Jiyi Household International Holdings Limited
集一家居國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1495)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

The board (the "Board") of directors (the "Directors") of Jiyi Household International Holdings Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively, referred to as the "Group") for the year ended 31 December 2018 ("FY2018" or the "Reporting Period"), together with the comparative audited figures for the corresponding year ended 31 December 2017 ("FY2017") as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2018

	Notes	**2018** *RMB'000*	2017 *RMB'000*
Revenue from contracts with customers	*3*	**599,478**	415,968
Cost of sales	*5*	**(543,526)**	(362,895)
Gross profit		**55,952**	53,073
Selling expenses	*5*	**(15,075)**	(18,243)
Administrative expenses	*5*	**(13,670)**	(14,969)
Net impairment losses on financial assets	*5*	**(2,600)**	–
Other income and gains – net	*4*	**550**	732
Operating profit		**25,157**	20,593
Finance income	*6*	**224**	118
Finance costs	*6*	**(7,244)**	(6,013)
Finance costs – net	*6*	**(7,020)**	(5,895)
Profit before income tax		**18,137**	14,698
Income tax expense	*7*	**(6,064)**	(5,717)
Profit for the year attributable to equity holders of the Company		**12,073**	8,981
Earnings per share attributable to equity holders of the Company for the year			
– Basic *(RMB cents per share)*	*8*	**2.37**	2.08
– Diluted *(RMB cents per share)*		**2.37**	2.08

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	2018	2017
	RMB'000	*RMB'000*
Profit for the year	**12,073**	8,981
Other comprehensive income:		
Items that may be reclassified to profit or loss		
Currency translation differences	**(593)**	(938)
Total comprehensive income for the year attributable to equity holders of the Company	**11,480**	8,043

CONSOLIDATED BALANCE SHEET

As at 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		**58,002**	72,515
Investment properties	*10*	**1,377**	–
Land use rights		**2,582**	2,823
Intangible assets		**425**	484
Other receivables		**7,817**	–
Deferred tax assets		**3,970**	1,750
		74,173	77,572
Current assets			
Inventories		**41,315**	38,127
Due from customers on construction contracts		**–**	51,517
Contract assets		**194,312**	–
Trade and other receivables	*11*	**309,695**	247,284
Restricted cash		**–**	300
Cash and cash equivalents		**116,391**	92,970
		661,713	430,198
Total assets		**735,886**	507,770
EQUITY			
Capital and reserves attributable to equity holders of the company			
Share capital		**58,190**	35,638
Share premium		**363,001**	243,832
Other reserves		**(52,947)**	(53,300)
Retained earnings		**121,564**	108,754
Total equity		**489,808**	334,924

	Notes	2018 RMB'000	2017 RMB'000
LIABILITIES			
Current liabilities			
Trade and other payables	*12*	**125,001**	71,383
Due to customers on construction contracts		**–**	3,240
Contract liabilities		**2,811**	–
Bank borrowings		**103,000**	88,200
Current income tax liabilities		**15,266**	10,023
		246,078	172,846
Total liabilities		**246,078**	172,846
Total equity and liabilities		**735,886**	507,770

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 2 February 2015 as an exempted company with limited liability under the Companies Law (as revised) of the Cayman Islands. The address of the Company's registered office is Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman, KY1-1108, Cayman Islands. The address of its principal place of business is Room 1405, 14/F., Jubilee Centre, 18 Fenwick Street, Wanchai, Hong Kong.

The Company is an investment holding company and the Group is principally engaged in the business of sale and distribution of building and home improvement materials and furnishings and provision of interior design and engineering services in the People's Republic of China (the "PRC"). The controlling shareholder of the Group is Xinling Limited, a company incorporated in the British Virgin Islands ("BVI") which is wholly-owned by Ms. Hou Wei.

The consolidated financial statements are presented in thousands of Renminbi ("RMB"), unless otherwise stated.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") and the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622). The consolidated financial statements have been prepared under the historical cost convention.

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

2.1 Changes in accounting policies and disclosures

(a) New standards, amendments and interpretations adopted by the Group

The Group has applied the following standards, amendments and interpretations for the first time for their annual reporting period commencing 1 January 2018:

- HKFRS 9 Financial Instruments;
- HKFRS 15 Revenue from Contracts with Customers;
- Classification and Measurement of Share-based Payment Transactions – Amendments to HKFRS 2;
- Annual Improvements 2014-2016 cycle;
- Transfers to Investment Property – Amendments to Hong Kong Accounting Standard (the "HKAS") 40; and
- Interpretation 22 Foreign Currency Transactions and Advance Consideration.

The Group had to change its accounting policies and make certain retrospective adjustments following the adoption of HKFRS 9 and HKFRS 15. Most of the other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(b) New standards, amendments and interpretations not yet adopted

Certain new accounting standards, amendments and interpretations have been published that are not mandatory for 31 December 2018 reporting period and have not been early adopted by the Group.

