



Annual Report 2014



益華百貨控股有限公司

Yi Hua Department Store Holdings Limited

(incorporated in the Cayman Islands with limited liability)

Stock Code: 2213



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Chen Jianren
Mr. Fan Xinpei
Mr. Su Weibing
Mr. Lin Guangzheng

Non-executive Directors

Mr. Chen Daren
Mr. Lu Hanxing

Independent non-executive Directors

Mr. Sun Hong
Mr. Xu Yinzhou
Mr. Leung Wai Kwan

REGISTERED OFFICE

Clifton House
75 Fort Street
P.O. Box 1350
Grand Cayman KY1-1108
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 8A, Wah Kit Commercial Centre
300-302 Des Voeux Road Central
Hong Kong

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Yihua Century Square
Zhongshan 3rd Road
Zhongshan City, Guangdong Province
the PRC

COMPANY SECRETARY

Mr. Tse Wing York, CPA

AUTHORISED REPRESENTATIVES

Mr. Fan Xinpei
Mr. Tse Wing York, CPA

AUDIT COMMITTEE

Mr. Sun Hong
Mr. Xu Yinzhou
Mr. Leung Wai Kwan (*Chairman*)

REMUNERATION COMMITTEE

Mr. Fan Xinpei
Mr. Sun Hong
Mr. Xu Yinzhou (*Chairman*)
Mr. Leung Wai Kwan

NOMINATION COMMITTEE

Mr. Chen Jianren (*Chairman*)
Mr. Sun Hong
Mr. Xu Yinzhou
Mr. Leung Wai Kwan

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Appleby Trust (Cayman) Ltd.
Clifton House
75 Fort Street
P.O. Box 1350
Grand Cayman KY1-1108
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL BANKS

Industrial and Commercial Bank of China
Ping An Bank

AUDITORS

PricewaterhouseCoopers

INTERNAL CONTROL ADVISER

Baker Tilly Hong Kong Business Services Limited

COMPLIANCE ADVISER

Kingsway Capital Limited

LEGAL ADVISERS TO THE COMPANY

As to Hong Kong law
Peter C. Wong, Chow & Chow
As to the PRC law
JunZeJun Law Offices

STOCK CODE

2213

FINANCIAL HIGHLIGHTS AND SUMMARY

Operating results	2010	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	605,204	715,086	678,876	713,951	710,146
Operating profit	45,665	68,300	58,686	27,104	45,927
Profit for the year from continuing operations	32,478	50,346	42,519	14,663	29,066
Profit for the year	30,530	49,167	43,643	16,667	29,066
Total comprehensive income attributable to the equity holders of the Company	31,208	49,189	42,565	15,051	27,054
Total comprehensive income attributable to the equity holders of the Company from continuing operations	32,159	49,767	42,014	14,069	27,054
Earnings per share attributable to the equity holders of the Company (note 1)	0.1156	0.1822	0.1576	0.0548	0.0752
Earnings per share attributable to the equity holders of the Company from continuing operations (note 1)	0.1191	0.1843	0.1556	0.0512	0.0752
Consolidated balance sheet summary					
Non-current assets	122,141	121,332	140,141	234,478	355,584
Current assets	374,024	487,921	514,666	458,702	375,425
Total assets	496,165	609,253	654,807	693,180	731,009
Non-current liabilities	4,771	25,208	9,543	11,677	35,300
Current liabilities	495,515	538,999	556,575	548,478	533,618
Total liabilities	500,286	564,207	566,118	560,155	568,918
Net assets	(4,121)	45,046	88,689	133,025	162,091
Equity attributable to equity holders of the Company	63	49,252	91,817	132,304	159,358
Non-controlling interest	(4,184)	(4,206)	(3,128)	721	2,733
Total equity	(4,121)	45,046	88,689	133,025	162,091

FINANCIAL HIGHLIGHTS AND SUMMARY

Note 1: Basic earnings per share is calculated by dividing the profit for the year attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

The weighted average number of ordinary shares in issue during the year ended 31 December 2013 used in the basic earnings per share calculation is determined on the assumption that an aggregate 270,000,000 shares with par value of HK\$0.01 each issued upon the completion of the Group reorganisation and the capitalisation issue had been in issue prior to the incorporation of the Company, which is the same assumption for the basic earnings per share calculation for the three years ended 31 December 2010, 2011 and 2012.

CHAIRMAN'S STATEMENT



INDUSTRY REVIEW

A number of factors contributed to a slowdown in the traditional retail industry, making 2014 a challenging year. Among these were a slowdown in the macro-economic growth of the PRC, which was a setback for retail sales; intensifying competition due to an excess supply of shopping malls, the impact brought about by the rapid development of online shopping as well as the pressures exerted by rising labour and rental costs.

BUSINESS REVIEW

Overview

To weather the aforementioned challenges, Yi Hua Department Store Holdings Limited (the “**Company**”) and its subsidiaries, together (the “**Group**”) carried out a series of strategic measures in order to ensure sustainable business growth. These included adjusting the business model of its existing stores, streamlining the overall cost and staff structure, acquiring properties to alleviate the pressure of rising rental costs, and developing a new business to help boost revenues.

CHAIRMAN'S STATEMENT

Expanding the store network to ensure steady business growth

To ensure steady business growth, the Group continued identifying suitable sites to open new stores during the year. In June 2014, a second store outside Guangdong Province, the PRC was opened in Dagang New District, Zhenjiang, Jiangsu Province, the PRC. With a gross floor area of approximately 29,000 square metres, the store offers a one-stop shopping experience with services ranging from dining and entertainment to leisure and more. This outlet targets modern urban residents and is poised to becoming a major recreational and leisure shopping centre for the region. As it is a common phenomenon in the department store industry that new stores make operating losses in their start-up stage during the first two to three years since operation, our Zhenjiang Store has no exception. It reported an operating loss for the year. Currently, our sales team is focusing on the adjustments to our business position and product mix to maximise store sales.



CHAIRMAN'S STATEMENT

Optimising the product mix to boost turnover

Product mix is one of the decisive criteria for the success of a department store. Therefore, the Group always places great emphasis on its product mix and reviews the rationality of its combination of sales items regularly. Appropriate adjustments are made to optimise the mix to help enhance profitability.



During the year, a theme park for kids was set up in the Shiqi store. By integrating it into furniture and kids wear outlets, the Shiqi store has been upgraded into a larger experiential studio for household living. In addition, a climbing centre for kids was established in the Jiangmen store, which aims to introduce the concept of 'fashionable

sporty lifestyle' to the shopping mall. Consequently, the indoor playground originally designed for children between 1 and 6 years old expanded to include teenagers up to 16 years old, reflecting its youthful vitality. A new casual menswear section was launched in Guzhen store, complementing the existing formal menswear section. This now further strengthens its position as an outlet targeting business customers. In addition, the Qingyuan store underwent an expansion and re-organisation targeted at its sportswear and casual wear sections in order to take advantage of opportunities arising from increased spending on sportswear by customers.

Launching an online mall to improve the overall shopping experience

The Group comprehensively upgraded its information and technology systems in 2014, among other objectives, the Group aimed to enhance the customer-oriented services and increase the VIP customer base. The Group set up an online shopping website and upgraded its ERP system at the same time. In November 2014, the Group completed testing of its online shopping mall, which is now operating smoothly. As of today, the number of visits to the online shopping mall has reached approximately 120,000, while the average daily number of visits is



CHAIRMAN'S STATEMENT

about 2,000. The Group will further strengthen the convenience of the Yi Hua Department Store online shopping mall by offering delivery services and online payment methods to improve the shopping experience. The Group will also diversify its product offerings and press ahead with publicity for the site in an attempt to increase turnover. The Group expects this online shopping mall to become the key driver of its business growth.

Developing new business by adopting the Yi Hua's business model

Taking advantage of opportunities arising from the proliferation of commercial complexes in recent years, the Group has established a business section to provide planning, design and consulting service to commercial complex operators by adopting its unique Yi Hua Department Store business model. During the year, the Group earned a total of RMB15.5 million for services to two commercial complex operators.



Alleviating the pressures of rental costs by acquiring suitable properties

The Group has been expanding its chain of department stores by signing tenancy agreements with landlords to take advantage of light capital investment.

However, in view of rising rental costs, the Group is also actively exploring suitable business premises and has acquired property from a developer at lower than the prevailing market price to help ease rental pressures associated with opening new stores.



CHAIRMAN'S STATEMENT

During the year under review, the Group acquired properties together with the relevant land use rights of J-River International New City (錦江國際新城), a composite development located in the Jinjiang District, Enping City, Guangdong Province, the PRC, for a consideration of approximately RMB86.1 million as disclosed in the Company's announcements dated 29

September 2014 and 7 November 2014.

These properties were acquired for commercial use and have an aggregate gross floor area of approximately 26,900 square metres. Situated in the new commercial and residential area of Jinjiang District, Enping City, the PRC, this composite development comprises residential units, offices, shopping centres and hotels with commercial areas totalling approximately 300,000 square metres. At the moment, the Group plans to use these properties to develop a large-scale department store with a supermarket.



Implementing cost-saving measures to lower operating expenses

The Group continued to implement its cost-saving measures during the year. In terms of manpower, the Group streamlined staffing as a way to control its total headcount and staff costs. As for operations, energy-efficient lighting fixtures were fully installed in stores to achieve greater energy savings and environmental protection. These measures effectively lowered the overall operating costs of the Group.

OUTLOOK AND PROSPECTS

Opening three additional stores to drive business growth

Looking forward, the PRC's economy is entering a new moderation state wherein the growth rate will shift from high to medium-to-high level in 2015. At the same time, personalisation and experimental consumption will become mainstream trends across the PRC. Consumption will remain a fundamental driver of the country's overall economic development and will sustain the economy's growth momentum. The growing population and urbanisation in second- and third-tier cities are the key factors that will help undergird the resilience of the retail market. These factors will also provide abundant development opportunities for chain department store operators focusing on second- and third-tier cities. The Group plans to open three new stores in Guangdong Province, including Nanlang Town in Zhongshan City, Gaoxin District in Zhaoqin City, and Nanxiong County in Shaoguan City in 2015. Another store will be opened in Enping City, Guangdong Province, the PRC in 2016. These new stores will benefit from resource sharing through replicated business operations and management systems of the Zhongshan Store, Jiangmen Store and Shaoguan Store while operating costs are expected to be effectively minimised.

CHAIRMAN'S STATEMENT

Establishing joint venture cinemas to enhance the consumer experience

In response to a shift in consumer behaviour, we will actively promote corporate restructuring and upgrading in order to enhance our consumers' experience in 2015 as department stores must now also offer centralised shopping facilities with the addition of dining, entertainment and leisure areas. On 13 November 2014, the Group entered into a strategic cooperation framework agreement for a term of three years with China Film South Cinema Circuit Co., Ltd. (中影南方電影新幹線有限公司) and Zhujiang Film Media Company Limited (珠江影業傳媒股份有限公司), to create a cinema circuit alliance and management services for a joint venture cinema company in which 49% of the equity interest is owned by the Company. This will ensure a supply of the best movies, projection technology and management of the joint venture cinema to keep pace with market trends once operations get underway. According to a plan set by the Company, several cinemas are to be established during 2015 and further investments will be made with the aim of establishing a even more theatres across the PRC in the coming two years. Establishing cinemas is beneficial to our existing department stores as a way of increasing customer traffic and stimulating consumption. It also affords profit growth potential for the Company.

Repositioning supermarkets to be the engine of growth

Expanding the scale of our supermarkets has become a major development direction for the Group in 2015 as we are committed to reforming the status of our existing supermarkets. In addition to boutique supermarkets, the Group will have a new positioning for hypermarkets. Based on products that existing supermarkets currently provide, hypermarkets will differentiate themselves by increasing the proportion of fresh foods such as vegetables, fruits, seafood and meats. In addition, the Group will expand its product range to include fresh foods, healthcare products, cosmetics and fast fashions. To better cater to local consumer tastes in third- and fourth-tier cities, the Group will selectively offer products and brands that consumers are most interested in throughout each region.

In order to maintain fresh food quality and minimise procurement costs, the Group has entered into discussions with several fresh food vendors in order to seek further increases in the proportion of its direct sourcing. In addition, the Company is negotiating with in an enterprise that engages in fish breeding in exchange for a 10% equity interest to achieve strategic cooperation.

Apart from fresh food, the Group will also increase the proportion of imported foods. With stronger spending power and rising concerns over food safety, consumers' demands for imported food are growing rapidly. The Group has been maintaining good relationships with the consulates of various countries. Moreover, we co-organise food cultural festival events with different consulates in our supermarkets every year. This type of initiative allows us to more readily understand consumer preferences for international foods and, in turn, helps us increase sales of our imported goods.

CHAIRMAN'S STATEMENT

Enriching the portfolio of private brand products and developing our distribution business

A department store only serves as a partner for a particular brand in conventional business operations. In order to expand our control over brands and increase profitability, the Group will enhance and increase our portfolio of private brand products. Furthermore, the Group will expand its footprint into the foreign product distribution business. Through co-organising food cultural festival events with consulates from different countries every year, the Group will select a variety of premier products and obtain their exclusive distribution rights in the PRC market. Those products will then be traded online in order to enhance the unique appeal and competitive strengths of the Group's online shopping mall.

Identifying property acquisition opportunities to reduce rent burdens

The Group will pursue acquisition of suitable properties at attractive prices. The Group will also not rule out the possibility of re-selling any areas of unused space to mitigate liquidity pressures and maximise the overall profits of the Group.

Pressing ahead to develop a new business segment

Looking forward in 2015, the Group expects to see an oversupply of shopping malls throughout the PRC. As a result, The Group will take advantage of a valuable opportunity to press ahead with the establishment of a new business segment, which will provide planning, design and consulting services to commercial complex operators. We expect that this new operation will continue to make remarkable contributions to the Group's revenues in 2015.

As at 29 December 2014, the Group has entered into an agreement with a commercial complex operator, pursuant to which, the Group shall provide planning, design and consulting services to the commercial complex operator with a contract value of RMB8 million, which is expected to be recognised as revenue in 2015.

Chen Jianren

Chairman

30 March 2015

MANAGEMENT DISCUSSION AND ANALYSIS



FINANCIAL REVIEW

RESULTS OF OPERATION

Revenue

For the year ended 31 December 2014, the Group recorded a revenue of approximately RMB710.1 million, representing a slight decrease of approximately 0.5% or approximately RMB3.8 million year on year.

The following table sets forth a breakdown of the Group's revenue for the two years ended 31 December 2014.

	Year ended 31 December										
	2014					2013					
	Department store segment	Supermarket segment	Electrical appliances segment	Furniture segment	Others	Total	Department store segment	Supermarket segment	Electrical appliances segment	Furniture segment	Total
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Direct sales of goods	7,914	256,055	132,074	589	-	396,632	9,281	274,436	141,498	217	425,432
Commission income from concessionaire sales	201,365	12,335	12,307	-	-	226,007	199,214	11,428	12,438	-	223,080
Management fee and service income from operations	39,107	7,585	6,921	2,562	-	56,175	36,589	5,129	6,334	1,389	49,441
Rental income	5,986	5,710	1,851	2,285	-	15,832	6,176	5,001	2,172	2,649	15,998
Consulting service income	-	-	-	-	15,500	15,500	-	-	-	-	-
	254,372	281,685	153,153	5,436	15,500	710,146	251,260	295,994	162,442	4,255	713,951

MANAGEMENT DISCUSSION AND ANALYSIS



Direct sales of goods

For the year ended 31 December 2014, our revenue from direct sales was approximately RMB396.6 million, representing a decrease of approximately RMB28.8 million or approximately 6.8%, from approximately RMB425.4 million for the year ended 31 December 2013.

For the year ended 31 December 2014, the revenue from direct sales in department store segment, supermarket segment and electrical appliances segment decreased by approximately 14.7%, 6.7% and 6.7%, respectively; while the revenue from furniture segment increased by approximately 171.4%, year on year.

The decrease in revenue from direct sales of department store segment was mainly attributable to the decrease in sales of gold products while partially off-set by the increase in sales of cosmetics products.

The decrease in revenue from direct sales of supermarket segment was mainly attributable to the decrease in sales of matured stores by approximately 12.9% as a result of the economic slowdown in the PRC and intensified competition. Such decrease was partially off-set by the contribution from our newly opened stores during the year 2014.

The decrease in revenue from direct sales of electrical appliances segment was mainly attributable to keen competition from online retailers offering cheaper products.

Commission income from concessionaire sales

For the year ended 31 December 2014, our revenue from concessionaire sales was approximately RMB226.0 million, representing an increase of approximately RMB2.9 million, or approximately 1.3%, from approximately RMB223.1 million for the year ended 31 December 2013.

The increase in department store segment and supermarket segment was mainly due to the contribution from the new stores opened during the year 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

Management fee and service income from operations

For the year ended 31 December 2014, the management fee and service income from operations were approximately RMB56.2 million, representing an increase of approximately RMB6.7 million, or approximately 13.6%, from approximately RMB49.4 million for the year ended 31 December 2013. The increase was attributable to (i) the higher management and service fee charged to those concessionaires with a relatively poor sales performance. The Group reviewed the performance of the concessionaires on a regular basis. If the performance of concessionaires does not meet the sales target, the Group would revise the fee structure on terms more favourable to the Group during the renewal of contracts; and (ii) the contribution of the renovation for certain counters from our electrical appliances segment. We will usually charge a management fee for concessionaires when they carry out the renovation work.

Rental income

For the year ended 31 December 2014, our revenue from rental income was approximately RMB15.8 million, representing a slight decrease of approximately RMB0.2 million, or approximately 1.0%, from approximately RMB16.0 million for the year ended 31 December 2013.

Income derived from provision of planning, designing and consulting services

During the year 2014, the Group has newly set up a business segment of provision of planning, designing and consulting services to commercial complex operators. In recent years, the commercial complex has been proliferated in many second and third-tier cities, this created an opportunity for us to provide planning, designing and consulting services to those commercial complex operators. We have especially formed a department to focus on this new business segment. The Group has entered into two agreements with two independent commercial complex operators during the year 2014 and recorded a revenue of RMB15.5 million for the service provided.

