference to (i) standard terms of the lease agreements adopted for lease of similar properties; and (ii) the initial market rental of the Independent Premises which was endorsed by a fair rent letter dated 27 April 2023 prepared by the Valuer that such monthly rent as of the date of the valuation certificate is fair and reasonable and consistent with the prevailing market rents for similar premises in similar location, which are to be let on normal commercial term of three years.

Having reviewed (i) the fair rent letter as to the monthly rent in the Independent Lease Agreement prepared by the Valuer; and (ii) standard terms of the Independent Lease Agreement as compared to the template《深圳市房屋租賃合同》issued by the Housing and Construction Bureau of Shenzhen* (深圳市住房和建設局), we are given to understand (i) from the Management and the legal opinion which we concur that the terms are commonly seen in a lease agreement in Shenzhen; and (ii) from the Valuer that the monthly rent of the Independent Lease Agreement is fair and reasonable and consistent with the prevailing market rents for similar properties in the area provided that the range of adjusted unit market rent is from RMB33 to RMB55 per square meter per month of which the monthly rent of RMB42 per square meter per month of the Independent Lease Agreement is within the range.

We have reviewed the fair rent letter issued by the Valuer dated 27 April 2023 and noted that the Valuer has adopted the direct comparison approach by making reference to comparable market rentals as available in the subject locality. This approach rests on the wide acceptance of the market rent as the best indicator and pre-supposes that evidence of relevant rentals in the market place can be extrapolated to similar properties, subject to allowances for variable factors and adjustments such as location, size, etc. Given the fact that the monthly rent could be reflected by referring to the consideration of comparable market rentals to similar properties and having considered the above, we agree with the direct comparison approach adopted by the Valuer. In light of the above, we are of the view that the fair rent opinion has been reasonably prepared and is normal in nature without any unusual assumption, and the relevant basis is fair and reasonable.

We noted that a 10% increment on the monthly rent for every three years (equivalent to a compound annual growth rate of approximately 3.23%) for the subject property as stipulated in the Independent Lease Agreement has been taken into account by the Company. We considered that the CPI released by the

National Bureau of Statistics of China and the inflation rate of the PRC should be taken into reference in determining the reasonableness of the 10% increment on the monthly rent for every three years as stated in the terms in the Independent Lease Agreement. We therefore reviewed from publicly available information and noted that the CPI increased for approximately 2.5%, 0.9% and 2.0% for 2020, 2021 and 2022, respectively and the inflation rate of the PRC released by the World Bank and noted that the inflation rate of the PRC was approximately 2.4%, 1.0% and 2.0% for 2020, 2021 and 2022, respectively. Considering the CPI growth rate and inflation rate which may have relevant impact on the rental market for property owners since the property owners may tend to increase the rental income to account for the increased costs resulting from the inflation, therefore, we considered that the 10% increment for every 3 years is fair and reasonable for the Group to estimate the increase of monthly rent by referencing CPI growth rate and inflation rate in the PRC.

We have reviewed and enquired the Valuer's qualification and experience in relation to the valuation. The Valuer confirmed that it is an independent third party to the Company. We also obtained and reviewed the terms of the Valuer's engagement, in particular, their scope of work, and noted that it is appropriate to the opinion required to be given and there is no limitation on the scope of work which might adversely impact on the assessment given by them in the fair rent letters.

Furthermore, we have obtained and reviewed one lease agreement for brand operation between the Group and an independent third party (the "**I3P Sample**"). We have communicated with the Company based on our selection criteria (i) the geographical location at Baoan District; (ii) entered into with independent third party; and (iii) entered into during between 2020 to May 2023 (approximately three- and one-half years) and only able to obtain one comparable. Therefore, we extended our selection criteria on the duration to five years but as confirmed by the Company, there were no other lease agreements entered into by the Company with independent third party. Considering the Group only entered into one lease agreement with independent third party across the five years, we therefore only obtained and reviewed one I3P Sample. We noted that (i) the duration of the I3P Sample falls within the range of the lease period of the Lease Agreements; and (ii) the I3P Sample located in the same district, Baoan District, as the Lease Agreements, therefore, we considered the I3P Sample would be comparable to the Lease Agreements. We have further reviewed the legal opinion regarding (i) the compliance of relevant usage of the Retail Premises, the Commercial Premises and the Independent Premises; and (ii) the terms set out in the Long-term Lease Agreement, the Commercial Lease Agreement and the Independent Lease Agreement, and are given to understand that the terms in the Long-term Agreement, the Commercial Lease Agreement and the Independent Lease Agreement are normal and not uncommon in the market.

We also discussed with the Management and are given to understand that the Company has a series of internal control procedures to review and approve for the pricing, terms and selection criteria before entering into the Lease Agreements including e.g. market comparable research, appointing valuer for valuation, seek for professional advices on the terms i.e. legal opinion. Furthermore, we also obtained internal approval form for the Commercial Lease Agreement. We are of the view that the internal approval process adopted was reasonable and effectively implemented.

In light of the aforementioned, we are of the view that the rent and terms of the Lease Agreements is on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

5.2 Basis of determination of duration

The Long-Term Lease Agreement

The Long-Term Lease Agreement will be from 1 May 2023 to 30 April 2038. The duration of the Long-Term Lease Agreement was determined after arm's length negotiations between Tenant I and the Connected Landlord. A rental deposit of RMB1,223,088.65 payable by Tenant I to the Connected Landlord.

The Commercial Lease Agreement

The Commercial Lease Agreement will be from 1 June 2023 to 31 May 2026. The duration of the Commercial Lease Agreement was determined after arm's length negotiations between the Tenant II and Connected Landlord. A rental deposit of RMB62,224.23 payable by the Tenant II to the Connected Landlord.

The Independent Lease Agreement

The Independent Lease Agreement will be from 1 April 2024 to 28 February 2034. The duration of the Independent Lease Agreement was determined after arm's length negotiations between the Tenant I and Independent Landlord. A rental deposit of RMB2,359,991.34 payable by the Tenant I to the Independent Landlord after the execution of the Independent Lease Agreement.

In assessing the reasonableness for the duration of the Lease Agreements to be longer than three years, we have considered that the long-term duration of the Lease Agreements will allow the Group to secure a stable revenue generated from leasing of the Premises and having reviewed lease agreement entered into by the Group and independent third parties for brand operation, we noted that the leasing terms of the lease agreement are comparable to those of the Lease Agreements.

In order to assess the leasing term of period of the Long-Term Lease Agreement and the Independent Lease Agreement, we have, on a best effort basis, carried out independent research of all comparable transactions announced by the companies which involved the leasing of properties as commercial purposes, through published information on the Stock Exchange's website. The Comparable Transactions I (defined thereafter) were selected based on the criteria that (i) the size transactions were at very substantial acquisition level; (ii) the transactions are related to the leasing of properties as commercial purposes; and (iii) period from 1 January 2021 up to and including the date of the Announcement. We have further extended the review period from 1 November 2020 up to and including the date of the Announcement (being an approximately 30 months period) while keeping other criteria the same with a view to identify a larger sample size. We consider that the approximately 30 months period is appropriate in providing a general reference for the recent market practice in relation to the key terms of the Comparable Transactions I, given that (i) the timeframe is sufficient in generating a reasonable and meaningful amount of samples for the purposes of our analysis; and (ii) the inclusion of all Comparable Transactions I without any artificial selection or filtering in our part represents a true and fair view of the recent market trends for similar transactions conducted by other listed issuers of Hong Kong. Based on such criteria, we have identified six comparable transactions (the "**Comparable Transactions I**") which met the said criteria.

To the best of our knowledge, effort and endeavour and based on our search conducted accordingly to the aforesaid criteria, the Comparable Transactions I is an exhaustive list meeting the aforesaid criteria. Shareholders should note that the size, business nature, scale of operations and prospects of the Company are not exactly the same as the Comparable Transactions I and we have not conducted any in-depth investigation into the size, business nature, scale of operations and prospects of the Comparable Transactions I. Nevertheless, given that this analysis is aiming at taking a general reference to the market practice in relation to similar type of transactions, we consider that our comparable analysis on the leasing term of period without limiting to companies that are with similar size, business nature and scale of operations as that of the Group is fair and reasonable and useful for the Independent Shareholders' reference. We set out our findings in the table below:

Company name (Stock code)	Date of the announcement	Date of the lease agreement	Lease period (years)	Location
Lifestyle China Group Limited (2136)	28 December 2022	28 December 2022	Approximately 20	Shanghai, the PRC
Legend Strategy International Holdings Group Company Limited (1355)	14 April 2022	1 December 2022	Approximately 15	Bao'an District, Shenzhen, Guangdong Province, the PRC
Century Ginwa Retail Holdings Limited (162)	17 June 2022	17 June 2022	Approximately 20	Weiyang District, Xi'an City, the PRC
Century Ginwa Retail Holdings Limited (162)	16 November 2021	16 September 2021	Approximately 10	Qindu District, Xianyang, the PRC
Art Group Holdings Limited (565)	26 April 2021	26 April 2021	Approximately 15	Zhongyuan District, Zhengzhou City, Henan Province, the PRC
Art Group Holdings Limited (565)	26 April 2021	26 April 2021	Approximately 15	Zhongyuan District, Zhengzhou City, Henan Province, the PRC

As shown on the results from above, the terms of the Comparable Transactions I range from 10 years to 20 years. Accordingly, the duration of the Long-Term Lease Agreement and the Independent Lease Agreement fall within the range of the lease period of the Comparable Transactions I.

Having considered the principal factors as stated above, we concur with the Management that the lease term of period of the Long-Term Lease Agreement and the Independent Lease Agreement is normal and not uncommon in the market.

In order to assess the leasing term of period of the Long-Term Lease Agreement and the Commercial Lease Agreement, we have, on a best effort basis, carried out independent research of all comparable transactions announced by the companies which involved the leasing of properties as commercial purposes, through published information on the Stock Exchange's website. The Comparable Transactions II (defined thereafter) were selected based on the criteria that (i) the transactions which were connected; (ii) the transactions are related to the leasing of properties as commercial purposes; and (iii) period from 1 January 2021 up to and including the date of the Announcement. We consider that the period is appropriate in providing a general reference for the recent market practice in relation to the key terms of the Comparable Transactions II, given that (i) the timeframe is sufficient in generating a reasonable and meaningful amount of samples for the purposes of our analysis; and (ii) the inclusion of all Comparable Transactions II without any artificial selection or filtering in our part represents a true and fair view of the recent market trends for similar transactions conducted by other listed issuers of Hong Kong. Based on such criteria, we have identified 13 comparable transactions (the "**Comparable Transactions II**") which met the said criteria.

To the best of our knowledge, effort and endeavour and based on our search conducted accordingly to the aforesaid criteria, the Comparable Transactions II is an exhaustive list meeting the aforesaid criteria. Shareholders should note that the size, business nature, scale of operations and prospects of the Company are not exactly the same as the Comparable Transactions II and we have not conducted any in-depth investigation into the size, business nature, scale of operations and prospects of the Comparable Transactions II. Nevertheless, given that this analysis is aiming at taking a general reference to the market practice in relation to similar type of transactions, we consider that our comparable analysis on the leasing term of period without limiting to companies that are with similar size, business nature and scale of operations as that of the Group is fair and reasonable and useful for the Independent Shareholders' reference. We set out our findings in the table below:

Company name (Stock code)	**Date of the circular**	**Date of the lease agreement(s)**	**Lease period (years)**	**Location**
Desun Real Estate Investment Services Group Co., Ltd. (2270) *(Note 1)*	3 March 2023	4 November 2022	Approximately 14 years and 8 months	Chengdu, the PRC

Company name (Stock code)	Date of the circular	Date of the lease agreement(s)	Lease period (years)	Location
Xinji Shaxi Group Co., Ltd (3603)	24 February 2023	28 October 2022	Approximately 15 years and 6 months	Guangzhou, the PRC
Lifestyle China Group Limited (2136)	22 February 2023	28 October 2022	Approximately 20 years	Shanghai, the PRC
Kato (Hong Kong) Holdings Limited (2189) *(Note 2)*	2 June 2022	17 May 2022	Approximately 3 years	Hong Kong
Hang Chi Holdings Limited (8405) *(Note 3)*	26 May 2022	14 March 2022	Approximately 4 years	Hong Kong
Century Ginwa Retail Holdings Limited (162)	11 January 2022	30 November 2021	Approximately 2 years	Xi'an, the PRC
Jiahua Stores Holdings Limited (602)	22 December 2021	15 November 2021	Approximately 9 years and 11 months	Guangdong Province, the PRC
KFM Kingdom Holdings Limited (3816)	1 November 2021	20 September 2021	Approximately 6 years	Suzhou, the PRC
Northeast Electric Development Co., Ltd (42) *(Note 4)*	2 August 2021	13 July 2021	Approximately 1 year and 4 months	Dalian and Changchun, the PRC
BaWang International (Group) Holding Limited (1338)	29 April 2021	23 April 2021	Approximately 5 years	Guangzhou, the PRC

Company name (Stock code)	Date of the circular	Date of the lease agreement(s)	Lease period (years)	Location
Town Ray Holdings Limited (1692) *(Note 5)*	18 November 2021	30 September 2021	Approximately 1 year	Hong Kong; and Guangdong Province, the PRC
Gome Retail Holdings Limited (493)	13 August 2021	7 April 2021	Approximately 19 years and 6 months	Beijing and Hunan Province, the PRC
China Tangshang Holdings Limtied (674) *(Note 6)*	25 January 2021	11 December 2020	Range from approximately 10 years to 16 years and 3 months	Beijing, the PRC

Source: The website of the Stock Exchange (www.hkex.com.hk) and adopted from the relevant circular.