		Effective for accounting periods beginning on or after
HKFRS 16	Leases	1 January 2019
Interpretation of HK (IFRIC)-Int 23	Uncertainty over Income Tax Treatments	1 January 2019
Amendments to HKFRS 9	Prepayment Features with Negative Compensation	1 January 2019
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures	1 January 2019
Annual Improvements Project	Annual Improvements to HKFRS Standards 2015-2017 Cycle	1 January 2019
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement	1 January 2019
	Conceptual Framework for Financial Reporting	1 January 2020
Amendments to HKAS 1 and HKAS 28	Definition of Material	1 January 2020
Amendments to HKAS 3	Definition of Business	1 January 2020
HKFRS 17	Insurance Contracts	1 January 2021
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The Group is in the process of assessing potential impact of the above new standards, amendments and interpretations that are relevant to the Group upon initial application. According to the preliminary assessment made by the directors of the Company, except for HKFRS 16 as described below, management does not anticipate any significant impact on the Group's financial position and results of operation upon adopting the above new standards, amendments and interpretations. The management of the Group plans to adopt these new standards, amendments and interpretations when they become effective.

HKFRS 16, "Leases"

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

Impact

The Group has reviewed all of the Group's leasing arrangements in light of the new lease accounting rules of HKFRS 16. The accounting for lessor will not significantly change. The standard will affect primarily the accounting for the Group's operating leases.

As at the reporting date, the Group has non-cancellable operating lease commitments of approximately RMB32,482,000, of which approximately RMB250,000 relate to short-term leases. The Group expects that the adoption of HKFRS 16 as compared with the current accounting policy would result in significant impact on the Group's assets and liabilities, financial performance and cash flow classification. Upon adoption of HKFRS 16, the Group will recognise liabilities to reflect these future lease payments and right-of-use assets, unless the underlying asset are of low value or are short-team leases, in its balance sheets.

The Group's activities as a lessor are not material and hence the Group do not expect any significant impact on the financial statements. However, some additional disclosures will be required from next year.

Date of adoption

The Group will apply the new standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to its first adoption.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and in the foreseeable future.

3. SEGMENT INFORMATION

The chief operating decision-maker (the "CODM") has been identified as the chief executive officer of the Company. The chief executive officer reviews the Group's internal reporting in order to assess performance and allocate resources. The chief executive officer has determined the operating segments based on these reports. The chief executive officer considers the business from products and services perspective, and determines that the Group has the following operating segments:

(i) sale and distribution of merchandise; and

(ii) provision of interior design and engineering services.

The CODM assesses the performance of the operating segments mainly based on the segment revenue and gross profit of each operating segment. As the CODM did not use the analysis of the assets and liabilities to allocate resources or evaluate the performance of the operating segments, the Company did not assess the total assets or total liabilities for any of the reportable segments.

The segment information provided to the CODM for the reportable segments is as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Segment Revenue		
– Sale and distribution of merchandise		
Total segment revenue	**326,815**	346,176
Inter-segment revenue	**(38,722)**	(29,535)
Revenue from external customers	**288,093**	316,641
– Provision of interior design and engineering services		
Total segment revenue	**312,748**	105,174
Inter-segment revenue	**(1,363)**	(5,847)
Revenue from external customers	**311,385**	99,327
	599,478	415,968

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Segment Cost		
– Sale and distribution of merchandise	**264,719**	271,788
– Provision of interior design and engineering services	**278,807**	91,107
	543,526	362,895

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Segment gross profit		
– Sale and distribution of merchandise	**23,374**	44,853
– Provision of interior design and engineering services	**32,578**	8,220
	55,952	53,073

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Segment gross profit	**55,952**	53,073
Other income and gains – net	**550**	732
Selling expenses	**(15,075)**	(18,243)
Administrative expenses	**(13,670)**	(14,969)
Net impairment losses on financial assets	**(2,600)**	–
Finance costs – net	**(7,020)**	(5,895)
Income tax expense	**(6,064)**	(5,717)
Profit for the year	**12,073**	8,981

During the Reporting Period, all revenues of the Group were derived from the PRC.

Non-current assets are mainly located in the PRC as at 31 December 2018 (2017: Same).

For the year ended 31 December 2018, revenue of approximately RMB117,943,000 and approximately RMB69,961,000, accounting for approximately 20% and approximately 12% of the Group's total revenue, respectively, were derived from two external customers (2017: approximately RMB47,479,000, approximately 11.4%). These revenues were attributed to the provision of interior design and engineering services segment.

(a) Assets and liabilities related to contracts with customers

The Group has recognised the following assets and liabilities related to sale and distribution of merchandise:

	31 December 2018	1 January 2018
	RMB'000	*RMB'000*
Contract assets	**–**	–
Contract liabilities	**2,355**	10,366

The Group has recognised the following assets and liabilities related to interior design and engineering service contracts:

	31 December 2018	1 January 2018
	RMB'000	*RMB'000*
Contract assets	**194,312**	51,517
Contract liabilities	**456**	3,240

(i) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities.

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Sale and distribution of merchandise	**9,855**	5,264
Provision of interior design and engineering services	**3,240**	1,554
	13,095	6,818

(ii) Unsatisfied long-term contracts

The following table shows unsatisfied performance obligations resulting from fixed-price long-term interior design and engineering service contracts.

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Aggregate amount of the transaction price allocated to long-term engineering contracts that are partially or fully unsatisfied as at 31 December	**899,475**	Note

Note: Pursuant to the transitional provisions of HKFRS 15, the transaction price allocated to (partially) unsatisfied performance obligations as at 31 December 2017 is not required to be disclosed.

