紅星美凱龍家居集團股份有限公司
Red Star Macalline Group Corporation Ltd.

(A SINO-FOREIGN JOINT STOCK COMPANY INCORPORATED IN THE PEOPLE'S REPUBLIC OF CHINA WITH LIMITED LIABILITY)

STOCK CODE : 1528

DESIGNED FOR CHINA

為中國生活設計

Annual Report

2016

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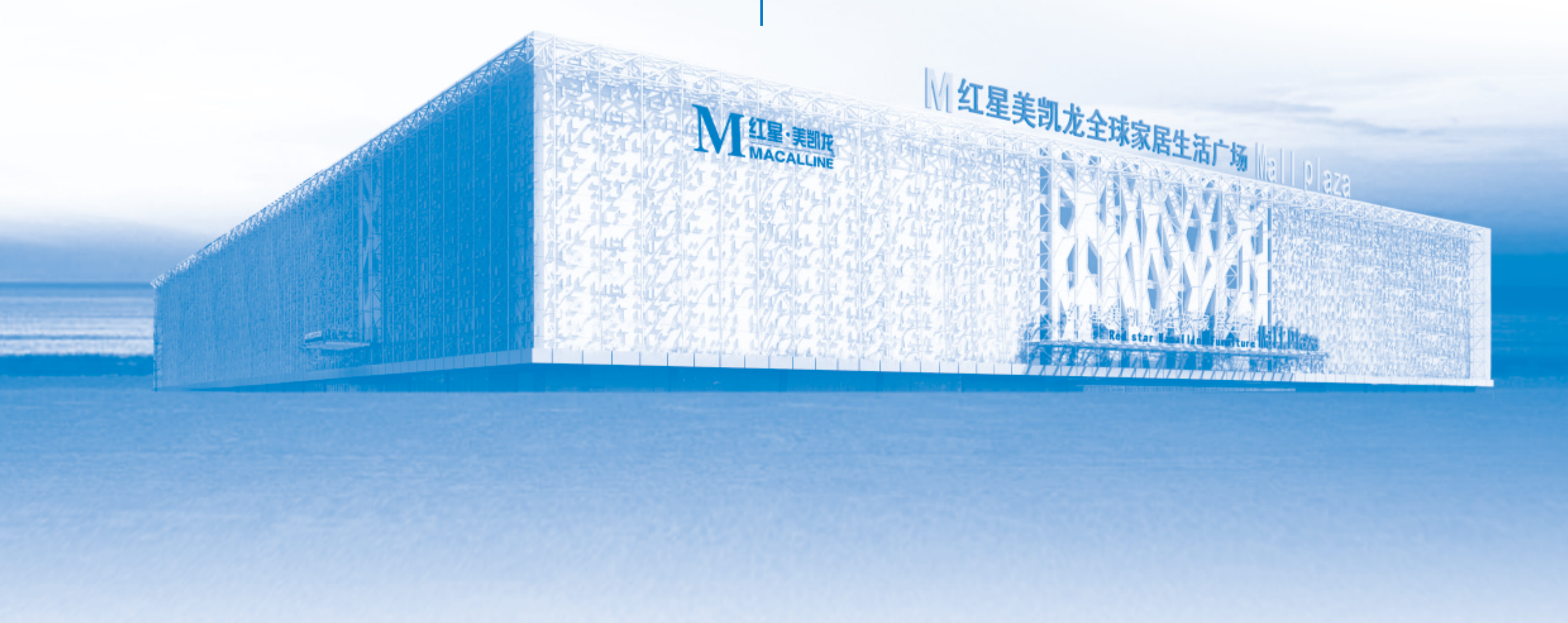


Company Profile

The Company was founded in 2007, and its shares were listed on the Main Board of the Hong Kong Stock Exchange in June 2015 (Stock Code: 1528).

As a leading home improvement and furnishings shopping mall operator in China, the Group mainly engages in the business of offering comprehensive services to the merchants, consumers and partners of the home improvement and furnishings shopping malls under “Red Star Macalline” through the operation and management of both Portfolio Shopping Malls and Managed Shopping Malls. The Group is also involved in pan-home furnishings consumption, including internet home decoration, internet retail, as well as logistics and delivery services.

According to the statistics of Frost & Sullivan, the Group is a nationwide home improvement and furnishings shopping mall operator in China which ranks first in terms of area of operational premises, the number of malls, and the geographic coverage. As at the end of the Reporting Period, we operated 200 shopping malls with a total operating area of 12,692,393 sq.m. in 142 cities in 28 provinces, municipalities and autonomous regions in China. The malls offer more than 18,000 brands in total. According to the statistics of Frost & Sullivan, in 2016, the Group had a 11.8% market share in the chain home improvement and furnishings retail mall sector and a 4.5% mall sector market share, owning the largest relevant market share in China’s rapidly growing home improvement and furnishings retail industry.

The Group has been committed to “building warm and harmonious homes and enhancing taste for consumption and home life”, and will continue to follow the operation and management mode of “market-oriented and shopping-mall-based management”. The Company will further strengthen its cooperation with home improvement and furnishings manufacturers and distributors, and persistently optimize the structure of brands operated by us in home improvement and furnishings shopping malls. We are able to provide consumers with better services and better understandings of the home culture philosophy.

In the future, the Group will continue to implement the two-pronged business model, with a focus on continuing development of our asset-light business model and strategically expanding our shopping mall network nationwide in order to further enhance our market share, and thereby persistently strengthening our market leadership in China’s home improvement and furnishings industry. Meanwhile, we will gradually expand the application of the Internet pan-home improvement and furnishings consumption business based on our physical shopping malls network and strengthen the “Red Star Macalline” brand as the expert of home living in the minds of consumers with integrated online and offline operations. As such, the Company aims at becoming China’s most professional and advanced “omni-channel platform provider in home improvement and furnishings industry”.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. CHE Jianxing *(Chairman)*

Ms. ZHANG Qi *(Vice Chairman)*

Ms. CHE Jianfang

Mr. JIANG Xiaozhong

Non-executive Directors

Ms. CHEN Shuhong

Mr. XU Guofeng

Mr. Joseph Raymond GAGNON

Mr. ZHANG Qiqi

Independent Non-executive Directors

Mr. LI Zhenning

Mr. DING Yuan

Mr. LEE Kwan Hung

Mr. QIAN Shizheng (Appointed on 19 April 2016)

Mr. ZHOU Qinye (Resigned on 19 April 2016)

SUPERVISORS

Mr. PAN Ning *(Chairman)*

Ms. NG Ellen Hoi Ying

Ms. CHAO Yanping

Mr. ZHENG Hongtao (Appointed on 31 January 2016)

Mr. CHEN Gang (Appointed on 31 January 2016)

AUDIT COMMITTEE

Mr. DING Yuan *(Chairman)*

Mr. QIAN Shizheng (Appointed on 19 April 2016)

Mr. LI Zhenning

Mr. ZHOU Qinye (Resigned on 19 April 2016)

REMUNERATION AND EVALUATION COMMITTEE

Mr. QIAN Shizheng *(Chairman)* (Appointed on 19 April 2016)

Mr. CHE Jianxing

Mr. LI Zhenning

Mr. ZHOU Qinye *(Chairman)* (Resigned on 19 April 2016)

NOMINATION COMMITTEE

Mr. LI Zhenning *(Chairman)*

Mr. CHE Jianxing

Mr. LEE Kwan Hung

STRATEGY AND INVESTMENT COMMITTEE

Mr. CHE Jianxing *(Chairman)*

Ms. ZHANG Qi

Mr. JIANG Xiaozhong

Mr. ZHANG Qiqi

Mr. LI Zhenning

COMPANY SECRETARY

Mr. GUO Binghe

ASSISTANT COMPANY SECRETARY

Ms. LEUNG Suet Lun

AUTHORIZED REPRESENTATIVES

Mr. CHE Jianxing

Mr. GUO Binghe

REGISTERED OFFICE

Suite F801, 6/F
No. 518, Linyu Road
Pudong New District
Shanghai, the PRC

HEADQUARTERS IN THE PRC

9/F Red Star World Trade Building
No. 598, Nujiang Road North
Putuo District
Shanghai, the PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