Notes:

1. On 4 November 2022 (after trading hours), Chengdu Desun Yuanhong Commercial Management Co., Ltd, Chengdu Desun Yongrun Commercial Management Co., Ltd and Chengdu Dehenghong Commercial Management Co., Ltd, as tenants, entered into three lease agreements respectively with Chengdu Desun Gaoxin Real Estate Co., Ltd, as the landlord, in respect of the leased premises with a term of approximately 14 years and 8 months.

2. On 17 May 2022, the Kato (Hong Kong) Holdings Limited and its subsidiaries has entered into ten tenancy renewal letters respectively with its controlling shareholders as landlords for the operations with a term of approximately 3 years.

3. On 14 March 2022 (after trading hours), Shui Jun Nursing Centre (Yau Tong) Company Limited, a wholly-owned subsidiary of Hang Chi Holdings Limited, as tenant, entered into two tenancy agreements with Ever Premier Limited and Roymark Limited, as landlords, respectively, with a term of approximately 4 years.

4. On 13 July 2021, Hainan Garden Lane Flight Hotel Management Co., Ltd, an indirect non-wholly-owned subsidiary of the Northeast Electric Development Co., Ltd, entered into four lease agreements with four lessors, respectively, pursuant to which the four lessors agreed to lease the properties or premises to Hainan Garden Lane Flight Hotel Management Co., Ltd with a term of commencing from 1 September 2021 to 31 December 2022.

5. On 30 September 2021, Tunbow Group Limited as tenant entered into the tenancy agreement with Tunbow Properties Limited as landlord in relation to the leasing of the property; and Town Ray Electrical (Huizhou) Limited as tenant entered into the tenancy agreement with Tunbow Electrical (Huizhou) Limited as landlord in relation to the leasing of the property, respectively, with a term of approximately 1 year.

6. On 11 December 2020, Beijing Mingchuang Business Management Co., Ltd, an indirect wholly-owned subsidiary of the China Tangshang Holdings Limited, entered into ten lease contracts with Beijing Tian'an Innovation Technology and Estates Limited, respectively, with terms range from approximately 10 years to approximately 16 years and 3 months.

As shown on the results from above, the terms of the Comparable Transactions II range from 1 year to 20 years. Accordingly, the duration of the Long-Term Lease Agreement and the Commercial Lease Agreement fall within the range of the lease period of the Comparable Transactions II.

Having considered the principal factors as stated above, we concur with the Management that the lease term of period of the Long-Term Lease Agreement and the Commercial Lease Agreement is normal and not uncommon in the market.

5.3 The Valuation Report

In order to evaluate the basis in determining the market value (value of the right-of-use asset) of the Lease Agreements, we have reviewed the Valuation Report prepared by the Valuer, and have discussed with the Valuer. To assess the market rent, the market comparison method is adopted.

In conducting the valuation, the Valuer has also adopted the following assumptions:

(i) the Premises will be sold on the open market in their existing states without the benefit of a deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangements, which could serve to affect the values and market rents of the Property;

(ii) transferable land use rights in respect of the property interests for specific terms at nominal annual land use fees have been granted and that any premium payable has already been fully paid;

(iii) owners of the properties have enforceable titles to the properties and have free and uninterrupted rights to use, occupy or assign the properties for the whole of the respective unexpired terms as granted;

(iv) the Property are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect the Premises' values and market rents; and

(v) all information in relation to the Premises which provided to the Valuer are true and accurate.

We have discussed with the Valuer on the selection of valuation methodology. Considering (i) the cost approach is inapplicable to the valuation that as there is no convincing association of the values of the subject assets with costs; and (ii) the market approach is not preferred in the valuation that the subject assets are not traded on a recognised exchange platform. The Valuer adopted market comparison method to assess the market rent in order to opine the fairness of the rental fee of the Lease Agreements. As discussed with the Valuer, we are of the view that the adoption of such valuation methodology is reasonable.

We noticed and understand from the Valuation Report that the valuation was carried on a market basis. Market rent is defined as "the estimated amount for which an interest in real property should be leased on the valuation date between a willing lessor and willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

Furthermore, we have obtained and reviewed the comparables adopted by the Valuer, we have further discussed with the Valuer to understand the selection criteria of comparable and given to understand that the market comparables were selected based on the location and floor level of the premises. Given that (i) the geographical location of the Premises is located at Baoan District, the market comparables therefore must located in the same district, Baoan District; and (ii) the geographical locations of the Premises are located at 1st floor of the building, the market comparables therefore must located at 1st floor of the building. Considering the above, and (i) the Valuer had selected at least three market comparables for the Premises, respectively, on an exhaustive basis to the best of the Valuer's effort; (ii) the Valuer considered all selected market comparables are the most representative for deriving the market rent of the Premises; and (iii) the Valuer confirmed that it has complied with all the requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation – Global Standards published by the Royal Institution of Chartered Surveyors; and the International Valuation Standards published by the International Valuation Standards Council in valuing the market rent, we are of the view that the said selection criteria are reasonable and sufficient.

In order to further verify the source of information considered in the valuation, we also conducted our own research on website of property agency, namely 58同城•房產 to cross check the reasonableness of the parameters considered by the Valuer. Regarding the monthly rent per square meter of the Lease Agreements, we have conducted our own research on public available information based on the selection criteria of (i) the geographical locations of the comparables are located at Baoan District; (ii) the geographical locations of the comparables are located at 1st floor of the building; and (iii) within 10 kilometers from the Premises, respectively. We have identified not more than four and nine comparables (the "**IFA Comparables**") in relation to the Commercial Lease Agreement and the Retail Lease Agreement based on the above selection criteria, respectively, the posting dates of the IFA Comparables were during February 2023 to April 2023, which is close to the date of the Announcement. To the best of our knowledge, effort and endeavour and based on our research conducted accordingly to the aforesaid criteria, the IFA Comparables are exhaustive meeting the aforesaid criteria. Based on the result of our own research and considering the timing difference of conducting the research by us and the Valuer, the results from the IFA Comparables is similar to the comparables adopted by the Valuer.

Considering the fact that (i) the monthly rent of RMB35 per square meter of the Long-Term Lease Agreement falls within the range of the comparables adopted by the Valuer with the range of adjusted unit market rent from RMB33 to RMB55 per square meter and our search results with the range of adjusted unit market rent from RMB35.2 to RMB51.2 per square meter; (ii) the monthly rent of RMB23.1 per square meter of the Commercial Lease Agreement falls within the range of the comparables adopted by the Valuer with the range of adjusted unit market rent from RMB20 to RMB30.40 per square meter and our search results with the range of adjusted unit market rent from RMB21.33 to RMB32 per square meter; and (iii) the monthly rent of RMB42 per square meter of the Independent Lease Agreement falls within the range of the comparables adopted by the Valuer with the range of adjusted unit market rent from RMB33 to RMB55 per square meter and our search results with the range of adjusted unit market rent from RMB35.2 to RMB51.2 per square meter, we are of the view that the adoption of such monthly rent per square meter and the parameters considered by the Valuer are reasonable.

We have further reviewed the valuation worksheet including referencing information considered and the calculation bases in the Valuation Report provided by the Valuer.

Accordingly, we are of the view that the referencing information considered in the Valuation Report is true and fair and the comparables selected by the Valuer are fair and reasonable so far as the Company and Independent Shareholders are concerned.

Besides, we have discussed with the Valuer in relation to their experiences and understood that Mr. Haydn Lee, the Director of the Valuer and the person in charge in this valuation, is a professional surveyor with over 10 years of experience in valuation of properties in Hong Kong and the PRC. Mr. Lee is a professional member of Royal Institution of Chartered Surveyors, Chartered Financial Analyst charterholder and member of CPA Australia. Given Mr. Lee has plenty of practical experience in the valuation of properties in Hong Kong and the PRC, we are of the view that he is qualified to provide a reliable valuation for the valuation of the market rents. As discussed with the Valuer, they have no prior relationships with the Group or other parties and connected persons to the Lease Agreements, and we are of the view that the independence and objectivity of the Valuer is fair and equitable in conducting such valuation. We also reviewed the terms of the engagement for the valuation of the market rents and the scope of work performed by the Valuer is consistent with the market practice and appropriate to give the opinion.

Given the market comparison method in the Valuation Report is universally considered the most acceptable method for assessing the rent of most forms of real estate, and the major assumptions made in connection with the valuation approach are reasonable, and having reviewed the basis of rent and the basis of determination of duration, we concur with the Management and the Valuer, and are of the view, that the basis in determining the market value is fair and reasonable so far as the Company and the Independent Shareholders as a whole are concerned.

VI. RECOMMENDATION

Having considered the factors as set out in this letter above, in particular,

(i) the reasons for and benefits of entering into the Lease Agreements;

(ii) the terms of the Lease Agreements are fair and reasonable;

(iii) the duration of more than three years of the Lease Agreements is a normal business practice for the Group; and

(iv) the basis in determining the estimated value of the right-of-use asset is fair and reasonable,

we are of the view that the entering of the Lease Agreements is in the ordinary and usual course of business of the Group, on normal commercial terms, and the terms of the Lease Agreements and the transactions contemplated thereunder are in the interests of the Company and its Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, that the Independent Shareholders to vote in favour of the ordinary resolutions to approve the Lease Agreements at the EGM.

Yours faithfully
For and on behalf of
Red Sun Capital Limited
Robert Siu
Managing Director

Mr. Robert Siu is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Red Sun Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 25 years of experience in corporate finance industry.

* *For identification purpose only*

1. FINANCIAL INFORMATION OF THE GROUP

The financial information of the Group:

(i) for the year ended 31 December 2020 has been disclosed on pages 70 to 214 of the Company's 2020 annual report published on 23 April 2021;

(ii) for the year ended 31 December 2021 has been disclosed on pages 69 to 202 of the Company's 2021 annual report published on 27 April 2022;

(iii) for the year ended 31 December 2022 has been disclosed on pages 68 to 189 of the Company's 2022 annual report published on 26 April 2023;

The aforesaid annual reports of the Company have been published on the websites of the Stock Exchange (http://www.hkexnews.hk) and of the Company (http://www.szbjh.com/).

Please see below the hyperlinks to the relevant annual reports of the Company:

(i) the annual report of the Company for the year ended 31 December 2020 published on 23 April 2021:

https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0423/2021042300795.pdf

(ii) the annual report of the Company for the year ended 31 December 2021 published on 27 April 2022:

https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0427/2022042700162.pdf

(iii) the annual report of the Company for the year ended 31 December 2022 published on 26 April 2023:

https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0426/2023042602015.pdf

2. STATEMENT OF INDEBTEDNESS

As at the close of business on 30 April 2023, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group had the following indebtedness:

	Note	**As at 30 April 2023** *RMB'000* (unaudited)
Bank borrowings, secured and guaranteed	1	155,748
Amount due to a director, unsecured and unguaranteed		59
Lease liabilities, unsecured and unguaranteed		397,964
		553,771

Note:

1. The bank borrowings are secured by the Group's certain investment properties and the Group's certain trade receivables as at 30 April 2023 and guaranteed by a related party of the Group.

Save as disclosed above, as at the close of business on 30 April 2023, the Group did not have any debt securities issued and outstanding, and authorised or otherwise created but unissued, term loans, bank overdrafts, other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptances credits, hire purchase commitments, debentures, mortgages, charges, guarantees or other material contingent liabilities.

3. WORKING CAPITAL SUFFICIENCY

The Directors, after due and careful enquiry, are of the opinion that, after taking into account the effect of the Lease Agreements, financial resources available to the Group including but not limited to cash flows from the operations of the Group, cash and cash equivalents available and the present available banking facilities of the Group, the Group will have sufficient working capital for its present requirements and for at least twelve months from the date of this circular in the absence of unforeseeable circumstances.

The Company has obtained the relevant letter as required under Rule 14.66(12) of the Listing Rules.

4. MATERIAL ADVERSE CHANGE

The Directors confirmed that there had been no material adverse change in the financial or trading position of the Group since 31 December 2022 (being the date to which the latest published audited financial results of the Group were made up) up to and including the Latest Practicable Date.

5. ACQUISITIONS AFTER THE DATE OF THE LATEST PUBLISHED AUDITED ACCOUNTS

Save for the transactions contemplated under the Lease Agreements (details of which are disclosed in this circular), since 31 December 2022 (the date to which the latest published audited accounts of the Group have been made up), no member of the Group has acquired or agreed to acquire or is proposing to acquire a business or an interest in the share capital of a company whose profits or assets make or will make a material contribution to the figures in the auditor's report or next published accounts of the Group.

6. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

In 2022, China's economy is facing the pressure of demand contraction, supply shock, and deteriorating prospects. The contribution of actual consumption to economic growth has weakened significantly; the industrial growth rate has fallen back to the level before the pandemic, and the recovery of the service industry has been hindered by the disturbance of the pandemic. During the year, domestic economy has experienced strong impacts from multiple internal and external factors such as the COVID-19 pandemic and the Ukraine crisis. Nevertheless, with effective pandemic control and robust economic and social development, there were a number of policies to stabilize the macroeconomic market. From the perspective of driving force for economic growth, due to the impact of the pandemic, the contribution rate of actual consumption to economic growth has significantly weakened, the growth rate of total retail sales of social consumer goods has become more volatile, and the proportion of residents' basic consumption and online retail sales has been relatively high. Second, the decline in real estate investment continued to expand, and manufacturing investment was resilient to rapid export growth and support policy, which together with infrastructure investment drove the growth of fixed asset investment. Third, net exports have stimulated economic growth. However, as the global economic growth slows down and the export trade falls, the year-on-year growth rate of foreign trade imports and exports has declined. From the perspective of production, the growth rate of China's industrial economy in 2022 has fallen below the level before the pandemic; the service industry was disrupted by the pandemic and the recovery was hindered as the structure was differentiated.