Management expects that 52% of the transaction price allocated to the unsatisfied performance obligations as at 31 December 2018 amounting to approximately RMB464,620,000 will be recognised as revenue in the following year. The remaining 48% of the balance amounting to approximately RMB434,855,000 will be recognised in 2020 and 2021. The amounts disclosed above do not include variable consideration which is constrained.

All other service contracts are for periods of one year or less or are billed based on time incurred. Pursuant to the HKFRS 15, the transaction prices allocated to these unsatisfied contracts are not required to be disclosed.

(b) Disaggregation of revenue from contract with customers

The Group derives revenue from the transfer of goods in the following major product lines at a point in time and the provision of interior design and engineering services in the following major service lines over time:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Sale and distribution of merchandise – recognised at a point in time		
– Building materials	**248,186**	257,193
– Home improvement materials	**20,817**	38,745
– Furnishings	**19,090**	20,703
	288,093	316,641
Provision of interior design and engineering services – recognised over time		
– Household	**641**	1,571
– Corporate	**310,744**	97,756
	311,385	99,327
	599,478	415,968

4. OTHER INCOME AND GAINS – NET

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Rental income	**787**	–
Government grants relating to costs	**–**	905
Others	**(237)**	(173)
	550	732

5. EXPENSES BY NATURE

Expenses included in cost of sales, selling expenses and administrative expenses are analysed as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Cost of inventories sold	**262,619**	270,595
Cost of services provided	**274,546**	87,966
Depreciation of property, plant and equipment	**7,738**	8,776
Amortisation of land use rights	**96**	96
Amortisation of intangible assets	**58**	54
Employee benefit expenses	**10,480**	12,454
Rental fees and property management fees	**4,381**	4,471
Other tax expenses	**1,976**	2,050
Provision for/(Reversal of) write-down of inventories	**641**	(588)
Reversal of impairment of trade and other receivables and prepayments	**(272)**	(1,660)
Auditor's remuneration – audit services	**1,650**	1,650
Delivery and installation expenses	**1,195**	1,251
Travel expenses	**846**	800
Share options expenses	**789**	–
Other expenses	**5,528**	8,192
Total	**572,271**	396,107

6. FINANCE COSTS – NET

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Finance income: – Interest income on short-term bank deposits	**(224)**	(118)
Finance costs: – Interest expense on bank borrowings	**6,594**	5,964
Interest expense on long-term receivables	**650**	–
Others	**–**	49
Net finance costs	**7,020**	5,895

7. INCOME TAX EXPENSE

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Current income tax	**8,529**	5,677
Deferred income tax	**(2,465)**	40
	6,064	5,717

The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate applicable to profit of the Group as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Profit before income tax	**18,137**	14,698
Tax calculated at the tax rate of 25%	**4,534**	3,675
Difference in overseas tax rates	**1,264**	–
Expenses not deductible for tax purposes	**168**	1,424
Temporary differences for which no deferred tax assets were recognised	**98**	618
	6,064	5,717

Cayman Islands income tax

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

BVI income tax

The Company's subsidiary in the BVI was incorporated under International Business Companies Act of the BVI and, accordingly, is exempted from the BVI income tax.

Hong Kong profits tax

Entities incorporated in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% for the year ended 31 December 2018 (FY2017: 16.5%) on the estimated assessable profit for the year. No Hong Kong profits tax has been provided for as there was no business operation that is subject to Hong Kong profits tax during the year.

PRC enterprise income tax ("EIT")

The entities incorporated in the PRC are subject to EIT. All PRC enterprises are subject to a standard EIT rate of 25%.

PRC withholding tax ("WHT")

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are generally subject to a WHT of 10%. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%. During the Reporting Period, the Directors reassessed the dividend policy of its major subsidiary established in the PRC, Guangdong Jiyi Household Building Materials Chain Co., Ltd（廣東集一家居建材連鎖有限公司）("Jiyi Household"), based on the Group's current business plan and financial position. No retained earnings as at 31 December 2018 of Jiyi Household will be distributed to its non-PRC registered intermediate holding company and as such, no deferred tax liability has been provided by the Group for the earnings expected to be retained by Jiyi Household and not to be remitted out of the PRC in the foreseeable future.

8. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the Reporting Period.

	Year ended 31 December	
	2018	2017
Profit attributable to equity holders of the Company *(RMB'000)*	**12,073**	8,981
Weighted average number of ordinary shares in issue *(thousands of shares) (a) & (b)*	**509,405**	432,000
Basic earnings per share *(RMB cents per share)*	**2.37**	2.08

(a) The Company completed the rights issue of 172,800,000 new shares and placing of 86,400,000 new shares during the Reporting Period. The number of total issued shares of the Company increased from 432,000,000 to 691,200,000.

(b) Options

Share options granted to employees, consultants as well as customers under the share option scheme are included in the determination of diluted earnings per share in the event that the share options are exercised.

The 36,000,000 share options granted on 2 November 2018 are not included in the calculation of diluted earnings per share because they are anti-dilutive for the year ended 31 December 2018.