36/F, Tower 2
Times Square
1 Matheson Street
Causeway Bay
Hong Kong

H SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wan Chai Hong Kong

LEGAL ADVISORS

As to Hong Kong and United States law

Davis Polk & Wardwell
Hong Kong Solicitors
The Hong Kong Club Building
3A Chater Road
Hong Kong

As to the PRC law

Llinks Law Offices
19/F One Lujiazui
68 Yin Cheng Road Middle
Shanghai 200120
The PRC

COMPLIANCE ADVISOR

Anglo Chinese Corporate Finance, Limited
40/F, Two Exchange Square
8 Connaught Place
Central
Hong Kong

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F, One Pacific Place
88 Queensway
Hong Kong

PRINCIPAL BANKS

Industrial and Commercial Bank of China

Shanghai Branch Banking Department
No. 24 Zhongshan Dongyi Road
Shanghai, the PRC

Minsheng Bank

Shanghai South Branch
No. 550 Xujiahui Road
Shanghai, the PRC

Bank of Communication

Shanghai West Branch
No. 350 Jiangning Road
Shanghai, the PRC

Bank of China

Wuxi Xishan Branch
No. 82 Xiuhuzhong Road
Wuxi, the PRC

STOCK CODE

1528

COMPANY'S WEBSITE

www.chinaredstar.com

Financial and Operational Highlights

FINANCIAL HIGHLIGHTS

	For the year ended 31 December	
	2016	2015
	(Audited)	*(Audited)*
	(in thousands of RMB, except otherwise stated)	
Revenue	**9,282,393**	8,756,120
Gross Profit	**6,624,221**	6,514,139
Gross profit margin	**71.4%**	74.4%
Profit attributable to owners of the Company	**4,036,269**	4,098,068
Profit margin attributable to owners of the Company	**43.5%**	46.8%
Core net profit attributable to owners of the Company (1)	**2,554,746**	2,552,735
Core net profit margin attributable to owners of the Company (2)	**27.5%**	29.2%
Earnings per share (basic)	**RMB1.11**	RMB1.22
Dividend per share (tax inclusive)	**RMB0.42**	RMB0.47

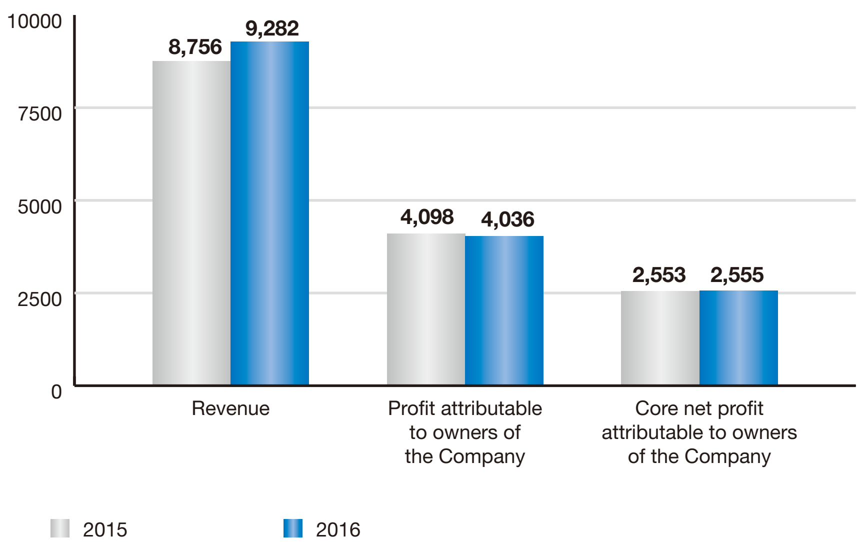
Notes:

(1) Core net profit attributable to owners of the Company represents the profits attributable to owners of the Company after deducting the after-tax effects of changes in fair values of investment properties, other income, other gains and losses and other expenses etc., which are not related to daily operating activities.

(2) Core net profit margin attributable to owners of the Company represents the ratio of core net profits attributable to owners of the Company divided by revenue.

Key Financial Performance Indicators

RMB million



OPERATIONAL HIGHLIGHTS

	As at 31 December 2016	As at 31 December 2015
Number of shopping malls	**200**	177
Operating area of shopping malls (sq. m.)	**12,692,393**	11,660,468
Number of Portfolio Shopping Malls	**66**	55
Operating area of Portfolio Shopping Malls (sq. m.)	**5,083,326**	4,386,128
Average occupancy rate of Portfolio Shopping Malls	**96.7%**	94.1%
Number of Managed Shopping Malls	**134**	122
Operating area of Managed Shopping Malls (sq. m.)	**7,609,067**	7,274,340
Average occupancy rate of Managed Shopping Malls	**96.2%**	92.7%

Chairman's Statement

Dear Shareholders:

The year of 2016 embraced the first anniversary of Red Star Macalline Group Corporation Ltd.'s listing on the Hong Kong Stock Exchange. During the year, the management of the Company has led all the Red Star Macalline staff by virtue of unity, progressiveness and innovative spirit and have achieved brilliant results.

In 2016, the Group's revenue amounted to RMB9,282 million; profit attributable to owners of the Company amounted to RMB4,036 million; and core net profit attributable to owners of the Company amounted to RMB2,555 million. We are willing to share our development outcomes with shareholders while enjoying satisfactory financial results. It was pleased to announce at the 2016 Board meeting that the 2016 cash dividend per share was RMB0.42 (tax inclusive), representing a 60% dividend payout ratio of core net profit attributable to owners of the Company.

In recent years, with the continuous increase of China's national income, and people's higher requirement in quality life, the home improvement and furnishings industry has entered into a 10-year golden period. We should capitalize on the development opportunities arising from the home improvement and furnishings industry, continue to enhance our leading position in the home improvement and furnishings industry, grow into a new benchmark retailer in the home improvement and furnishings industry to lead the industry in its evolvement.

CAPITALIZING ON THE DEVELOPMENT OPPORTUNITIES ARISING FROM THE HOME IMPROVEMENT AND FURNISHINGS INDUSTRY

- Home furnishing is closely related with people's daily life and standard of living. Along with the growth in disposable income, people's enhanced standard of living and higher requirement in quality life, the home furnishing market in China has experienced a rapid development in the past five years.

  According to the independent authoritative market research institutions, in 2016, the total retail sales of China's home improvement and furnishings industry reached a high level of nearly RMB4 trillion; however, when it comes to per capita consumption, there is still an obvious gap between China and developed countries, such as the United States and the United Kingdom. Along with the continued steady growth in China's macro economy and people's constantly enhanced taste and requirement in living, the home improvement and furnishings industry has entered into a 10-year golden period, and will grow rapidly at a pace faster than that of GDP growth in the coming five years.

CONSOLIDATING OUR LEADING POSITION IN THE HOME IMPROVEMENT AND FURNISHINGS INDUSTRY

- According to the independent authoritative market research institutions, we are a nationwide home improvement and furnishings shopping mall operator in China which ranks first in terms of area of operational premises, the number of malls, the geographic coverage, and with the most relevant market share in China's rapidly growing home improvement and furnishings retail industry. As at the end of the Reporting Period, we have operated 200 shopping malls in mainland China with a total operating area of more than 12.7 million sq.m.. However, compared with the home furnishing markets in United States and other developed countries, the market concentration of home furnishings industry in mainland China is significantly lower. As one of the most influential home furnishings enterprises in mainland China, we not only have absolute market superiority, but also have great room for growth and integration potential.