With the persistent pandemic affecting traditional department stores which faced unprecedented pressure, with the continuous closure of stores by retail giants in most city areas. Due to unfavourable business environment, the Group has performed fair operating results. The retail industry was generally operating under difficulties. Despite the negative factors, the Group has made changes to its operation and recorded a fair operating result. For the year ended 31

December 2022, the Group has recorded revenue of approximately RMB335.3 million, representing a YOY decrease of approximately 22.8%. Gross profit from direct sales was approximately RMB14.8 million, representing an YOY increase of approximately 4.0%, and loss attributable to owners of the Company was approximately RMB107.9 million, representing an YOY increase of approximately 7.8%, mainly attributable to the provision of impairment loss on existing loss-making retail stores. The decrease in revenue was principally attributable to the general decline in consumption spirit of the general public during the pandemic. Sales of goods, commissions from concessionaire sales, rental income from subleasing of shop premises, rental income from sub-leasing of shopping malls, interest income from financing services and rental income from investment properties were all decreased.

Looking forward, the Group anticipated that the slowdown in economic growth rate of China will exist as the high operating cost will extort the profit margin which led to more business merger in the retail industry in 2023. The traditional retail store will be highly conglomerated with online store by sharing customer data, product information and sales tactics such that to provide a more enjoyable and convenient shopping experience. Apart from this, multi-industries development will be mainstream in retail sector. The China retail market will be highly consolidated into various large operators to make use of its corporate marketing power and ability, and to increase the market competitive strength.

Despite the macroeconomic condition has significantly impacted to the industry, contributed by the rapid growth in information technology on online e-commerce and the shift of shopping habits as a result of the COVID-19 preventive measures, taking into account the relaxation of the COVID-19 preventive measures as well as the recovery of the PRC market, the Directors are confident towards the future development of the Group's operation and will continuing to strive on the Group's strategy to become one of the major operators in the retail industry in the PRC. The Group will abreast with the retail trends in the PRC, continue to innovative and expand its income source as well as improving its operating performance through other means like merger and acquisition to enhance its competitive advantage. The Group will also continue to explore new business opportunities and to uplift the value of the Company.

UNAUDITED PROFIT AND LOSS STATEMENTS OF THE COMMERCIAL PREMISES

In accordance with Rule 14.69(4)(b)(i) of the Listing Rules, the Company is required to include in this Circular a profit and loss statement for the three preceding financial years on the identifiable net income stream in relation to such assets which must be reviewed by the reporting accountants to ensure that such information has been properly complied and derived from the underlying books and records. During the years ended 31 December 2020, 2021 and 2022 (the "**Relevant Periods**"), the Group had yet to take possession of the Retail Premises and the Independent Premises and no revenue has been generated from the Retail Premises and the Independent Premises. Hence, the Board considered that the Retail Premises and the Independent Premises do not constitute a revenue-generating asset with an identifiable net income stream or assets valuation under Rule 14.69(4)(b)(i) of the Listing Rules and no profit or loss statement of the Retail Premises and the Independent Premises for the Relevant Periods has been disclosed.

The unaudited profit and loss statements of identifiable net income stream attributable to the Commercial Premises to be acquired for the Relevant Periods (the "**Unaudited Profit and Loss Statements**") prepared by the directors of the Company is set out below:

The Commercial Premises

	Year ended 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	846	807	820
Cost of inventories sold	–	–	–
	846	807	820
Other operating income	10	200	114
Selling and distribution costs	(858)	(946)	(794)
Finance costs	(81)	(28)	(47)
(Loss)/profit before income tax expense	(83)	33	93

Pursuant to Rule 14.69(4)(b)(i) of the Listing Rules, the directors of the Company engaged BDO Limited, the reporting accountants of the Company, to perform certain agreed-upon procedures on the compilation of the Unaudited Profit and Loss Statements as shown above in accordance with Hong Kong Standard on Related Services 4400 (Revised) "Agreed-Upon Procedures Engagements" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). The procedures are performed solely to assist the directors of the Company in evaluating whether the amounts shown in the Unaudited Profit and Loss Statements have been properly compiled and derived from the underlying books and records for the purpose of satisfying the requirements under Rule 14.69(4)(b)(i) of the Listing Rules and may not be suitable for another purpose. The agreed-upon procedures and the factual results are summarised as follows:

	Procedures	**Findings**
1	Obtain the Unaudited Profit and Loss Statements which were prepared by the management of the Company, and check their arithmetical accuracy.	The reporting accountants obtained the Unaudited Profit and Loss Statements, which were prepared by the management of the Company, and found them to be arithmetically accurate.
2	In respect of the Unaudited Profit and Loss Statements obtained, compare the amounts shown on the Unaudited Profit and Loss Statements with the relevant amounts in the underlying books and records of the Group for the Relevant Periods.	In respect of the Unaudited Profit and Loss Statements, the reporting accountants compared the amounts shown on the Unaudited Profit and Loss Statements with the relevant amounts in the underlying books and records of the Group for the Relevant Periods and found them to be in agreement.

The reporting accountants have performed the above agreed-upon procedures set out in the relevant engagement letter with the Company and reported the factual results based on the agreed-upon procedures performed to the directors of the Company. In the opinion of the directors of the Company, the Unaudited Profit and Loss Statements has been properly compiled and derived from the underlying books and records. The agreed-upon procedures engagement conducted by the reporting accountants is not an assurance engagement and consequently no opinion or assurance conclusion has been expressed by the reporting accountants on the Unaudited Profit and Loss Statements.

(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

(1) Introduction to Unaudited Pro Forma Financial Information of The Group

The following is an illustrative unaudited pro forma financial information including unaudited pro forma consolidated statement of assets and liabilities and unaudited pro forma consolidated statement of comprehensive income of the Group (the "**Unaudited Pro Forma Financial Information**"), which has been prepared by the directors of the Company in accordance with Rule 4.29 of the Listing Rules and on the basis of the notes set out below for the purpose of illustrating the effect of the Group upon completion of the very substantial acquisitions and connected transaction in relation to the connected lease agreements (the "**Transactions**") as if they had taken place on 31 December 2022 for the unaudited pro forma consolidated statement of assets and liabilities and as if they had taken place on 1 January 2022 for the unaudited pro forma consolidated statement of comprehensive income.

The Unaudited Pro Forma Financial Information are prepared based on:

(a) the audited consolidated statement of financial position of the Group as at 31 December 2022 as set out in the Group's published annual report dated 29 March 2023;

(b) the audited consolidated statement of comprehensive income for the year ended 31 December 2022 as set out in the Group's published annual report dated 29 March 2023;

(c) the unaudited pro forma adjustments relating to the Transactions that are (i) directly attributable to the Transactions and not relating to future events or decisions; and (ii) factually supportable.

The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company for illustrative purpose only and is based on a number of assumptions, estimates, uncertainties and currently available information.

Accordingly, the Unaudited Pro Forma Financial Information does not purport to describe the actual assets and liabilities and financial performance of the Group that would have been attained have the Transactions been completed on 31 December 2022 or 1 January 2022, nor purport to predict the Group's future financial position and financial performance.

The Unaudited Pro Forma Financial Information should be read in conjunction with the historical financial information of the Group as set out in the published annual report of the Group for the year ended 31 December 2022, and other financial information included elsewhere in the Circular.

This Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position and financial performance of the Group had the Transactions been completed as at 31 December 2022 or 1 January 2022, where applicable, or at any future date.

(2) Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of The Group as at 31 December 2022

	The assets and liabilities of the Group as at 31 December 2022	**Pro forma adjustments**			**Unaudited pro forma consolidated statement of assets and liabilities of the Group as at 31 December 2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 2a)*	*(Note 2b)*	*(Note 3)*	
Assets and liabilities					
Non-current assets					
Property, plant and equipment	150,870	–	–	–	150,870
Right-of-use assets	296,092	121,430	1,922	–	419,444
Investment properties	258,600	–	–	–	258,600
Intangible assets	6,463	–	–	–	6,463
Deposits paid, prepayments and other receivables	15,920	–	–	2,776	18,696
Investment in an associate	–	–	–	–	–
	727,945	121,430	1,922	2,776	854,073

	The assets and liabilities of the Group as at 31 December 2022	Pro forma adjustments			Unaudited pro forma consolidated statement of assets and liabilities of the Group as at 31 December 2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 2a)*	*(Note 2b)*	*(Note 3)*	
Current assets					
Inventories and consumables	12,460	–	–	–	12,460
Trade and loan receivables	53,267	–	–	–	53,267
Deposits paid, prepayments and other receivables	34,517	–	–	–	34,517
Tax recoverable	66	–	–	–	66
Restricted bank deposit	2,000	–	–	–	2,000
Cash and cash equivalents	66,171	–	–	(3,645)	62,526
	168,481	–	–	(3,645)	164,836
Current liabilities					
Trade payables	54,029	–	–	–	54,029
Contract liabilities	19,794	–	–	–	19,794
Deposits received, other payables and accruals	90,896	348	164	–	91,408
Amount due to a director	59	–	–	–	59
Lease liabilities	60,360	1,729	506	–	62,595
Borrowings	5,712	–	–	–	5,712
Provision for taxation	9,214	–	–	–	9,214
	240,064	2,077	670	–	242,811
Net current liabilities	(71,583)	(2,077)	(670)	(3,645)	(77,975)

	The assets and liabilities of the Group as at 31 December 2022	Pro forma adjustments			Unaudited pro forma consolidated statement of assets and liabilities of the Group as at 31 December 2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 2a)*	*(Note 2b)*	*(Note 3)*	
Total assets less current liabilities	656,362	119,353	1,252	(869)	776,098
Non-current liabilities					
Lease liabilities	357,288	118,487	1,249	–	477,024
Borrowings	151,464	–	–	–	151,464
Deferred tax liabilities	16,201	–	–	–	16,201
	524,953	118,487	1,249	–	644,689
Net assets	131,409	866	3	(869)	131,409

(3) Unaudited Pro Forma Consolidated Statement of Comprehensive Income of the Group

	Consolidated statement of comprehensive income of the Group for the year ended 31 December 2022	Pro forma adjustments			Unaudited pro forma consolidated statement of comprehensive income of the Group for the year ended 31 December 2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 4)*	*(Note 5)*	*(Note 6)*	
Revenue	335,272	–	–	–	335,272
Cost of inventories sold	(168,004)	–	–	–	(168,004)
	167,268	–	–	–	167,268
Other operating income	51,832	–	–	74	51,906
Decrease in fair value of investment properties	(15,600)	–	–	–	(15,600)
Selling and distribution costs	(231,177)	(13,564)	–	–	(244,741)
Administrative expenses	(40,127)	–	–	–	(40,127)
Other operating expenses	(2,266)	–	–	–	(2,266)
Impairment loss on loan receivables	(881)	–	–	–	(881)
Finance costs	(39,438)	–	(15,416)	–	(54,854)
Loss before income tax	(110,389)	(13,564)	(15,416)	74	(139,295)
Income tax credit	2,492	–	–	–	2,492
Loss and total comprehensive income for the year and attributable to owners of the Company	(107,897)	(13,564)	(15,416)	74	(136,803)

Notes to the Unaudited Pro Forma Financial Information of the Group:

1. The amounts are extracted from the audited consolidated statement of financial position of the Group as at 31 December 2022 and the audited consolidated statement of comprehensive income of the Group for the year ended 31 December 2022 included in the Group's published annual report dated 29 March 2023 ("**Consolidated Financial Statements**").

2. The Unaudited Pro Forma Financial Information is prepared in a manner consistent with both the format and accounting policies adopted by the Group in its Consolidated Financial Statements and therefore the Unaudited Pro Forma Financial Information is materially consistent with the accounting basis used by the Group. For the purposes of the preparation of the Unaudited Pro Forma Financial Information, the impact of the Transactions, comprising the effective of the Long-Term Lease Agreement, Independent Lease Agreement and Commercial Lease Agreement, and the commencement of the lease term of these lease agreements, are assuming to be taken place on 31 December 2022. The following adjustments in Note 2 reflect the addition of new leases upon the effective of the Long-Term Lease Agreement and Independent Lease Agreement, and lease modification of the existing lease arrangement upon the effective of the Commercial Lease Agreement, in accordance with Hong Kong Financial Reporting Standard 16, Leases ("**HKFRS 16**"), as if these agreements had been effective and the respective lease terms had been commenced on 31 December 2022.

   (a) Addition of new leases

   The adjustments represent the recognition of the lease liabilities of approximately RMB120,216,000, comprising current portion of approximately RMB1,729,000 and non-current portion of approximately RMB118,487,000, of which RMB52,103,000 and RMB68,113,000 are for the Independent Lease Agreement and Long-Term Lease Agreement respectively in the unaudited pro forma consolidated statement of assets and liabilities. The lease liabilities are measured at the present value of the lease payments, which represent a total fixed payments that are not paid at the date of commencement of the leases pursuant to the Independent Lease Agreement and Long-Term Lease Agreement. The lease payments are discounted using the lessee's incremental borrowing rate of 14.36% and 14.54% for the Independent Lease Agreement and Long-Term Lease Agreement respectively. For the purposes of the preparation of the Unaudited Pro Forma Financial Information, the lessee's incremental borrowing rates are determined based on the directors' estimate of the rates that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions, which existed as at 31 December 2022.

   The adjustments also represent the recognition of the right-of-use assets at cost of approximately RMB52,772,000 and RMB68,658,000 for the Independent Lease Agreement and Long-Term Lease Agreement respectively in the unaudited pro forma consolidated statement of assets and liabilities. The right-of-use assets comprise (i) the amount of the initial measurement of the lease liabilities of approximately RMB52,103,000 and RMB68,113,000 for the Independent Lease Agreement and Long-Term Lease Agreement respectively, (ii) initial direct costs of approximately RMB178,000 and RMB170,000 incurred by the Group for the Independent Lease Agreement and Long-Term Lease Agreement respectively, and (iii) a prepaid lease payment of approximately RMB491,000 and RMB375,000 for the Independent Lease Agreement and Long-Term Lease Agreement respectively, being the difference between the nominal amount of the refundable rental deposit and its fair value at the commencement date.