Gross profit and gross profit margin

For the year ended 31 December 2014, our total gross profit were approximately RMB378.0 million, an increase of approximately RMB21.0 million, or approximately 5.9%, from approximately RMB357.1 million for the year ended 31 December 2013. The increase in gross profit was mainly due to the contribution from the new stores, there was a slight decrease of 1.3% in our matured stores. The gross profit margin for the years ended 31 December 2014 and 2013 was approximately 53.2% and approximately 50.0%, respectively, represented an increase of approximately 3.2%. The increase in our gross profit margin was mainly due to (i) the high gross profit margin of our new consulting business; and (ii) the higher management and service fee charged to those concessionaires for the year 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

Other income

For the year ended 31 December 2014, our other income was approximately RMB9.8 million, an increase of approximately RMB6.3 million, from approximately RMB3.5 million for the year ended 31 December 2013. The amount consists of (i) the compensation income of approximately RMB6.7 million received from the lessor in respect of a lease agreement which the lessor cancelled the contract subsequently; and (ii) the one-off government grant of approximately RMB3.1 million received.

Other gains/(losses)-net

Included in other gains was mainly a property related income of approximately RMB23.6 million. During the year ended 31 December 2014, the Group entered into an agreement (the “**Arranger Agreement**”) with a property developer (“**Property Developer**”) in relation to certain property sales. The responsibility of the Group under the Arranger Agreement mainly included promotion of certain area of properties and negotiation of sales contract terms with individual buyers at the costs of the Group. The Group has the right to select buyers and set selling price for each of the property sales. A gain of approximately RMB23,592,000 from this transaction, which is determined by selling price of properties sold less costs pre-agreed with the Property Developer, has been recognised as other gain.

Purchases of and changes in inventories

For the year ended 31 December 2014, the purchases of and changes in inventories was approximately RMB332.1 million, representing a decrease of approximately RMB24.8 million, or approximately 6.9%, from approximately RMB356.9 million for the year ended 31 December 2013. The decrease in our purchases of and changes in inventories was in line with the decrease in our revenue from direct sales of goods as compared with the previous year.

Employee benefit expenses

For the year ended 31 December 2014, our employee benefit expenses were approximately RMB103.0 million, an increase of approximately RMB10.2 million, or approximately 11.1%, from approximately RMB92.8 million for the year ended 31 December 2013. This increase was mainly due to (i) the opening of four new stores in 2013 which had a partial impact in the year 2013 but a full year impact in the year 2014; and (ii) the increase in headcount in Zhengjiang store opened in June 2014. The increase was partially offset by the decrease of approximately RMB4.7 million in headcounts of matured stores following the implementation of cost-cutting measures.

MANAGEMENT DISCUSSION AND ANALYSIS

Depreciation and amortisation

For the year ended 31 December 2014, our depreciation and amortisation were approximately RMB26.8 million, an increase of approximately RMB6.4 million, or approximately 31.5%, from approximately RMB20.4 million for the year ended 31 December 2013. This increase was primarily attributable the depreciation and amortisation arising from the new stores opened during the year 2013 which had a partial impact in the year 2013 but a full year impact in the year 2014.

Operating lease rental expenses and property management fee

For the year ended 31 December 2014, our operating lease rental expenses and property management fee was approximately RMB109.2 million, an increase of approximately RMB12.2 million, or approximately 12.6%, from approximately RMB97.0 million for the year ended 31 December 2013.

This increase was primarily due to (i) the organic growth for the mature stores; and (ii) the commencement of new stores during the year 2013 which had a partial impact in the year 2013 but a full year impact in the year 2014.

Other operating expenses

For the year ended 31 December 2014, the other operating expenses were approximately RMB126.6 million, an increase of approximately RMB3.5 million, or approximately 2.8%, from approximately RMB123.1 million for the year ended 31 December 2013. The increase was primarily attributable to the new stores opened during 2013 which pushed up the utilities expenses; other taxes; advertising, promotion and related expenses; bank charges and travelling and transportation expenses. The increase was partially offset by the decrease in professional service expenses of approximately RMB9.7 million which was due to there was no initial public offering expenses incurred in the year 2014.

Finance (costs)/income – net

For the year ended 31 December 2014, our net finance costs was approximately RMB0.7 million, while recorded a net finance income of approximately RMB0.5 million for the year ended 31 December 2013. This is mainly due to the finance costs incurred for the year ended 31 December 2014 was higher than the amount in the year of 2013 as a result of new bank loans obtained for the year 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

Income tax expense

The income tax expense was approximately RMB16.1 million for the year ended 31 December 2014, representing an increase of approximately RMB3.2 million, or approximately 24.9%, from approximately RMB12.9 million for the year ended 31 December 2013. Our effective income tax rate was approximately 35.7% for the year ended 31 December 2014 and approximately 46.8% for the year ended 31 December 2013. Our effective income tax rate was lower than that of the previous year mainly due to less tax losses incurred by our new stores for the year ended 31 December 2014, for which no deferred income tax asset was recognised.

Profit from discontinued operations

For the year ended 31 December 2013, the profit from discontinued operation was approximately RMB2.0 million. It was derived from the Shaoguan Central Management Limited (韶關市中環廣場管理有限公司) which was disposed during the year ended 31 December 2013.

Net profit for the year

Due to the aforesaid reasons, the net profit for the year increased by approximately RMB12.4 million or approximately 74.4% from approximately RMB16.7 million for the year ended 31 December 2013 to approximately RMB29.1 million for the year ended 31 December 2014.

Profit attributable to equity holders of the Company

For the year ended 31 December 2014, the profit attributable to equity holders of the company was approximately RMB27.1 million, represented an increase of approximately RMB12.0 million or 79.8% as compared to approximately RMB15.1 million for the year ended 31 December 2013.

LIQUIDITY AND FINANCIAL RESOURCES

The Group mainly rely on two sources of liquidity, which are (i) cash flow generated from its operating activities as a primary source of liquidity and; (ii) standby general banking facilities.

The Group's cash and cash equivalents and the near cash instruments (including restricted cash) stood at approximately RMB145.5 million and approximately RMB253.5 million as at 31 December 2014 and 2013, respectively. The outstanding bank loans and bonds payable of the Group amounted to approximately RMB77.0 million and RMB19.4 million respectively as at 31 December 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2014 and 2013, total current assets of the Group amounted to approximately RMB375.4 million and approximately RMB458.7 million, respectively, whereas total current liabilities amounted to approximately RMB533.6 million and approximately RMB548.5 million, respectively, which resulted in a net current liabilities position of approximately RMB158.2 million and approximately RMB89.8 million, respectively as at 31 December 2014 and 2013. The reasons for the increase in net current liabilities was mainly due to the Group has applied a portion of its cash generated from operating activities and short-term borrowings to finance the acquisition and renovation of its new department stores.

Gearing ratio

As at 31 December 2014 and 2013, the gearing ratios were approximately 59.5% and nil, respectively. The gearing ratio is calculated as total debts (including borrowings) divided by total equity as at the balance sheet dates.

Pledge of assets

As at 31 December 2014 and 2013, no assets of the Group were pledged to any bank or lender.

Employees

As at 31 December 2014, total number of employees for the Group was 1,854 (as at 31 December 2013: 2,176). The Group ensures that all levels of employees are paid competitively within the standard in the market and employees are rewarded on performance related basis within the framework of the Group's salary, incentives and bonus scheme.

Contingent liabilities

The Group has no significant contingent liabilities as at 31 December 2014.

Foreign exchange exposure

The Group conducted its business operations in the PRC and its revenues and expenses were denominated in RMB. Except for certain cash and bank balances, other receivables, other payables and bond payables denominated in Hong Kong dollars, there is limited exposure for the foreign exchange risk.

USE OF IPO PROCEEDS

The net proceeds from the Company's listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing") (after deducting underwriting fees and related expenses) amounted to approximately HK\$93.7 million, which are intended to be applied in the manner consistent with that set out in the prospectus of the Company dated 26 November 2013, that is, approximately 12% of the net proceeds for the newly opened department store in Yangjiang; approximately 43% and approximately 28% for opening of new department store in Zhenjiang and Enping, respectively; approximately 7% for upgrading our existing information technology systems and approximately 10% for general working capital.

MANAGEMENT DISCUSSION AND ANALYSIS

During the period from 11 December 2013 (the “**Listing Date**”), being the date on which dealings in the shares of the Company (“**Shares**”) first began in the Stock Exchange to 31 December 2014, net proceeds from the listing had been applied as follows:

	Amount of Net proceeds allocated HK\$'000	Amount of net proceeds utilized during the period from Listing Date to 31 December 2014 HK\$'000	Balance as at 31 December 2014 HK\$'000
Yangjiang Store	11,244	11,244	–
Zhenjiang Store	40,291	38,576	1,715
Enping Store	26,236	2,996	23,240
Upgrading our computer system	6,559	680	5,879
General working capital	9,370	9,370	–
Total	93,700	62,866	30,834

The actual application of the net proceeds for Enping Store was not significant in the year ended 31 December 2014 as the store opening timetable was delayed due to the weak economic momentum. Regarding the upgrade of our computer system, the progress was slower than expected due to the selection progress of the service provider was longer. The computer system upgrade is expected to be completed by the end of 2015.

DIVIDENDS

The Board has resolved to recommend the payment of a final dividend of HK10 cents per ordinary share for the year and subject to the approval of the shareholders at the forthcoming annual general meeting (the “**AGM**”) of the Company, the proposed final dividends are expected to be paid on 3 July 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

BONUS ISSUE OF SHARES

The Directors have resolved to recommend a bonus issue of shares (“**Bonus Issue**”) for the year subject to the approval of the shareholders at the AGM and the Listing Committee of The Stock Exchange of Hong Kong Limited granting listing of and permission to deal in the new shares to be issued pursuant to the Bonus Issue.

The Bonus Issue of shares will be made on the basis of one bonus share for every four existing ordinary shares held by the shareholders of the Company whose names appear on the register of members on 19 June 2015 and the proposed bonus issue certificates are expected to be despatched on 3 July 2015.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 18 June 2015 to 19 June 2015, both days inclusive, during which period no transfer of shares will be registered.

In order to qualify for the proposed final dividend and bonus issue, all completed transfer documents accompanying with the relevant share certificates must be lodged with the Company’s branch share registrar in Hong Kong, Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Thursday, 17 June 2015.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

CHAIRMAN AND EXECUTIVE DIRECTORS

Mr. Chen Jianren (陳健仁), aged 61, is an executive Director, chairman, chairman of the nomination committee of the Company. Mr. Chen is the founder of our Group. He is responsible for the formulation of the overall strategy and setting of business direction of our Group. He was also appointed as the director and general manager of Guangdong Yihua Group Investment Company Limited (廣東益華集團投資有限公司) (“**Yihua Investment**”) since 2005. Prior to joining Yihua Investment, he was the director of Zhongshan Yihua Group Company Limited (中山市怡華集團有限公司) from 1987 to 2002 and the director and general manager of Zhongshan King Hotel (中山市京華酒店) in 1985. Mr. Chen has approximately 29 years of experience in corporate management. As a director of certain members of Yihua Investment and its subsidiaries (collectively, “**Yihua Investment Group**”), Mr. Chen has extensive experience in the tertiary industry particularly in regards to property development.

Mr. Chen is the brother of Mr. Chen Daren, a non-executive Director and a controlling Shareholder of the company (“**Shareholder**”).

Mr. Fan Xinpei (范新培), aged 60, is an executive Director, chief executive officer, member of the remuneration committee of the Company. Mr. Fan is responsible for our overall development and strategic plans and the formulation and implementation of our operational plans. He is also responsible for our new development projects, the opening and location of our new stores and formulating our business and organisational structure. Mr. Fan joined our Group since the establishment of Guangdong Yihua Department Store Limited (“**Guangdong Yihua**”) and was appointed as president of Guangdong Yihua since May 1995. Prior to joining our Group, Mr. Fan worked in Zhongshan Yihua Group Company Limited (中山市怡華集團有限公司) as vice president from 1987 to 1995. He was elected as the Standing Committee Member of the 10th session of the Zhongshan Municipal People’s Political Consultative Conference (政協中山市第十屆委員會常委), the Representative of the 14th session of the Zhongshan Municipal People’s Congress (中山市人大代表), Vice-Chairman of Council of China Chain-Store and Franchise Association of Guangdong Province (廣東省連鎖經營協會理事會副會長) in March 2012, Vice-Chairman of Zhongshan City Business Association (中山市商業行業協會理事會常務副會長) in March 2005, Chairman of Zhongshan Commerce Circulation Association (中山市商貿流通協會會長) in August 2009. He was also awarded as National Working Model of Commercial System (全國商務系統勞動模範) by Ministry of Commerce, PRC in January 2008. Mr. Fan is a substantial Shareholder.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Su Weibing (蘇偉兵), aged 56, is an executive Director of the Company. Mr. Su is responsible for the overall operation and planning of the department store section, supermarket section, electronic appliance section and furniture section. He joined our Group in 1995 and was appointed as our vice president of Guangdong Yihua in 2001. He became the vice president of our Group in June 2012. Prior to joining us, Mr. Su has gained extensive experience while being a director and the general manager of First Department Store Limited (百貨一商店股份有限公司) in Tongliao, Inner Mongolia, the PRC.

Mr. Lin Guangzheng (林光正), aged 55, is an executive Director of the Company. Mr. Lin is responsible for the investment and development department which is a newly established department in 2014. He served in Guangdong Yihua as an office manager and assistant president from July 1995 to June 1997 and has worked as assistant president from July 1997 to November 2000. He was appointed as the vice president of Guangdong Yihua in December 2000. He became the vice president of our Group in June 2012.

NON-EXECUTIVE DIRECTORS

Mr. Chen Daren (陳達仁), aged 59, is a non-executive Director of the Company. Mr. Chen has been the director of Yihua Investment and also the executive director of Guangdong Yucca Hotel Management Co. Ltd. (廣東逸豪酒店管理有限公司) since 2004. Mr. Chen has extensive experience in corporate management. As the deputy general manager of Yihua Investment, Mr. Chen has extensive experience in the tertiary industry and principally involved in the businesses relating to hotels, food and beverages and entertainment of Yihua Investment. He is responsible for the overall development and strategic plans of this area in Yihua Investment Group.

Mr. Chen Daren is a controlling Shareholder and brother of Mr. Chen, an executive Director and the chairman of our Group.

Mr. Lu Hanxing (陸漢興), aged 65, is a non-executive Director of the Company. He has been the deputy general manager of Yihua Investment since 2003. Before joining Yihua Investment Group, Mr. Lu has worked in Zhong Shan City Scenic Hotel Management Co. Ltd. (中山市怡景酒店經營管理有限公司) from 1990 to 1997 as general manager.

Mr. Lu worked as deputy general manager in Yihua Group Company Limited between 1991 and 2002. He has taken up significant roles in Yihua Investment Group since 2003 and principally involved in the businesses relating to the development of electronic goods manufacturing. He is responsible for the overall development and strategic plans of this area in Yihua Investment Group.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Sun Hong (孫洪), aged 66, is an independent non-executive Director, member of the audit committee, member of the remuneration committee and member of the nomination committee of the Company. He was appointed as the chairman of Guangdong Chain Operations Association (廣東省連鎖經營協會會長) from March 2012 to March 2015, and was appointed as council member of the China Chain Store and Franchise Association (中國連鎖經營協會常務理事) in December 1998 and the honorary president of Guangdong Chamber of Daily Used Chemicals (廣東省日化商會榮譽會長) in 2011. He has been the committee member of the Advisory Committee in Economic Decision-making and Promotion of Shunde District (順德區 (經濟促進) 經濟決策諮詢委員會) from October 2011 to December 2013. He was elected as a member of the expert committee of Guangdong Consumer Council (廣東省消費者委員會專家委員會委員) from March 2012 to March 2015. He was an independent director of a company listed on the Shenzhen Stock Exchange, Shenzhen Agricultural Products Co., Ltd (深圳市農產品股份有限公司) (Shenzhen Stock code: 000061) from October 2006 to October 2009.

He studied political economics in the Beijing College of Commerce (北京商業學院) in 1978 and obtained a graduation certificate in December 1978. In 2011, Mr. Sun was appointed as an Adjunct Professor in the College of Business in the City University of Hong Kong from January 2011 to December 2012.

Mr. Xu Yinzhou (徐印州), aged 68, is an independent non-executive Director, chairman of the remuneration committee, member of the nomination committee and member of the audit committee of the Company. He was the assistant dean in Guangdong University of Business Studies (廣東商學院副院長) between 2001 and 2007. Mr. Xu has been elected as the Policy Adviser in the second session of the policy advisory committee of the Guangzhou Municipal Government Office (廣州市人民政府第二屆決策諮詢專家) with effective from March 2010.

Mr. Xu graduated from Chemistry studies in Peking University (北京大學) in March 1970 and Trade Economics in Renmin University of China (中國人民大學) in July 1984, and is qualified as Professor in commerce and economics as accredited by Department of Personnel of Guangdong Province (廣東省人事廳) in December 1995 and tutor in business administration as accredited by Commerce School of Jinan University (暨南大學廣東商學院) in December 2003. He was also appointed as the vice president of the Guangdong Economic Society (廣東經濟學會副會長) in December 2005. Mr. Xu was an independent director of a listed company on the Shenzhen Stock Exchange, Guangzhou KingTeller Technology Co., Ltd (廣州御銀科技股份有限公司) (Shenzhen stock code: 2177) from October 2004 to October 2010.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Leung Wai Kwan (梁維君), aged 51, is an independent non-executive Director, chairman of the audit committee, member of the nomination committee and member of the remuneration committee of the Company. Prior to joining our Company, from April 2007 to May 2011, Mr. Leung was a principal of a local audit firm, O.S.R. C.P.A Limited and the managing director of a consulting firm, O.S.R. Consultants & Secretaries Limited from February 1995 to October 1999 and from June 2006 to April 2011, which provides services of secretarial, taxation and corporate finance consultancy.

He was also an executive director of two companies listed on the Stock Exchange, namely New Smart Energy Group Limited (Stock code: 91) from October 1999 to June 2005 and China Mining Resources Group Limited (Stock code: 340) from May 2000 to June 2004. Mr. Leung is currently an executive director of a company listed on the Stock Exchange. He was appointed as an executive director of Ding He Mining Holdings Limited (previously named as “CVM Minerals Limited”) (Stock code: 705) since September 2010 and is the chief executive officer of this company. His duties for the aforesaid company listed on the Stock Exchange included implementation of internal control measures within the company, ensuring transactions complied with relevant accounting standards, analysing financial statements for a listed company and preparing and reviewing the annual report.