BUILDING A NEW BENCHMARK RETAILER IN THE HOME IMPROVEMENT AND FURNISHINGS INDUSTRY

- In order to build the Group into a new benchmark retailer in the home improvement and furnishings industry, we will continue to expand our business scale through applying the two-pronged development model of Portfolio Shopping Malls and Managed Shopping Malls, and place emphasis on enhancing our enterprise brand, connotation and value. A new retailing model, in my opinion, is supposed to provide consumers with better and more intensive experience, more professional and comprehensive value-added services and more convenient and user-friendly modes of service, as compared with the traditional one. Goods circulated in the home improvement and furnishings industry are usually non-standard (customized) goods with high unit price and high degree of specialization, and thus higher requirements in shopping guide service, the quality and eco-friendly attributes of products, the distribution, installation and after-sale services are imposed by consumers. As one of the most influential home furnishings enterprises in mainland China, we have always been committed, with a view to truly understanding and serving the demands from consumers, to providing consumers with a reliable circulation platform which may integrate sufficient home improvement and furnishings industry brands, providing professional shopping guide service and in-depth experience service, assuring the quality and eco-friendly attributes of products circulated on the platform, and offering reliable distribution, installation and after-sale services. Meanwhile, we gradually expanded the application of the internet-related products and services in home improvement and furnishings business on the basis of our physical shopping malls network, including introducing online shopping malls, online home decoration, consumer financing and other expanding businesses, so as to address diversified demands of consumers in an integrated and close-loop manner and enhance the integrated O2O experience of consumers. All these measures are adopted to make our omni-channel circulation platform the most valuable one in the home improvement and furnishings industry.

PROMOTING A WELL-GROUNDED AND FORWARD-LOOKING DEVELOPMENT TO LEAD THE INDUSTRY IN ITS EVOLVEMENT

- Nowadays, the world has entered into a digital era, and the level of digitalization determines the long-term competitiveness of an enterprise or institution, home improvement and furnishings industry is of no exception. The Group is implementing a "1001" strategy, which is designed to enhance the Group's long-term competitiveness and embrace new development opportunities by virtue of internet, big data, cloud computing and other information technologies. Household intelligentization is another significant development trend of the home improvement and furnishings industry. At the same time, the Group is also seeking opportunities to tap into the smart household field, as a breakthrough point to embrace future in a proactive manner. In addition, we will also actively explore new business models, attempt asset securitization in respect of properties of Portfolio Shopping Malls and deeply integrate upstream and downstream resources via investments and mergers and acquisitions, in an effort to expand the business scale, reinforce the strength of the Group, and to lead the industry in its evolvement.

The achievements made by the Company were reflective of the efforts of all individuals of Red Star Macalline. I would like to take this opportunity to express my sincere gratitude, on behalf of the Board, to all staff for their hard work and all shareholders and stakeholders for giving us trust and confidence. In the coming year, we will consistently adhere to the "spirit of craftsman" to improve ourselves as well as promote our national living quality and spread culture of furnishings through diligence and care in the home improvement and furnishings industry, and to gain more returns to our shareholders.

CHE Jianxing
Chairman

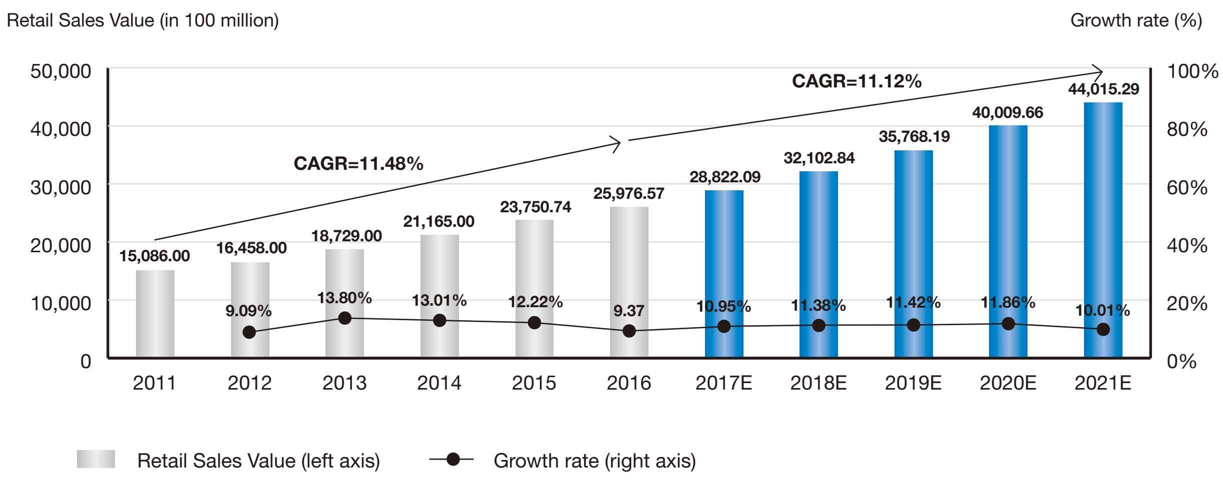
20 March 2017

Management Discussion and Analysis

INDUSTRY REVIEW

In 2016, facing the complex and volatile domestic and overseas economic environment, together with the effect of policies such as the structural reforms of supply side policies, the appropriate expansion of the total demands and the steady promotion of reforms, the national economy maintained an overall stable and improving development trend, and achieved a good commencement of the Thirteenth Five-Year Plan.

According to the statistics of the National Bureau of Statistics of the People's Republic of China, in 2016, the GDP grew by 6.7% on a year-on-year basis calculated based on the comparable price, while the national disposable income per capita increased by 8.4% on a year-on-year basis, with an actual growth rate of 6.3% after deducting price factors. During the same period, the accumulative value of retail sales of social consumer goods increased by 10.4%, while the accumulative value of retail sales of furniture category and construction and decoration material categories increased by 14.0%, both on a year-on-year basis. According to the statistics of Frost & Sullivan, in 2016, the retail sales of the home improvement and furnishings retail market increased to RMB2,597.7 billion, grew by 9.4% on a year-on-year basis. The CAGR is expected to be 11.1% in the coming five years, and the growth in the industry will be higher than that of China's macro economy.



Source: Frost & Sullivan

According to the statistics of Frost & Sullivan, in 2016, in terms of sales, we dominated 11.8% of the chain home improvement and furnishings retail mall sector, representing 4.5% of the shopping mall sector, and the largest market share in China's home improvement and furnishings retail industry.