   (b) Lease modification

   The effective of the Commercial Lease Agreement results in lease modification as there is a change in lease term of the existing lease.

The adjustments represent the remeasurement of the lease liabilities, resulting in additional lease liability of approximately RMB1,755,000 recognised, comprising current portion of approximately RMB506,000 and non-current portion of approximately RMB1,249,000, in the unaudited pro forma consolidated statement of assets and liabilities. The lease liabilities are measured at the present value of the lease payments, which represent a total fixed payments that are not paid at the date of commencement of the leases pursuant to the Commercial Lease Agreement. The lease payments are discounted using the lessee's revised incremental borrowing rate of 13.95% as at the effective date of the lease modification. For the purposes of the preparation of the Unaudited Pro Forma Financial Information, the lessee's incremental borrowing rates are determined based on the directors' estimate of the rates that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions, which existed as at 31 December 2022.

The adjustments also represent the recognition of the right-of-use assets at cost of approximately RMB1,922,000 in the unaudited pro forma consolidated statement of assets and liabilities. The right-of-use assets comprise (i) the amount of the initial measurement of the lease liabilities of approximately RMB1,755,000, (ii) initial direct costs of approximately RMB164,000 incurred by the Group and (iii) a prepaid lease payment of approximately RMB3,000, being the difference between the nominal amount of the refundable rental deposit and its fair value at the commencement date.

The pro forma impact of HKFRS 16 for the Transactions have been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the impact to the Group had the Transactions been completed on the actual date of completion.

3. The adjustment represents the refundable rental deposits of approximately RMB3,645,000 paid by the Group in accordance with the term of Commercial Lease Agreement, Independent Lease Agreement and Long-Term Lease Agreement and are recognised initially at fair value at approximately RMB2,776,000 in accordance with HKFRS 9. The difference between the nominal amount of the refundable rental deposit and its fair value at the commencement date has been recognised in the right-of-use assets as mentioned in note 2(a) and note 2(b).

4. The adjustment represents the recognition of depreciation expenses of the right-of-use assets as if the Transactions are completed on 1 January 2022, based on the initial measurement of right-of-use assets as at 1 January 2022. The right-of-use assets are depreciated over the lease periods of 36 months, 119 months and 180 months for the Commercial Lease Agreement, Independent Lease Agreement and Long-Term Lease Agreement, respectively on a straight-line basis. The adjustment is expected to have a continuing effect on the Group.

5. The adjustment represents the recognition of interest expenses incurred for the lease liabilities as if the Transactions are completed on 1 January 2022. The lease liability is recognised and measured at the present value of the lease payments that are not paid at the date of commencement of the lease. Subsequent to the commencement date, the Group measures the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made. The weighted average lessees' incremental borrowing rates applied to lease liabilities recognised as if the Transactions completed on 1 January 2022 are 9.06%, 9.36% and 9.57% for the Commercial Lease Agreement, Independent Lease Agreement and Long-Term Lease Agreement respectively. For the purposes of the preparation of the Unaudited Pro Forma Financial Information, the lessee's incremental borrowing rates are determined based on the directors' estimate of the rates that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions, which existed as at 1 January 2022. The adjustment is expected to have a continuing effect on the Group.

6. The adjustment represents the recognition of interest income incurred for the refundable rental deposits as if the Transactions are completed on 1 January 2022. The rental deposits are recognised initially at fair value in accordance with HKFRS 9 and are measured subsequent to initial recognition at amortised cost using the effective interest method, resulting in the recognition of interest income over the lease terms for the difference between the fair value at the commencement of the leases and their nominal amounts receivable at the end of the lease terms. The adjustment is expected to have a continuing effect on the Group.

7. Saved as aforesaid, no other adjustments have been made to reflect any trading results or other transactions of the Group entered into subsequent to 31 December 2022.

(B) INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of the independent reporting accountants' assurance report received from BDO Limited, Certified Public Accountants, Hong Kong, the reporting accountants of our Company, in respect of the Group's unaudited pro forma financial information prepared for the purpose of incorporation in this circular.

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INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the directors of Jiahua Stores Holdings Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Jiahua Stores Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") by the directors of the Company for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities of the Group as at 31 December 2022, the unaudited pro forma consolidated statement of comprehensive income of the Group for the year ended 31 December 2022 and related notes as set out on pages III-1 to III-7 of Appendix III of the Company's circular dated 27 June 2023 (the "Circular") in connection with the very substantial acquisitions and connected transaction in relation to the connected lease agreements (the "Transactions"). The applicable criteria on the basis of which the directors of the Company have compiled the unaudited pro forma financial information are described on page III-1 to III-7 of Appendix III of the Circular.

The unaudited pro forma financial information has been compiled by the directors of the Company to illustrate the impact of the Transactions on the Group's assets and liabilities as at 31 December 2022 as if the Transactions had taken place on 31 December 2022, and on the Group's consolidated financial performance for the year ended 31 December 2022 as if the Transactions had been taken place on 1 January 2022, respectively. As part of this process, information about the Group's financial position and the financial performance has been extracted by the directors of the Company from the Company's consolidated financial statements for the year ended 31 December 2022, on which an auditor's report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors of the Company are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Our Independence and Quality Management

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Management 1 "Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements" issued by the HKICPA, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the directors of the Company have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Transactions at 31 December 2022 or 1 January 2022 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related unaudited pro forma adjustments give appropriate effect to those criteria; and

- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the entity, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Company; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

BDO Limited
Certified Public Accountants
Hong Kong

27 June 2023

MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

Set out below is the management discussion and analysis of the Group for each of the three years ended 31 December 2020, 2021 and 2022 as extracted from the respective annual reports of the Group.

FOR THE YEAR ENDED 31 DECEMBER 2020

BUSINESS REVIEW

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

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

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

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

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

The group has been transforming the business model by shifting focus on sales of goods from traditional supermarkets to sub-leasing business. Therefore, the shopping center strengthens decoration spirit to attract online community discussion, and incorporates amusement facilities to highlight the family experience and youthful vitality. Using vacant shops for temporary promotional activities and earning additional income. Adding fragrance dispenser and decorating green plants in toilets to enhance the style of the mall. Providing an "professional service room" amenity for shoppers free consultation service. During the year, the shopping malls have been undergoing four types of changes. Standardize operations for system construction, initiate system compilation and active team building to increase training and market research. Target management, rent collection is strictly controlled to strengthen cash flow. Enhance operating diversification to increase other income. Vacant shops pending for business invitation, commencement and renovation will be closely followed-up to reduce operating losses. Improve products quality, conduct customer satisfaction surveys, and formulate improvement plans. Strengthen quality inspection and supervision, and emphasize on quality stores.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

FINANCIAL REVIEW

Revenue

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

Sales of goods decreased by 42.3% to RMB249.9 million for the year ended 31 December 2020 from RMB432.8 million in the corresponding period of 2019, principally due to the outbreak of new pandemic in Mainland China which imposed measures including the lockdown of cities and borders and the management of people flow within community. This reduced the customer flow in stores and the Group has closed three stores in response to the pandemic during the period. Besides, the Group has adjusted the sales floor area of direct sales to introduce more leisure experiencing shopping mode. Sales of goods as a percentage of the Group's total revenue was 58.4% for the year ended 31 December 2020 as compared to 67.0% in the corresponding period of 2019.

Commission from concessionaire sales dropped by 58.4% to RMB32.7 million for the year ended 31 December 2020 from RMB78.5 million in the corresponding period of 2019, mainly due to outbreak of pandemic and closure of three stores. Commission from concessionaire sales as a percentage of the Group's total revenue was 7.6% for the year ended 31 December 2020 as compared to 12.2% for the corresponding period of 2019.

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

Rental income from sub-leasing of a shopping mall increased by 15.3% of RMB61.0 million for the year ended 31 December 2020 as compared with RMB52.9 million for the corresponding period in 2019 due to (i) the commencement of business of Shenzhen Guanlan shopping mall in the last quarter of 2019; and (ii) the entering into mature stage of operation of the Shenzhen Bantian shopping mall during the period. Rental income from sub-leasing of a shopping mall as a percentage of the Group's total revenue was 14.2% for the year ended 31 December 2020 as compared to 8.2% for the corresponding period of 2019.

Rental income from investment properties down by 20.8% to RMB7.5 million for the year ended 31 December 2020 from RMB9.5 million for the corresponding period in 2019, mainly due to early termination of two tenancies which are still pending for leasing. Rental income from investment properties as a percentage of the Group's total revenue was 1.8% for the year ended 31 December 2020 as compared to 1.5% for the corresponding period of 2019.

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

Purchase of and changes in inventories

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

Other operating income

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

Staff costs

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

Depreciation of right-of-use assets

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

Depreciation of property, plant and equipment

Depreciation of property, plant and equipment increased by 5.5% to RMB48.2 million for the year ended 31 December 2020 from RMB45.7 million in the corresponding period in 2019. The increase was mainly due to enhancement of main stores in Shenzhen and the final construction works of Shenzhen Guanlan shopping mall.

Impairment loss on loan receivables

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

Other operating expenses

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

Finance costs

Finance costs, arising from the effect of adoption of HKFRS 16, decreased by approximately RMB5.9 million, from approximately RMB51.8 million for the year ended 31 December 2019 to approximately RMB45.9 million in the corresponding period of 2020, primarily due to the closure of three stores during the year. Finance costs arising from borrowings during the year was approximately RMB0.9 million.

Income tax expense

Income tax expense amounted to approximately RMB0.9 million for the year ended 31 December 2020, representing a decrease of 63.7% from approximately RMB2.6 million in the corresponding period of 2019, mainly due to decrease of operating profit before tax. The effective tax rate applicable to the Group for the year ended 31 December 2020 were 25% for general subsidiaries (15% for Guangxi subsidiary). In addition, pursuant to the PRC Corporate Income Tax Law, the Group is liable to withholding taxes on dividends distributed by subsidiaries established in China. The applicable tax rate is 10%.

Loss attributable to Shareholders of the Company

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

Capital structure, liquidity, financial resources and gearing

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

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

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 or 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 businesses. In respect of loan receivables, the Group's policy is that all customers who wish to obtain loans from the Group are subject to management review. The Group holds collaterals directly or indirectly to cover its risks associated with loan receivables. The credit and investment policies have been followed by the Group since prior years and are considered to have been effective in limiting the Group's exposure to credit risk to a desirable level.

(iii) Interest rate risk

The Group's exposure to interest rate risk mainly arises on cash and bank balances and loan receivables. The Group has not used any derivative contracts to hedge its exposure to interest rate risk. The Group has not formulated a policy to manage the interest rate risk.

(iv) Liquidity risk

The Group's policy is to maintain sufficient cash and bank balances and have available funding to meet its working capital requirements. The Group's liquidity is dependent upon the cash received from its customers. The directors of the Company are satisfied that the Group will be able to meet in full its financial obligations as and when they fall due in the foreseeable future.

The Group did not use any financial instrument for hedging purposes and the Group did not have any hedging instrument outstanding during the year ended 31 December 2020.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Employees and Remuneration Policy

For the year ended December 2020, the Group had 721 full time employees in average in the mainland China and Hong Kong. The Group continues to recruit high calibre individuals and provide continuing education and training for employees to help upgrading their skills and knowledge as well as developing team spirit on an on-going basis. During the year, total staff costs were approximately RMB80.4 million. Competitive remuneration packages are structured to commensurate with reference to individual responsibilities, qualification, experience and performance.

Contingent Liabilities

As at 31 December 2020, the Group has no significant contingent liabilities.

Capital Expenditure

For the year ended 31 December 2020, capital expenditures of the Group for property, plant and equipment amounted to approximately RMB80.1 million (2019: approximately RMB130.3 million).

Charges of assets

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

Capital Commitments

As at 31 December 2020, the Group had capital commitments contracted, but not provided for, amounting to approximately RMB8.6 million (2019: approximately RMB19.3 million).

Dividend policy

Under the Dividend Policy, the declaration, payment and amount of dividends will be subject to the discretion of the Board in accordance with the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and the articles of association of the Company and will be dependent upon the Group's current and recent financial performance, cash flow position, working capital requirements and expenditure plan, restriction on distribution of dividends under the relevant laws, rules and regulations, and any other factors that the Board deems appropriate.

In determining any dividend amount for a particular year or interim period, the Board will also take into account, inter alia, the consolidated profit attributable to the owners of the Company for the year or period, dividend distributed during the year, and the retained profits available.

The Company will review the Dividend Policy periodically. There can be no assurance that dividends will be paid in any particular amount for any given period or at all. The Board of Directors do not recommend the payment of final dividend for the year ended 31 December 2020.

Significant investment, material acquisitions and disposal of subsidiaries and associated companies

The Group did not have any significant investment, material investment, acquisitions and disposal of subsidiaries and associated companies during the year ended 31 December 2020.

Future plans for material investment or capital assets

The Board currently does not have any future plans for material investments or capital assets. The Directors will continue to monitor the industry and review its business plans regularly, so as to take necessary measures in the best interests of the Group and the Shareholders.

FOR THE YEAR ENDED 31 DECEMBER 2021

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 7 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 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 sales 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 an 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 onsite 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 introduced 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.

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 RMB19.6 million, and the increase in rental income from investment properties of approximately RMB1.5 million. However, there were decrease in commission from concessionaire sales of approximately RMB5.7 million, the decrease in rental income from subleasing 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 32.1% to RMB80.6 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 1.4% 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.

Capital structure, liquidity, financial resources and gearing

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 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).

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 or 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 businesses. In respect of loan receivables, the Group's policy is that all customers who wish to obtain loans from the Group are subject to management review. The Group holds collaterals directly or indirectly to cover its risks associated with loan receivables. The credit and investment policies have been followed by the Group since prior years and are considered to have been effective in limiting the Group's exposure to credit risk to a desirable level.