(c) For the years ended 31 December 2018 and 2017, diluted earnings per share are the same as basic earnings per share due to the absence of dilutive potential ordinary shares as at 31 December 2018 and 2017.

9. DIVIDEND

The Directors do not propose payment of a final dividend for the year ended 31 December 2018 (2017: Nil).

10. INVESTMENT PROPERTIES

	Year ended 31 December	
	2018	2017
Opening balance at 1 January	**–**	–
Transfer from property, plant and equipment	**1,232**	–
Transfer from land use rights	**145**	–
Closing balance at 31 December	**1,377**	–

Amounts recognised in profit or loss for investment properties:

	Year ended 31 December	
	2018	2017
Rental income	**787**	–

The Group's investment properties are located in Mainland China. The lease period of land use rights of which the investment properties are located is 38 years. As at 31 December 2018, the remaining lease period of such Group's land use rights was 30.67 years (2017: 31.67 years).

As at 31 December 2018, bank borrowings of RMB103,000,000 (2017: RMB79,000,000) were secured by land use right, investment properties and property, plant and equipment at the carrying amount of approximately RMB2,582,000 (2017: RMB2,823,000), RMB1,377,000 (2017: Nil) and RMB33,397,000 (2017: RMB42,246,000), respectively.

As at 31 December 2018, the fair value of investment properties is RMB9,424,000.

11. TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Current portion		
Trade receivables due from third parties *(a)*	**253,897**	180,902
Trade receivables due from a related party *(a)*	**376**	6,866
Trade receivables	**254,273**	187,768
Less: allowance for impairment of trade receivables *(b)*	**(2,973)**	(1,355)
Trade receivables – net	**251,300**	186,413
Prepayments	**42,430**	56,324
Less: allowance for impairment of prepayments *(c)*	**(571)**	(843)
Prepayments – net	**41,859**	55,481
Notes receivable	**–**	274
Deposits	**7,279**	4,332
Deductible input VAT	**5,262**	–
Proceeds receivable from disposal of leasehold improvements *(c)*	**1,950**	–
Other receivables	**2,045**	784
	309,695	247,284
Non-current portion		
Deposits *(d)*	**4,350**	–
Proceeds receivable from disposal of leasehold improvements *(c)*	**3,467**	–
	7,817	–
	317,512	247,284

The fair values of trade and other receivables approximate their carrying values.

(a) Trade receivables

The credit period granted to customers is between 0 to 360 days. The ageing analysis of the trade receivables based on the date of sales is as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Up to 6 months	**113,641**	124,512
6 to 12 months	**53,490**	59,440
Over 1 to 2 years	**85,928**	3,165
Over 2 to 3 years	**927**	414
Over 3 years	**287**	237
	254,273	187,768

(b) Provision for impairment of prepayments

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
At beginning of the year	**843**	–
(Reversal of)/provision for impairment	**(272)**	843
At end of the year	**571**	843

(c) The Group disposed the leasehold improvements of a renovated shop of a net book value of RMB5,158,000 to an independent third party succeeding the lease of the shop this year. The proceed is settled by instalment before 31 December 2022. The current and non-current position of the proceed amounted to RMB1,950,000 and RMB3,467,000, respectively.

(d) The Group paid RMB5,000,000 to the Meizhou Housing and Urban Rural Planning and Construction Bureau*（梅州市住房和城鄉建設局）as a refundable deposit to guarantee the fulfilment of wages payment to those immigrant labours. The amount will be recovered upon completion of the engineering construction, which is expected to be completed in two to three years.

(e) The carrying amounts of the Group's trade and other receivables (excluded prepayments) are denominated in the following currencies:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
RMB	**270,243**	191,316
HK$	**148**	487
	270,391	191,803

The maximum exposure to credit risk as at 31 December 2018 is the carrying values of each class of receivables mentioned above. The Group did not hold any collateral as security for these receivables.

12. TRADE AND OTHER PAYABLES

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Trade payables *(a)*	**75,441**	31,434
Notes payable	**–**	1,000
Advance from customers	**–**	10,366
Salaries and staff welfare payables	**1,165**	1,256
Other tax payables	**23,310**	4,134
Accrued operating lease expenses	**6,481**	4,080
Withholding individual income tax in respect of dividend payment	**16,000**	16,000
Other payables	**2,604**	3,113
	125,001	71,383

The fair values of trade and other payables approximate their carrying values.

(a) The ageing analysis of trade payables based on invoice date were as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Up to 3 months	**51,940**	18,373
3 to 6 months	**5,568**	5,013
6 to 12 months	**11,825**	4,281
Over 12 months	**6,108**	3,767
	75,441	31,434

The credit period secured by the Group's suppliers ranges from 0 to 180 days.

(b) The carrying amounts of trade and other payables (excluded advance from customers, salaries and staff welfare payables, other tax payables, accrued operating lease expenses, withholding individual income tax) are denominated in the following currencies.

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
RMB	**77,679**	35,268
HK$	**366**	279
	78,045	35,547

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

With the shift of the Group's strategic focus from the sale and distribution of merchandise to the provision of interior design and engineering services, the Group had succeeded in achieving positive growth in terms of revenue, gross profits and net profits in FY2018. In FY2018, the provision of interior design and engineering services segment accounted for approximately 51.9% of the total revenue (2017: approximately 23.9%), while the sale and distribution of merchandise segment accounted for approximately 48.1% of the total revenue (2017: approximately 76.1%).