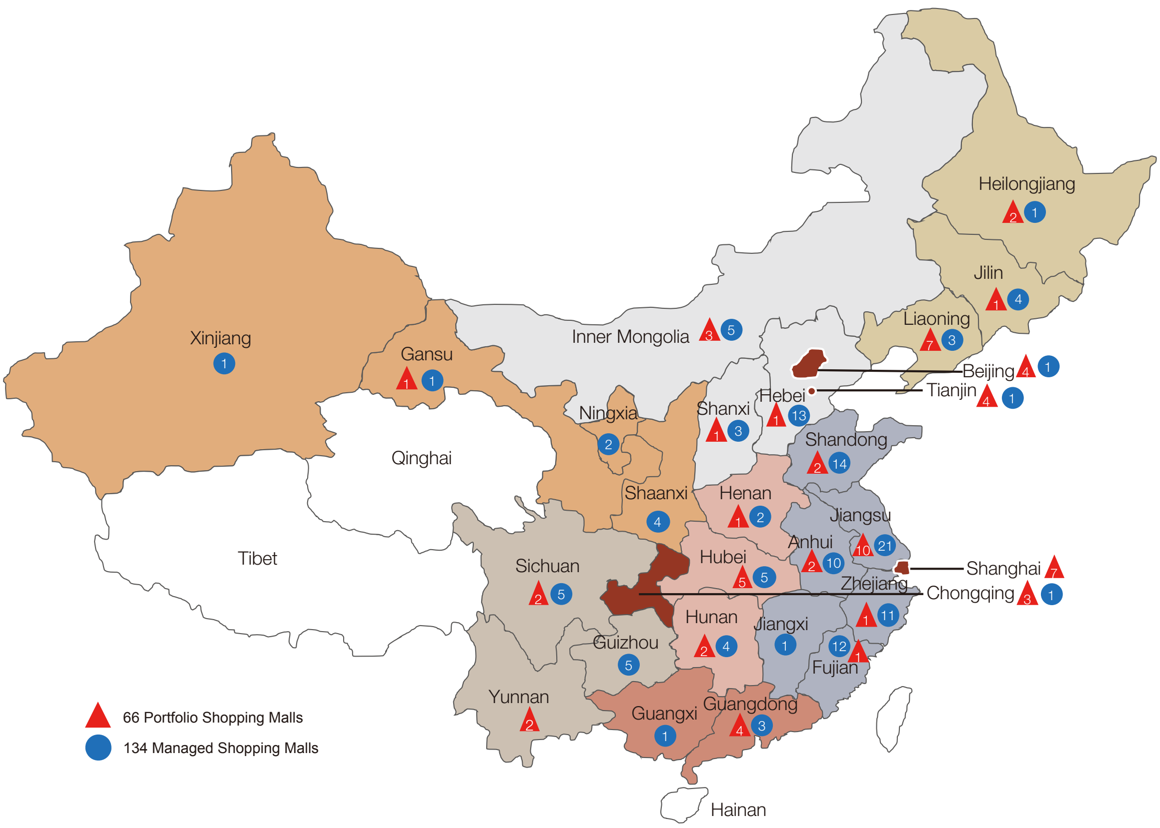
The "overall stable and improving" development trend, the continuous promotion of urbanization process and the increase of citizens' income level provide favorable conditions for the continuing development of social consumer goods market; meanwhile, compared with the overall performance in social consumer goods market, the market performance of home improvement and furnishings industry was stronger, which indicated the increasing domestic demand for home improvement and furnishings. In addition, the second interior decoration and the consumption upgrade for home appliance also bring room for continuous development for the industry.

BUSINESS REVIEW

1. Business development and presence: stable development of shopping malls and strategic presence with a nationwide coverage

As at the end of the Reporting Period, we operated a total of 200 shopping malls with a total operating area of 12,692,393 sq.m. in 142 cities in 28 provinces, municipalities, and autonomous regions in China. Through the two-pronged business model of Portfolio Shopping Malls and Managed Shopping Malls, we occupied properties in prime locations of Tier I and Tier II Cities, at the same time accumulated extensive experience in operating shopping malls, constantly strengthened the brand value, and set a relatively high barrier of entry for other companies.

The following map sets forth the geographical distribution of our shopping malls as at the end of the Reporting Period:



BUSINESS REVIEW (continued)

1. Business development and presence: stable development of shopping malls and strategic presence with a nationwide coverage (continued)

The following table sets forth the number and operating area of our Portfolio Shopping Malls and Managed Shopping Malls in operation by region as at the end of Reporting Period:

Color	Region(1) (Municipality/ Administrative Region)	Portfolio Shopping Malls No. of shopping malls	Portfolio Shopping Malls Sub-total of Operating Area (m^2)	Managed Shopping Malls No. of Shopping Malls	Managed Shopping Malls Sub-total of Operating Area (m^2)
	Beijing	4	272,028	1	80,699
	Shanghai	7	684,864	—	—
	Tianjin	4	292,763	1	29,109
	Chongqing	3	261,825	1	38,106
	Northeast China	10	804,486	8	377,718
	North China (excluding Beijing, Tianjin)	5	280,912	21	1,235,909
	East China (excluding Shanghai)	16	1,269,071	69	3,852,127
	Central China	8	675,065	11	617,583
	South China	4	235,906	4	271,261
	Northwest China	1	66,006	8	540,035
	Southwest China (excluding Chongqing)	4	240,399	10	566,519
	Total	**66**	**5,083,326**	**134**	**7,609,067**

Note:

(1) The information disclosed above is obtained according to the following statistic standards. The provinces, municipalities and autonomous regions of the PRC are divided into 7 large regions and 4 municipalities (excluding Hong Kong, Macau and Taiwan regions), among which, Northeast China includes Heilongjiang Province, Jilin Province, Liaoning Province; North China (excluding Beijing and Tianjin) includes Shanxi Province, Hebei Province, Inner Mongolia Autonomous Region; East China (excluding Shanghai) includes Shandong Province, Jiangsu Province, Zhejiang Province, Anhui Province, Jiangxi Province, Fujian Province; Central China includes Hunan Province, Hubei Province, Henan Province; South China includes Hainan Province, Guangdong Province, Guangxi Zhuang Autonomous Region; Northwest China includes Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Hui Autonomous Region, Xinjiang Uygur Autonomous Region; Southwest China (excluding Chongqing) includes Yunnan Province, Sichuan Province, Guizhou Province, Tibet Autonomous Region; 4 municipalities are Beijing, Shanghai, Tianjin and Chongqing respectively.

BUSINESS REVIEW (continued)

1. Business development and presence: stable development of shopping malls and strategic presence with a nationwide coverage (continued)

During the Reporting Period, we continued to strategically locate our Portfolio Shopping Malls in prime locations in Tier I and Tier II Cities, especially in municipalities. As at the end of the Reporting Period, we operated 66 Portfolio Shopping Malls covering a total operating area of 5,083,326 sq.m. with an average occupancy rate of 96.7%. Among these Portfolio Shopping Malls, 18 Portfolio Shopping Malls, representing 27.3% of the total number of Portfolio Shopping Malls, were located in the four municipalities of Beijing, Shanghai, Tianjin and Chongqing. The operating area of the aforesaid Portfolio Shopping Malls was 1,511,480 sq.m., representing 29.7% of the total operating area of the Portfolio Shopping Malls. The same mall growth of mature shopping malls[1] during the Reporting Period was 5.2%.

During the Reporting Period, we opened eight new Portfolio Shopping Malls, and three Managed Shopping Mall were converted into Portfolio Shopping Malls. As at the end of the Reporting Period, we had 22 pipeline Portfolio Shopping Malls. We will continue to focus on the prime locations of Tier I and Tier II Cities to strategically expand our Portfolio Shopping Malls network in the future.

In addition, with a reputable brand name in the home improvement and furnishings industry and extensive experience in shopping mall development, strength in tenant sourcing and operational management, we continued to rapidly develop Managed Shopping Malls in Tier III Cities and Other Cities. We also established a strict internal screening and reviewing mechanism to ensure steady and rapid development of our Managed Shopping Malls. As at the end of the Reporting Period, we had 134 Managed Shopping Malls in operation covering a total operating area of 7,609,067 sq.m., with an average occupancy rate of 96.2%. Among these Managed Shopping Malls, 90 Managed Shopping Malls, representing 67.2% of the total number of Managed Shopping Malls, were located at East China and North China. The operating area of the aforesaid Managed Shopping Malls was 5,088,036 sq.m., representing 66.9% of the total operating area of Managed Shopping Malls. During the Reporting Period, we opened 20 new Managed Shopping Malls and closed five Managed Shopping Malls. In addition, three Managed Shopping Malls were converted into Portfolio Shopping Malls.

As at the end of the Reporting Period, we had 316 pipeline Managed Shopping Malls under contracts and have obtained land licenses for these projects. Along with steady social and economic development of the country, further development of urbanization strategy, and stable growth in disposable income per capita, we will focus on increasing the rate of expansion of our Managed Shopping Malls business throughout China as our priority.