(iii) Interest rate risk

The Group's exposure to interest rate risk mainly arises on 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.

Employees and remuneration policy

For the year ended December 2021, the Group had 660 full time employees in average in the mainland China and Hong Kong. The Group continues to recruit high calibre individuals and provide continuing education and training for employees to help upgrading their skills and knowledge as well as developing team spirit on an ongoing basis. During the year, total staff costs were approximately RMB75.9 million. Competitive remuneration packages are structured to commensurate with reference to individual responsibilities, qualification, experience and performance.

Contingent liabilities

As at 31 December 2021, the Group has no significant contingent liabilities.

Capital expenditure

For the year ended 31 December 2021, capital expenditures of the Group for property, plant and equipment amounted to approximately RMB50.3 million (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.

Capital commitments

As at 31 December 2021, the Group had capital commitments contracted, but not provided for, amounting to approximately RMB6.1 million (2020: approximately RMB8.6 million).

Dividend policy

Under the Dividend Policy, the declaration, payment and amount of dividends will be subject to the discretion of the Board in accordance with the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and the articles of association of the Company and will be dependent upon the Group's current and recent financial performance, cash flow position, working capital requirements and expenditure plan, restriction on distribution of dividends under the relevant laws, rules and regulations, and any other factors that the Board deems appropriate. In determining any dividend amount for a particular year or interim period, the Board will also take into account, inter alia, the consolidated profit attributable to the owners of the Company for the year or period, dividend distributed during the year, and the retained profits available. The Company will review the Dividend Policy periodically. There can be no assurance that dividends will be paid in any particular amount for any given period or at all.

The Company will review the Dividend Policy periodically. There can be no assurance that dividends will be paid in any particular amount for any given period or at all. The Board of Directors do not recommend the payment of final dividend for the year ended 31 December 2021.

Significant investment, material acquisitions and disposal of subsidiaries and associated companies

The Group did not have any significant investment, material investment, acquisitions and disposal of subsidiaries and associated companies during the year ended 31 December 2021.

Future plans for material investment or capital assets

The Board currently does not have any future plans for material investments or capital assets. The Directors will continue to monitor the industry and review its business plans regularly, so as to take necessary measures in the best interests of the Group and the Shareholders.

FOR THE YEAR ENDED 31 DECEMBER 2022

BUSINESS REVIEW

For the year ended 31 December 2022, the Group's total revenue was approximately RMB335.3 million, a decrease of approximately 22.8% YOY; gross profit of sales of goods was approximately RMB14.8 million, YOY increase of approximately 4.0%. Loss attributable to owners of the Company was approximately RMB107.9 million, YOY increase of approximately 7.8%. At the end of the year, there were 7 retail stores and 2 shopping malls. The decrease in revenue was mainly due to the general decline in consumption spirit in the society during the pandemic, the enhancement work of the some of our stores, and the closure of two stores last year. During the year, it was mainly for upgrading to increase revenue, the streamline of manpower and maintenance of key employees, as to retain strength to meet future challenges. Commodity sales decreased by approximately RMB68.0 million, commissions from concessionaire sales decreased by approximately RMB3.9 million, rental income from sub-leasing of shop premises decreased by approximately RMB18.4 million, rental income from sub-leasing of shopping malls decreased by approximately RMB8.0 million, investment property income decreased by approximately RMB20,000, and interest income from financing services decreased by approximately RMB0.6 million. The Group adopts a proactive and stable business strategy, provides value-added services to physical retail stores, and seeks and develops potential profit opportunities for other investment projects, and begins to plan the preparatory work for the expansion of its branch network and shopping mall in the coming year.

Looking back at the year 2022, the Group has made the following major highlights in terms of operations.

(1) Improve performance of operation of the shopping malls and win honor from the industry association

The Group currently operates two shopping malls located in mid-to-high-end new residential areas in Shenzhen to cater for the new retail era. BJH Linghui shopping mall is located at Bantian Street, Longgang District, Shenzhen. It is a demonstration base for the integration of technology industry and urban development in the Guangdong-Hong Kong Macao Greater Bay Area. It has been awarded as "Guangdong Province Smart Manufacturing Demonstration Base" and "Shenzhen's First Batch of Innovation and Entrepreneurship Bases". BJH Lingyu shopping mall is located at Guanlan Street, Shenzhen, as a pilot demonstration street for the development of circular economy in Shenzhen and Baoan District. Guanlan's economy has maintained a good development trend, and the circular economy, original prints, Mission Hills Golf Club, and Yongfengyuan ceramics have become four outstanding businesses of Guanlan. There are many large enterprises such as Foxconn in the area. The performance of shopping malls has continued to improve, and the operating model has also been consolidated. Shenzhen BJH Shajing shopping mall, which is expected to be opened in the second half of the year, has also undergone active preparations. Shenzhen BJH Shajing Lingchuang Plaza won the "China Shopping Alliance 2021 Shopping Center Star Show Award – Pending operation" during the year due to its continuous optimization of brand portfolio and design content, laying a solid foundation for future openings.

(2) Create a marketing attraction label and increase the customer flow to the store

In order to increase the attractiveness of the stores, the Group signed a licensing exhibition cooperation agreement with the licensor during the year to hold online and offline licensing exhibition activities in its shopping malls and commercial arcades. Walnut Duck, a trendy intellectual property from the UK, has attracted large number of young people with its "British duck" attributes and vibrant image. Walnut Duckling is a keen Sherlock Holmes fan. Bravery, action-oriented and erudition are the labels of Walnut Duckling's unique personality. "All My Best, Be Myself" is its motto. Relying on this authorization exhibition, the group will extend a series of cute and interesting check-in points and beautiful art display with the theme of "Beach Fun in Summer" combined with the intellectual property rights of Walnut Duckling: Giant Inflatable Duck, Ten-Layer Duck Cake Tower, Camping Duck, Swimming Pool Duck, Fruit Duck, Cone Duck, and Hula Duck, etc. The showcase period is from June to August this year, using the summer period to attract family customers and young trendy groups to the store to interact and punch in, and to co-launch with the promotion activities of commercial arcades and shopping malls, including live broadcasting, point redemption activities, and shopping gifts. During the event, passenger flow and sales increased, the number of new members also rose, and media exposure increased.

(3) Strengthen corporate culture to promote unity and caring spirit

The Group supports the establishment of a good work team, develops the potential of employees and fosters a sense of belonging to the company. In addition to the annual events, including sports day, birthday parties, and travel activities, employee talent competitions are held during the period. Temporary competition stages are set up in stores to allow employees to participate in specific competition events, provide relaxing time beyond work duty, and enhance employees' self-confidence and demonstrate their performance skills. In addition, the Group expressed care and responsibility to the community. During the period, Shenzhen was unblocked after the pandemic lessened, and special community activities were organized to present gift packs to the medical staff, delivery workers, public cleaners and volunteers as a gift. In addition, in response to the tense situation of the pandemic, district shut down was implemented. During the period, the Group cooperated with suppliers, linked the surrounding communities, provided community friendly life services, set up temporary stalls, and selected "high-value", "high-quality" and "high performance" products. This allows residents to experience affordable and convenient shopping services without going far away.

(4) Hold a series of marketing activities to stimulate customer consumption

During the year, the Group actively organized marketing activities and implemented cross-industry cooperation to provide a diversified shopping atmosphere. Following the trend, the group began to hold live broadcast sales. The virtual shopping scene constructed by live broadcast brought the peddling noise in market to the live broadcast room of instant interaction. In the process of live streaming, the anchor acts as a salesperson, shopping guide, and beauty consultant. Promote vertical live broadcast, strengthen the theme and interactivity, and increase attractiveness. Increase special activities for members to maintain a stable customer base. To enhance on-site small handmade booths, customer satisfaction surveys, and customer relationship management system. Official account tweets, online mini-games and interactive topics are launched to cater for different customers. In addition, short videos are produced and broadcast on Douyin and Channels to attract attention with vivid methods, and live broadcast promotions combined with brand activities. In terms of publicity materials, the Group has produced various visual identity designs and management, visual graphic design and extension in a novel and relaxed way, adding joyful and colorful cartoons and texts, and putting them into festive storefront promotional pictures, official account long pictures, live broadcast related pictures and membership promotional design. In addition, the Group also makes fashionable designs for offline packaging materials, eco-friendly shopping bags, and staff uniforms. Festivals, product categories, and seasonal themes are also introduced into the design of store decorations, shelves, shopping coupons, and promotional merchandise stands.

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

During the year, the group conducted a thorough store inspection and maintenance of fire protection 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 are held to solve hidden safety hazards in stores, and comprehensive inspections of facilities are carried out to ensure normal daily operation. Replacement of parts of cooling tower and wind cabinet to ensure normal operation and saves costs. Inspection of store decoration site is taken to prevent illegal operations by workers during the process in a timely manner. The Company strengthens internal control by carrying out regular inventory count of all fixed assets of stores, procurement center, shopping malls and head office, to ensure matching balance and reasonable retirement. This is used to update system data and keep accurate records. In addition, the job assignment mechanism is established to reduce operation and man-made losses and protect the group's property.

Periodic adjustments and rotation to staff positions, detailed allocation plans are used to support comprehensive performance appraisal, and improve human resource incentive plans. In addition, safety management is introduced to old store adjustment and upgrade plan, and store design technique is employed to make full use of resources and reduce construction costs. Strengthening the protection mechanisms and introducing effective alert system. The Company will conduct anti-terrorism and flood prevention drills and trainings to safeguard the safety of employees, customers and group property.

FINANCIAL REVIEW

Revenue

The Group's revenue amounted to approximately RMB335.3 million for the year ended 31 December 2022, representing a decrease of 22.8% as compared to approximately RMB434.2 million in the corresponding period of 2021. The decrease was principally attributable from the decrease in sales of goods of approximately RMB68.0 million, the decrease in commission from concessionaire sales of approximately RMB3.9 million, the decrease in rental income from sub-leasing of shop premises of approximately RMB18.4 million, decrease in rental income from sub-leasing of shopping malls of approximately RMB8.0 million, investment property income decreased by approximately RMB20,000, and the decrease in interest income from financing services of approximately RMB0.6 million.

Sales of goods decreased by 27.1% to RMB182.8 million for the year ended 31 December 2022 from RMB250.8 million in the corresponding period of 2021, principally due to 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. Besides, the Group has closed down two stores in Foshan Yanbu and Guangxi Taoyuan in year 2021 which reduced the income from sales of goods in current year. Sales of goods as a percentage of the Group's total revenue was 54.5% for the year ended 31 December 2022 as compared to 57.7% in the corresponding period of 2021.

Commission from concessionaire sales dropped by 14.4% to RMB23.1 million for the year ended 31 December 2022 from RMB27.0 million in the corresponding period of 2021, mainly due to the persistence of pandemic and closure of two stores in 2021. Commission from concessionaire sales as a percentage of the Group's total revenue was 6.9% for the year ended 31 December 2022 as compared to 6.2% for the corresponding period of 2021.

Rental income from sub-leasing of shop premises down by 30.2% to RMB42.5 million for the year ended 31 December 2022 from RMB60.9 million for the corresponding period in 2021, mainly due to the persistence of pandemic and closure of two stores in 2021. Rental income from subleasing of shop premises as a percentage of the Group's total revenue was 12.7% for the year ended 31 December 2022 as compared to 14.0% for the corresponding period of 2021.

Rental income from sub-leasing of shopping malls decreased by 9.9% to RMB72.6 million for the year ended 31 December 2022 as compared with RMB80.6 million for the corresponding period in 2021 due to the persistence of pandemic. Rental income from subleasing of shopping malls as a percentage of the Group's total revenue was 21.7% for the year ended 31 December 2022 as compared to 18.7% for the corresponding period of 2021.

Rental income from investment properties slightly drop by 0.2% to RMB9.08 million for the year ended 31 December 2022 from RMB9.10 million for the corresponding period in 2021, mainly due to offering of rent free period for long relationship tenants under the persistence of pandemic. Rental income from investment properties as a percentage of the Group's total revenue was 2.7% for the year ended 31 December 2022 as compared to 2.1% for the corresponding period of 2021.

Interest income from financing services down by 10.3% to RMB5.2 million for the year ended 31 December 2022 from RMB5.8 million for the corresponding period in 2021, 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 1.5% for the year ended 31 December 2022 as compared to 1.3% for the corresponding period of 2021.

Purchase of and changes in inventories

Purchase of and changes in inventories amounted to RMB168.0 million for the year ended 31 December 2022, representing a decrease of 29.0% as compared with RMB236.6 million in the corresponding period of 2021, mainly due to decrease in sales of goods. As a percentage of sales of goods, purchase of and changes in inventories was 91.9% for the year ended 31 December 2022 as compared with 94.3% in the same period of 2021.

Other operating income

Other operating income up by 9.7% to RMB51.8 million for the year ended 31 December 2022 from RMB47.2 million in the corresponding period in 2021. The decrease in bank interest income of approximately RMB0.5 million was due to drop in bank balances throughout the year. The increase in government grants of approximately RMB0.6 million was due to offering of local government incentive. The decrease in administration and management fee income of approximately RMB5.6 million was corresponding to the drop in commission from concessionaire sales. The increase in rent concession from some of the stores of approximately RMB10.0 million were due to the continuance of pandemic condition.

Staff costs

Staff costs decreased by 8.7% to RMB69.3 million for the year ended 31 December 2022 from RMB75.9 million in the corresponding period of 2021, primarily due to the closure of two stores in 2021 and streamline of manpower during the year.

Depreciation of right-of-use assets

Depreciation of right-of-use assets decreased by 16.1% to RMB58.4 million for the year ended 31 December 2022 from RMB69.6 million in the corresponding period of 2021, primarily due to the closure of two stores in 2021.