Provision of interior design and engineering services

The Group achieved rapid growth in the business segment of the provision of interior design and engineering services to our customers and achieved fruitful results in FY2018. During the Reporting Period, the Group successfully won and commenced several sizeable corporate construction projects which led to significant increase in revenue. The revenue generated from the provision of interior design and engineering services increased by approximately RMB212.1 million or approximately 213.5%, from approximately RMB99.3 million in FY2017 to approximately RMB311.4 million in FY2018, and the Group recorded an increase in gross profit of approximately RMB24.4 million or approximately 296.3%, from approximately RMB8.2 million in FY2017 to approximately RMB32.6 million in FY2018. The gross profit margin increased from approximately 8.3% in FY2017 to approximately 10.5% in FY2018.

Sale and distribution of merchandise

The sale and distribution of merchandise remained a stable source of revenue to the Group. In FY2018, with the aforementioned shift of the Group's strategic focus, the Group experienced a decrease of approximately RMB28.6 million or approximately 9.0% in revenue from the sale and distribution of merchandise from approximately RMB316.6 million in FY2017 to approximately RMB288.1 million in FY2018, in particular, the revenue from home improvement materials and furnishing products experienced a decrease of approximately 46.3% and approximately 7.8% in FY2018 respectively.

Overall, the Group recorded a consolidated net profit of approximately RMB12.1 million for FY2018, representing an increase of approximately RMB3.1 million or approximately 34.4% as compared with consolidated net profit of approximately RMB9.0 million for FY2017. Such increase was mainly resulted from the net effect of the increase in gross profit generated from the business segment of the provision of interior design and engineering services of approximately RMB24.4 million, the decrease in both selling and administrative expenses of approximately RMB3.2 million and approximately RMB1.3 million respectively, and of which the increase in consolidated net profit was offset by the decrease in gross profit generated from the sale and distribution of merchandise of approximately RMB21.5 million and the increase in net impairment loss on financial assets of approximately RMB2.6 million.

FINANCIAL REVIEW

Revenue by business operations

The Group is a well-established and integrated building and home improvement materials and furnishings supplier and interior design and engineering services provider in the PRC. The Group is mainly engaged in the sale and distribution of merchandise and the provision of interior design and engineering services.

The following table sets forth the breakdown of revenue by the Group's business segments for the Reporting Period with the comparative figures of FY2017:

	For the year ended 31 December		
	2018	2017	Changes
	RMB'000	*RMB'000*	*%*
Sale and distribution of merchandise			
– Building materials	**248,186**	257,193	(3.5)
– Home improvement materials	**20,817**	38,745	(46.3)
– Furnishings	**19,090**	20,703	(7.8)
	288,093	316,641	(9.0)
Provision of interior design and engineering services			
– Household	**641**	1,571	(59.2)
– Corporate	**310,744**	97,756	217.9
	311,385	99,327	213.5
Total	**599,478**	415,968	44.1

Total revenue of the Group increased by approximately RMB183.5 million or approximately 44.1% from approximately RMB416.0 million for FY2017 to approximately RMB599.5 million for FY2018. Such increase was mainly driven by the growth in revenue generated from the business of the provision of interior design and engineering services, and was partially offset by the decrease in sale of home improvement materials and furnishings during the Reporting Period.

Revenue from sale of and distribution of merchandise

Revenue of the Group from sale and distribution of merchandise, comprising (i) sale of building materials; (ii) sale of home improvement materials; and (iii) sale of furnishings, decreased by approximately RMB28.5 million or approximately 9.0% from approximately RMB316.6 million for FY2017 to approximately RMB288.1 million for FY2018. The decrease was a combined result of the followings:

Sale of building materials

Sale of building materials decreased by approximately RMB9.0 million or approximately 3.5% from approximately RMB257.2 million for FY2017 to approximately RMB248.2 million for FY2018. Such decrease was mainly due to the decrease in sales of pipes and fittings, electrical wires and cables during the Reporting Period.

Sale of home improvement materials

Sale of home improvement materials decreased by approximately RMB17.9 million or approximately 46.3% from approximately RMB38.7 million for FY2017 to approximately RMB20.8 million for FY2018. The decrease was mainly due to the decrease in sales order made by our major customers during the Reporting Period.

Sale of furnishings

Sale of furnishings decreased by approximately RMB1.6 million or approximately 7.8% from approximately RMB20.7 million for FY2017 to approximately RMB19.1 million for FY2018. Such decrease was mainly due to the keen market competition during the Reporting Period.

Revenue from provision of interior design and engineering services

Revenue from provision of interior design and engineering services increased by approximately RMB212.1 million or approximately 213.6% from approximately RMB99.3 million for FY2017 to approximately RMB311.4 million for FY2018. Such increase was contributed by the increase in number and size of corporate projects, and the increase in the scale of our construction projects during the Reporting Period. In view of the growing number and size of projects secured by the Group at the moment, the Group feels confident in developing this business operation continuously in the coming few years.