Note:

(1) "Same mall growth of mature shopping malls" is the growth in average effective unit income from operation for a particular period compared with the same period in the prior year for all Portfolio Shopping Malls that were in operation for at least three financial years and were still in operation as at the end of the Reporting Period. In line with the Group's business development and to better present the performance of our business operation, we have introduced the "same mall growth of mature shopping malls" as another business operation indicator.

BUSINESS REVIEW (continued)

2. Business management: Continuous improvement of shopping mall operation and management

2.1 Tenant sourcing management

Continuously improve the strategic layout of our shopping malls, implement new business strategies and lead the consumption trend of the home furnishings industry

Based on the understanding of the home furnishings consumption trend, the research of all sorts of bestseller products and the analysis of the consumption trend in home furnishings market of various cities, we continuously adjusted the combination of product brand and category in shopping malls to cater for various consumers, market situation and competition status. We endeavored to introduce flagship stores of major brands that meet consumers' demand, improved the layout of shopping malls and diversified channels for furnishings brands to display their image by opening street-front stores; meanwhile, we also enhanced our customized house-filling products in line with the changing furnishing and decoration market; emerging product categories including overall designs for living rooms and original designs were introduced and promoted in major cities such as Shanghai, Shenzhen, Beijing, Nanjing and Suzhou. Besides, combining cupboards and kitchen appliances, we launched consumption experience interactive programs with kitchen themes so as to enhance consumers' experience and strengthen their loyalty.

In addition, we maintained diversified businesses to enrich category portfolio by combining the location environment of the shopping mall, property structure and characteristics of consumption need; we continued on incorporating experiential categories such as soft decoration and catering; meanwhile, we piloted the project of "Home Decoration Experience Center" in 12 shopping malls all over the country so as to meet consumers' increasing demand of home decoration design and successfully introduced tens designer studios, which provided design consultation and decoration service for consumers and increased the flow volume in shopping malls. As at the end of the Reporting Period, the operation area of new-type of business including soft decoration, home decoration design and catering have increased by 26% compared with the corresponding period in 2015.

We lead the consumption trend of the home furnishings industry by continuously improving the layout of shopping malls, implementing the strategy of new business and enhancing the consumers' shopping experience.

Enhance the standards of our refined rental management and improve our tenant sourcing management mechanism

Based on the original mode of rent pricing analysis, we enlarged the scope of sample shopping mall and display booth for analysis, and further refined the object and indicator of sample analysis. We also formulated rent pricing models for display booths in different shopping malls and with different categories and classes through "structural rent-increasing analysis" and other regularity analysis approaches, which provided more scientific rent pricing basis for lease-signing of new commercial tenants and lease-renewal of old commercial tenants with shopping malls, thereby improving the rent level of shopping malls.

In addition, we have improved the tenant sourcing management mechanism for new businesses by adopting an all-round examination tool to follow up the progress of the tenant sourcing; we compiled and promoted the Instruction Manual for Catering Tenant Sourcing (《餐飲招商指導手冊》) and Instruction Manual for Small Business Owners to Fit-out (《小商戶進場裝修指導手冊》), to provide reference for fitting-out issues and catering tenant sourcing.

BUSINESS REVIEW (continued)

2. Business management: Continuous improvement of shopping mall operation and management (continued)

2.1 Tenant sourcing management (continued)

Constantly strengthen the management of brand resources and enhance the value-added services provided to our key customers

For brand factory customers, we regularly studied the consumption trends in home improvement and furnishings industry, analyzed competitive pattern of every factory in accordance with these consumption trends and issued reports on the development of brand management; aiming at the operating status of the factories, we provided recommendations on customized product innovation, market development and upgrade of terminal operating mode of the dealers in order to promote innovation in product development and the transformation and upgrading of the marketing mode. At the same time, we made innovation in service mode, provided dealer referral service for some brand factories and continuously optimized the service platform.

We also kept an eye on the future business-expanding opportunities and enhanced interaction between core dealers in system via pushing of industry dynamics and tenant sourcing information, brand recommendation, business forum and other approaches, which also boosted the loyalty of core dealers and laid a foundation for follow-up business expansion.

These measures have been widely recognized and praised by numerous brands that we cooperated with, thus we have become the benchmarking enterprise that is truly able to provide value-added services in the home improvement and furnishings industry. During the Reporting Period, we have signed strategic contracts with 132 brand factories.

Step up our efforts in introducing global brands and continue to build the international pavilions

During the Reporting Period, we stepped up our efforts in introduction of global brands. By creating a database, we effectively managed our dealers for imported furnishings brands, who rendered great support to the introduction of imported furnishings brands and accelerated the brand integration processes in international pavilions of respective shopping malls. In addition to the international pavilions established in Tier I and Tier II Cities, we also deeply investigated potential market to prepare for expansion of global brands in the new emerging market.

As at the end of the Reporting Period, the global brands we owned amounted to 2,208.

BUSINESS REVIEW (continued)

2. Business management: Continuous improvement of shopping mall operation and management (continued)

2.2 Operational management

Improving customer satisfaction through "Word of Mouth Advertising" project

We promoted the "Word of Mouth Advertising" project comprehensively, setting high standards for and strict requirements on shopping mall operation in respect of price, quality and service etc.

In terms of pricing, we continued to promote the first system of "Discount Control on Home Furnishings Industry" in the industry to guide the factories and dealers to adjust the inflated price, rectify the phenomenon of "high pricing, high discount", promote reasonable pricing and guide value sales. Based on this system, we took sufficient interaction with NDRC, jointly completed and piloted Management Regulations for Price-clearly-marked Exhibition Room of Red Star Macalline (《紅星美凱龍明碼實價展廳管理規定》). During the Reporting Period, we have got written approval for implementation from local price management authorities of 12 cities such as Suzhou, Jinan and Yangzhou. In addition, we implemented strict price management nationwide through all-channel price comparison system and ensured reasonable commodity pricing.

BUSINESS REVIEW (continued)

2. Business management: Continuous improvement of shopping mall operation and management (continued)

2.2 Operational management (continued)

Improving customer satisfaction through "Word of Mouth Advertising" project (continued)

In terms of quality, leveraging on the Ministry of Commerce, the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (the "AQSIQ"), together with the China Quality Certification Center, we launched the "Query Platform of Chinese Household Certified Products" in December 2015, which realised the detection of counterfeit household products. As at the end of the Reporting Period, we completed the system upload training with 280 major brands, and more than 4.6 million pieces of products were labeled. Besides, during the Reporting Period, we finished source commodity sampling and inspection and evaluation of production quality control system for 238 factories. We also successfully issued "2016 List of Green and Environmental Protection Home Furnishings Leading Brands Recommended by Red Star Macalline". We cooperated with external national standard compilation experts and jointly complied the Environmental Quality Assessment Standards for Red Star Macalline Products (《紅星美凱龍商品環保質量評價標準》), an industry standard about product quality which has been filed in Technical Supervision Bureau of National Quality Inspection Administration.

In terms of services, we have launched the first "15-minute Refund" service in the industry which can be completed within 15 minutes from the customers putting forward the refund demand to all the refund formalities being completed. In addition, the Company has built up a unified image of national service personnel, established a unified service standard and launched in 126 pilot shopping malls. Moreover, we carried out the activity of "Return Visit for One Million Customers", which provided visiting service for customers and surveyed them with questionnaires, thereby increasing the interaction with customers and boosting their satisfaction.

During the Reporting Period, the "Word of Mouth Advertising" project was promoted successfully in 123 shopping malls nationwide, and we won the 2016 Retail Innovation Prize awarded by CCFA (China Chain Store & Franchise Association, 中國連鎖經營協會).