SENIOR MANAGEMENT

Ms. Wang Guping (王古坪), aged 49, was appointed as our assistant president of Guangdong Yihua in February 2003 and she is also the deputy general manager of the investment and development department since January 2014. She is responsible for internal control management of our Group and assists in the overall administration and operation of our Group including being a member of the internal control committee. She acquired qualification for the local registered pharmacist in Guangdong Province, the PRC from December 2011 to December 2013 with our company being the chartered unit. Prior to joining our Group, Ms. Wang worked as a supervisor in Zhongshan Yihua Group Limited (中山市怡華集團有限公司) between December 1992 and April 1995. She graduated from Guangzhou Open University (廣州市廣播電視大學) in chemical engineering (理工類化學工程) in July 1987. She also completed a program on business administration in Sun Yat-Sen University (中山大學) in 2002.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Ms. Zhang Rong (張蓉), aged 42, was appointed as our deputy general manager of Guangdong Yihua in January 2014. Ms. Zhang is responsible for the overall administration management and operation and planning of the electronic appliance section of our Group. Prior to joining our Group in 1996, Ms. Zhang has worked in Zhong Shan City Scenic Hotel Management Co. Ltd. (中山市怡景酒店經營管理公司) as a reception manager (前台經理) between March 1991 and March 1996. She obtained a diploma of English in Hainan Snow Foreign Language College (海南實驗外國語學院) in July 1990 and also completed a program on business administration in Sun Yat-Sen University (中山大學) in September 2002. Ms. Zhang was appointed as the council member of the Home Appliances Industry Association of Zhongshan in 2008.

Mr. Luo Chengwen (羅成文), aged 57, was appointed as the assistant president of Guangdong Yihua and the deputy general manager of Qingyuan Yihua Department Store from August 2005 to February 2008. From March 2008 to December 2013, he was the assistant president of Guangdong Yihua and the general manager of Shaoguan Yihua Department Store. Since January 2014, Mr. Luo was appointed as the deputy general manager of Guangdong Yihua. Mr. Luo is responsible for formulating and implementing plans for department store section.

Ms. Pan Zhihong (潘志紅), aged 48, was the supervisor of Guangdong Yihua from July 1997 to June 2000, and was promoted to vice section head from July 2000 to February 2003. From March 2003 to December 2003, she worked as the section head of Guzhen Yihua Department Store. From October 2004 to February 2008 she was the assistant manager of Qingyuan Yihua Department Store. From March 2008 to May 2012, she was appointed as the deputy general manager of Qingyuan Yihua Department Store. From June 2012 to December 2013, Ms. Pan was appointed as the general manager of Qingyuan Yihua Department Store. Since January 2014, she was redesignated as the general manager of Shaoguan Yihua Department Store. She is responsible for the overall operation and strategic planning of Shaoguan Yihua Department Store. Prior to joining our Group, she has worked in the retail services and travel souvenirs trading companies of Zhongshan Yihua Group Limited between June 1989 to July 1997.

Mr. Sun Shaobin (孫紹斌), aged 47, was appointed as the vice section head of Shaoguan Yihua Department Store from September 2008 to May 2010 and was promoted to the position of assistant manager from June 2010 to October 2011. Since November 2011, he has been working as the deputy general manager of Yihua Lejia Supermarket of Guangdong Yihua Department Store. He is responsible for the management and future development of the supermarket business. Mr. Sun completed a diploma on Commodities of Trading of Henan University of Finance and Economics (河南財經學院) between September 1985 and July 1987.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Ms. Wu Bintao (吳彬濤), aged 48, was appointed as the administration and human resources manager of Guzhen Yihua Department Store from August 2005 to February 2008 and has been promoted as its deputy general manager from March 2008 to May 2012 and its general manager from June 2012 to December 2013. Since January 2014, she was redesignated as the general manager of Jiangmen Yihua Department Store. She is responsible for the overall operation and strategic planning of Jiangmen Yihua Department Store.

Mr. Zhou Zhijian (周智堅), aged 57, was appointed as the section head of Qingyuan Yihua Department Store from January 2004 to April 2005. From May 2005 to March 2006, he worked as the deputy manager of Guzhen Yihua Department Store. He was then redesignated to work as the deputy manager of Jiangmen Yihua Department Store from April 2006 to October 2006. Between November 2006 and September 2009, he worked as the deputy manager of Guangdong Yihua Department Store. Since October 2012, he has been the general manager of the infrastructure and engineering department of Guangdong Yihua Department Store. He is responsible for the overall infrastructure planning and technical support of the venues and expansion on the new venues of our Group.

COMPANY SECRETARY

Mr. Tse Wing York (謝永鏞), aged 35, is our company secretary and chief financial controller. Mr. Tse joined our Group in March 2012. Mr. Tse has over seven years of experience in auditing and financial management. Prior to joining our Group, Mr. Tse worked in ShineWing (HK) CPA Limited (a certified public accounting firm) between July 2004 and September 2010 and left as an audit manager. From 3 October 2011 to 7 May 2013, Mr. Tse was the company secretary of Inno-Tech Holdings Limited, a company listed on the Stock Exchange (Stock code: 8202). Mr. Tse graduated from Lingnan University with a bachelor's degree in business administration in 2004. Mr. Tse is a member of the Hong Kong Institute of Certified Public Accountants.

CORPORATE GOVERNANCE REPORT

The Company is committed to enhancing corporate governance and transparency of the Group by applying the principles in the code provisions of the Code on Corporate Governance Practices (the “Code”) set out in Appendix 14 of the Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange. The Company has complied with the code provisions in the Code for the year ended 31 December 2014.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the “Model Code”) as the code of practice for carrying out securities transactions by the Directors. After specific enquiry with all members of the Board, the Company confirmed that all Directors have fully complied with the relevant standards stipulated in the Model Code throughout the year.

BOARD OF DIRECTORS

During the year ended 31 December 2014 and up to the date of this report, the Board comprises four executive Directors, two non-executive Directors and three independent non-executive Directors.

Composition of the Board

Executive Directors

Name	Other positions in the Company
Mr. Chen Jianren	Chairman of the Board Chairman of the Nomination Committee
Mr. Fan Xinpei	Chief Executive Officer Member of the Remuneration Committee
Mr. Su Weibing	–
Mr. Lin Guangzheng	–

Non-executive Directors

Name	Other positions in the Company
Mr. Chen Daren	–
Mr. Lu Hanxing	–

CORPORATE GOVERNANCE REPORT

Independent non-executive Directors

Name	Other positions in the Company
Mr. Sun Hong	Member of Audit Committee Member of Remuneration Committee Member of Nomination Committee
Mr. Xu Yinzhou	Member of Audit Committee Chairman of Remuneration Committee Member of Nomination Committee
Mr. Leung Wai Kwan	Chairman of Audit Committee Member of Remuneration Committee Member of Nomination Committee

Responsibility of the Board

The principal functions of the Board are to consider and approve the business strategies, financial objectives, annual budget, investment proposals and overseeing the Group's compliance with statutory and regulatory obligations, ensuring proper internal control, and supervision of management in accordance with the rules governing the meeting of the Board, articles of association of the Company ("**Articles of Association**") and rules governing the meeting of Shareholders.

The day-to-day operations of the Group are delegated to the management of the Group. The Chairman is responsible for the orderly conduct and operation of the Board and the formulation of the overall strategy and setting of business direction of the Group while the executive Directors are responsible for the daily operation of the Group.

Board meetings

Regular Board meetings are held no less than four times a year. In respect of regular board meetings, an agenda and accompanying board papers are sent in full to all Directors in a timely manner and at least three days before the intended date of a board or board committee meeting. Adequate information related to the issues are also supplied for the board and its committee to make decisions which is for the best interests of the Group. Notice of at least fourteen days is given to all Directors and all Directors have an opportunity to attend. The Directors who cannot attend in person might participate through other electronic means of communications. Senior management executives may, from time to time, be invited to attend the board meeting for making presentation and/or answering any queries that may be raised by the Board.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2014, the Company had held four Board meetings and the attendance records are set out below:

Name	Meetings attended/ Number of meetings held
Mr. Chen Jianren	4/4
Mr. Fan Xinpei	4/4
Mr. Su Weibing	4/4
Mr. Lin Guangzheng	4/4
Mr. Chen Daren	4/4
Mr. Lu Hanxing	4/4
Mr. Sun Hong	4/4
Mr. Xu Yinzhou	4/4
Mr. Leung Wai Kwan	4/4

There is no financial, business, family or other material relationships among members of the Board except that Mr. Chen Jianren is the brother of Mr. Chen Daren.

Independence of the independent non-executive Directors

The Company has received confirmation from each of the independent non-executive Directors regarding his independence pursuant to the requirements of Rule 3.13 of the Listing Rules. Based on these confirmations, the Board considers that each of the independent non-executive Directors to be independent.

Appointment and re-election of Directors

Pursuant to the Articles of Association, Directors shall be elected at general meetings with a term of office of no more than three years and may be re-appointed. The Company has implemented a set of effective procedures for the appointment of new Directors. Nomination of new Directors shall be first considered by the nomination committee whose recommendations will then be put forward to the Board for consideration. All newly nominated Directors are subject to election and approval at general meetings.

Directors' remuneration

The remuneration committee of the Company makes recommendations to the Board on the remuneration packages of the Directors and senior management personnel. It is the Company's policy that the remuneration package of each Director and senior management personnel shall be determined by taking reference to, inter alia, their duties, responsibilities, seniority, experiences and qualifications and the prevailing market practice.

CORPORATE GOVERNANCE REPORT

Directors' continuing professional development

To ensure Directors' contribution to the Board remains informed and relevant, the Company encourages Directors to participate in continuous professional development to develop and refresh their knowledge and skills and understanding of the business and markets in which the Group operates. Directors are also provided with monthly performance updates of the Group, and information such as performance and key operational highlights to enable the Board as a whole as well as each Director to discharge their duties. For the financial year ended 31 December 2014, all Directors have participated in appropriate continuous professional development and provided the Company with their records of training. A summary of training records provided by the current Directors is as follows:

Name of Directors	Reading articles, newspaper, journal and/or updates	Attending trainings and/or seminars
<i>Executive Directors</i>		
Mr. Chen Jianren	✓	✓
Mr. Fan Xinpei	✓	✓
Mr. Su Weibing	✓	✓
Mr. Lin Guangzheng	✓	✓
<i>Non-executive Directors</i>		
Mr. Chen Daren	✓	✓
Mr. Lu Hanxing	✓	✓
<i>Independent non-executive Directors</i>		
Mr. Sun Hong	✓	✓
Mr. Xu Yinzhou	✓	✓
Mr. Leung Wai Kwan	✓	✓

During the year, the Company secretary had received no less than 15 hours of relevant professional training.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles and duties of the Chairman and the Chief Executive Officer (CEO) of the Company are segregated and are carried out by different individuals.

The Chairman of the Board, Mr. Chen Jianren, is responsible for the formulation of the overall strategy and setting of business direction of our Group. Mr. Fan Xinpei, CEO of the Company, is responsible for assisting in formulation of overall strategy and day-to-day management and execution of Company's strategies.

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE

The Remuneration Committee comprises four members namely, Mr. Xu Yinzhou (Chairman and independent non-executive Director), Mr. Fan Xinpei (executive Director), Mr. Sun Hong (independent non-executive Director) and Mr. Leung Wai Kwan (independent non-executive Director).

The role and function of the Remuneration Committee are set out in its terms of reference. Primary terms include recommendations to the Board on policy and structure of remuneration of the Directors and senior management, determination of the remuneration packages of each Director and member of the senior management, ensuring that no Directors or any of their associates are involved in deciding their own remuneration packages and review and approval of performance-based remuneration by reference to corporate goals and objectives and compensation arrangements relating to dismissal or removal of Directors.

During the year ended 31 December 2014, the Remuneration Committee had held two Remuneration Committee meetings and the attendance records are set out below:

Name	Meetings attended/ Number of meetings held
Mr. Xu Yinzhou (<i>Chairman</i>)	2/2
Mr. Fan Xinpei	2/2
Mr. Sun Hong	2/2
Mr. Leung Wai Kwan	2/2

Set out below is the summary of work of the Remuneration Committee in the financial year ended 31 December 2014:

- reviewed the remuneration policy of the Directors and the senior management for 2014; and
- reviewed the remuneration of the executive Directors, non-executive Directors and the independent non-executive Directors.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

The Audit Committee comprises three members namely, Mr. Leung Wai Kwan (Chairman and independent non-executive Director), Mr. Xu Yinzhou (independent non-executive Director) and Mr. Sun Hong (independent non-executive Director).

During the year ended 31 December 2014, the Audit Committee held four meetings. The members of Audit Committee reviewed and discussed the Group's audited financial statements for the year ended 31 December 2014 with the external auditor of the Company. They were of the opinion that these financial statements had complied with the applicable accounting standards, the Listing Rules and legal requirements, and that adequate disclosures had been made. Additional meetings may also be held by the Audit Committee from time to time to discuss special projects or other issues which it considers necessary. The external auditor of the Company may request a meeting of the Audit Committee to be convened if they consider that is necessary.

The main duties of the Audit Committee are as follows:

- To consider the appointment of the external auditors, the audit fee, and any question of resignation or dismissal.
- To review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards.
- To develop and implement policy on the engagement of external auditors to supply nonaudit services.
- To discuss with management about the scope and quality of systems of internal control and ensure that management has discharged its duty to have an effective internal control system including the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function, and their training programmes and budget.

The following is the attendance record of the committee meetings held by the Audit Committee.

Name	Meetings attended/ Number of meetings held
Mr. Leung Wai Kwan (<i>Chairman</i>)	4/4
Mr. Sun Hong	4/4
Mr. Xu Yinzhou	4/4

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE

The Nomination Committee comprises four members namely, Mr. Chen Jianren (Chairman and executive Director), Mr. Xu Yinzhou (independent non-executive Director), Mr. Sun Hong (independent non-executive Director) and Mr. Leung Wai Kwan (independent non-executive Director).

The role and function of the Nomination Committee are set out in its terms of reference. Primary terms include review and supervision of the structure, size and diversity of the Board, developing the procedures for identifying and assessing the biographical details of and evaluating candidates for directorship, making recommendations to the Board on the selection of nominated directorship and matters related to appointment or re-appointment of Directors.

Before a prospective Director's name is formally proposed, the opinions of the existing Directors (including the independent non-executive Directors) are sought. The selection criteria of the qualified candidates are mainly based on assessments of their qualifications, experiences and expertise as well as the requirements under the Listing Rules. The Nomination Committee selects and recommends candidates for directorship with regards to balancing skills and experiences appropriate to the Group's businesses.

During the year ended 31 December 2014, the Nomination Committee held one meeting. The members of Nomination Committee reviewed and discussed the current structure, size and composition of the Board.

The following is the attendance record of the committee meeting held by the nomination committee.

Name	Meeting attended/ Number of meetings held
Mr. Chen Jianren (<i>Chairman</i>)	1/1
Mr. Xu Yinzhou	1/1
Mr. Sun Hong	1/1
Mr. Leung Wai Kwan	1/1

CORPORATE GOVERNANCE REPORT

EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

Total fee for services, being provided by external auditors – PricewaterhouseCoopers, relating to the audit of the Group's financial statements for the year ended 31 December 2014 is approximately RMB2.3 million.

CORPORATE GOVERNANCE

The corporate governance functions are performed by the Board.

The Company adopted paragraph D.3.1 of the Code as the duties of the Board in performing its corporate governance functions.

During the year ended 31 December 2014, the Board has performed the following duties in respect of its corporate governance functions:

- a. reviewing the Company's policies and practices on corporate governance;
- b. reviewing and monitoring the training and continuous professional development of Directors and senior management;
- c. reviewing and monitoring the Company's policies and practices in compliance with legal and regulatory requirements;
- d. reviewing and monitoring the code of conduct applicable to employees; and
- e. reviewing the Company's compliance with the code of disclosure in the Corporate Governance Report.

INTERNAL CONTROL

The internal controls of the Group are designed to provide reasonable assurance that the Group's assets and shareholders' investments are safeguarded against unauthorised use or disposition, transactions are executed in accordance with the management's authorisation, proper accounting records are maintained, and the relevant legislation and regulations are being complied with.

Internal control procedures and risk management systems are in place in each of the principal operating units of the Group. The internal control committee undertakes the role of reviewing and assessing the Group's internal control system implemented in the principal operations for their respective effectiveness and efficiency on a continuous basis.

The Company engaged an internal control advisor, Baker Tilly Hong Kong Business Services Limited ("**Internal Control Adviser**") which is responsible for the review and appraisal on the effectiveness of risk management, internal control and corporate governance processes in the Company, reports directly to the Audit Committee.

CORPORATE GOVERNANCE REPORT

The Audit Committee has full and direct access to the internal control advisor, reviews the reports on all internal control performed and monitors the internal control performance.

The internal control advisor will carry out internal control reviews on various operating units within the Company based on the audit plan approved by the Audit Committee. Based on these audits, the internal control advisor will provide the Audit Committee with periodic reports highlighting observations, recommendations and management action plans to improve the system of internal control.

The Audit Committee has reviewed our compliance records and internal control measures and confirmed that they are satisfied with our internal control performance.

The Board has conducted a review of the effectiveness of the internal control system of the Group by considering the report of the Audit Committee, which was prepared based on the review reports of the internal control adviser and the internal control committee. Based on the satisfactory findings in those reports, the Board is of the view that there were no material losses incurred during the year as a result of weaknesses in internal control. The Board will continue to take adequate measures to strengthen the control environment in which the Group operates.

The improvement of the system of internal control is an on-going process and the Board maintains ongoing commitment to strengthening the Company's control environment and processes.