Gross profit and gross profit margin

The following table sets forth the breakdown of gross profit and gross profit margin by the Group's business segments for the Reporting Period with the comparative figures of FY2017:

	For the year ended 31 December			
	2018		2017	
	Gross profit	**Gross profit margin**	Gross profit	Gross profit margin
	RMB'000	*%*	*RMB'000*	*%*
Sale and distribution of merchandise				
– Building materials	**17,087**	**6.9**	26,781	10.4
– Home improvement materials	**3,415**	**16.4**	11,479	29.6
– Furnishings	**2,872**	**15.0**	6,593	31.8
	23,374	**8.1**	44,853	14.2
Provision of interior design and engineering services	**32,578**	**10.5**	8,220	8.3
Total	**55,952**	**9.3**	53,073	12.8

As the revenue of the Group increased by approximately RMB183.5 million or approximately 44.1% from approximately RMB416.0 million for FY2017 to approximately RMB599.5 million for FY2018, the Group's overall gross profit increased by approximately RMB2.9 million or approximately 5.4% from approximately RMB53.1 million for FY2017 to approximately RMB56.0 million for FY2018. The increase in the Group's overall gross profit was mainly due to the increase in the proportion of revenue generated from provision of interior design and engineering services during the Reporting Period.

The gross profit margin of provision of interior design and engineering services increased from approximately 8.3% for FY2017 to 10.5% for the Reporting Period. With the increasing volume of corporate projects and the expansion of market share, the Group believes that the gross profit margin of this business segment will continue to increase in the future.

The gross profit margin of the business of sale and distribution of merchandise dropped from approximately 14.2% for FY2017 to approximately 8.1% for FY2018, which was mainly due to keen market competition among the market competitors during the Reporting Period.

Selling expenses

The Group's selling expenses decreased by approximately RMB3.1 million or approximately 17.4% from approximately RMB18.2 million for FY2017 to approximately RMB15.1 million for the Reporting Period. Such decrease was in line with the decrease in revenue from the business of sale and distribution of merchandise, and was also due to the decrease in employee benefit expenses and depreciation of property, plant and equipment, of approximately RMB2.0 million and RMB1.0 million respectively during the Reporting Period.

Administrative expenses

The Group's administrative expenses decreased by approximately RMB1.3 million or approximately 8.7% from approximately RMB15.0 million for FY2017 to approximately RMB13.7 million for the Reporting Period. The decrease was mainly due to the improvements in cost control measures adopted by the Group, which results in a decrease in other expenses of approximately RMB2.7 million from approximately RMB8.2 million to approximately RMB5.5 million during the Reporting Period. The decrease in the Group's administrative expenses was partially offset by the increase in share option expenses of approximately RMB0.8 million in FY2018 (FY2017: Nil).

Finance costs – net

The Group's net finance costs increased by approximately RMB1.1 million or approximately 18.6% from approximately RMB5.9 million for FY2017 to approximately RMB7.0 million for the Reporting Period. The increase in the Group's net finance costs was mainly due to the increase in the Group's average bank borrowings and effective interest rates during the Reporting Period.

Profit for the year

As a result of the foregoing, the Group's profit for the year increased by approximately RMB3.1 million or approximately 34.4% from approximately RMB9.0 million for FY2017 to approximately RMB12.1 million for the Reporting Period.

PROSPECTS

Since FY2017, the Group has switched its core business focus from the business segment of the sale and distribution of merchandise, to the development of the business segment of the provision of interior design and engineering services, and had achieved notable growth in terms of revenue and profits in FY2018. The significant revenue growth from the business segment of the provision of interior design and engineering services was mainly due to the commencement of construction of several sizeable corporate projects during the Reporting Period. It is even more encouraging that the Group successfully won the joint tender and became the general contractor of the construction section of two Engineering Procurement Construction ("EPC") projects in September 2018. It was the first time for the Group to become a general contractor of the EPC project tendered by the PRC government. It is expected that such success will bring considerable revenue to the Group, and more importantly, it will bring valuable experience to the Group in securing more projects, including Public-Private Partnership projects, from the PRC government in the future.

In addition to continuing to strengthen the existing business, the Group is also actively looking for new investment opportunities, in particular in the pan-cultural and entertainment industry, to enhance the Group's profitability and to maximize our shareholders' returns. As disclosed in the announcement of the Company dated 16 November 2018, the Company had entered into an agreement with Shenzhen Tianpeng Cultural Industry Limited*（深圳天鵬文化產業股份有限公司）, a company established in the PRC with limited liability, in relation to the possible acquisition of no less than 13 movie or television projects to be developed by the said company (the "Proposed Acquisition"). And the completion of the placing of new shares on 27 December 2018 under the general mandate granted by the shareholders of the Company and the Directors pursuant to the resolutions passed on 1 June 2018 provided funding for the Proposed Acquisition. On 19 February 2019, Jiyi Entertainment Limited, a wholly owned subsidiary of the Company, entered into an investment agreement with Xinbao Culture Media Limited, Xinfeng Culture Media Limited ("Xinfeng Culture") and Tourmaline Investment Holding Limited, pursuant to which Jiyi Entertainment Limited agreed to purchase 510 shares, representing 51% of the issued shares of Xinfeng Culture at an aggregate consideration of HK$54,366,000. This investment is expected to bring new source of revenue to the Group and diversify the Group's business.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

As at 31 December 2018, the Group had a total cash and bank balances of approximately RMB116.4 million (2017: RMB93.0 million) mainly denominated in RMB and HK$. The increase in total cash and bank balances was mainly due to the net proceeds received from the issuance of ordinary shares and the proceeds received from bank borrowings of approximately RMB141.7 million and RMB104.3 million during the Reporting Period.