Depreciation of property, plant and equipment

Depreciation of property, plant and equipment slightly increased by 1.3% to RMB60.1 million for the year ended 31 December 2022 from RMB59.3 million in the corresponding period in 2021. The increase was mainly due to enhancement of main stores in Shenzhen and the final construction works of Shenzhen Guanlan shopping mall.

(Impairment loss)/reversal of impairment loss on loan receivables

Impairment loss on loan receivables of approximately RMB0.9 million in the year ended 31 December 2022 represented expected credit loss on loan receivables from financing services business during the year. Reversal of impairment loss on loan receivables was approximately RMB2.1 million in the year ended 31 December 2021.

Other operating expenses

Other operating expenses decreased by approximately RMB6.6 million, from RMB8.9 million in the corresponding period of 2021 to RMB2.3 million for the year ended 31 December 2022. This was mainly due to written-off of other receivables of RMB3.8 million was recognised in the corresponding period of 2021.

Finance costs

Finance costs, arising from the effect of adoption of HKFRS 16, from lease liabilities decreased by approximately RMB4.1 million, from approximately RMB37.3 million for the year ended 31 December 2021 to approximately RMB33.2 million in the corresponding period of 2022, primarily due to the aging of lease liabilities during the year.

Finance costs arising from bank borrowings increased by approximately RMB1.5 million, from approximately RMB4.7 million for the year ended 31 December 2021 to approximately RMB6.2 million in the corresponding period of 2022 due to the increase in bank borrowings compared to last year.

Income tax credit

Income tax credit amounted to approximately RMB2.5 million for the year ended 31 December 2022 was due to decrease in fair value of investment properties during the year. There was income tax credit of approximately RMB0.1 million in the corresponding period of 2021. The effective tax rate applicable to the Group for the year ended 31 December 2022 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 RMB107.9 million for the year ended 31 December 2022 as compared with loss of approximately RMB100.1 million in corresponding period of 2021.

Capital structure, liquidity, financial resources and gearing

As at 31 December 2022, the Group had cash and cash equivalents of approximately RMB66.2 million (31 December 2021: approximately RMB26.1 million), while the restricted bank deposits amounted to approximately RMB2.0 million (31 December 2021: RMB2.0 million). Total borrowings of the Group included bank loans of approximately RMB157.2 million as at 31 December 2022 (31 December 2021: RMB93.4 million). As at 31 December 2022, the Group had a net current liabilities of approximately RMB71.6 million, as compared to amount of approximately RMB102.0 million as at 31 December 2021.

As at 31 December 2022, the gearing ratio of the Group was approximately 3.86 (31 December 2021: 2.25), 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).

As at 31 December 2022, the Group has the total banking facility of approximately RMB180,000,000 (2021: RMB180,000,000) granted by a bank to a subsidiary of the Company and has cumulatively drawn down of approximately RMB170,000,000 (2021: RMB97,513,000).

As at 31 December 2022, the Group has undrawn banking facility of approximately RMB10,000,000 (2021: RMB82,487,000). Subsequent to 31 December 2022 and up to the latest practicable date, the Group has no further drawn down of the banking facility. The banking facility is secured by certain portion of the Group's investment properties amounted to approximately RMB242,700,000 (2021: RMB257,300,000) and trade receivables of approximately RMB28,000 (2021: RMB67,000) as at 31 December 2022 and guaranteed by BJH Group (2021: BJH Group). The bank loan is variable interest bearing which carried interest based on the 5-year loan prime rate issued by the National Inter-bank Funding Center plus

0.25% per annum. The effective interest rate as at 31 December 2022 is 4.59% (2021: 4.90%). As at 31 December 2022 and 2021, the Group had not breached any of the covenants of the banking facility. The bank loan is arranged at variable interest rate and expose the Group to cash flow interest rate risk.

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 2022.

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.

Employees and remuneration policy

As at 31 December 2022, the Group had 618 full-time employees (year ended 31 December 2021: 660). 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 2022, 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 2021: Nil).

Capital commitments

As at 31 December 2022, the Group had capital commitments contracted, but not provided for, amounting to approximately RMB2.4 million (2021: approximately RMB6.1 million).

Dividend policy

Under the Dividend Policy, the declaration, payment and amount of dividends will be subject to the discretion of the Board in accordance with the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and the articles of association of the Company and will be dependent upon the Group's current and recent financial performance, cash flow position, working capital requirements and expenditure plan, restriction on distribution of dividends under the relevant laws, rules and regulations, and any other factors that the Board deems appropriate.

In determining any dividend amount for a particular year or interim period, the Board will also take into account, inter alia, the consolidated profit attributable to the owners of the Company for the year or period, dividend distributed during the year, and the retained profits available.

The Company will review the Dividend Policy periodically. There can be no assurance that dividends will be paid in any particular amount for any given period or at all. The Board of Directors do not recommend the payment of final dividend for the year ended 31 December 2022.

Significant investment, material acquisitions and disposal of subsidiaries and associated companies

The Group did not have any significant investment, material investment, acquisitions and disposal of subsidiaries and associated companies during the year ended 31 December 2022.

Future plans for material investment or capital assets

The Board currently does not have any future plans for material investments or capital assets. The Directors will continue to monitor the industry and review its business plans regularly, so as to take necessary measures in the best interests of the Group and the Shareholders.

Capital expenditure

The total spending on the additions of property, plant and equipment amounted to approximately RMB9.6 million for the year (2021: approximately RMB50.3 million).

Charges of assets

As at 31 December 2022, the carrying amount of investment properties amounted to approximately RMB242.7 million (2021: RMB257.3 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 2022, the Group has no significant contingent liabilities (2021: Nil).

Set forth below is the management discussion and analysis of the Commercial Premises for each of the three years ended 31 December 2019, 2020 and 2021 and for the six months ended 30 June 2022 (collectively, the "**Reporting Period**") based on the financial information on the Commercial Premises set out in Appendix II to this circular.

The Commercial Premises is located at 深圳市新安街道大寶路南側佳華書苑雅閣1棟商場01層 (1st Floor, Building 1, Jiahua Shuyuan Yage, Dabao South Road, Xinan Street, Baoan District, Shenzhen, Guangdong Province, the PRC), with a total area of 2,693.69 sq.m. with usage of commercial purposes. The Group has been renting the Commercial Premises from the Connected Landlord since 2009 for sub-letting such space to the Group's tenants.

FINANCIAL REVIEW

During the Reporting Period, the Commercial Premises derived its revenue mainly from the sub-letting of Commercial Premises and receiving rental income, which amounted to RMB846,000, RMB807,000 and RMB820,000 respectively for the three years ended 31 December 2022. Selling and distribution cost of the Commercial Premises comprised mainly rental expense and other maintenance costs which amounted to RMB858,000, RMB946,000 and RMB794,000 respectively for the three years ended 31 December 2022.

Taking into consideration the revenue generated from sub-letting of Commercial Premises and the associated direct cost, the Commercial Premises generated a (loss)/profit after income tax expenses of RMB(83,000), RMB33,000 and RMB93,000 respectively for the three years ended 31 December 2022.

The following is the text of a valuation report prepared for inclusion in this circular, received from Valor Appraisal & Advisory Limited, an independent property valuer, in connection with its opinion of the market rents of the property interests, intended to be leased to the Group, as at 31 March 2023.

VALOR
VALUE WITH VIRTUES
VALOR APPRAISAL & ADVISORY LIMITED

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Date: 27 June 2023

The Board of Directors
Jiahua Stores Holdings Limited
Suite 715, 7/F, Ocean Centre
5 Canton Road, Tsimshatsui
Kowloon, Hong Kong

Dear Sirs,

INSTRUCTIONS

In accordance with your instructions for us to provide our opinion of the market rent of the properties (the "**Property**") in the People's Republic of China (the "**PRC**") leased/to be leased to Jiahua Stores Holdings Limited (the "**Company**") or its subsidiaries (hereinafter together referred to as the "**Group**"), we confirm that we have carried out property inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market rent of the Property as at 31 March 2023.

This letter which forms part of our valuation report explains the basis and methodologies of valuation, clarifying assumptions, valuation considerations, title investigation and limiting conditions of this valuation.

BASIS OF VALUATION

Our valuation is carried out on a market rent basis. Market rent is defined as "the estimated amount for which an interest in real property should be leased on the valuation date between a willing lessor and willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

VALUATION METHODOLOGY

In valuing the market rent of the Property, we have adopted market comparison method which is universally considered the most acceptable method for assessing the rent of most forms of real estate. This involves the analysis of recent market rental evidences of similar properties to compare with the Property under assessment. Each comparable is analysed on the basis of its unit rent; each attribute of the comparable is then compared with the Property and where there is a difference, the unit rent is adjusted in order to arrive at the appropriate unit rent for the Property.

VALUATION CONSIDERATIONS

In valuing the market rent of the Property, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation – Global Standards published by the Royal Institution of Chartered Surveyors; and the International Valuation Standards published by the International Valuation Standards Council.

VALUATION ASSUMPTIONS

Our valuations have been made on the assumption that the seller sells the Property on the open market in their existing states without the benefit of a deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangements, which could serve to affect the values and market rents of the Property.

In undertaking our valuation, we have assumed that, unless otherwise stated, transferable land use rights in respect of the property interests for specific terms at nominal annual land use fees have been granted and that any premium payable has already been fully paid. We have also assumed that the owners of the properties have enforceable titles to the properties and have free and uninterrupted rights to use, occupy or assign the properties for the whole of the respective unexpired terms as granted.

No allowance has been made in our valuation for any outstanding or additional land premium, charges, mortgages or amounts owing on the Property valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Property are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values and market rents.

TITLE INVESTIGATION

We have been, in some instances, shown copies of various title documents and other documents relating to the Property and have made relevant enquiries. We have not examined the original documents to verify the existing title to the Property and any material encumbrances that might be attached to the property interests or any lease amendments. However, we have relied considerably on the information given by the Company's PRC legal adviser, Guangdong

Pinfang Law Firm (廣東品方律師事務所), concerning the validity of the title of Shenzhen Jiahua Real Estate Development Company Limited (深圳市佳華房地產開發有限公司) and Shenzhen Shajing Shayi Stock Cooperative Company (深圳市沙井沙一股份合作公司) (collectively the "**Landlords**") to the Property located in the PRC.

All legal documents provided by the Company have been used for reference only. No responsibility regarding legal title to the Property is assumed in this valuation report.

LIMITING CONDITIONS

We have inspected the exterior, and wherever possible, the interior of the properties but no structural survey had been made. In the course of our inspection, we did not note any serious defects. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. Further, no test has been carried out on any of the building services. All dimensions, measurements and areas are only approximates. We have not been able to carry out detailed on-site measurements to verify the site and floor areas of the properties and we have assumed that the areas shown on the copies of documents handed to us are correct.

The site inspection of the Property was carried out on 22 March 2023 by Mr. Wang Kuanghong (BA Real Estate), who has 9 years' experience in valuation of real estate including industrial properties located in the PRC.

We have relied to a considerable extent on information provided by the Company and the Landlords, and have accepted advice given to us on such matters, in particular, but not limited to, the sales records, tenure, planning approvals, statutory notices, easements, particulars of occupancy, site and floor areas and all other relevant matters in the identification of the Property.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company and the Landlords. We have also been advised by the Company and the Landlords that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

Liability in connection with this valuation is limited to the client to whom this valuation is addressed and for the purpose for which it is carried out only. We will accept no liability to any other parties or any other purposes.

This valuation is to be used only for the purpose stated herein, any use or reliance for any other purpose, by you or third parties, is invalid. No reference to our name or our valuation report in whole or in part, in any document you prepare and/or distribute to third parties may be made without written consent.

EXCHANGE RATE

Unless otherwise stated, all monetary amounts stated in this valuation are in Renminbi (RMB).

"Property Particulars and Opinion of Value" are herewith attached.

Yours faithfully,
For and on behalf of
Valor Appraisal & Advisory Limited

Haydn Y. C. Lee
MRICS CFA CPA (Aust.)
Director

Mr. Haydn Y.C. Lee is a professional member of Royal Institution of Chartered Surveyors, Chartered Financial Analyst charterholder and member of CPA Australia. He has over 10 years' experience in valuation of properties in HKSAR and mainland China.

SUMMARY OF VALUES

	Property	Market Rent in Existing State as at 31 March 2023 *RMB*
1	Units -102, 102–111, 114, 202–210, 301–308, 404–409, 503–505, 507–509, Jiahua Lingchuang Plaza, No. 99 Haoxiang Road, Shaqi Community, Xinqiao Street, Bao'an District, Shenzhen City, Guangdong Province, the PRC	RMB1,469,000 per month
2	Units -101, 101, 112–113, 201, 211–213, 309–311, 401–403, 410–412, 501–502, 509a, 510, Jiahua Lingchuang Plaza, No. 99 Haoxiang Road, Shaqi Community, Xinqiao Street, Bao'an District, Shenzhen City, Guangdong Province, the PRC	RMB791,000 per month
3	Shopping Mall, Level 1 of a Commercial Podium, Jiahua Shuyuan Yage (Lot No.: A010-0384), Southern Side of Dabao Road, Xin'an Street, Bao'an District, Shenzhen City, Guangdong Province, the PRC	RMB65,000 per month

PROPERTY PARTICULARS AND OPINION OF VALUE

Property interests to be leased for owner occupation by the Group in the PRC

Property	Description and Tenure	Particular of Occupancy	Market Rent in Existing State as at 31 March 2023
Units -102, 102–111, 114, 202–210, 301–308, 404–409, 503–505, 507–509, Jiahua Lingchuang Plaza, No. 99 Haoxiang Road, Shaqi Community, Xinqiao Street, Bao'an District, Shenzhen City, Guangdong Province, the PRC (中華人民共和國廣東省深圳市寶安區新橋街道沙企社區蠔鄉路99號佳華領創廣場 -102, 102–111, 114, 202–210, 301–308, 404–409, 503–505, 507–509)	The property comprises 41 units on the commercial portions of Levels B1–6 of a composite development completed in 2022. The total gross floor area of the property is approximately 34,945.39 sq.m. The property is located at Haoxiang Road, Shaqi Community, Xinqiao Street, Bao'an District. Developments in the vicinity are mainly residential and commercial developments of various ages.	As at the Valuation Date, the property was vacant.	RMB1,469,000 (Renminbi One Million Four Hundred Sixty Nine Thousand) per month

Notes:

(1) Pursuant to 41 Immovable Property Right Certificates registered on 27 October 2022, the land use rights and the building ownership rights of the property with a total gross floor area of approximately 34,945.39 sq.m. were granted to Shenzhen Jiahua Real Estate Development Company Limited for a term expiring on 3 February 2060 for commercial use. The area breakdowns are shown below.