On going compliance of non-compliance incidents

As stated in the Prospectus, the Company shall disclose the compliance status of certain noncompliance events in its annual report, which details are set out below:

(i) *Employee theft*

The Audit Committee had reviewed the report issued by the Internal Control Adviser in relation to the findings on the effectiveness of the sales and receipt cycle, inventory management cycle and financial management (including cash) cycle in a field work visit conducted from 24 February 2014 to 8 March 2014. Based on the evaluation report of the Internal Control Adviser, the Audit Committee is of the view that recommended measures of the Internal Control Adviser are effectively implemented.

(ii) *Prevention of bribery and anti-money laundering*

As disclosed in the Prospectus, the Internal Control Adviser had found that the policies to prevent bribery and anti-money laundering activities in connection with the issuance of Consumption Cards were adequately carried out during its follow up review field work conducted in June 2013 and October 2013. The Company continues to enforce the above policies and compliance records are maintained. After considering the compliance records and review results of the internal control committee, the Audit Committee is satisfied that, subsequent to the review field works, those measures continued to be effectively implemented.

CORPORATE GOVERNANCE REPORT

(iii) Entering into a new lease without building ownership certificate

At a Board meeting held on 21 March 2014, the Board considered the proposals to enter into two new lease agreements in respect a property located in Zhenjiang (the “**Zhenjiang Premises**”) and a property located in Guangdong (the “**Guangdong Premises**”), subject to the satisfactory results received from the due diligence exercise on the said properties, and where defective title was an issue, approval from the independent non-executive Directors based on the PRC legal opinion to be obtained. For details of the compliance procedures and issues for consideration, please refer to page 193 of the Prospectus. As the landlord of the Zhenjiang Premises has not yet obtained the building ownership certificate of the property, the independent non-executive Directors has obtained the PRC legal opinion in relation to the Zhenjiang Properties before entering into the lease agreement. The compliance procedure in relation to entering into new leases in respect of properties without building ownership certificates has been duly observed.

(iv) Update on registration status of existing leases without building ownership certificates

As set out in the Prospectus, our Jiangnan store, Fusha store, Yingde store, Tai’an (Longtan) store as well as a portion (6,590 square metres) of our Guzhen store are respectively located in premises which form part of a larger development project with different parts in various stages of development, for which building ownership certificate will only be obtained upon completion of the whole project and the building ownership certificate will be applied for after the final acceptance process and other procedures. As at 30 March 2015, being the date of this report, those projects are not completely constructed or there are certain processes and procedures still outstanding to apply for building ownership certificates. Having considered the status based on information from the landlord and applicable regulations, the independent non-executive Directors are of the view that the delay in registration of the relevant building ownership certificates is not due to either parties to the lease agreements acting in breach of the relevant laws and regulations. In addition, due to the unsatisfactory sales performance and location of the Fusha store, the Company has decided to cease its operation and early terminate the lease in April 2014. The Fusha store is a community supermarket store and its closure did not have material impact on the financial position of the Group. Furthermore, the landlord of the Guzhen store notified the Company that it is unlikely that building ownership certificate will be obtained prior to expiration of the lease term on 30 November 2017. The Directors have therefore decided not to renew the relevant portion of the Guzhen lease upon its expiration.

CORPORATE GOVERNANCE REPORT

As disclosed on page 189 of the Prospectus, pursuant to 《最高人民法院關於審理城鎮房屋租賃合同糾紛案件具體應用法律若干問題的解釋》(Interpretation of the Supreme People's Court on Several Issues concerning the Application of Law in the Trial of Cases about Disputes over Lease Contracts on Urban Buildings), the People's Court of the PRC generally recognised the validity of a lease agreement where the landlord has obtained the construction work planning permit and the building construction had complied with the terms set forth in the construction work planning permit. As all of the subject leased properties have the construction work planning permit and the respective landlords had been verified as the legal owners and considering advice from PRC counsel that the relevant landlords have the right to lease the premises to us and the lease agreements are valid and enforceable, our Directors considered that the subject leases without building ownership certificates will not pose a material risk on the operation of our stores.

PERFORMANCE OF DEED OF NON-COMPETITION UNDERTAKING

On 19 November 2013, Mr. Chen Daren, the controlling Shareholder as well as certain executive Directors and members of the senior management interested in the shares of the Company (the “**Shares**”), being Mr. Chen Jianren, Mr. Lu Hanxing, Mr. Fan Xinpei, Mr. Su Weibing and Mr. Lin Guangzheng (the “**Covenantors**”) have entered into the deed of non-competition in favour of our Company (the “**Deed of Non-competition**”), whereby each of the Covenantors undertakes with the Company that for so long as the Shares remain listed in the Stock Exchange and the Covenantors, individually or collectively with their associates (as defined in Chapter 1 of the Listing Rules), are, directly or indirectly, interested in not less than 30% of the Shares in issue, or are otherwise regarded as Controlling Shareholders, each of the Covenantors, shall and shall procure that their respective associates shall:

- (a) not directly or indirectly engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with the existing business activity of our Group or be in competition with our Group in any business activities which our Group may undertake in the future save for the holding (by him/her/it and/or his/her/its associates) of not more than 5% shareholding interests in any company listed on the Stock Exchange or any other stock exchange;
- (b) not take any direct or indirect action which constitutes an interference with or a disruption to the business activities of our Group including, but not limited to, solicitation of customers, suppliers and staff members of our Group; and
- (c) keep our Directors informed of any matters of potential conflicts of interest between the Covenantors (including their associates) and our Group.

CORPORATE GOVERNANCE REPORT

In addition, each of the Covenantors jointly and severally, irrevocably and unconditionally, undertakes with our Company that if any new business opportunity relating to any products and/or services of our Group (“**New Business Opportunity**”) is made available to the Conventors or their respective associates, he/she/it shall direct the New Business Opportunity to our Group with such required information to enable our Group to evaluate the merits of the New Business Opportunity. None of the Covenantors and their respective associates will pursue the New Business Opportunity until our Group decides not to pursue the New Business Opportunity because of commercial reasons.

The Company has received confirmation letters from each of the Covenantors confirming that, during the year 2014, they have not violated the terms under the Deed of Non-Competition Undertaking. The independent non-executive Directors had reviewed and confirmed that the Covenantors have complied with the provisions of the deed and the deed has been enforced by the Company in accordance with its terms.

DIRECTORS’ RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge that it is their responsibility to prepare accounts of the Group and other financial disclosures required under the Listing Rules and the management will provide information and explanation to the Board to enable it to make informed assessments of the financial and other decisions.

COMMUNICATION WITH SHAREHOLDERS

The Company endeavours to develop and maintain continuing relationships and effective communications with its Shareholders and investors. In an effort to facilitate and enhance the relationships and communication, the Company has established the following various channels:

1. The annual general meeting provides a forum for the Shareholders to raise comments and exchange views with the Board. The Chairman and the Directors are available at the annual general meetings of the Company to address Shareholders’ queries;
2. Separate resolutions are proposed at the general meetings on each substantially separate issue and procedures for convening extraordinary general meetings and putting forward proposals are included in the annual report to the Shareholders to facilitate enforcement of Shareholders’ rights; and
3. The Shareholders can visit the Company’s website at www.yihua.com.cn to learn the general background of the Company and its activities, which enable the general public to have a better understanding of the Group.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS

Convening of extraordinary general meetings and putting forward proposals

Pursuant to Article 64 of the Articles of Association, extraordinary general meetings can be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the Company Secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures by which enquiries may be put to the Board

Shareholders may put forward their enquiries to the Board by addressing them to the Company Secretary by mail to the principal place of business in Hong Kong of the Company at unit 8A, 8/F Wah Kit Commercial Centre, 300-302 Des Voeux Road Central, Hong Kong.

CHANGES IN CONSTITUTION DOCUMENTS

There is no change in the constitutional documents of the Company during the year 2014.

DIRECTORS' REPORT

The directors of our Company (the “**Directors**”) are pleased to report the audited consolidated financial statements of our Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2014.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are operation of department store chain in the PRC.

RESULTS

The results of the Group for the year ended 31 December 2014 are set out in the consolidated statement of comprehensive income on pages 55 and 56.

DIVIDENDS

The board has resolved to recommend the payment of a final dividend of HK10 cents per ordinary share for the year whose names appear on the register of members of the Company on 19 June 2015.

BONUS OF ISSUE OF SHARES

The Directors have resolved to recommend a bonus issue of shares for the year. The bonus issue of shares will be made on the basis of one bonus share for every four existing ordinary shares held by the shareholders of the Company whose names appear on the register of members on 19 June 2015. The bonus shares will be credited as fully paid at par and will rank pari passu with the existing ordinary shares in all aspects.

Subject to approval of the proposed final dividend and bonus issue of shares by the shareholders at the forthcoming AGM of the Company and the Listing Committee of The Stock Exchange of Hong Kong Limited granting listing of and permission to deal in the new shares to be issued pursuant to the bonus issue of shares, the final dividend and share certificates for the bonus issue of shares will be dispatched to the shareholders of the Company on 3 July 2015.

FINANCIAL HIGHLIGHTS AND SUMMARY

A summary of the results and assets and liabilities of the Group for the last five financial years is set out on pages 3 to 4 of the annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in note 23 to the consolidated financial statements.

DIRECTORS' REPORT

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed shares.

RESERVES

Under the Cayman Islands law, the Company may pay dividends out of profit or its share premium account of the Company in accordance with the provisions of the Company's Articles of Association and provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be able to pay its debts as and when they fall due in the ordinary course of business.

As at 31 December 2014, the Company's share premium available for distribution amounted to approximately RMB85,499,000 of which RMB28,800,000 has been proposed as final dividend for the year. Details of which are set out in note 24 to the consolidated financial statements.

DIRECTORS

The Directors during the year ended 31 December 2014 and up to the date of this report were:

Executive Directors

Mr. Chen Jianren (*Chairman*)
 Mr. Fan Xinpei (*Chief Executive Officer*)
 Mr. Su Weibing
 Mr. Lin Guangzheng

Non-executive Directors

Mr. Chen Daren
 Mr. Lu Hanxing

Independent Non-executive Directors

Mr. Sun Hong
 Mr. Xu Yinzhou
 Mr. Leung Wai Kwan

Biographical details of the Directors and senior management of the Group are set out in the section headed "Biographies of Directors and Senior Management".

CHANGE IN INFORMATION OF DIRECTORS

Upon specific enquiry by the Company and following confirmations from the Directors, save as otherwise disclosed in this annual report, there is no change in the information of the Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

DIRECTORS' REPORT

BORROWINGS

Borrowings of the Group as at 31 December 2014 amounted to approximately RMB96,412,000, details of which are set out in note 26 to the consolidated financial statements.

COMMITMENTS

Details of the commitments of the Group are set out in note 30 to the consolidated financial statements.

DIRECTORS' AND CONTROLLING SHAREHOLDER'S INTERESTS IN CONTRACTS

Save as disclosed under the headings "Continuing Connected Transactions" in this Directors' Report and "Related Parties and Significant Related Party Transactions" in note 31 to the financial statements, no Directors or controlling Shareholder or their respective associates had a material interest, either directly or indirectly, in any contract of significance to the business of the Group and to which the Company, its subsidiary, its fellow subsidiaries or its holding company was a party, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Up to the date of this report, none of the Directors have any beneficial interest in other businesses which constitute, either directly or indirectly, a competing business of the Group.

DIRECTORS' SERVICE CONTRACTS

None of the Directors has any existing or proposed service contract with the Company or its subsidiary which is not determinable by the employing company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REPORT

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As of 31 December 2014, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) (i) which 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 were taken or deemed to have under such provisions of the SFO), or (ii) which were required, pursuant to section 352 of the SFO, to be entered into the register maintained by the Company, or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Name of Director	Company/ Name of associated corporation	Capacity/ Nature of interest	Number of shares	Approximate percentage of shareholding
Mr. Chen Daren	The Company	Interest in controlled corporation	208,116,000 (L) (Note 2)	57.81%
Mr. Fan Xinpei	The Company	Interest in controlled corporation	61,884,000 (L) (Note 3)	17.19%
Mr. Chen Daren	JAGUAR ASIAN LIMITED (“Jaguar Asian”)	Beneficial Owner	1 (L) (Note 2)	100%

Notes:

- The letter “L” denotes long position in the shares, underlying shares and debentures of the Company or any of its associated corporations.
- Jaguar Asian is wholly-owned by Mr. Chen Daren, a non-executive Director. Mr. Chen Daren is deemed to be interested in the 208,116,000 Shares held by Jaguar Asian under the SFO.
- These shares are held by EAGLEPASS DEVELOPMENTS LIMITED (“**Eaglepass Developments**”), which is owned as to 15.66% and 84.34% by Mr. Lu Hanxing (non-executive Director) and Gain Profit Management Limited (“**Gain Profit**”) respectively. Gain Profit is wholly-owned by Zhongshan Yinglifeng Trading Developments Limited (“**Yinglifeng Developments**”). Yinglifeng Developments is owned as to 66.33%, 9.62%, 9.62%, 4.81%, 4.81% and 4.81% by Mr. Fan Xinpei (executive Director), Mr. Lin Guangzheng (executive Director), Mr. Su Weibing (executive Director), Ms. Wang Guping, Ms. Zhang Rong and Mr. Luo Chengwen respectively. Mr. Fan Xinpei is deemed to be interested in the 61,884,000 Shares held by Eaglepass Developments under the SFO.

DIRECTORS' REPORT

Save as disclosed above, as at 31 December 2014, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in any shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which 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 were taken or deemed to have under such provisions of the SFO), or (ii) which were required, pursuant to section 352 of the SFO, to be entered into the register maintained by the Company, or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS AND SHORT POSITION IN THE SHARES AND UNDERLYING SHARES OF SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors and the chief executive of the Company, as at 31 December 2014, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company 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, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange:

Name of Shareholder	Capacity/Nature of interest	Number of shares	Approximate percentage of shareholding
Jaguar Asian (<i>Note 2</i>)	Beneficial owner	208,116,000 (L)	57.81%
Eaglepass Developments (<i>Note 3</i>)	Beneficial owner	61,884,000 (L)	17.19%
Gain Profit (<i>Note 3</i>)	Interest in controlled corporation	61,884,000 (L)	17.19%
Yinglifeng Developments (<i>Note 3</i>)	Interest in controlled corporation	61,884,000 (L)	17.19%

DIRECTORS' REPORT

Notes:

1. The letter “L” denotes long position in the Shares.
2. Jaguar Asian is wholly owned by Mr. Chen Daren, a non-executive Director. Mr. Chen Daren is deemed to be interested in the 208,116,000 Shares held by Jaguar Asian under the SFO.
3. These shares are held by Eaglepass Developments, which is owned as to 15.66% and 84.34% by Mr. Lu Hanxing (non-executive Director) and Gain Profit respectively. Gain Profit is wholly-owned by Yinglifeng Developments. Yinglifeng Developments is owned as to 66.33%, 9.62%, 9.62%, 4.81%, 4.81% and 4.81% by Mr. Fan Xinpei (executive Director), Mr. Lin Guangzheng (executive Director), Mr. Su Weibing (executive Director), Ms. Wang Guping, Ms. Zhang Rong and Mr. Luo Chengwen respectively. Mr. Fan Xinpei is deemed to be interested in the 61,884,000 Shares held by Eaglepass Developments under the SFO.

Save as disclosed above, as at 31 December 2014, the Directors and the chief executive of the Company were not aware of any other person (other than Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying shares of the Company 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, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

DIRECTORS' REPORT

CONTINUING CONNECTED TRANSACTIONS

During the year, the Group had engaged in the following continuing connected transactions (“CCTs”), a summary of which is set out as follows:

No.	Date of agreement	Connected party	Subject matter of the transaction	Term	Transaction amount for the year ended 31 December 2014 RMB'000	Annual cap amount for the year ended 31 December 2014 RMB'000
I. CCTs exempt from announcement, reporting and independent shareholders' approval						
A. Master Licence Agreement						
1.	1 January 2013	Yihua Investment (Note 1)	Grant of short periods of licences by Yihua Investment and its subsidiaries to the Group for using additional areas in the vicinity of the Group's department stores	1 January 2013 to 31 December 2015	156	789 (Note 2)
B. Cooperation Agreements in respect of VIP cards						
1.	30 December 2012	Jinghua Century Hotel (Note 17)	Grant of agreed discounts by the relevant connected party to holders of VIP cards issued by the Group	1 January 2013 to 31 December 2014	– (Note 4)	– (Note 4)
2.	31 December 2012	Guomao Hotel (Note 5)		1 January 2013 to 31 December 2014	– (Note 4)	– (Note 4)
3.	1 January 2013	Xindu Hotel (Note 6)		1 January 2013 to 31 December 2014	– (Note 4)	– (Note 4)
4.	25 December 2012	Yihao Hotel (Note 7)		1 January 2013 to 31 December 2014	– (Note 4)	– (Note 4)
II. CCTs subject to announcement and annual reporting						
C. Expenditure Transactions: Hotel and Restaurant Agreement						
1.	1 January 2013	Yihua Investment (Note 1)	Provision of services relating to hotel accommodations, restaurant dining and other related services by Yihua Investment and its subsidiaries	1 January 2013 to 31 December 2015	1,365	2,200 (Note 11)
D. Revenue Transactions: Master Supply Agreement						
1.	1 January 2013	Yihua Investment (Note 1)	Supply of goods, provision of services and utilities by the Group to Yihua Investment and its subsidiaries	1 January 2013 to 31 December 2015	2,139	2,600 (Note 11)
E. Expenditure Transactions: Tenancy and Management Agreements						
1.	1 July 2013	Yangjiang Honggao (note 14)	Lease of a portion of Block 1 and 2 of a construction, No 318 Dongfeng 4th Raod	1 July 2013 to 30 June 2028	392	Note 16
2.	1 July 2013	Yangjiang Hongtu (note 15)	Provision of property management services for a portion of Block 1 and 2 of a construction	– 1 July 2013 to 30 June 2028 – 19 October 2013 to 18 October 2015	4,135	Note 16