As at 31 December 2018, the Group had net current assets of approximately RMB415.6 million, as compared to approximately RMB257.4 million as at 31 December 2017.

BORROWINGS AND PLEDGE OF ASSETS

As at 31 December 2018, the Group had unutilised banking facilities for short term financing of approximately RMB20 million (2017: RMB108 million) and total bank borrowings of approximately RMB103 million (2017: RMB88.2 million).

As at 31 December 2018, the bank borrowings of the Group were secured by land use rights, investment properties and property, plant and equipment of the Group at the carrying amounts of approximately RMB2.6 million (2017: RMB2.8 million), RMB1.4 million (2017: Nil) and RMB33.4 million (2017: RMB42.2 million), respectively.

CAPITAL EXPENDITURE

The Group's has no material capital expenditure during the Reporting Period (2017: RMB3.3 million).

FINANCIAL RATIO

	As at	
	31 December 2018	31 December 2017
Current ratio[(1)]	**2.7**	2.5
Quick ratio[(2)]	**2.5**	2.3
Gearing ratio (%)[(3)]	**21.0**	26.3
Net debt to equity ratio (%)[(4)]	**(2.7)**	(1.5)

Notes:

(1) Current ratio is calculated as total current assets divided by total current liabilities.

(2) Quick ratio is calculated as total current assets less inventories and divided by total current liabilities.

(3) Gearing ratio is calculated as total debt divided by total equity and multiplied by 100%.

(4) Net debt to equity ratio is calculated as total borrowings net of cash and cash equivalents and restricted cash, and divided by total equity and multiplied by 100%.

FOREIGN EXCHANGE EXPOSURE

Most of the trading transactions were denominated in RMB, except for certain cost of sale, which was denominated in HK$ and RMB. The Group is exposed to foreign exchange risk with respect mainly to HK$ which may affect the Group's performance. The management is aware of the possible exchange rate risk exposure due to the continuing fluctuation of HK$ and will closely monitor its impact on the performance of the Group to see if any hedging policy is necessary. The Group currently does not have any foreign currency hedging policy.

RIGHTS ISSUE

On 25 April 2018, the Company proposed to raise proceeds by way of the rights issue of 172,800,000 rights shares on the basis of two rights shares for every five existing shares ("Rights Issue") held by each qualifying shareholder on the record date at the subscription price of HK$0.60 per rights share payable in full on acceptance. The Rights Issue was fully underwritten by Xinling Limited, the Company's controlling shareholder.

After the completion of the Rights Issue on 24 July 2018, the number of total issued shares of Company increased from 432,000,000 to 604,800,000. The net proceeds from the Rights Issue, after deducting the related professional fees and expenses, was approximately HK$101.8 million. It was planned that approximately HK$91.6 million, representing approximately 90% of the net proceeds from the Rights Issue, would be applied for financing the capital input for several interior design and engineering projects under construction in the PRC and the remaining portion of approximately HK$10.2 million, representing approximately 10% of the net proceeds from the Rights Issue, would be applied for general working capital for the payment of operational expenses for the Company's Hong Kong principal office, such as payment of salaries and rents and general operational expenses, etc. As at 31 December 2018, the unutilised proceeds amounted to approximately HK$4.2 million for general working capital purposes.

Details of the Rights Issue by the Company are set out in the Company's announcements dated 25 April 2018, 26 April 2018, 16 May 2018, 25 May 2018, 14 June 2018, 15 June 2018 and 23 July 2018, circular dated 25 May 2018 and Rights Issue documents dated 28 June 2018.

PLACING OF NEW SHARES UNDER GENERAL MANDATE AND THE USE OF PROCEEDS

On 27 December 2018, the Company completed a placing of shares up to 86,400,000 new ordinary shares of the Company ("Placing Share") at a placing price of HK$0.70 per Placing Share, representing a discount of approximately 9.1% to the closing price of HK$0.77 on the date of the placing agreement, to not less than six placees who and whose ultimate beneficial owners were third parties independent of the Company and its connected persons. The net proceeds from the placing, after deducting the related placing commission, professional fees and all related expenses, were approximately HK$59.7 million. It was planned that approximately HK$53.7 million, representing approximately 90% of the net proceeds from the placing, would be used for funding the possible acquisition of no less than 13 movie or television projects to be developed by the said company (the "Proposed Acquisition") disclosed in the announcement of the Company dated 16 November 2018 and the remaining portion of approximately HK$6.0 million, representing approximately 10% of the net proceeds from the placing, would be used by the Company as general working capital of the Group. As at 31 December 2018, the unutilised proceeds amounted to approximately HK$13.9 million and approximately HK$6.0 million, which were for funding engineering projects and general working capital, respectively.

Details of the placing of shares by the Company are set out in the Company's announcements dated 10 December 2018 and 27 December 2018.

CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 31 December 2018 (2017: Nil).