BUSINESS REVIEW (continued)

2. Business management: Continuous improvement of shopping mall operation and management (continued)

2.2 Operational management (continued)

Improving customer satisfaction through "word of mouth advertising" project (continued)

In terms of operational standards, we compiled the "Environmental Quality Assessment Standards for Red Star Macalline Products (《紅星美凱龍商品環保質量評價標準》) during the Reporting Period and have applied for the fling of industrial standards. Our "Credit Classification Management of Tenants" was nominated by the Publicity Department of the CPC Central Committee and recommended by the Ministry of Commerce of the People's Republic of China (the "Ministry of Commerce") as one of the "100 Renowned Experiences of Cultivating and Practicing the Socialist Core Values" cases; it was selected by the Ministry of Commerce as the "Key Propulsion Unit of Business Integrity Construction" in China, and participated in the drafting of laws and regulations of "Guiding Opinions of the Ministry of Commerce on Promoting and Standardizing the Construction of Credit Rating Mechanism for Marketization" (商務部關於促進和規範市場化信用評價機制建設的指導意見). We completed the information sharing of our credit platform in March 2016, which is one of the first sub platforms of the Shanghai Commercial Credit Public Service Platform (上海市商務誠信公眾服務平台) and was selected as "2016 Top Ten Typical Cases of Credit in Shanghai". Besides, we formulated 2016 Inspection Standard for Imported Home Furnishing Products Recommended by Red Star Macalline (《2016年紅星美凱龍推薦家居出口產品核查標準》), the first certification system in home furnishing industry, which provided helpful reference for management of imported home furnishing products in China.

Improving operational management efficiency by means of digital space management

We consolidated the information of space and operation of shopping malls and converted complicated data into user-friendly charts by using digital space management, and we systematically managed the KPI indicators of our malls including occupation of exhibition space, rental rates, occupancy rate and collection rate with our visualised space management platform, which improved the overall operation efficiency of our malls.

Continuingly launch "Leading Green" campaigns to promote consumers' green home life quality

In terms of environmental protection, we continued to promote the campaigns of "Leading Green" brand appraisal, and initiated an omni-directional quality management system for pre-sales, sales and after-sales, to ensure the standard of healthy living of each consumer. During the Reporting Period, over 368 famous home furnishings brands had proactively participated in the campaign of "Leading Green" brand appraisal. Our shopping malls provide "Leading Green Brands Appraisal of Home Improvement and Furnishings" manuals as professional guidance for consumers to buy healthy and environmental-friendly products. At the same time, the "Green Household Consumption Festival" campaign was launched across our shopping malls on an ad-hoc basis.

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为中国生活设计

In the celebration for 30th anniversary, we produced a brand image film, Better Routine, and also put forward the slogan of "Design for Chinese Life" to clarify that we are devoted to bringing better quality life for every Chinese family. The brand image film won the prize of the most influential brand in the international advertisement festival in Fusan, Korea.

BUSINESS REVIEW (continued)

2. Business management: Continuous improvement of shopping mall operation and management (continued)

2.3 Marketing management

Continuingly raising our level of brand communication so as to strengthen our "Home Furnishings Expert" corporate image

We leverage on a series of nationwide large-scale promotional campaigns such as "The Two Days", "Sleep Day", "May Day Holiday", "Membership Day", and "Anniversary" and social marketing means to promote the brand and transmit the positioning as "Home Furnishings Expert", thereby boosting the continued dissemination effectiveness of the brand.

We actively promoted the concept of "Home Life Aesthetic" and promoted high-quality home concepts by We-media platforms such as "WeChat" to lead the home consumer values. At the same time, we tailored the selection guide and brand communication program with practical value for brands settled in the Red Star platform to enhance the awareness and reputation of cooperation brands in consumers. During the Reporting Period, more than 184 articles regarding the home aesthetic were released and have been read for over 460,000 times in total; there were 28 original articles about selection guide and have been read for over 760,000 times in total.

BUSINESS REVIEW (continued)

2. Business management: Continuous improvement of shopping mall operation and management (continued)

2.3 Marketing management (continued)

Continuingly raising our level of brand communication so as to strengthen our "Home Furnishings Expert" corporate image (continued)

We place importance on the unified management to the brand image of "Red Star Macalline". Through digital technology, we developed a brand visual management system, "Brand Rubik's Cube", providing solutions to the brand visual management of "One Thousand Appearances for One Thousand Stores and One Appearance for One Thousand Stores", which not only secured the unified management of the brand image of "Red Star Macalline" throughout the country, but also secured the demonstration of the individuation of different malls, so as to realise systematic, real-time and efficient management.

The "Brand Rubik's Cube" of Red Star Macalline won the management innovation gold prize of ECI Awards. Note: The ECI Awards, founded by the International E-Commerce Innovation Association, is an international award with "innovation" as evaluating standards aiming at the digital business.

Upgrading the digital marketing platforms and membership service systems to carry out socialized membership marketing

During the Reporting Period, we opened up the online and offline membership systems of shopping malls, corporate official website, WeChat subscription account, WeChat service account, HXshop.com and home decoration business to achieve the integration of the Red Star Macalline membership system, and conducted unified management of the accounts, rights and experience of members to provide convenient shopping process for members and enables us to better understand the needs of members.

By adopting the method of "one code one voucher", we connected each stage of "propagation – customer accumulation – interaction – consumption – customer accumulation" and established a complete closed-loop marketing strategy which provided data basis for our customer-channeling and comparative analysis of final sales, thereby remarkably improving the efficiency of sales content advertising.

BUSINESS REVIEW (continued)

2. Business management: Continuous improvement of shopping mall operation and management (continued)

2.3 Marketing management (continued)

Upgrading the digital marketing platforms and membership service systems to carry out socialized membership marketing (continued)

We attracted members to proactively take depth interaction with us through Wechat platform, promotion activities, loan of home furnishings and other approaches so as to carry out socialized membership marketing, make us understand users' demand and further provide customized service and marketing plan, thereby giving members differentiated experience effect and effectively boosting their loyalty.

At the same time, we greatly improved the marketing efficiency and reduced the cost of savings customers by means of increasing the variety of WeChat activities and the number of WeChat pilot cities as well as obtaining the access to WeChat coupons in online and offline shopping malls based on the existing digital marketing platforms (including the online platforms of WeChat subscription account and WeChat service account). As at the end of the Reporting Period, there have been 1.95 million registered WeChat members in total.

During the Reporting Period, we recruited 2.14 million new members through various channels including Wechat, shopping mall, property for sale and online platforms. Among which, members with consumption records spent about RMB28,000 on average in the same year and the aggregate tenants sales volume amounted to RMB22.13 billion in total.

Note: new members are clients who have registered through online or offline platform during the Reporting Period and have at least one interaction with us.

Extending the channels with different industries to carry out precision marketing

By means of cross-industry cooperation and precision marketing, we constantly extended the marketing channels of home improvement and furnishings shopping malls. As for the market of new houses, we rapidly extended our channels to 6,050 premium housing buildings in 128 cities nationwide by virtue of the strategic cooperation with brand land agents and housing platform agents; in terms of second-hand housing market, we successfully innovated data-marketing mode, which solved two difficulties in second-hand housing market, namely the scattered proprietor distribution and the high communication cost. Through deep industry investigation and concentrated regional trial, we finally formed a new marketing mode which took diversified channel data as the core and realised transformation by precise screening and concentrated invitation. Furthermore, we have started to promote and duplicate the mode on a national scale.

BUSINESS REVIEW (continued)

2. Business management: Continuous improvement of shopping mall operation and management (continued)

2.3 Marketing management (continued)

Extending the channels with different industries to carry out precision marketing (continued)

In August 2016, Red Star Macalline and Greentown Service reached national strategic cooperation, intending to forge a big cooperation league covering brand real estate, real estate platform and nationwide property platform.