DIRECTORS' REPORT

No.	Date of agreement	Connected party	Subject matter of the transaction	Term	Transaction amount for the year ended 31 December 2014 RMB'000	Annual cap amount for the year ended 31 December 2014 RMB'000
III. CCTs subject to announcement, annual reporting and independent shareholders' approval						
F. Expenditure Transactions: Tenancy and Management Agreements						
1.	12 March 2013 (items i and ii) 19 November 2013 (item iii) 12 March 2013, as supplemented by an agreement dated 19 November 2013 (items iv)	Guangdong Yihua Management <i>(Note 8)</i>	Lease of properties situated at the following locations of West Wing of Yihua Commercial Center: (i) Levels 1 to 2; (ii) Levels 3 to 4; (iii) 100 sq. m of Level 1; (iv) Level 5; and (v) Unit 901 of Level 9	12 March 2013 to 31 May 2017 (items i and ii) 1 January 2014 to 31 December 2015 (item iii) 12 March 2013 to 31 December 2014 (items iv and v)	11,690	11,690
2.	(i) 1 September 2012; (ii) 20 March 2013, as supplemented by an agreement dated 19 November 2013	Guangdong Yihua Management <i>(Note 8)</i>	Lease of properties situated at the following locations of East Wing of Yihua Commercial Centre: (i) Levels 1 to 3; (ii) Unit 501	(i) 1 September 2012 to 31 August 2022; (ii) 20 March 2013 to 31 December 2014	4,238	4,240
3.	16 March 2012	Guangdong Yihua Management <i>(Note 8)</i>	Lease of properties located at portion of Level 1 of Guomao Yihao Hotel	1 May 2012 to 31 December 2014	40	500
4.	(i) 10 August 2009; (ii) 1 June 2013	Jinhui Century <i>(Note 3)</i>	Lease of properties located at: (i) Basement 1 and Levels 1 to 3 of Jinhui Century Square; (ii) (a) Basement 1 of Jinhui Century Square; and (b) an open area at 118 Yingbin Avenue	(i) 17 September 2009 to 16 September 2019; (ii) 1 June 2013 to 31 December 2015	21,693	21,790
5.	(i) 1 January 2010; (ii) 16 July 2012 and 30 September 2013	Guomao Hotel <i>(Note 5)</i>	Lease of properties located at: (i) Portion of Level 3 of Section B of Zhongshan Guzhen International Hotel; (ii) Area B of 580 sq.m. at 3rd Floor of Guzhen International Hotel	(i) 1 January 2010 to 31 December 2019; (ii) 15 June 2012 to 22 January 2014 and 23 January 2014 to 22 January 2016	1,760	1,760

DIRECTORS' REPORT

No.	Date of agreement	Connected party	Subject matter of the transaction	Term	Transaction amount for the year ended 31 December 2014 RMB'000	Annual cap amount for the year ended 31 December 2014 RMB'000
6.	1 June 2006	Yihua Investment (Note 1)	Lease of properties located at Basement 1, Levels 1 and 2 of podium building, Levels 2 to 4 of annex building, No.118 Yingbin Avenue Road ("JP Area)	16 June 2006 to 25 July 2023	12,504	12,540
	20 September 2008	Yihao Hotel (Note 7)	Lease of an additional area of 238 sq.m. at JP Area	22 September 2008 to 25 July 2023		
	20 June 2009	Yihao Hotel (Note 7)	Provision of property management services for main building and auxiliary building at JP Area	1 July 2009 to 25 July 2023		
7.	(i) 31 March 2014, as supplemented by the first supplemental agreement dated 13 May 2014 and the second supplemental agreement dated 20 May 2014	Zhenjiang Hualong (Note 9)	Lease of properties located at Levels 1 to 3 of Zhenjiang Yihua Plaza	20 June 2014 to 19 June 2017	858	1,227
	(ii) 31 March 2014	Jiangsu Yihua Plaza (Note 10)	Provision of property management services for level 1 to 3 of Zhenjiang Yihua Plaza	20 June 2014 to 31 May 2017		
		Guangdong Yihua Management (note 8)	Lease of properties located at Unites 907 and 916, East Wing of Yihua Commercial Center	11 June 2014 to 31 December 2015	244	314
	Aggregate amount for Tenancy and Management Agreements (Notes 11 and 12)				53,027	54,061

DIRECTORS' REPORT

Notes:

1. Yihua Investment, is owned as to 49.6%, 28.22%, 11.09% and 11.09% by Zhongshan Shunyi Industrial Development Limited 中山市順益實業發展有限公司 (“**Shunyi Industrial**”), Mr. Lu Hanxing (a Director), Mr. Chen Daren (a Director and controlling Shareholder) and Mr. Chen Zhengtao (the nephew of Mr. Chen Daren and the son of Mr. Chen Jianren, a Director). Shunyi Industrial is owned as to 90% by Mr. Chen Daren.
2. Although no annual cap was expressed for the Master License Agreement with Yihua Investment and its subsidiaries as it was an exempt continuing connected transaction under Rule 14A.33(3)(c) of the Listing Rules, it is a term of the agreement that the annual amount should not exceed HK\$1 million (equivalent to approximately RMB789,000).
3. 江門市金匯世紀廣場物業管理有限公司 (“**Jinhui Century**”), is owned as to 90% by Shunyi Industrial, which is in turn owned as to 90% by Mr. Chen Daren (a Director and controlling Shareholder).
4. Under the Cooperation Agreements, the Group is not required to pay any fees to Yihua Investment and its subsidiaries. Therefore, for the year ended 31 December 2014, there were no transaction amounts nor annual caps for the Cooperation Agreements.
5. 中山市古鎮國貿大酒店有限公司 (“**Guomao Hotel**”), a 64% owned subsidiary of Yihua Investment.
6. 中山市新都酒店有限公司 (“**Xindu Hotel**”), a 90% owned subsidiary of Yihua Investment.
7. 江門市逸豪酒店有限公司 (“**Yihao Hotel**”), a 55% owned subsidiary of Yihua Investment.
8. 廣東益華廣場管理有限公司 (Guangdong Yihua Plaza Management Limited) (“**Guangdong Yihua Management**”), is owned as to 60% by Yihua Investment, 10% by Mr. Fan Xinpei (a Director and substantial Shareholder), 10% by Mr. Lu Hanxing (a Director) and 10% by Mr. Chen Zhengtao (陳正陶), nephew of Mr. Chen Daren (a Director and controlling Shareholder) and son of Mr. Chen Jianren (a Director).
9. 鎮江華龍廣場置業有限公司 (Zhenjiang Hualong Plaza Properties Co. Ltd.), a company established in the PRC with limited liability, which is owned as to 63.47% by Yihua Investment and as to 36.53% by China Land International Investments Limited (“**China Land International**”). China Land International, a company incorporated in Hong Kong with limited liability, which is owned as to 65% by Mr. Chan Kuong Ian (陳廣仁), a brother of Mr. Chen Daren and Mr. Chen Jianren, as to 35% to two individuals.
10. 江蘇益華廣場管理有限公司 (“**Jiangsu Yihua Plaza**”), a company established in the PRC with limited liability, is owned as to 22.78% by Yihua Investment and as to 77.22% by China Land International.
11. Pursuant to Rule 14A.25 of the Listing Rules, the CCTs constituted by the Tenancy and Management Agreements under items E1 to E7 should be aggregated and treated as if they were one transaction.

DIRECTORS' REPORT

12. As disclosed in the Prospectus, the Company has applied to the Stock Exchange, and the Stock Exchange has granted to the Company a waiver from strict compliance with, among others, (i) the announcement requirement in respect of the Hotel and Restaurant Agreement and the Master Supply Agreement; (ii) the announcement and Independent Shareholders' approval requirements in respect of the Tenancy and Management Agreements, pursuant to Rule 14A.42(3) of the Listing Rules on the condition that the aggregate value of the transactions contemplated thereunder for each of the three years ending 31 December 2013, 2014 and 2015 will not exceed their respective annual caps as stated in the Prospectus.
13. Additional details of the above CCTs were disclosed in the section headed "Connected Transactions" in the Prospectus.
14. 陽江宏高房地產發展有限公司 (Yangjiang Honggao Real Estate Development Limited*), a company established in the PRC with limited liability, which is owned as to 50% by Yihua Investment and 50% by two independent third parties.
15. 陽江市宏圖物業管理有限公司 (Yangjiang City Hongtu Property Management Limited Company*), a company established in the PRC with limited liability, which is owned as to 50% by Yihua Investment and 50% by two independent third parties.
16. Details of these transactions and those agreements replacing them are detailed in the Company's announcement dated 13 April 2015, including the background and why no annual cap was set by the Company for the year ended 31 December 2014.
17. 中山市京華世紀酒店有限公司 ("Jinghua Century Hotel"), a 80% owned subsidiary of Yihua Investment.

The independent non-executive Directors have reviewed the continuing connected transactions mentioned above and have confirmed that the continuing connected transactions have been entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company have reviewed the continuing connected transactions during the year and confirmed that these transactions:

- (i) were approved by the Board;
- (ii) were in accordance with the pricing policies of the Company;
- (iii) had been entered into in accordance with the relevant agreements governing the transactions; and
- (iv) have not exceeded the caps stated in the respective Prospectus and announcements.

DIRECTORS' REPORT

SHARE OPTION SCHEME

The Company has conditionally adopted its pre-IPO share option scheme on 12 November 2013 (the “**Scheme**”). The purpose of the Scheme is to attract and retain the best quality personnel for the development of the Group’s businesses; to provide additional incentives to the employees; to provide eligible participants (as defined in the Scheme) (“**Eligible Participants**”) with the opportunity to acquire proprietary interests in the Company; and to promote the long term financial success of the Group by aligning the interests of grantees to the Shareholders. Under the Scheme, the Board shall be entitled at any time (except for the period as defined under the Listing Rules whereby price sensitive event or a price sensitive matter has been the subject of a decision) within 10 years commencing on the date of adoption of the Scheme to make an offer for the grant of an option to any Eligible Participant (including any employee, officer or director, whether executive or non-executive, of the Group), and any consultant, adviser, supplier, customer or subcontractor of the Group or any other person determined by the Board as appropriate.

The shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes must not exceed 30% of the Shares in issue from time to time. The maximum number of shares available for issue under options which may be granted under the Scheme and any other schemes of the Company must not in aggregate exceed 10% of the Shares in issue immediately following the commencement of dealings in the Shares on the Stock Exchange, being 36,000,000 shares. The total number of Shares issued and to be issued upon exercise of options (whether exercised or outstanding) in any 12-month period granted to each grantee must not exceed 1% of the Shares in issue, such further grant shall be subject to separate approval by the Shareholders in general meeting with the relevant grantee and his associates abstaining from voting.

The subscription price in respect of any particular option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant option but the subscription price shall not be less than the highest of (i) the closing price of the Shares as stated in the daily quotations sheet issued by the Stock Exchange on the offer date which must be a business day for trading of securities on the Stock Exchange (“**Business Day**”); (ii) the average closing price of the Shares as stated in the daily quotation sheets issued by the Stock Exchange for the five Business Days immediately preceding the offer date; and (iii) the nominal value of a Share. HK\$1.00 is payable by the grantee to the Company on acceptance of the offer of the option. The period within which the Shares must be taken up under an option shall be determined by the Board in its absolute discretion at the time of grant, but such period must not exceed 10 years from the date of grant of the relevant option.

For the year ended 31 December 2014, no option has been granted or agreed to be granted under the Scheme.

DIRECTORS' REPORT

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders under the Company's Memorandum and Articles of Association and the Companies Laws of the Cayman Islands.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's largest customer and five largest customers taken together were less than 30% of the Group's total sales for the year. The aggregate purchases attributable to the Group's five largest suppliers taken together were less than 30% of the Group's total purchases for the year.

SUFFICIENCY OF PUBLIC FLOAT

As at the latest practicable date prior to the issue of this annual report, to the best knowledge of the directors and based on the information publicly available to the Company, there is sufficient public float as required by the Listing Rules.

AUDITORS

The financial statements for the year ended 31 December 2014 have been audited by PricewaterhouseCoopers. A resolution for their re-appointment as auditors of the Company for the ensuing year will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Mr. Chen Jianren

Chairman

30 March 2015

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Yi Hua Department Store Holdings Limited

(Incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of Yi Hua Department Store Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) set out on pages 55 to 122, which comprise the consolidated and company balance sheets as at 31 December 2014 and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 30 March 2015

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts expressed in RMB thousands unless otherwise stated)

	Notes	Year ended 31 December	
		2014 RMB'000	2013 RMB'000
Continuing operations			
Revenue	5	710,146	713,951
Other income	6	9,785	3,460
Other gains/(losses) – net	7	23,739	(183)
Purchases of and changes in inventories		(332,123)	(356,883)
Employee benefit expenses	8	(103,011)	(92,764)
Depreciation and amortisation		(26,840)	(20,412)
Operating lease rental expense and property management fee		(109,185)	(96,967)
Other operating expenses	9	(126,584)	(123,098)
Operating profit		45,927	27,104
Finance income		1,622	1,640
Finance costs		(2,369)	(1,183)
Finance (costs)/income – net	10	(747)	457
Profit before income tax		45,180	27,561
Income tax expense	11	(16,114)	(12,898)
Profit for the year from continuing operations		29,066	14,663
Discontinued operations			
Profit for the year from discontinued operations	20	–	2,004
Profit for the year		29,066	16,667
Other comprehensive income for the year		–	–
Total comprehensive income for the year		29,066	16,667
Profit and total comprehensive income for the year attributable to:			
Equity holders of the Company		27,054	15,051
Non-controlling interests		2,012	1,616
		29,066	16,667

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts expressed in RMB thousands unless otherwise stated)

	Notes	Year ended 31 December	
		2014 RMB'000	2013 RMB'000
Total profit and comprehensive income for the year attributable to equity holders of the Company:			
From continuing operations		27,054	14,069
From discontinued operations		–	982
		27,054	15,051
Earnings per share from continuing and discontinued operations attributable to equity holders of the Company for the year	13		
Basic and diluted earnings per share (expressed in RMB per share)			
From continuing operations		0.0752	0.0512
From discontinued operations		–	0.0036
		0.0752	0.0548
Dividends	12	28,800	64,238

CONSOLIDATED BALANCE SHEET

(All amounts expressed in RMB thousands unless otherwise stated)

		As at 31 December	
	Notes	2014 RMB'000	2013 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	288,608	203,364
Computer software		793	725
Deferred income tax assets	15	1,413	1,754
Deferred assets	16	1,626	2,160
Prepayments and other receivables	19	59,718	26,475
Amounts due from related parties	31(b)	3,426	–
		355,584	234,478
Current assets			
Inventories	18	92,115	98,076
Trade receivables, prepayments and other receivables	19	81,632	61,296
Amounts due from related parties	31(b)	56,223	45,801
Restricted cash	21	25,191	25,310
Cash and cash equivalents	22	120,264	228,219
		375,425	458,702
Total assets		731,009	693,180
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	23	2,830	2,830
Other reserves	24	114,083	113,820
– Proposed final dividend	12	28,800	–
– Other reserves		85,283	113,820
Retained earnings		42,445	15,654
		159,358	132,304
Non-controlling interests		2,733	721
Total equity		162,091	133,025

CONSOLIDATED BALANCE SHEET

(All amounts expressed in RMB thousands unless otherwise stated)

		As at 31 December	
	Notes	2014 RMB'000	2013 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	26	19,412	–
Deferred income tax liabilities	15	6,490	6,208
Other payables	25	9,398	5,469
		35,300	11,677
Current liabilities			
Trade and other payables	25	338,053	324,134
Amounts due to related parties	31(b)	1,613	1,990
Deferred revenue		6,359	4,744
Advances from customers		106,349	208,352
Current income tax liabilities		4,244	9,258
Borrowings	26	77,000	–
		533,618	548,478
Total liabilities		568,918	560,155
Total equity and liabilities		731,009	693,180
Net current liabilities		(158,193)	(89,776)
Total assets less current liabilities		197,391	144,702

The notes on pages 62 to 122 are an integral part of these consolidated financial statements.

The financial statements on pages 55 to 122 were authorised for issue by the Board of Directors on 30 March 2015 and were signed on its behalf.

Fan Xinpei
Executive Director

Su Weibing
Executive Director

BALANCE SHEET

(All amounts expressed in RMB thousands unless otherwise stated)

	Notes	As at 31 December	
		2014 RMB'000	2013 RMB'000
Non-current assets			
Investment in a subsidiary	17	28,000	28,000
Amounts due from a subsidiary		79,813	–
		107,813	28,000
Current assets			
Prepayments and other receivables	19	983	4,280
Cash and cash equivalents	22	21,701	86,245
		22,684	90,525
Total assets		130,497	118,525
Equity attributable to equity holders of the Company			
Share capital	23	2,830	2,830
Other reserves	24	113,499	113,499
– Proposed final dividend	12	28,800	–
– Other reserves		84,699	113,499
Accumulated losses	24(c)	(5,530)	(1,125)
Total equity		110,799	115,204
Current liabilities			
Other payables	25	286	3,321
Non-current liabilities			
Borrowings	26	19,412	–
Total liabilities		19,698	3,321
Total equity and liabilities		130,497	118,525
Net current assets		22,398	87,204
Total assets less current liabilities		130,211	115,204

The notes on pages 62 to 122 are an integral part of these consolidated financial statements.

The financial statements on pages 55 to 122 were authorised for issue by the Board of Directors on 30 March 2015 and were signed on its behalf.