Unit	**Gross Floor Area (sq.m.)** *(Approx)*
-102	628.42
102	511.48
103	942.90
104	636.20
105	459.42
106	2,067.39
107	22.11
108	314.18
109	593.14
110	566.24
111	1,056.55
114	4,953.22
202	585.96
203	929.21
204	481.64
205	279.19
206	722.12
207	38.54
208	365.65
209	1,393.40
210	1,491.54
301	468.97
302	624.12
303	967.22
304	463.69
305	668.58
306	847.57
307	1,485.95
308	1,220.77
404	498.75
405	875.17
406	1,613.93
407	578.15
408	718.76
409	401.70
503	864.14
504	497.74
505	2,032.87
507	157.90
508	360.29
509	560.62
Total:	34,945.39

(2) We have been provided with a legal opinion regarding the property interests by the Company's PRC legal adviser, which contains, *inter alia*, the following:

(i) Shenzhen Jiahua Real Estate Development Company Limited legally owns the property and is entitled to lease out the property; and

(ii) The property is subject to a mortgage in favour of Shenzhen Rural Commercial Bank Co., Ltd. – Shajing Branch which has given a consent letter to Shenzhen Jiahua Real Estate Development Company Limited to lease out the property.

(3) The rental valuation is conducted on the assumption that the property is let for a term of 15 years from 1 May 2023 with tenancy details as below:

Landlord:	Shenzhen Jiahua Real Estate Development Company Limited
Tenant:	Shenzhen Baijiahua Commercial Management Limited (深圳市百佳華商業管理有限公司)
Lease Term:	15 years (1 May 2023–30 April 2038)
Rent Free Period:	First 18 months
Monthly Rent for 1st Year:	RMB1,223,088.65, inclusive of value-added tax

(4) We have adopted market comparison method to select the relevant rent comparable. We have made reference to some rent comparable to the subject property and nearby development. In arriving at the key assumptions, appropriate adjustments and analysis are considered to the differences in several aspects including but not limited to floor level, building age, size and location between the subject property and the comparable properties. The general basis of adjustment is if the subject property is better than the comparable properties, an upward adjustment is made. Alternatively, if the subject property is inferior or less desirable than the comparable properties, a downward adjustment is made.

PROPERTY PARTICULARS AND OPINION OF VALUE

Property interests to be leased for owner occupation by the Group in the PRC

Property	Description and Tenure	Particular of Occupancy	Market Rent in Existing State as at 31 March 2023
Units -101, 101, 112–113, 201, 211–213, 309–311, 401–403, 410–412, 501–502, 509a, 510, Jiahua Lingchuang Plaza, No. 99 Haoxiang Road, Shaqi Community, Xinqiao Street, Bao'an District, Shenzhen City, Guangdong Province, the PRC (中華人民共和國廣東省深圳市寶安區新橋街道沙企社區蠔鄉路99號佳華領創廣場 -101, 101, 112–113, 201, 211–213, 309–311, 401–403, 410–412, 501–502, 509a, 510)	The property comprises 21 units on the commercial portions of Levels B1–5 of a composite development completed in 2022. The total gross floor area of the property is approximately 18,730.09 sq.m. The property is located at Haoxiang Road, Shaqi Community, Xinqiao Street, Bao'an District. Developments in the vicinity are mainly residential and commercial developments of various ages.	As at the Valuation Date, the property was vacant.	RMB791,000 (Renminbi Seven Hundred Ninety One Thousand) per month

Notes:

(1) Pursuant to 21 Immovable Property Right Certificates registered on 27 October 2022, the land use rights and the building ownership rights of the property with a total gross floor area of approximately 18,730.09 sq.m. were granted to Shenzhen Shajing Shayi Stock Cooperative Company for a term expiring on 3 February 2060 for commercial use. The area breakdowns are shown below.

Unit	Gross Floor Area (sq.m.) *(Approx)*
-101	341.69
101	376.57
112	2,860.41
113	627.47
201	309.89
211	2,513.17
212	215.53
213	618.27
309	2,098.59
310	214.53
311	1,182.52
401	590.78
402	806.69
403	851.16
410	462.98
411	485.57
412	797.44
501	2,077.57
502	581.67
509a	231.79
510	485.80
Total:	18,730.09

(2) We have been provided with a legal opinion regarding the property interests by the Company's PRC legal adviser, which contains, *inter alia*, the following:

(i) Shenzhen Shajing Shayi Stock Cooperative Company legally owns the property and is entitled to lease out the property; and

(ii) The property is not subject to a mortgage.

(3) The rental valuation is conducted on the assumption that the property is let for a term of 9 years and 11 months from 1 April 2024 with tenancy details as below:

Landlord:	Shenzhen Shajing Shayi Stock Cooperative Company
Tenant:	Shenzhen Baijiahua Commercial Management Limited
Lease Term:	9 years and 11 months (1 April 2024–28 February 2034)
Monthly Rent for 1st Year:	RMB786,663.78, inclusive of value-added tax

(4) We have adopted market comparison method to select the relevant rent comparable. We have made reference to some rent comparable to the subject property and nearby development. In arriving at the key assumptions, appropriate adjustments and analysis are considered to the differences in several aspects including but not limited to floor level, building age, size and location between the subject property and the comparable properties. The general basis of adjustment is if the subject property is better than the comparable properties, an upward adjustment is made. Alternatively, if the subject property is inferior or less desirable than the comparable properties, a downward adjustment is made.

PROPERTY PARTICULARS AND OPINION OF VALUE

Property interests to be leased for owner occupation by the Group in the PRC

Property	Description and Tenure	Particular of Occupancy	Market Rent in Existing State as at 31 March 2023
Shopping Mall, Level 1 of a Commercial Podium, Jiahua Shuyuan Yage (Lot No.: A010-0384), Southern Side of Dabao Road, Xin'an Street, Bao'an District, Shenzhen City, Guangdong Province, the PRC (中華人民共和國廣東省深圳市寶安區新安街道大寶路南側佳華書苑雅閣(宗地號：A010-0384)1棟商場01層)	The property comprises a shopping mall on Level 1 of a commercial podium of a commercial/residential development completed in 2008. The total gross floor area of the property is approximately 2,693.69 sq.m. The property is located at Dabao Road, Xin'an Street, Bao'an District. Developments in the vicinity are mainly residential and commercial developments of various ages.	As at the Valuation Date, the property was leased to the Group for commercial use for a term expiring on 31 May 2023 at a monthly rental of RMB59,261.18, inclusive of value-added tax.	RMB65,000 (Renminbi Sixty Five Thousand) per month

Notes:

(1) Pursuant to a Certificate of Real Estate Ownership – Shen Fang Di Zi Di 5000376649 Hao (深房地字第5000376649號) registered on 9 June 2009, the land use rights and the building ownership rights of the property with a total gross floor area of approximately 2,693.69 sq.m. were granted to Shenzhen Jiahua Real Estate Development Company Limited for a term expiring on 19 February 2062 for commercial and finance uses.

(2) We have been provided with a legal opinion regarding the property interests by the Company's PRC legal adviser, which contains, *inter alia*, the following:

(i) Shenzhen Jiahua Real Estate Development Company Limited legally owns the property and is entitled to lease out the property; and

(ii) The property is subject to a mortgage in favour of Shenzhen Rural Commercial Bank Co., Ltd. – Shajing Branch which has given a consent letter to Shenzhen Jiahua Real Estate Development Company Limited to lease out the property.

(3) The rental valuation is conducted on the assumption that the property is let for a term of 3 years from 1 June 2023 with tenancy details as below:

Landlord:	Shenzhen Jiahua Real Estate Development Company Limited
Tenant:	Shenzhen Baijiahua Department Stores Company Limited (深圳市百佳華百貨有限公司)
Lease Term:	3 years (1 June 2023–31 May 2026)
Monthly Rent for 1st Year:	RMB62,224,23, inclusive of value-added tax

(4) We have adopted market comparison method to select the relevant rent comparable. We have made reference to some rent comparable to the subject property and nearby development. In arriving at the key assumptions, appropriate adjustments and analysis are considered to the differences in several aspects including but not limited to floor level, building age, size and location between the subject property and the comparable properties. The general basis of adjustment is if the subject property is better than the comparable properties, an upward adjustment is made. Alternatively, if the subject property is inferior or less desirable than the comparable properties, a downward adjustment is made.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS

As at the Latest Practicable Date, the interests or short positions of the Directors and the chief executives of the Company in the Shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules to be notified to the Company and the Stock Exchange, were as follows:

Long positions in the Shares and underlying Shares

Name of Director	Capacity	Number of Shares Personal interest	 Family interest	Total	Approximate percentage of the number of issued Shares
Mr. Zhuang	Beneficial Owner	467,985,000	67,500,000 *(Note 1)*	535,485,000	51.61%
Mr. Zhuang Xiao Xiong	Beneficial Owner	75,000,000	–	75,000,000	7.23%

Note:

(1) 67,500,000 Shares are held by Mrs. Zhuang Su Lan ("**Mrs. Zhuang**"). Since Mrs. Zhuang is the spouse of Mr. Zhuang, under the SFO, Mr. Zhuang is deemed to be interested in the said Shares held by Mrs. Zhuang.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules to be notified to the Company and the Stock Exchange.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as known to the Directors and the chief executive of the Company, the following persons (other than a Director or a chief executive of a Company) had interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were directly or indirectly, interested in 5% or more the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Long positions in the Shares and underlying Shares

Name of Shareholder	Type of interest	Capacity	Personal/ corporate interest	Family interest	Total	Approximate percentage of the number of issued Shares
Mrs. Zhuang	Personal	Beneficial owner	67,500,000	467,985,000 *(Note 1)*	535,485,000	51.61%
Ms. Zhuang Xiao Yun	Personal	Beneficial owner	75,000,000 *(Note 2)*	–	75,000,000	7.23%
Ms. Chen Li Jun	Personal	Beneficial owner	75,000,000 *(Note 3)*	–	75,000,000	7.23%

Notes:

(1) 467,985,000 Shares are held by Mr. Zhuang. Since Mr. Zhuang is the spouse of Mrs. Zhuang, under the SFO, Mrs. Zhuang is deemed to be interested in the said Shares held by Mr. Zhuang.

(2) Ms. Zhuang Xiao Yun is the daughter of Mr. Zhuang and Mrs. Zhuang.

(3) Ms. Chen Li Jun is the daughter-in-law of Mr. Zhuang and Mrs. Zhuang.

Save as disclosed above, the Directors were not aware of any party who, as at the Latest Practicable Date, had interests or short positions in the Shares and underlying Shares, which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

As at the Latest Practicable Date, none of the Directors or the proposed Directors of the Company was a director or employee of a Company (or its subsidiary) which has an interest or a short position in the Shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

4. COMPETING INTEREST

As at the Latest Practicable Date, the Directors were not aware that any of them or any of their respective close Associates had any interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group which would fall to be disclosable under the Listing Rules.

5. MATERIAL CONTRACT

As at the Latest Practicable Date, save as disclosed below, no material contracts (not being contracts entered into in the ordinary course of business) have been entered into by the members of the Group within the two years immediately preceding the issue of this circular:

the car park fee agreements dated 15 November 2021 in respect of the usage of car parking spaces located in Jiahua Lingyu Plaza Phase II and Jiahua Linghui Plaza Phase II for a term of 3 years for a maximum payment for each car park of RMB150,000 and RMB30,000 per month, entered into between (i) the property manager of the car park, Shenzhen Jiahua Property Management Limited, a company owned as to 95% by Shenzhen Jiahua Real Estate Development Company Limited (a company owned as to 18% by Mrs. Zhuang and 82% by Jiahua Group) and 5% by Jiahua Group; and (ii) Shenzhen Baijiahua Commercial Management Limited and Shenzhen Baijiahua Department Stores Company Limited, both of which are wholly-owned subsidiaries of the Company.

6. DIRECTORS' INTEREST IN ASSETS OR CONTRACTS

As at the Latest Practicable Date, none of the Directors and proposed Directors has, or had any direct or indirect interest in any assets which had been or are proposed to be since 31 December 2022 (being the date to which the latest published audited consolidated financial statements of the Group were made up) acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

Save as disclosed below, as at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting at the date of this circular and which was significant in relation to the business of the Group.

The Company has entered into the following continuing connected transactions under Chapter 14A of the Listing Rules:

A. Rental income received from Jiahua Group

深圳市百佳華集團有限公司(Shenzhen Baijiahua Group Company Limited) ("**Jiahua Group**") is owned as to 90% by Mr. Zhuang and 10% by Mrs. Zhuang.

Lease of commercial properties to Jiahua Group

Certain commercial properties are leased to Jiahua Group pursuant to a lease agreement entered into between Shenzhen Baijiahua Department Stores Company Limited and Jiahua Group for commercial purposes.