Red Star Macalline and Greentown Service entered into a nationwide strategic cooperation

In addition, we also actively discussed the possibility of cooperation with a number of banks, real estate agents, travel agencies, and car brands. During the Reporting Period, we developed a large number of potential customers through interaction across different industries and precision marketing, and achieved a high conversion rate of potential customer to customer.

Consolidating factory resources of premium brands to realise joint marketing and establish market influence

We established intimate strategic cooperation with all the famous home furnishing brands in the industry within the long-time synergetic development. Through consolidation of factory resources of premium brands, we excavated brand demand deeply, expanded cooperation depth and scope and helped brand factories to carry out customized and exclusive marketing activities. Meanwhile, we promoted this mode in our nationwide home furnishing system, which continuously enhanced market influence via cross regional joint-marketing and has become one of the most famous marketing modes in the industry.

BUSINESS REVIEW (continued)

2. Business management: Continuous improvement of shopping mall operation and management (continued)

2.3 Marketing Management (continued)

Consolidating factory resources of premium brands to realise collaborating marketing and establish market influence (continued)

During the Reporting Period, we made continuous innovation in joint marketing mode, promoted service quality and carried out many marketing activities, such as big joint promotion, super brand day, home expo, provincial purchase convention, peak discount and celebrity show. Meanwhile, we beefed up the consolidation of premium resources, introducing tens of famous brand factories sources including Chivas, Xilinmen, Sofia, Kuka and Mellkit. We also jointly organized industry-influencing publishing events with several big brands. All these measures remarkably improved brand influence and sales level.

2.4 Property Management

Advocating energy saving and environmental protection and creating green shopping malls

We advocated energy saving and environmental protection and devoted ourselves to constructing energy-saving and environmentally friendly properties and building green shopping malls. We managed energy and pollution source through the wide application of LED energy and other scientific and technological progresses, which benefited images of malls and continuously reduced energy consumption. During the Reporting Period, electricity consumption in 47 malls decreased by 4.9% year on year. We conducted daily quantitative management in product protection with failure rate of ground, walls, ceilings, lamps, doors and windows decreasing from 2.7% at the beginning of the year to 1.1%.

Improving the environment of shopping malls and enhancing the shopping experience of our customers

We made continuous improvements on environmental quality of shopping malls through “Ten Services” standard, namely ground, lighting, toilets, temperature, air, parking lot, greening, etiquettes, waterproofing and elevators. Meanwhile, we utilised all sorts of new tools such as cleaning machine of elevators, high-pressure water cannon, balance car, ladder truck, luxmeter and roughness meter, effectively improving work efficiency and quality.

BUSINESS REVIEW (continued)

2. Business management: Continuous improvement of shopping mall operation and management (continued)

2.4 Property Management (continued)

System coming first, standardized management, strict inspection, and professional training for security of malls

With lifetime of equipment of malls extended, the introduction of different industries like catering industry normalised and the environment of malls increasingly complicated, security control became our new challenge in mall management. We formulated technological requirements and safety standards in system in such high-risk areas such as different industries, neighboring properties and contaminated places. Moreover, we teased out records of risk of malls and guarded against and excluded potential safety problems by a series of work like checking safety problems by professional apparatus and organizing fire drills and publicity. Given that safety risk of malls depended on people's responsibility and initiative, we kept enhancing professional training of real property management practitioners and comprehensively evaluated all employees' performance and lifted their work efficiency and positivity. During the Reporting Period, we maintained zero accident in terms of fire, injuries and key facilities, greatly controlled safety risk and constantly raised safety level of malls.

3. Expanding Business: Robust Development

Our various business segments that are currently underlying the expansionary phase flourished during the Reporting Period. We officially launched the "1001" strategy, based on which we carried out upstream and downstream cross-border business extension, and built up a business life community for pan-home improvement and furnishings industry with the orientation on the "omni-channel platform service provider for the pan-home improvement and furnishings industry" and by upholding the core concept "home". During the Reporting Period, our internet platform was officially launched, which provided consumers with industry chain services for pan-home improvement and furnishings consumption ranging from home purchase to home renovation and purchase of household-related products. Our household financing services were further extended, with a view to retain and expand our customer and tenant base. We also provided full-range and all-dimensional logistics services to satisfy multiple needs of users on both ends of the platform so as to realise resources sharing.

BUSINESS REVIEW (continued)

3. Expanding Business: Robust Development (continued)

3.1 Internet-based Pan-Home Consumption

We have established the internet-based platform building on the concept of "home", which provides consumers with industry chain services for pan-home improvement and furnishings consumption ranging from home renovation to purchase of household-related products through the online and offline integrative business model. We have fully integrated and shared the business resources of the online home improvement and furnishings consumption platform with its offline real shopping mall network by digitally transforming and upgrading the existing home improvement and furnishings mall. Through these efforts, the Company succeeded in providing convenient and quality services and O2O interactive experience to our customers. At the same time, we had achieved synergies between the offline business and the expansionary business on the internet, further improving overall operation efficiency and maximizing value creation.

Internet-based Home Improvement

Home decoration business is an upstream extension in the home improvement and furnishings retail industrial chain. Due to a high level of overlap between home furnishings consumers and home decoration consumers, we leverage on the home furnishings shopping malls as a platform and join forces with our strong brand impact, to efficiently reduce the cost of customer acquisition and marketing for the development of our home decoration business. As the industry pioneer in transformation and upgrade, our home decoration business aims to integrate the upstream and downstream industrial chain in the home decoration industry by using the home furnishing shopping malls as a platform and our great brand impact. We provided full services integrating home furnishings design proposals, sale of materials and furniture and construction service for consumers, in order to improve the shopping experiences of our consumers, and drive sales in our shopping malls.

We established an experienced household design team by the subsidiary, Shanghai Betterhome Decoration Engineering Co., Ltd ("BetterHome"), and set up home decoration stores in our household decoration malls to provide customers with integrated service of home design and decoration and create synergy effect with businesses of home decoration malls. As at the end of the Reporting Period, we have 30 online and offline home decoration stores across the country, which were located in our shopping malls in cities such as Beijing, Tianjin, Shanghai, Nanjing, Shenyang and Chengdu.

During the Reporting Period, we established internet home decoration platform focusing on design and introduced such product programs as content, designers and investment attraction to offer users online display of design content and online communication and reservation of designers and a series of home decoration tool services etc. As at the end of the Reporting Period, our internet home decoration platform has signed agreements with 143 shops and 1,093 original articles were published.

BUSINESS REVIEW (continued)

3. Expanding Business: Robust Development (continued)

3.1 Internet-based Pan-Home Consumption (continued)

Internet Retail (continued)

During the Reporting Period, the Company established an online retail platform. The platform is designed to cover a series of convenient services including products display, consultancy, membership marketing, online transaction, guidance for offline stores in shopping mall and booking experience. Online and offline interaction helps to expand our Company's communication channels with our consumers, enhance their satisfaction and loyalty, and drive the overall consumption demand. The online retail platform is mainly materialized through mobile APP user portal, and it covers a complete set of household-related products, including furniture, construction material, electrical appliance, furnishing and textile. While integrating certain merchant resources of the offline shopping malls of Red Star Macalline, the Company proactively explored the brands and stores which conduct online business only, thus providing abundant and more diversified choices for consumers. With the unique business application of SPU (Standardized Product Unit) for brand suppliers offered through the internet-based retail platform of the Company, we have successfully created the commodity management model centered on SKU (Stock Keeping Unit).