Fan Xinpei
Executive Director

Su Weibing
Executive Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts expressed in RMB thousands unless otherwise stated)

	Attributable to the equity holders of the Company					Total equity RMB'000
	Share Capital	Other Reserves	Retained earnings	Total	Non- controlling interests	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Balance as at 1 January 2013	–	22,773	69,044	91,817	(3,128)	88,689
Profit and total comprehensive income for the year	–	–	15,051	15,051	1,616	16,667
Dividend distributed (Note 12)	–	–	(64,238)	(64,238)	–	(64,238)
Reorganisation and capital contribution from shareholders	–	1,345	–	1,345	–	1,345
Shares issued pursuant to the Placing and Public Offer	707	87,622	–	88,329	–	88,329
Shares issued under the capitalisation issue	2,123	(2,123)	–	–	–	–
Appropriation to statutory reserve	–	4,203	(4,203)	–	–	–
Disposal of a subsidiary	–	–	–	–	2,233	2,233
Total transactions with owners	2,830	91,047	(68,441)	25,436	2,233	27,669
Balance as at 31 December 2013	2,830	113,820	15,654	132,304	721	133,025
Balance at 1 January 2014	2,830	113,820	15,654	132,304	721	133,025
Profit and total comprehensive income for the year	–	–	27,054	27,054	2,012	29,066
Appropriation to statutory reserve	–	373	(373)	–	–	–
Liquidation of a subsidiary	–	(110)	110	–	–	–
Total transactions with owners	–	263	(263)	–	–	–
Balance as at 31 December 2014	2,830	114,083	42,445	159,358	2,733	162,091

CONSOLIDATED CASH FLOW STATEMENT

(All amounts expressed in RMB thousands unless otherwise stated)

	Notes	Year ended 31 December	
		2014 RMB'000	2013 RMB'000
Cash flows from operating activities			
Cash (used in)/generated from operations	27	(44,109)	20,273
Interest received		1,047	1,120
Interest paid		(3,545)	(1,184)
Income tax paid		(20,505)	(10,389)
Net cash (used in)/generated operating activities		(67,112)	9,820
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment	27	187	618
Proceeds from property related income		10,971	–
Purchases of property, plant and equipment and computer software		(145,929)	(78,508)
Disposal of a subsidiary		–	(10,322)
Loans granted to related companies		–	(92,255)
Advance to a third party		(3,000)	–
Loan repayments received from related companies		–	194,466
Loan repayments received from a disposed subsidiary		–	10,000
Net cash (used in)/generated from investing activities		(137,771)	23,999
Cash flows from financing activities			
Capital injection from shareholders		–	3,430
Proceeds from borrowings		96,412	20,000
Repayments of borrowings		–	(35,000)
Loans repayments to related companies		–	(4,546)
Proceeds from the Placing and Public Offer		794	94,945
Professional expenses paid in connection with the Placing and Public Offer		–	(6,626)
Dividend distribution		–	(64,238)
Net cash generated from financing activities		97,206	7,965
Net (decrease)/increase in cash and cash equivalents		(107,677)	41,784
Cash and cash equivalents at beginning of the year		228,219	186,435
Exchange losses on cash and cash equivalents		(278)	–
Cash and cash equivalents at end of the year		120,264	228,219

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

1 GENERAL INFORMATION OF THE GROUP

Yi Hua Department Store Holdings Limited (the “Company”) was incorporated in the Cayman Islands on 20 April 2012 as an exempted company with limited liability under the Cayman Islands Companies Law. The address of the Company’s registered office is at the Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman, KY1-1108, Cayman Islands. The Company and its subsidiaries are collectively referred to as “the Group”.

The Company is an investing holding company. The Company and its subsidiaries (together, the “Group”) are principally engaged in the operations of department stores in the People’s Republic of China (the “PRC”).

The Company has its primarily listing on the Main Board of The Stock Exchange of Hong Kong Limited (the “HKEX”) (the “Placing and Public Offer”) on 11 December 2013.

These consolidated financial statements are presented in Renminbi thousands (RMB’000), unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These accounting policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with the Hong Kong Financial Reporting Standards (“HKFRS”) issued by Hong Kong Institute of Certified Public Accountants (“HKICPA”). The consolidated financial statements have been prepared under the historical cost convention.

The consolidated financial statements are prepared in accordance with the applicable requirements of the predecessor Companies Ordinance (Cap. 32) for this financial year and the comparative period.

The preparation of consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

2.1.1 *Going concern*

As at 31 December 2014, the current liabilities of the Group exceeded its current assets by approximately RMB158,193,000 (2013: RMB89,776,000). This is mainly because the Group has applied a portion of its cash generated from operating activities and short-term borrowings to finance the acquisition and renovation of its new department stores. Included in the current liabilities were advances from customers, primarily relating to consumption cards issued, amounting to approximately RMB106,349,000 (2013: RMB208,352,000). The Group has monitored its liquidity position by maintaining good relationship with bankers for sufficient facilities available to finance its daily operations whenever necessary and generating positive cash inflows from operations. The directors have prepared cash flow projection of the Group for the coming twelve months. Based on the directors' review of the Group's cash flow projection, taking into account the reasonably possible changes in the operational performance and the banking facilities available, there are sufficient financial resources available to the Group at least in the coming twelve months to meet its liabilities as and when they fall due. Accordingly, the directors are of the opinion that it is appropriate to prepare the financial statements on a going concern basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

2.1.2 Changes in accounting policy and disclosures

- (a) The following new and amended standards and interpretation have been issued and effective for the annual accounting period beginning 1 January 2014.

Standards/ Interpretations	Subject of amendment	Effective for annual accounting periods beginning on or after
Amendment to HKAS 32	Financial instruments: Presentation on asset and liability offsetting	1 January 2014
Amendment to HKFRS 10, HKFRS 12 and HKAS 27	Consolidation for investment entities	1 January 2014
Amendment to HKAS 36	Impairment of assets on recoverable amount disclosures	1 January 2014
Amendment to HKAS 39	Financial Instruments: Recognition and Measurement – Novation of derivatives	1 January 2014
HK (IFRIC) – Int 21	Levies	1 January 2014

The adoption of amended standards, new interpretation and annual improvements has no material impact on the Group's financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

2.1.2 Changes in accounting policy and disclosures (continued)

- (b) The following new and amended standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2014 and have not been early adopted.

Standards/ Interpretations	Subject of amendment	Effective for annual accounting periods beginning on or after
Amendment to HKAS19	Defined benefit plans: employee contributions	1 July 2014
Annual improvements 2012	Annual improvements 2010-2012 cycle	1 July 2014
Annual improvements 2013	Annual improvements 2011-2013 cycle	1 July 2014
HKFRS 14	Regulatory deferral accounts	1 January 2016
Amendment to HKFRS 11	Acquisitions of interests in joint operations	1 January 2016
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortization	1 January 2016
Amendments to HKAS 16 and HKAS 41	Agriculture: bearer plants	1 January 2016
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	1 January 2016
Amendment to HKAS 27	Equity method in separate financial statements	1 January 2016
Annual improvements 2014	Annual improvements 2012-2014 cycle	1 January 2016
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: applying the consolidation exception	1 January 2016
Amendments to HKAS 1	Disclosure initiative	1 January 2016
HKFRS 15	Revenue from contracts with customers	1 January 2017
HKFRS 9	Financial instruments	1 January 2018

Management is in the process of making an assessment of their impact and is not yet in a position to state whether any substantial changes to the Group's significant accounting policies and presentation of the financial information will be resulted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

2.1.2 Changes in accounting policy and disclosures (continued)

(c) New Hong Kong Companies Ordinance (Cap. 622)

In addition, the requirements of Part 9 “Accounts and Audit” of the new Hong Kong Companies Ordinance (Cap. 622) come into operation as from the Company’s first financial year commencing on or after 3 March 2014 in accordance with section 358 of that ordinance. The Group is in the process of making an assessment of expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9 of the new Hong Kong Companies Ordinance (Cap. 622). So far it has concluded that the impact is unlikely to be significant and only the presentation and the disclosure of information in the consolidated financial statements will be affected.

2.2 Consolidation

(a) *Subsidiaries*

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group’s accounting policies.

(b) *Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors and senior management of the Group that makes strategic decisions.

2.5 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's functional and the Group's presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of comprehensive income within "Finance costs". All other foreign exchange gains and losses are presented in statement of comprehensive income within "Other gains/(losses)-net".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

– Leasehold improvements	10 years
– Buildings	20 years
– Office equipment	3 years
– Vehicles	6 years
– Other equipment	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "Other gains/(losses)-net" in the consolidated statements of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Construction in progress

Construction in progress represents property, plant and equipment under construction and pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction of buildings, the costs of plant and machinery and interest charges arising from borrowings used to finance these assets during the period of construction or installation and testing, if any. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and are available for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated in the preceding paragraphs.

2.8 Computer software

Acquired computer software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software and is carried at cost less accumulated amortisation. These costs are amortised over their estimated useful lives of 10 years.

2.9 Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Financial assets

(a) Classification

The Group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amount that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "deferred assets", "trade and other receivables", "amount due from related parties", "restricted cash" and "cash and cash equivalents" in the consolidated balance sheet.

(b) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Loans and receivables are initially recognised at fair value plus transaction costs. Loans and receivables are derecognised when the rights to receive cash flows have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in consolidated statement of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument’s fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor’s credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

2.13 Inventories

Inventories comprise merchandise held for direct sales and low value consumables and are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (“FIFO”) method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.15 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.16 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.17 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in consolidated statements of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.19 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the consolidated balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects, neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the consolidated balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Current and deferred income tax (continued)

(b) *Deferred income tax (continued)*

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.21 Employee benefits

(a) *Pension obligations*

Pursuant to the relevant regulations of the PRC Government, all the subsidiaries of the Group that were established in the PRC (the "PRC Subsidiaries") have participated in a local municipal government retirement benefits scheme (the "Scheme"), whereby the PRC Subsidiaries are required to contribute a certain percentage of the salaries of their employees to the Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits of those employees of the Group. Contributions under the Scheme are charged to profit or loss as incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Employee benefits (continued)

(b) Bonus plans

Provisions for bonus plan due wholly within twelve months after the end of the reporting period. Provision is recognised where contractually obliged or where there is a past practice that has created a constructive obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(c) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of HKAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

2.22 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognised revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below.

Commission income from concessionaire sales is recognised upon sales of goods by the relevant stores.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Revenue recognition (continued)

Revenue from direct sales of goods is recognised when a group entity sells a product to the customer. Retail sales are usually settled in cash, by credit cards or by using consumption cards.

Operating lease rental income is recognised on a straight-line basis over the period of the lease. When the Group provides incentives to its tenants, the cost of incentives will be recognised over the lease term, on a straight-line basis, as a reduction of rental income. The difference between the gross receipt of rental and operating lease rental recognised over the lease term is recognised as deferred assets.

Management fee and service income from operations and consultation service income are recognised when the service is rendered and right to receive payment is established.

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

Payments received in advance that are related to sales of goods not yet delivered and sales of consumption cards are deferred in consolidated balance sheets and recorded as advances from customers. Advances from customers are recognised at fair value of consideration received. It is recognised as revenue when the revenue recognition criteria are met.

2.23 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Receipts or payments made under operating leases (net of any incentives received from the lessor) are recognised as income or expenses in consolidated statements of comprehensive income on a straight-line basis over the period of the lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.25 Bonus points liabilities

The Group operates a loyalty points program, which allows customers to accumulate points when they purchase products in the Group's department stores. The points can then be redeemed for gifts and consumption cards, subject to a minimum number of points being obtained. The consumption cards are cash-equivalent when customers use them to purchase products in the Group's department stores.

The award points are recognised as a separate identifiable component of the initial sale transaction, by allocating the fair value of consideration received between the award points and the other components of the sale such that the award points are recognised as a liability under "deferred revenue" at their fair value. Deferred revenue is recognised as revenue when the points are redeemed for gifts and is classified as advances from customers when the points are redeemed for consumption cards.

2.26 Government grants

Government grants are recognised at their fair values where there is a reasonable assurance that grant will be received and all attaching conditions will be complied with. Government grants relating to costs are recognised and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks, including market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group manages and monitors the exposures to ensure appropriate measures are implemented in a timely and effective manner.

(a) Market risk

(i) Foreign exchange risk

The Group operates in the PRC with most of the transactions denominated in RMB, except for certain cash and cash equivalents, other receivables, other payables and borrowings are denominated in Hong Kong dollar ("HK\$"). Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities. The Group has not hedged its foreign exchange rate risk. However, management of the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

At 31 December 2014, if HK\$ had weakened/strengthened by 1 % against the RMB with all other variables held constant, post-tax profit for the year would have been RMB56,000 (2013: RMB872,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of HK\$ denominated cash and cash equivalent, other receivables and foreign exchange gains/losses on translation of HK\$ denominated other payables and borrowings.

(ii) Interest rate risk

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

As at 31 December 2014, the Group's long-term borrowings of RMB19,412,000 were held at fixed rates dominated in HK\$ (2013:nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(b) Credit risk

The credit risk of the Group mainly arises from cash and cash equivalents and restricted cash, trade and other receivables as well as amounts due from related parties. The carrying amounts or the undiscounted nominal amounts, where applicable, of each class of these financial assets represent our Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

The Group's measures to manage the credit risk are to control potential exposures to recoverability problem. To manage this risk, deposits are mainly placed with reputable financial institutions or with financial institutions which are controlled by the government. Sales to retail customers are settled in cash, or by using credit cards or consumption cards. As for trade receivables related to management fee, service income, receivables from sales of consumption cards, our Group carries out regular review on these balances and follow-up actions on any overdue amounts to minimise exposures to credit risk.

Amounts due from related parties are continuously monitored by assessing the credit quality of the counterparties, taking into account their financial positions, past experience and other factors. The amounts due from related parties have no history of default. Management perceives that the credit risk of receivables from related parties is low after considering the creditworthiness and financial capability of these counterparties.

As at 31 December 2014 and 2013, the bank balances are deposited with creditworthy banks with no recent history of default.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of undrawn committed credit facilities. Due to the dynamic nature of the underlying businesses, the Group's treasury function aims to maintain flexibility in funding by keeping committed credit lines available.

Except for the Group's long-term borrowings and certain trade and other payables, all of the Group's financial liabilities mature within 1 year from the end of the reporting period. The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the consolidated balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

The Group	Less than	Between	Between	Over	Total
	1 year	1 and 2	2 and 5	5 years	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2014					
Trade and other payables (excluding other taxes and surcharges payable)	322,816	174	522	8,702	332,214
Amounts due to related parties	1,613	–	–	–	1,613
Borrowings	82,298	1,965	21,152	–	105,415
	406,727	2,139	21,674	8,702	439,242

The Group	Less than	Between	Between	Over	Total
	1 year	1 and 2	2 and 5	5 years	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2013					
Trade and other payables (excluding other taxes and surcharges payable)	322,816	–	790	4,679	316,990
Amounts due to related parties	1,990	–	–	–	1,990
	313,511	–	790	–	318,980

As at 31 December 2014, the current liabilities of the Group exceeded its current assets by approximately RMB158,193,000 (2013: RMB89,776,000, refer to Note 2.1.1 for details).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

The Company	Less than	Between	Between	Over	Total
	1 year	1 and 2	2 and 5	5 years	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2014					
Other payables	286	–	–	–	286
Borrowings	1,945	1,965	21,152	–	25,062
	2,231	1,965	21,152	–	25,348

The Company	Less than	Between	Between	Over	Total
	1 year	1 and 2	2 and 5	5 years	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2013					
Other payables	3,321	–	–	–	3,321

3.2 Capital risk management

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.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The capital structure of the Group consists of borrowings and equity. Capital is managed so as to maximise the return to shareholders while maintaining a capital base to allow the Group to operate effectively in the market place and sustain future development of the business. The Group monitors capital on the basis of gearing ratio. This ratio is calculated as total borrowings divided by total equity as shown in the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Capital risk management (continued)

The Group's gearing ratio at 31 December 2014 was as follows:

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Total borrowings	96,412	–
Total equity	162,091	133,025
Gearing ratio	59.5%	0%

The increase in the gearing ratio during 2014 resulted primarily from the addition in borrowings as part of the consideration for the acquisition of properties, which will be used for new department store.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(a) Current income taxes and deferred tax

The Group is primarily subject to income taxes in the PRC. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred tax assets and taxation in the periods in which such estimate is changed.

(b) Useful lives of property, plant and equipment

The Group determines the estimated useful lives for its property, plant and equipment based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charges where useful lives are different from previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

(c) Bonus points liabilities

The amount of revenue attributable to the credit award earned by the customers of the Group's loyalty points program is estimated based on the fair value of the credits awarded and the expected redemption rate. The expected redemption rate is estimated considering the number of the credits that will be available for redemption in the future after allowing for credits which are not expected to be redeemed. Revenue from the loyalty points is recognised when the points are redeemed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

5 REVENUE AND SEGMENT INFORMATION

The chief operating decision-maker (“CODM”) has been identified as executive directors and senior management of the Company. Management determines the operating segments based on the Group’s internal reports, which are then submitted to executive directors and senior management for performance assessment and resources allocation.

The CODM considered the nature of the Group’s business and determined that the Group has five reportable operating segments as follows:

- (i) Department store;
- (ii) Supermarket;
- (iii) Electrical appliances;
- (iv) Furniture; and
- (v) Others (mainly comprise consulting service income).

The CODM assesses the performance of the operating segments based on a measure of revenue and gross profit (revenue less purchase of and changes in inventories, when appropriate). Assets and liabilities for the operating segments are not regularly reported to the CODM.

All revenue is generated in the PRC and all significant operating assets of the Group are in the PRC. No single external customer contributes 10 per cent or more of the Group’s revenues.

Revenue

The revenue reported to the CODM is measured in a manner consistent with that in the consolidated statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

The segment results for the year ended 31 December 2014:

	Department store	Supermarket	Electrical appliances	Furniture	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue	254,372	281,685	153,153	5,436	15,500	710,146
Segment result – gross profit	247,833	76,212	33,474	5,004	15,500	378,023
Unallocated income – other income and other gains, net						33,524
Unallocated cost						(365,620)
Operating profit						45,927
Finance income						1,622
Finance costs						(2,369)
Profit before income tax						45,180
Income tax expense						(16,114)
Profit for the year from continuing operations						29,066
Depreciation and amortisation						26,840

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

The segment results for the year ended 31 December 2013:

	Department store RMB'000	Supermarket RMB'000	Electrical appliances RMB'000	Furniture RMB'000	Total RMB'000
Segment revenue	251,260	295,994	162,442	4,255	713,951
Segment result – gross profit	243,704	75,203	34,060	4,101	357,068
Unallocated income – other income and other losses, net					3,277
Unallocated cost					(333,241)
Operating profit					27,104
Finance income					1,640
Finance costs					(1,183)
Profit before income tax					27,561
Income tax expense					(12,898)
Profit for the year from continuing operations					14,663
Depreciation and amortisation					20,412

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

Entity-wide information

The turnover of the Group is set out as follows:

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
Direct sales of goods	396,632	425,432
Commission income from concessionaire sales	226,007	223,080
Management fee and service income from operations	56,175	49,441
Rental income	15,832	15,998
Consulting service income (Note (a))	15,500	–
	710,146	713,951

- (a) During the year ended 31 December 2014, the Group has entered into agreements with two independent shopping mall property developers to provide certain consulting services, mainly including market research and provision of advice on design, decoration and layout for the shopping malls.