CAPITAL COMMITMENTS

The Group had no significant outstanding capital commitment as at 31 December 2018 (2017: Nil).

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2018, the employee headcount of the Group was 172 (2017: 153) and the total staff costs, including Directors' remuneration, amounted to approximately RMB10.5 million for the Reporting Period (2017: RMB12.5 million). The decrease in total staff cost was a combined result of: (i) the reduction in headcount starting from the first half year of FY2018, in particular the headcount of the store operation function, which was to tie in with the Group's business plan to develop the business of interior design and engineering services; (ii) the logistics and warehousing functions of the Group has been outsourced since the last quarter of 2017 and for the full year of the Reporting Period.

The Group offers competitive remuneration packages commensurate with industry practice and provides various fringe benefits to employees. The Group conducts induction training for all of its new employees and on-going training from time to time during their employment. The nature of training offered depends on their specific field of operation.

The objective of the Group's remuneration policy is to maintain fair and competitive packages based on business requirements and industry practice. In order to determine the level of remuneration paid to its employees (including directors and senior management), the following factors are considered:

- workload, responsibility and job complexity;
- business requirements;
- individual performance and contribution to results;
- company performance and profitability;
- retention considerations and the potential of individuals;
- corporate goals and objectives;

- market rates and changes in relevant markets, including supply and demand fluctuations and changes in competitive conditions; and

- general economic situation.

EVENT AFTER THE REPORTING PERIOD

On 19 February 2019, Jiyi Entertainment Limited, a wholly owned subsidiary of the Company, entered an investment agreement with Xinbao Culture Media Limited, Xinfeng Culture Media Limited ("Xinfeng Culture") and Tourmaline Investment Holding Limited, pursuant to which Jiyi Entertainment Limited agreed to purchase 510 shares, representing 51% of the issued shares of Xinfeng Culture at an aggregate consideration of HK$54,366,000. The acquisition consists of a two-step purchase and sale, including the purchase and sale of (i) 200 issued shares of Xinfeng Culture at a consideration of HK$21,320,000; and (ii) 310 issued shares of Xinfeng Culture at a consideration of HK$33,046,000. The major assets of Xinfeng Culture include the income right of a movie and the right of first refusal of the income right of another three movies and media projects. As at the date of this announcement, HK$21,320,000 has been paid.

Other than disclosed above, there is no material subsequent event undertaken by the Company or by the Group after 31 December 2018 and up to the date of this announcement.

DIVIDEND

The Board does not recommend any payment of final dividend for the year ended 31 December 2018 (2017: Nil).

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standard of corporate governance to safeguard the interests of the shareholders of the Company and to enhance corporate value and responsibility. The Board comprises three executive Directors, one non-executive Director and three independent non-executive Directors. The Board has adopted the code provisions of the Corporate Governance Code ("CG Code") set out in Appendix 14 to the Listing Rules. During the year ended 31 December 2018 and up to the date of this announcement, the Company has complied with the code provisions under the CG Code, save and except for the deviation to code provision A.2.1 as stated below.

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The chairlady and chief executive officer of the Company are held by Ms. Hou Wei who has extensive experience in the industry. The Board believes that Ms. Hou can provide the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies. The Board also considers that the current structure of vesting the roles of chairlady and chief executive officer in the same person will not impair the balance of power and authority between the Board and the management of the Company. The Board shall review this structure from time to time to ensure appropriate and timely action to meet changing circumstances.

COMPLIANCE WITH MODEL CODE

The Directors have adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct for Directors in dealing in the Company's securities. Specific enquiries have been made to all Directors and all Directors have confirmed that they have fully complied with the required standard of dealings as set out in the Model Code throughout the year ended 31 December 2018. Relevant employees who are likely to be in possession of unpublished inside information of the Group are also subject to compliance with written guidelines or no less exacting terms than the Model Code throughout the year ended 31 December 2018.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

SCOPE OF WORK

The figures in respect of the Group's consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income and the related notes thereto as set out in the preliminary announcement for FY2018 have been agreed by the Group's auditors, PricewaterhouseCoopers, to the amounts as set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

AUDIT COMMITTEE

As at 31 December 2018 and the date of this announcement, the Audit Committee comprised three members, namely, Mr. Ye Yihui (chairman of the Audit Committee), Mr. Ho Hin Yip and Mr. Hou Lianchang and all of them are independent non-executive Directors. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters, including the review of the annual financial results of the Group for FY2018.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float as required under the Listing Rules throughout the year ended 31 December 2018.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the websites of the Company (www.jiyihousehold.com) and the Stock Exchange (www.hkexnews.hk). The annual report of the Company for the year ended 31 December 2018 containing all the information required by the Listing Rules will be published on the above websites and despatched to the shareholders of the Company on or before 30 April 2019.

By Order of the Board
Jiyi Household International Holdings Limited
Hou Wei
Chairlady

Hong Kong, 29 March 2019

As at the date of this announcement, Ms. Hou Wei, Mr. Liu Xianxiu and Mr. Yang Baikang are the executive directors of the Company, Mr. Hou Bo is the non-executive director of the Company, and Mr. Ye Yihui, Mr. Ho Hin Yip and Mr. Hou Lianchang are the independent non-executive directors of the Company.

* *For identification purpose only*