B. Rental income received from Shenzhen Jiahua Real Estate Development Company Limited

深圳市佳華房地產開發有限公司(Shenzhen Jiahua Real Estate Development Company Limited) (the "**Landlord**") is owned as to 18% by Mrs. Zhuang and 82% by Jiahua Group (a company owned as to 90% by Mr. Zhuang and 10% as to Mrs. Zhuang). Since Mrs. Zhuang is the spouse of Mr. Zhuang, she is an associate of Mr. Zhuang. Since Mrs. Zhuang is interested in the equity capital of the Landlord so as to exercise or control the exercise of 30% or more of the voting power at general meetings of the Landlord, the Landlord is an associate of Mr. Zhuang and also a connected person of the Company.

Lease of commercial properties to the Landlord

Certain commercial properties are leased to the Landlord pursuant to a lease agreement entered into between Shenzhen Baijiahua Department Stores Company Limited and the Landlord for commercial purposes.

C. Lease of two store premises from Jiahua Group

Jiahua Group is owned as to 90% by Mr. Zhuang and 10% by Mrs. Zhuang. The Group leased two store premises from Jiahua Group, details of which are set out as follows:

(i) Lease of store premises for the Longhua Store between Jiahua Group (as landlord) and Shenzhen Baijiahua Department Stores Company Limited (as tenant); and

(ii) Lease of store premises for the Songgang Store between Jiahua Group (as landlord) and Shenzhen Baijiahua Department Stores Company Limited (as tenant).

D. Lease of three store premises from the Landlord

The Landlord is owned as to 18% by Mrs. Zhuang and 82% by Jiahua Group (a company owned as to 90% by Mr. Zhuang and 10% as to Mrs. Zhuang). Since Mrs. Zhuang is the spouse of Mr. Zhuang, she is an associate of Mr. Zhuang. Since Mrs. Zhuang is interested in the equity capital of the Landlord so as to exercise or control the exercise of 30% or more of the voting power at general meetings of the Landlord, the Landlord is an associate of Mr. Zhuang and also a connected person of the Company. The Group leased three stores premises from the Landlord, details of which are set out as follows:

(i) Lease of store premises for the Shuyuan Yage Store between the Landlord (as landlord) and Shenzhen Baijiahua Department Stores Company Limited (as tenant);

(ii) Lease of store premises for the Bantian shopping mall between the Landlord (as landlord) and Shenzhen Baijiahua Commercial Management Company Limited ("**Baijiahua Commercial Management**") (as tenant); and

(iii) Lease of store premises for the Guanlan shopping mall between the Landlord (as landlord) and Baijiahua Commercial Management (as tenant).

E. Car Park usage and car park usage fee payable to Shenzhen Jiahua Property Management Limited

Shenzhen Jiahua Property Management Limited (the "**Property Manager**"), a company incorporated in the PRC, and is held as to 95% and 5% by the Landlord and Jiahua Group respectively.

The Group entered into the Car Park Fee Agreements in respect of the usage of car parking spaces located in Jiahua Lingyu Plaza Phase II and Jiahua Linghui Plaza Phase II for a term of 3 years commencing from 1 January 2022 to 31 December 2024 (both days inclusive).

In the opinion of the Directors (including the Independent Non-Executive Directors), the terms of the continuing connected transactions referred to above are made in the ordinary and usual course of the Group's business, on an arm's length basis and on normal commercial terms which are no less favorable than terms available from independent third parties. The Directors (including the Independent Non-executive Directors) confirm that these transactions have been conducted in accordance with the relevant agreements governing the transactions and are of the view that the terms and conditions of these transactions are fair and reasonable and are in the best interests of the Company and the Shareholders as a whole.

7. DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors has entered into a service contract with the Company for a term of three years (two years for Independent Non-executive Directors) unless terminated by not less than three months' (two months' for Independent Non-executive Directors) written notice of termination served by either the Director or the Company. Each of the service contracts further provides that during the term of the service contract and within two years upon the termination of service, the Executive Director cannot engage in any business which is competing or is likely to compete, either directly or indirectly, with the business of the Company. The appointments are subject to the provisions of retirement and rotation of Directors under the Articles of Association of the Company.

Save as disclosed above, none of the Directors has entered into any service contracts with the Company or any of its subsidiaries (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

8. LITIGATION

As at the Latest Practicable Date, neither the Company nor any member of the Group was engaged in any litigation or arbitration or claims of material importance and there was no litigation or arbitration or claim of material importance known to the Directors to be pending or threatened by or against the Company or any member of the Group.

9. EXPERTS AND CONSENTS

The followings are the qualifications of the experts who have been named in this circular or have given their respective opinion or advice contained in this circular:

Name	Qualification
BDO Limited ("**BDO**")	Certified Public Accountants
Red Sun	A corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Valor Appraisal & Advisory Limited ("**Valor**")	Professional surveyors and valuers

Each of BDO, Red Sun and Valor has given and has not withdrawn its written consent to inclusion of their letter(s) and/or report(s) (as the case maybe) dated 27 June 2023 in this circular and references to its name included herein in the form and context in which it appears.

As at the Latest Practicable Date, each of BDO, Red Sun and Valor did not have any shareholding in any Shares or any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any shares in any member of the Group.

As at the Latest Practicable Date, each of BDO, Red Sun and Valor did not have any direct or indirect interest in any assets which had been, since 31 December 2022, the date to which the latest published audited consolidated financial statements of the Group were made up, acquired or disposed of by, or leased to any member of the Group, or which were proposed to be acquired or disposed of by or leased to any member of the Group.

10. MISCELLANEOUS

(a) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

(b) The principal place of business of the Company in Hong Kong is Suite 715, 7th Floor, Ocean Centre, Harbour City, 5 Canton Road, Tsimshatsui, Kowloon, Hong Kong.

(c) The Hong Kong branch share registrar and transfer office of the Company is Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.

(d) The company secretary of the Company is Mr. Ho Yuet Lee, Leo, a fellow member of the Association of Chartered Certified Accountants, an associate member of the Hong Kong Institute of Certified Public Accountants, an associate member of the Hong Kong Institute of Chartered Secretaries and an associate member of the Chartered Governance Institute. Mr. Ho has over 21 years of experience in accounting, auditing and corporate finance. Mr. Ho has served the Group for over 14 years.

(e) The English text of this circular shall prevail over the Chinese text in case of inconsistency.

11. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.szbjh.com) for 14 days from the date of this circular:

(a) the Lease Agreements;

(b) the property valuation report on the Premises, the text of which is set out in Appendix I to this circular;

(c) the letter from the Independent Board Committee, the text of which is set out on pages 20 to 21 of this circular;

(d) the letter from the Independent Financial Advisor, the text of which is set out on pages 22 to 55 of this circular;

(e) each of the consent letters referred to in the paragraph headed "Expert and Consent" in this Appendix;

(f) the historical financial information of the Commercial Premises as set out in Appendix II to this circular; and

(g) the report on the unaudited pro forma financial information of the Group as set out in Appendix III to this circular.

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)

NOTICE IS HEREBY GIVEN that the an extraordinary general meeting (the "**Meeting**") of Jiahua Stores Holdings Limited (the "**Company**") will be held at 4/F., Jiahua Ming Yuan, 2146 Xinhu Road, Baoan Central District, Shenzhen, the PRC on Thursday, 13 July 2023 at 2:30 p.m., for the purpose of considering and, if thought fit, passing (with or without amendments) the following resolutions:

AS ORDINARY RESOLUTIONS

1. "**THAT**:

(a) the long-term lease agreement (the "**Long-Term Lease Agreement**") dated 27 April 2023 entered into between Shenzhen Jiahua Real Estate Development Company Limited (深圳市佳華房地產開發有限公司), a company incorporated in the PRC, as landlord (the "**Connected Landlord**") and Shenzhen Baijiahua Commercial Management Limited (深圳市百佳華商業管理有限公司), a company incorporated in the PRC, a wholly-owned subsidiary of the Company, as the tenant in relation to the leasing of certain retail spaces located at the intersection of Xinqiao Street Zhongxin Road West and Haoxiang Road South, Baoan District, Shenzhen, Guangdong Province, the PRC (深圳市寶安區新橋街道中心路西與蠔鄉路南交匯處) owned by the Connected Landlord, a copy of which having been produced to the Meeting marked "A" and signed by the chairman of the Meeting for identification purpose, be and is hereby approved, confirmed and ratified and the transactions contemplated thereunder be and are hereby approved;

(b) any one of the director(s) of the Company (or, any two directors or any one director and the company secretary of the Company, if execution under the common seal of the Company is required) be and he is (or they are) hereby authorised to do and execute (where required, to affix the common seal of the Company) all such acts, matters, deeds, documents and things as he (or they) consider(s) to be necessary, expedient or desirable for the purposes of giving effect to or in connection with the Long-Term Lease Agreement and all transactions contemplated thereunder, and to agree to such variation, amendments or waiver or matters relating thereto (including any variation, amendments or waiver of such documents or any terms thereof, which are not fundamentally different from those as provided in the Long-Term Lease Agreement) as are, in the opinion of such director, in the interest of the Company and its shareholders as a whole."

2. "**THAT**:

(a) the commercial lease agreement (the "**Commercial Lease Agreement**") dated 27 April 2023 entered into between the Connected Landlord, as landlord and Shenzhen Baijiahua Department Stores Company Limited (深圳市百佳華百貨有限公司), a company incorporated in the PRC, a wholly-owned subsidiary of the Company, as the tenant in relation to the leasing of 1st Floor, Building 1, Jiahua Shuyuan Yage, Dabao South Road, Xinan Street, Baoan District, Shenzhen, Guangdong Province, the PRC (深圳市新安街道大寶路南側佳華書苑雅閣1棟商場01層), a copy of which having been produced to the Meeting marked "B" and signed by the chairman of the Meeting for identification purpose, be and is hereby approved, confirmed and ratified and the transactions contemplated thereunder be and are hereby approved;

(b) any one of the director(s) of the Company (or, any two directors or any one director and the company secretary of the Company, if execution under the common seal of the Company is required) be and he is (or they are) hereby authorised to do and execute (where required, to affix the common seal of the Company) all such acts, matters, deeds, documents and things as he (or they) consider(s) to be necessary, expedient or desirable for the purposes of giving effect to or in connection with the Commercial Lease Agreement and all transactions contemplated thereunder, and to agree to such variation, amendments or waiver or matters relating thereto (including any variation, amendments or waiver of such documents or any terms thereof, which are not fundamentally different from those as provided in the Commercial Lease Agreement) as are, in the opinion of such director, in the interest of the Company and its shareholders as a whole."

3. "**THAT**:

(a) the lease agreement (the "**Independent Lease Agreement**") dated 27 April 2023 entered into between Shenzhen Shajing Shayi Stock Cooperative Company (深圳市沙井沙一股份合作公司), a company incorporated in the PRC, as landlord (the "**Independent Landlord**") and Shenzhen Baijiahua Commercial Management Limited (深圳市百佳華商業管理有限公司), a company incorporated in the PRC, a wholly-owned subsidiary of the Company, as the tenant in relation to the leasing of certain retail spaces located at the intersection of Xinqiao Street Zhongxin Road West and Haoxiang Road South, Baoan District, Shenzhen, Guangdong Province, the PRC (深圳市寶安區新橋街道中心路西與蠔鄉路南交匯處) owned by the Independent Landlord, a copy of which having been produced to the Meeting marked "C" and signed by the chairman of the Meeting for identification purpose, be and is hereby approved, confirmed and ratified and the transactions contemplated thereunder be and are hereby approved;

(b) any one of the director(s) of the Company (or, any two directors or any one director and the company secretary of the Company, if execution under the common seal of the Company is required) be and he is (or they are) hereby authorised to do and execute (where required, to affix the common seal of the Company) all such acts, matters, deeds, documents and things as he (or they) consider(s) to be necessary, expedient or desirable for the purposes of giving effect to or in connection with the Independent Lease Agreement and all transactions contemplated thereunder, and to agree to such variation, amendments or waiver or matters relating thereto (including any variation, amendments or waiver of such documents or any terms thereof, which are not fundamentally different from those as provided in the Independent Lease Agreement) as are, in the opinion of such director, in the interest of the Company and its shareholders as a whole."

Yours faithfully,
For and on behalf of the Board
Jiahua Stores Holdings Limited
Zhuang Lu Kun
Chairman

Shenzhen, the PRC, 27 June 2023

Registered office:
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Hutchins Drive
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Cayman Islands

Head office and principal place of business in Hong Kong:
Suite 715, 7th Floor
Ocean Centre, Harbour City
5 Canton Road
Tsimshatsui
Kowloon
Hong Kong

Notes:

(1) Any member entitled to attend and vote at the EGM is entitled to appoint one proxy or if he is the holder of two or more shares, more than one proxy to attend and vote instead of him. A proxy need not be a member of the Company. To be valid all forms of proxies together with the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy thereof must be deposited with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, not less than 48 hours before the time appointed for the EGM.

(2) The register of members of the Company will be closed from Wednesday, 12 July 2023 to Thursday, 13 July 2023 (both days inclusive). In order to attend and vote at the EGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:00 p.m. on Tuesday, 11 July 2023.

(3) The completion and return of a form of proxy will not preclude a member from attending and voting at the EGM in person. If such member attends the EGM in person, his form of proxy will be deemed to have been revoked.

(4) In the case of a joint holding, any one of such persons may vote at the EGM, either in person or by proxy; but if more than one joint holders are present at the EGM in person or by proxy, the said person whose name stands first on the register of members of the Company in respect of the relevant joint holding shall alone be entitled to vote in respect thereof.

(5) If a "black" rainstorm warning signal or a tropical cyclone warning signal number 8 or above is in force in Hong Kong at any time between 9:00 a.m. and 4:00 p.m. on 13 July 2023, an announcement will be made in such event to notify the Shareholders of any alternative date for the EGM.