6 OTHER INCOME

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
Compensation from cancellation of contract (Note (a))	6,665	–
Government grants	3,120	3,460
	9,785	3,460

- (a) In previous year, the Group entered a lease contract with a property owner (“Lessor”) for leasing a new department store’s premise. Because of Lessor’s default of certain contract terms, the contract was subsequently cancelled. The Group has received a compensation of RMB6,665,000 from Lessor in the year ended 31 December 2014 and recorded it as other income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

7 OTHER GAINS/(LOSSES) – NET

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
Property related income (Note (a))	23,592	–
Others	147	(183)
	23,739	(183)

- (a) During the year ended 31 December 2014, the Group entered into an agreement (the “Agreement”) with a property developer (“Property Developer”) in relation to certain property sales. The responsibility of the Group under the Agreement mainly included promotion of certain area of properties and negotiation of sales contract terms with individual buyers at costs of the Group. The Group has the right to select buyers and set selling price for each of the property sales. The unsold properties will be sold to the Group. A gain of approximately RMB23,592,000 from this transaction, which is determined by selling price of properties sold less costs pre-agreed with the Property Developer, has been recognised as other gain.

8 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
Wages and salaries	83,928	77,207
Social security costs	12,232	9,957
Welfare and other benefits	6,851	5,600
	103,011	92,764

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

8 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) (CONTINUED)

(a) Directors' emoluments

Directors' emoluments for the year ended 31 December 2014 are as follows:

	Fees RMB'000	Basic salaries and allowances RMB'000	Discretionary bonuses RMB'000	Other benefits including retirement benefit contribution RMB'000	Total RMB'000
Year ended					
31 December 2014					
Executive directors					
Mr. Fan Xinpei*	-	1,526	68	34	1,628
Mr. Lin Guangzheng	-	836	33	70	939
Mr. Su Weibing	-	1,054	33	70	1,157
Mr. Chen Jianren*	-	1,373	-	-	1,373
Non-executive directors					
Mr. Chen Daren	-	61	-	-	61
Mr. Lu Hanxing	-	61	-	-	61
Independent non-executive directors					
Mr. Sun Hong	81	-	-	-	81
Mr. Xu Yinzhou	81	-	-	-	81
Mr. Leung Wai Kwan	81	-	-	-	81
	243	4,911	134	174	5,462

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

8 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) (CONTINUED)

(a) Directors' emoluments (continued)

	Fees RMB'000	Basic salaries and allowances RMB'000	Discretionary bonuses RMB'000	Other benefits including retirement benefit contribution RMB'000	Total RMB'000
Year ended					
31 December 2013					
Executive directors					
Mr. Fan Xinpei*	–	1,653	80	39	1,772
Mr. Lin Guangzheng	–	948	50	39	1,037
Mr. Su Weibing	–	950	50	39	1,039
Mr. Chen Jianren*	–	163	–	–	163
Non-executive directors					
Mr. Chen Daren	–	8	–	–	8
Mr. Lu Hanxing	–	8	–	–	8
Independent non-executive directors					
Mr. Sun Hong	11	–	–	–	11
Mr. Xu Yinzhou	11	–	–	–	11
Mr. Leung Wai Kwan	13	–	–	–	13
	35	3,730	180	117	4,062

* Mr. Fan Xinpei is the chief executive officer of the Group and Mr. Chen Jianren is the chairman of the Group.

No directors have waived or agreed to waive any emoluments for the year ended 31 December 2014 (2013: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

8 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) (CONTINUED)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group included 4 directors for the year ended 31 December 2014 (2013: 3). Their emolument is reflected in the analysis presented above. The emoluments payable to the remaining 1 (2013: 2) individuals are as follows:

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
Basic salaries and allowances	618	1,139
Discretionary bonuses	33	60
Other benefits including retirement benefit contribution	64	78
	715	1,277

The emoluments fell within the following bands:

	Number of individuals Year ended 31 December	
	2014	2013
Emolument bands Nil – HK\$1,000,000	1	2

During the year ended 31 December 2014, no emoluments were paid by the Group to any of the Directors or other members of the five highest paid individuals as an inducement to join, upon joining the Group, leave the Group or as compensation for loss of office (2013: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

9 OTHER OPERATING EXPENSES

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
Utilities	43,904	41,779
Other taxes	19,807	18,240
Advertising, promotion and related expenses	18,920	15,572
Bank charges	7,235	3,395
Repairs and maintenances	5,305	6,540
Travelling and transportation expenses	5,099	4,093
Professional service expenses	1,225	10,951
Consumables	4,093	5,095
Office expenses	3,856	3,504
Entertainment expense	3,050	3,039
Consumption cards related expenses	1,355	1,275
Insurance expense	564	787
Auditor's remuneration	2,309	165
Other expenses	9,862	8,663
	126,584	123,098

10 FINANCIAL INCOME AND COSTS

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
Finance income		
– Interest income derived from cash in banks and other deposits	1,622	1,640
Finance costs		
– Interest expense on bank borrowings	(3,375)	(1,183)
– Interest expense on bonds	(170)	–
Less: amounts capitalised on qualifying assets	1,176	–
Finance (costs)/income – net	(747)	457

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

11 INCOME TAX EXPENSE

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
Current income tax – PRC corporate income tax	15,491	13,809
Deferred income tax	623	(911)
Income tax expense	16,114	12,898

Taxation has been provided at the appropriate tax rates prevailing in the territories in which the Group operates. The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap. 22 of Cayman Islands and accordingly, is exempted from Cayman Islands income tax.

Corporate Income Tax (“CIT”) is provided on the assessable income of entities within the Group incorporated in the PRC. Pursuant to the PRC Corporate Income Tax Law, the CIT is unified at 25% for all types of entities.

According to the CIT law, starting from 1 January 2008, a 10% withholding tax will be levied on the immediate holding companies established outside PRC when their PRC subsidiaries declare dividends out of their profits earned after 1 January 2008. A lower withholding tax rate may be applied if there is a tax treaty arrangement between the PRC and the jurisdiction of the foreign immediate holding companies.

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

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
Profit before income tax	45,180	27,561
Tax effects of:		
Tax calculated at rates applicable to profits of the consolidated entities in the respective jurisdictions	12,566	6,890
Expenses not deductible for tax purposes	639	130
Utilisation of previously unrecognised tax losses	(292)	–
Tax losses for which no deferred income tax asset was recognised	3,201	5,878
Income tax expense	16,114	12,898

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

12 DIVIDEND

According to a board resolution dated 15 November 2013, Guandong Yihua Department Store Limited distributed RMB64,238,000 to its then shareholders before the completion of the Group reorganisation (“Reorganisation”) and such amount was fully settled.

A dividend in respect of the year ended 31 December 2014 of HK\$ 0.1 per share, amounting to a total dividend of HK\$36,000,000 (equivalent to RMB28,800,000), is to be proposed at the annual general meeting. Such dividend will be distributed from the Company’s share premium in accordance with the Companies Law of the Cayman Islands. These financial statements do not reflect this dividend payable.

13 EARNINGS PER SHARE

(a) Basic

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

The weighted average number of ordinary shares in issue during the year ended 31 December 2013 used in the basic earnings per share calculation is determined on the assumption that an aggregate 270,000,000 shares with par value of HK\$0.01 each issued upon the Reorganisation and the capitalisation issue had been in issue prior to the incorporation of the Company.

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
Profit from continuing operations attributable to equity holders of the Company	27,054	14,069
Profit from discontinued operations attributable to equity holders of the Company	–	982
	27,054	15,051
Weighted average number of ordinary shares in issue (thousand shares)	360,000	274,500
Basic earnings per share (expressed in RMB per share)		
From continuing operations	0.0752	0.0512
From discontinued operations	–	0.0036
	0.0752	0.0548

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

13 EARNINGS PER SHARE (CONTINUED)

(b) Diluted

As there were no potential dilutive ordinary shares during the year ended 31 December 2014 and 2013, diluted earnings per share was equal to basic earnings per share.

14 PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements RMB'000	Buildings RMB'000	Office equipment RMB'000	Vehicles RMB'000	Other equipment RMB'000	Construction in progress RMB'000	Total RMB'000
As at 1 January 2013							
Cost	163,452	344	12,824	2,875	13,950	3,745	197,190
Accumulated depreciation	(58,117)	(91)	(8,867)	(1,838)	(9,547)	–	(78,460)
Net book amount	105,335	253	3,957	1,037	4,403	3,745	118,730
Year ended 31 December 2013							
Opening net book amount	105,335	253	3,957	1,037	4,403	3,745	118,730
Additions	80,546	–	2,120	389	6,083	16,519	105,657
Disposals	–	–	(16)	(7)	(612)	–	(635)
Depreciation	(16,993)	(11)	(1,495)	(317)	(1,572)	–	(20,388)
Closing net book amount	168,888	242	4,566	1,102	8,302	20,264	203,364
As at 31 December 2013							
Cost	243,998	344	14,928	3,257	19,421	20,264	302,212
Accumulated depreciation	(75,110)	(102)	(10,362)	(2,155)	(11,119)	–	(98,848)
Net book amount	168,888	242	4,566	1,102	8,302	20,264	203,364
Year ended 31 December 2014							
Opening net book amount	168,888	242	4,566	1,102	8,302	20,264	203,364
Additions	9,760	–	2,587	168	2,103	97,533	112,151
Disposals	–	–	(66)	(5)	(78)	–	(149)
Transfer	3,514	–	–	–	–	(3,514)	–
Depreciation	(22,983)	(13)	(1,088)	(739)	(1,935)	–	(26,758)
Closing net book amount	159,179	229	5,999	526	8,392	114,283	288,608
As at 31 December 2014							
Cost	257,272	344	15,691	2,867	22,528	114,283	412,985
Accumulated depreciation	(98,093)	(115)	(9,692)	(2,341)	(14,136)	–	(124,377)
Net book amount	159,179	229	5,999	526	8,392	114,283	288,608

(a) *No property, plant and equipment were pledged as collaterals for the Group's borrowings as at 31 December 2014 (31 December 2013: Nil).*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

15 DEFERRED INCOME TAX

- (a) Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset and when the deferred income taxes relate to the same tax authority. The analysis of deferred income tax assets and liabilities after offsetting is as follows:

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Deferred income tax assets:		
– to be recovered after 12 months	1,172	1,440
– to be recovered within 12 months	241	314
	1,413	1,754
Deferred income tax liabilities:		
– to be settled after 12 months	(6,461)	(5,242)
– to be settled within 12 months	(29)	(966)
	(6,490)	(6,208)
Deferred tax liabilities (net)	(5,077)	(4,454)

- (b) The net movements on the deferred income tax account is as follows:

	As at 31 December	
	2014 RMB'000	2013 RMB'000
At the beginning of the year	(4,454)	(5,365)
Recognised in the consolidated statement of comprehensive income	(623)	911
At the end of the year	(5,077)	(4,454)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

15 DEFERRED INCOME TAX (CONTINUED)

- (c) Movement in deferred income tax assets during the year ended 31 December 2014, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Accrued expenses and deferred revenue	Tax losses	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred income tax assets				
As at 1 January 2013	2,244	1,423	216	3,883
Recognised in the consolidated statement of comprehensive income	3,341	(1,423)	164	2,082
As at 31 December 2013	5,585	–	380	5,965
Recognised in the consolidated statement of comprehensive income	(1,946)	354	1,833	241
As at 31 December 2014	3,639	354	2,213	6,206

- (d) Movement in deferred income tax liabilities during the year ended 31 December 2014, without taking into consideration the offsetting of balances within the same tax jurisdiction, as follows:

	Accelerated tax depreciation	Deferred assets	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred income tax liabilities				
As at 1 January 2013	8,990	258	–	9,248
Recognised in the consolidated statement of comprehensive income	889	282	–	1,171
As at 31 December 2013	9,879	540	–	10,419
Recognised in the consolidated statement of comprehensive income	794	(133)	203	864
As at 31 December 2014	10,673	407	203	11,283

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

15 DEFERRED INCOME TAX (CONTINUED)

In accordance with the PRC tax law, tax losses may be carried forward to offset against future taxable income for a period of five years. As at 31 December 2014, the Group did not recognise deferred income tax assets of RMB8,860,000 (2013: RMB6,614,000) in respect of losses amounting to approximately RMB36,126,000 (2013: RMB26,456,000), as it is uncertain that future taxable profit will be available against which the tax losses can be utilised. These tax losses will expire between 2015 and 2020.

Deferred income tax liabilities of RMB8,881,000 (2013: RMB4,723,000) have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain PRC subsidiaries. Such amounts are planned for reinvestment in the foreseeable future. Unremitted earnings totalled RMB88,881,000 at 31 December 2014 (2013: RMB47,226,000).

16 DEFERRED ASSETS

Rental income is recognised on an accruals basis by averaging out the impact of rent-free periods, contracted rental escalations and such other terms affecting the cash received from rental income under each tenancy agreement. Thus, rental income is recognised on a straight-line basis for the entire lease term of each tenancy agreement, which effectively amortises the impact of rent-free periods, contracted rental escalations and other relevant terms on the rental income over the relevant lease periods. The difference between the rental income as set out in the lease agreements and accounting rental income is reflected as deferred assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

17 INVESTMENT IN A SUBSIDIARY

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Investment, at cost – unlisted shares	28,000	28,000

The following is a list of the principal subsidiaries as at 31 December 2014:

Name of the company	Country/date of incorporation/ establishment and kind of legal entity	Issued/ registered and paid up capital	Principal activities and place of operations	Interest held
Subsidiaries – Incorporated in the British Virgin Islands (the “BVI”) and directly owned				
Mentor Asia Limited	BVI, 15 June 2000 limited liability company	US\$10,000	Investment holding, BVI	100%
Subsidiaries – Incorporated in the Hong Kong and indirectly owned				
Intelligence Link Limited	Hong Kong, 3 May 1994 limited liability company	HK\$10,000	Investment holding, Hong Kong	100%
Subsidiaries – Incorporated in the PRC and indirectly owned				
中山市朗華模具塑料有限公司 Zhongshan Lonwalk Mould Plastic Co. Ltd.*	PRC, 16 October 2000 limited liability company	RMB40,000,000	Investment holding, PRC	100%
廣東益華百貨有限公司 Yihua Department Store Limited*	PRC, 24 October 1994 limited liability company	RMB57,000,000	Department store operation, PRC	100%
中山市古鎮益華百貨有限公司 Zhongshan Guzhen Yihua Department Store Limited*	PRC, 29 March 2006 limited liability company	RMB5,000,000	Department store operations, PRC	100%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

17 INVESTMENT IN A SUBSIDIARY (CONTINUED)

Name of the company	Country/date of incorporation/ establishment and kind of legal entity	Issued/ registered and paid up capital	Principal activities and place of operations	Interest held
Subsidiaries – Incorporated in the PRC and indirectly owned (continued)				
江門市益華百貨有限公司 Jiangmen Yihua Department Store Limited*	PRC, 24 August 2004 limited liability company	RMB5,000,000	Department store operations, PRC	100%
江門市益華世家家居有限公司 Jiangmen Yihua Shijia Jiaju Limited*	PRC, 11 September 2013 limited liability company	RMB5,000,000	Furniture store operations, PRC	100%
清遠城市廣場益華百貨有限公司 Qingyuan City Plaza Yihua Department Store Limited*	PRC, 3 August 2007 limited liability company	RMB5,000,000	Department store operations, PRC	100%
韶關市益華百貨有限公司 Shaoguan Yihua Department Store Limited*	PRC, 3 August 2007 limited liability company	RMB5,000,000	Department store operations, PRC	59%
中山市益華廣場管理有限公司 Zhongshan Yihua Plaza Management Company Limited*	PRC, 1 April 2003 limited liability company	RMB5,000,000	Investment holding, PRC	100%
鎮江市益華百貨有限公司 Zhengjiang Yihua Department Store Limited*	PRC, 5 June 2013 limited liability company	RMB5,000,000	Department store operations, PRC	100%
中山市益華世家家居有限公司 Zhongshan Yihua Shijia Jiaju Limited*	PRC, 11 September 2012 limited liability company	RMB5,000,000	Furniture store operations, PRC	100%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

17 INVESTMENT IN A SUBSIDIARY (CONTINUED)

Name of the company	Country/date of incorporation/ establishment and kind of legal entity	Issued/ registered and paid up capital	Principal activities and place of operations	Interest held
Subsidiaries – Incorporated in the PRC and indirectly owned (continued)				
陽春市益華百貨有限公司 Yangchun Yihua Department Store Limited*	PRC, 28 September 2012 limited liability company	RMB1,000,000	Department store operations, PRC	100%
中山市太陽城益華有限公司 Zhongshan Taiyangcheng Yihua Department Store Limited*	PRC, 9 November 2012 limited liability company	RMB1,000,000	Department store operations, PRC	100%
泰安益華商業有限公司 Tai'an Yihua Commercial Limited*	PRC, 10 December 2012 limited liability company	RMB1,000,000	Department store operations, PRC	100%
英德市益華百貨有限公司 Yingde Yihua Department Store Limited*	PRC, 9 March 2011 limited liability company	RMB1,000,000	Department store operations, PRC	100%
陽江益華百貨有限公司 Yangjiang Yihua Department Store Limited*	PRC, 1 April 2013 limited liability company	RMB5,000,000	Department store operations, PRC	100%
陽江益華世家居有限公司 Yangjiang Yihua Shijia Jiaju Limited*	PRC, 6 May 2013 limited liability company	RMB5,000,000	Furniture store operations, PRC	100%
恩平益華百貨有限公司 Enping Yihua Department Store Limited*	PRC, 16 April 2014 limited liability company	RMB5,000,000	Department store operations, PRC	100%

* The English name of the subsidiaries represents the best effort by the management of the Group in translating their Chinese name as they do not have an official English name.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

18 INVENTORIES

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Merchandise held for direct sales	91,015	97,002
Low value consumables	1,100	1,074
	92,115	98,076

The cost of inventories recognised as purchase and changes in inventories amounted to approximately RMB332,123,000 for the year ended 31 December 2014 (2013: RMB356,883,000).

19 TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES

The Group

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Trade receivables	17,466	18,111
Receivables from sales of consumption cards and arrangements with mobile telecommunications service provider	5,403	3,010
Other receivables	37,998	11,401
Prepayments	70,409	40,754
Rental and other deposits	10,074	14,495
	141,350	87,771
Less: non-current portion of prepayments and other receivables	(59,718)	(26,475)
	81,632	61,296

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

19 TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES (CONTINUED)

The Company

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Other receivables	267	4,280
Prepayments	716	–
	983	4280

- (a) The carrying amounts of the Group's and the Company's trade and other receivables as at 31 December 2014 and 2013 approximate their fair values.
- (b) The Group's and the Company's trade and other receivables (excluding prepayments) were denominated in following currencies:

	The Group As at 31 December		The Company As at 31 December	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
RMB	70,674	42,737	–	–
HK\$	267	4,280	267	4,280
	70,941	47,017	267	4,280

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

19 TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES (CONTINUED)

- (c) As at 31 December 2014 and 2013, the aging analysis of trade receivables were as follows:

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Trade receivables, gross		
– Within 2 months	16,436	17,374
– Over 2 months	1,030	737
	17,466	18,111

- (d) The balance of trade receivables mainly included management fee and service income from concessionaires and other lessees, the credit terms of which are generally within 30 to 60 days.
- (e) As at 31 December 2014, trade receivables of approximately RMB1,030,000 (2013: RMB737,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The credit quality of trade receivables neither past due nor impaired has been assessed by reference to historical default rates of the counterparties.
- (f) The maximum exposure to credit risk as at the balance sheet date is the fair value of each class of receivable mentioned above. The Group does not hold any collateral as security.
- (g) None of these trade and other receivables was impaired as at 31 December 2014 and 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

20 DISCONTINUED OPERATIONS

	Year ended 31 December 2014 RMB'000	For the period from 1 January 2013 to 18 November 2013 RMB'000
Profit for the year/period from discontinued operations:		
Attributable to:		
– Equity holders of the Company	–	982
– Non-controlling interests	–	1,022
	–	2,004

The assets and liabilities related to Shao Guan Central Plaza Management Limited (“Shaoguan Central Management”), a 49% owned subsidiary, have been presented as held for sale since 31 December 2011 following the approval by the board in 2011. On 18 November 2013, the Group disposed of its entire equity interest in Shaoguan Central Management to a third party.

- (a) The operating results of Shaoguan Central Management, which have been included in the consolidated statements of comprehensive income, are as follows:

	Year ended 31 December 2014 RMB'000	For the period from 1 January 2013 to 18 November 2013 RMB'000
Revenue	–	4,212
Expenses	–	(2,208)
Total profit before tax	–	2,004
Income tax expenses	–	–
Net profit for the period	–	2,004

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

20 DISCONTINUED OPERATIONS (CONTINUED)

(b) The cash flows of Shaoguan Central Management for the year/period are as follows:

	Year ended 31 December 2014 RMB'000	For the period from 1 January 2013 to 18 November 2013 RMB'000
Cash and cash equivalents at beginning of the year/period	–	1,052
Net cash used in from operating activities	–	(517)
Net cash used in investing activities	–	(113)
Net cash generated from financing activities	–	9,900
Cash and cash equivalents at end of the year/period	–	10,322

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

20 DISCONTINUED OPERATIONS (CONTINUED)

- (c) The details of assets and liabilities disposed of and the disposal consideration were as follows:

	As at 18 November 2013 RMB'000
Property, plant and equipment	12
Trade and other receivables	1,019
Cash and cash equivalents	10,322
Trade and other payables	(15,731)
Net liabilities	(4,378)
Less: share of non-controlling shareholders	2,233
Net liabilities attributable to equity holders of the Company	(2,145)
Disposal consideration:	
– Cash consideration receivable	245
– Liabilities assumed	(2,728)
	(2,483)
Loss from disposal of a subsidiary recorded in profit or loss	(338)
Net cash outflow arising from disposal	10,322

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

21 RESTRICTED CASH

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Restricted cash	25,191	25,310

All restricted cash was denominated in RMB. As at 31 December 2014 and 2013, all the restricted cash was deposited in a designated bank account for the pledge of notes payable issued.

22 CASH AND CASH EQUIVALENTS

	The Group As at 31 December		The Company As at 31 December	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Cash at bank	114,695	196,892	21,701	86,245
Short-term bank deposits	–	24,927	–	–
Cash on hand	5,569	6,400	–	–
	120,264	228,219	21,701	86,245

The Group's and the Company's cash and cash equivalents were denominated in following currencies:

	The Group As at 31 December		The Company As at 31 December	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
RMB	98,951	220,173	451	78,199
HK\$	21,312	8,046	21,250	8,046
USD	1	–	–	–
	120,264	228,219	21,701	86,245

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

23 SHARE CAPITAL

Authorised share capital

	Number of ordinary shares	Nominal value of ordinary shares HK\$	Equivalent nominal value of ordinary shares RMB
As at 1 January 2013	38,000,000	380,000	308,636
Increase in authorised share capital (Note (a))	740,000,000	7,400,000	5,817,880
As at 31 December 2013 and 2014	778,000,000	7,780,000	6,126,516

Issued share capital

	Number of ordinary shares	Nominal value of ordinary shares HK\$	Equivalent nominal value of ordinary shares RMB
As at 1 January 2013	3	0.03	–
Allotment of shares pursuant to the Reorganisation	9,997	99.97	–
Shares issued pursuant to the Placing and Public Offer (Note (b))	90,000,000	900,000	707
Shares issued under capitalisation issue (Note (c))	269,990,000	2,699,900	2,123
As at 31 December 2013 and 2014	360,000,000	3,600,000	2,830

- (a) Pursuant to a written board resolution on 12 November 2013, the authorised share capital of the Company was increased from HK\$380,000 divided into 38,000,000 shares of par value HK\$0.01 each to HK\$7,780,000 divided into 778,000,000 share of par value HK\$0.01 each by the creation of an additional 740,000,000 shares.
- (b) In connection with the initial public offering of the shares of the Company, 90,000,000 shares of HK\$0.01 each were issued at a price of HK\$1.4 per share for a total cash consideration, before listing expenses, of HK\$126,000,000 (equivalent to RMB99,061,000).
- (c) Pursuant to a written board resolution on 12 November 2013, an aggregate of 269,990,000 shares of HK\$0.01 each were issued, credited as fully paid at par, by way of capitalisation of the sum of HK\$2,699,900 (equivalent to RMB2,123,000) from the share premium account.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

24 OTHER RESERVES

The Group

	Share premium RMB'000	Statutory reserve RMB'000 (Note a)	Capital reserve RMB'000 (Note b)	Total RMB'000
Balance as at 1 January 2013	–	7,868	14,905	22,773
Reorganisation and capital contribution from shareholders	–	–	1,345	1,345
Shares issued pursuant to the Placing and Public Offer	87,622	–	–	87,622
Shares issued under capitalisation issue	(2,123)	–	–	(2,123)
Appropriation to reserve fund	–	4,203	–	4,203
Balance as at 31 December 2013	85,499	12,071	16,250	113,820
Balance as at 1 January 2014	85,499	12,071	16,250	113,820
Appropriation to statutory reserve	–	373	–	373
Liquidation of a subsidiary	–	(110)	–	(110)
Balance as at 31 December 2014	85,499	12,334	16,250	114,083

The Company

	Share premium RMB'000	Capital reserve RMB'000	Total RMB'000
Balance as at 1 January 2013	–	–	–
Reorganisation and capital contribution from shareholders	–	28,000	28,000
Shares issued pursuant to the Placing and Public Offer (Note 23(b))	87,622	–	87,622
Shares issued under the capitalisation issue (Note 23(c))	(2,123)	–	(2,123)
Balance as at 31 December 2013 and 2014	85,499	28,000	113,499

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

24 OTHER RESERVES (CONTINUED)

(a) Appropriation to reserve fund

In accordance with relevant rules and regulations in the PRC, except for sino-foreign equity joint venture enterprises, all PRC companies are required to transfer 10% of their profit after taxation calculated under PRC accounting rules and regulations to the statutory reserve fund, until the accumulated total of the fund reaches 50% of their registered capital. The statutory reserve fund can only be used, upon approval by the relevant authority, to offset previous years' losses or to increase the capital of respective companies.

(b) Capital reserve

This balance mainly represented accumulated capital contribution from shareholders of the Group.

(c) Accumulated losses of the Company

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
At beginning of the year	(1,125)	(1,845)
(Loss)/profit for the year	(4,405)	720
As end of the year	(5,530)	(1,125)

For the year ended 31 December 2014, the profit attributable to the equity holders of the Company is dealt with in the financial statements of the Company to the extent of Loss of RMB4,405,000 (31 December 2013: profit of RMB720,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

25 TRADE AND OTHER PAYABLES

The Group

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Trade payables	68,469	65,161
Notes payable	44,750	37,700
Staff salaries, bonuses and welfare payables	9,995	8,302
Payables to concessionaires and lessees	157,263	144,718
Other taxes and surcharges payable	15,237	12,613
Rental and other deposits	14,125	13,156
Payables for construction costs	12,848	24,556
Others	24,764	23,397
	347,451	329,603
Less: non-current portion of other payables	(9,398)	(5,469)
	338,053	324,134

The Company

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Other payables	286	3,321

The Group's and the Company's trade and other payables excluding other taxes and surcharges payable were denominated in following currencies:

	The Group As at 31 December		The Company As at 31 December	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
RMB	331,928	313,669	–	–
HK\$	286	3,321	286	3,321
	332,214	316,990	286	3,321

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

25 TRADE AND OTHER PAYABLES (CONTINUED)

- (a) The fair value of trade and other payables approximated their carrying amounts due to their short maturities.
- (b) As at 31 December 2014 and 2013, the aging analysis of trade payables were as follows:

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Trade payables		
– Within 3 months	61,466	59,820
– Over 3 months	7,003	5,341
	68,469	65,161

26 BORROWINGS

	The Group As at 31 December		The Company As at 31 December	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Non-current				
Bonds – unsecured (Note (a))	19,412	–	19,412	–
Current				
Short-term bank borrowings				
– secured (Note (b))	77,000	–	–	–
Total borrowings	96,412	–	19,412	–

- (a) On 17 November 2014, the Company issued 7.0% bond due 17 November 2017 in the nominal value of HK\$25,000,000 (equivalent to RMB19,758,000).
- (b) The short-term bank borrowings are secured by guarantees given by the Company and subsidiaries within the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

26 BORROWINGS (CONTINUED)

(c) The carrying amount of the Group's current borrowings was denominated in RMB. The carrying amount of the Group's long-term bonds was denominated in HK\$.

(d) The effective interest rate of the Group's total borrowings was as follows:

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Bonds, unsecured	7.83%	–
Short-term bank borrowings, secured	6.92%	–

(e) The maturities of the Group's borrowings at balance sheet date are set out as follows:

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Within one year	77,000	–
Between two and five years	19,412	–
	96,412	–

(f) The Group's borrowings as at 31 December 2014 (31 December 2013: Nil) are all wholly repayable within 5 years.

(g) The fair value of the Group's borrowings approximates to their carrying amounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

27 CASH GENERATED FROM OPERATIONS

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
Continuing operations		
Profit before income tax	45,180	27,561
Adjustments for:		
Depreciation of property, plant and equipment	26,758	20,388
Amortisation of computer software	82	24
Finance income	(1,622)	(1,640)
Finance costs	2,369	1,183
(Gain)/loss from sale of property, plant and equipment	(38)	17
Gains from property related income	(23,592)	–
Loss from disposal of a subsidiary	–	338
Changes in working capital:		
Trade receivables, prepayment and other receivables, amounts due from related parties	(33,427)	3,938
Inventories	5,961	(4,298)
Deferred assets	534	(1,207)
Trade and other payables, amounts due to related parties, deferred revenue and advances from customers	(66,433)	(15,301)
Restricted cash	119	(10,213)
Cash (used in)/generated from continuing operations	(44,109)	20,790
Discontinued operations		
Profit before income tax	–	2,004
Adjustments for:		
Finance income	–	(3)
Financial costs	–	1
Changes in working capital:		
Trade and other receivables	–	(592)
Trade and other payables	–	(1,927)
Cash used in discontinued operations	–	(517)
Cash (used in)/generated from operations	(44,109)	20,273

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

28 FINANCIAL INSTRUMENTS BY CATEGORY

	The Group	
	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Loans and receivables		
– Deferred assets	1,626	2,160
– Trade and other receivables excluding prepayments	70,941	47,017
– Amounts due from related parties	59,649	45,801
– Restricted cash	25,191	25,310
– Cash and cash equivalents	120,264	228,219
	277,671	348,507

	The Group	
	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Financial liabilities at amortised cost		
– Trade and other payables excluding non-financial liabilities	332,214	316,990
– Amounts due to related parties	1,613	1,990
– Borrowings	96,412	–
	430,239	318,980

29 CONTINGENCIES

As at 31 December 2014, the Group and the Company did not have any significant contingent liabilities (31 December 2013: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

30 COMMITMENTS

The Group

(a) Capital commitments

Capital expenditure of the Group contracted for at each consolidated balance sheet date, but not yet incurred is as follows:

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Property, plant and equipment	1,706	10,208

(b) Operating lease commitments

The Group leases various buildings for operations under non-cancellable operating lease agreements. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December	
	2014 RMB'000	2013 RMB'000
– Within 1 year	67,316	24,131
– 1 to 5 years	30,117	24,227
– Over 5 years	55,481	34,171
	152,914	82,529

The above lease commitments only include commitments for basic rentals or fixed rentals, and do not include commitments for additional rental payable (contingent rents), if any, which are to be determined generally by applying predetermined percentages to future sales as it is not possible to determine in advance the amount of such additional rentals.

The Group also entered several long-term lease agreements with lessors, lease period of which varied from 3 years to 19 years. According to these agreements, the Group shall negotiate and agree rental with lessors annually.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

30 COMMITMENTS (CONTINUED)

The future minimum lease income under non-cancellable operating leases is as follows:

	As at 31 December	
	2014 RMB'000	2013 RMB'000
– Within 1 year	10,060	11,866
– 1 to 5 years	11,467	15,646
– Over 5 years	233	–
	21,760	27,512

31 RELATED PARTIES AND SIGNIFICANT RELATED PARTY TRANSACTIONS

The ultimate controlling individual of the Company is Mr. Chen Daren.

The Directors of the Company are of the view that the following companies were related parties that had significant transactions or balances with the Group.

Name	Relationship with the Group
廣東益華集團投資有限公司 Guangdong Yihua Group Investment Company Limited (“Yihua Investment”)	A company controlled by Mr. Chen Daren
廣東益華廣場管理有限公司 Guangdong Yihua Plaza Management Limited	A company controlled by Mr. Chen Daren
中山市京華世紀酒店有限公司 Zhongshan King Century Hotel Limited	A company controlled by Mr. Chen Daren
中山市古鎮國貿大酒店有限公司 Zhongshan Guzhen International Hotel Limited	A company controlled by Mr. Chen Daren
中山市新都酒店有限公司 Zhongshan Xindu Hotel Limited	A company controlled by Mr. Chen Daren
江門市金匯世紀廣場物業管理有限公司 Jiangmen Jinhui Century Plaza Property Management Limited	A company controlled by Mr. Chen Daren

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

31 RELATED PARTIES AND SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

Name	Relationship with the Group
江門市逸豪酒店有限公司 Jiangmen Yihao Hotel Limited	A company controlled by Mr. Chen Daren
中山威信置業有限公司 Zhongshan Weixin Investment Co. Limited	A company controlled by Mr. Chen Daren
中山市怡華集團有限公司 Zhongshan Yihua Group Company Limited	A company controlled by Mr. Chen Daren
中山市阜沙國貿逸豪酒店有限公司 Zhongshan Fusha International Trade Yucca Hotel Company Limited	A company controlled by Mr. Chen Daren
中山市朗華物業管理有限公司 Zhongshan Lonwalk Property Management Co., Limited	A company controlled by Mr. Chen Daren
泰安益華置業開發有限公司 Tai'an Yihua Property Development Company Limited	A company controlled by Mr. Chen Daren
江門市國金餐飲服務有限公司 Jiangmen Guojin Restaurant Catering Limited	A company controlled by Mr. Chen Daren
陽江市宏圖物業管理有限公司 Yangjiang Hongtu Property Management Co., Limited	A company jointly controlled by Mr. Chen Daren and third parties
陽江宏高房地產發展有限公司 Yangjiang Honggao Real-Estate Development Co., Limited	A company jointly controlled by Mr. Chen Daren and third parties
鎮江逸豪置業有限公司 Zhenjiang Yihao Estate Limited	A company controlled by Mr. Chen Daren
鎮江華龍廣場置業有限公司 Zhenjiang Hualong Plaza Properties Company Limited	A company controlled by Mr. Chen Daren
鎮江逸豪京華美食城有限公司 Zhenjiang Yihao King Food Company Limited	A company controlled by Mr. Chen Daren
江蘇益華廣場管理有限公司 Jiangsu Yihua Plaza Management Limited	A company controlled by Mr. Chen Daren

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

31 RELATED PARTIES AND SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Significant transactions with related parties

During the year ended 31 December 2014, the Group had the following significant transactions with related parties:

(i) Rental expenses and property management fee

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
Companies controlled by Mr. Chen Daren	53,183	45,906
Companies jointly controlled by Mr. Chen Daren and third parties	4,527	1,274
	57,710	47,180

(ii) Purchases of service

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
Companies controlled by Mr. Chen Daren	1,365	1,320

(iii) Sales of goods

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
Companies controlled by Mr. Chen Daren	2,139	941

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

31 RELATED PARTIES AND SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Balances with related parties

The Group

Amounts due from related parties

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Companies controlled by Mr. Chen Daren	54,087	42,838
Companies jointly controlled by Mr. Chen Daren and third parties	5,562	2,963
	59,649	45,801

Amounts due to related parties

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Companies controlled by Mr. Chen Daren	1,613	1,990

(c) Key management compensation

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
Basic salaries and allowances	8,716	8,515
Discretionary bonuses	322	411
Other benefits including retirement benefit contribution	599	370
	9,637	9,296