As the offline shopping malls still constitute an integral part of consumer experience and purchasing decisions, the strategic focus of our internet retail platform rests on bringing into play the advantages of combining with the offline shopping malls. On one hand, the online platform provides unlimited long tail display space for offline merchants and products, breaking the limits of product display faced by offline merchants and enabling the information about the products and stores available to consumers in a more convenient and efficient way. On the other hand, leveraging on the extensive network of offline shopping malls of "Red Star Macalline", we meet consumers' demand for on-site experience in the home improvement and furnishings industry, thus providing our clients with one-stop services covering election and purchase of goods, promotional activities, logistics and distribution, and after-sales service.

As at the end of the Reporting period, the Company has attracted 1,782 brands and 3,615 tenants to sign-up for its internet-based retail platform. Based on the self-developed O2O system, 13 offline shopping malls of Red Star Macalline succeeded in connecting with the products and services from the online platform, covering cities such as Shanghai, Nanjing, Suzhou and Changsha.

BUSINESS REVIEW (continued)

3. Expanding Business: Robust Development (continued)

3.2 Improved home furnishings financial services: retaining and expanding our consumer and tenant base

We use HomeFax as an Internet financial information service platform to provide relevant service of financing for our shopping mall partners, home furnishings factories and tenants. Such platform provides information service and conducts strict risk appraisal through professional risk control system, credit information of third parties, central bank credit reference system and the "Star Cloud System", to satisfy the financing demands of our shopping mall partners, home furnishings factories and tenants.

We provided petty loan services to partners of the Group and financial support for its development by giving full play to the Company's ability to control risk and to conduct a comprehensive evaluation of the risk profile of the partners. As of the end of the Reporting Period, we accumulatively granted petty loans in the amount of RMB189.8 million.

During the Reporting Period, we further expanded our business of prepaid card services and customer financial services. We issued prepaid card or provided installment services to customers by cooperation with banks to satisfy funding raising and use needs of customers related with home furnishing, which interlinked home furnishing financial services with customers, increased customers' loyalty on our products and services and raised sales level of shops of malls. During the Reporting Period, we issued prepaid cards with aggregate denomination amounted to RMB1,393 million with the relevant income from commission amounted to RMB17.6 million. We provided customers with RMB492 million consumption loans through cooperation with banks and recorded relevant operating income in the amount of RMB13.6 million.

3.3 Comprehensive logistic service: satisfying multiple needs on both ends of the platform and achieving resources sharing

In the terminal service ecosystem of the home furnishings and furniture industry, the logistics and distribution is the direct interface with our consumers. As a result, the quality of logistic service has an impact on the reputation of relevant brands. In order to provide professional distribution and installation services to our tenants and consumers to facilitate the "Last Mile" offering of distribution, installation and after-sale services, and to improve customer satisfaction and loyalty to the brands of our tenants as well as the brand of Red Star Macalline. We set up logistics trial centers in Nanjing, Wuxi, Shijiazhuang, Changsha and Shenyang to provide "one-stop" professional services for customers from purchase to professional product distribution and installation. As at the end of the Reporting Period, more than 330 brands have commenced operations with our logistics service business, with a storage area of approximately 30,000 sq.m. in total.

BUSINESS REVIEW (continued)

3. Expanding Business: Robust Development (continued)

3.3 Comprehensive logistic service: satisfying multiple needs on both ends of the platform and achieving resources sharing (continued)

We were further improving business processes and effectively enhanced customer experience and service efficiency through "one-click ordering" by salesman of home furnishing malls, real-time inquiry of inventory, customers' feedbacks, three-year quality warranty and free disassembly, assembly and cleaning.

4. Upgrade and restructuring of information technology infrastructure and support for our internet-based platform

During the Reporting Period, in line with our Company's development of the internet-based business, we further upgraded and restructured our information technology infrastructures.

We have accumulatively uploaded information of 163 shopping malls on the "Star Cloud System", which is the leading comprehensive enterprise resource planning system used in the home improvement and furnishings industry. Full access of malls enabled us to collect, analyse and utilise big data of malls, shops and customers better and helped devise targeted business strategy, raise refined management level and improve our management and administration performance.

In terms of development of information system, we have increased the investment in and the proportion of self-construction. By self-construction and upgrading core information modules and systems, we would further master underlying architectures and core technical patterns of relevant systems, ensure sustainable development of information system and effectively accumulate our big data assets.

During the Reporting Period, we launched the "Dragon's Eyes" system, an APP platform developed for in-house employees and internal management of the Group. Business support functions as required by the staff-end were integrated into the "Dragon's Eyes" system, and as a result, both the efficiency of the operation of our employees and the efficiency of the management of the Group had been enhanced effectively.

We carried out further research and upgrade in respect of the tenant sourcing system. In addition to the intuitive display of the tenant sourcing system, the real-time monitoring and alert and the improvement in refined management through the analysis of tenant sourcing and operation data, we also initiated research and development on the online tenant sourcing system to align with the plan for the development of our internet-based business. Our goal is to connect the online and offline channels and establish an online and offline tenant sourcing platform.

Meanwhile, we proactively build our "Smart Shopping Mall" IT project. At present, the infrastructure of WIFI and positioning system for four shopping malls has been completed. The construction of "Smart Shopping Mall" would further improve customers' shopping experience, promote sales of shops and create value-added service incomes.

BUSINESS REVIEW (continued)

5. High efficiency of human resources management policies: effectively support the Group's growth

During the Reporting Period, our human resources policies were strictly in line with our strategies and achieved success in a number of aspects, such as systems optimization, evaluation of overall performance, employee incentivization and talent development and support, as well as industry talent training.

In terms of system optimization, we had adopted a comprehensive approach to the implementation of the human resources system. As at the end of the Reporting Period, our human resources system has covered 200 shopping malls currently in operation, 52 shopping malls under the progress of preparation, and 26 business units, thus achieving the full coverage of the human resources system in home furnishing shopping malls.

With regard to the performance evaluation and employee motivation, we introduced the system of "performance evaluation for all employees", and made every employees involve in the performance management and assessment. The pragmatic and advanced nature of the performance index system, performance and accountability system and motivation system was also strengthened. These systems had become the important tools for employees management within the Group. Through various incentives methods such as evaluation on the employees' performance and performance-based bonus, the enthusiasm and energy for work of employees are motived and released. During the Reporting Period, we improved the employee' s work efficiency and reduced the number of employees at the service area per unit, realizing the objective of streamline on work force and administration by adopting efficient appraisal and incentive measures. We make adjustment to the human resources structure for the employee and reduce back-office support employees and increase service staffs and improve the efficiency while ensuring the quality of service and management.

Regarding the development of and support for talents, we have established the competency model for the key post of the general manager of shopping malls, the BEI (Behavioural Event Interview) interview manual, the capability development manual, and improved the promotion management system for key posts, with a view to providing talent support to the development of the Group's operation. We recruited and cultivated excellent university graduates by "Star Motivation" program to attract and prepare talents for development of the Company. Having been conducted for ten years, the program recruited and fostered over 1,300 excellent graduates. We recruited and cultivated general managers for malls by "Elites" program to prepare talents for strategic goals of the Group and ensure competence of successive people. During the Reporting Period, we continued to carry out "New Youth" plan, encouraged innovation, awarded innovative measures, tried to find innovative people and built management teams with more innovation awareness and more vigor. Our "New Business Boosting Team" built management team and core professionals for development of new business, infused new vigor into and laid solid foundation for sustainable development of new business of the Group.

Regarding professional talent cultivation, we provide sound systems of development and training courses for all departments and employees in different levels to continuously improve the capability of management team and employees. We have also established "Lu Ban Academy" and carried out several training plans, in order to improve the comprehensive quality of employees who engage in home improvement and furnishings industry.

During the Reporting Period, we have been awarded "The Best Enterprise University" by China Chain Store & Franchise Association for six consecutive years and "The Best Employer" by Institute of Social Survey research centre and Zhilian Zhaopin (智聯招聘) for four consecutive years.

We had a total of 19,060 employees as at the end of the Reporting Period.

FINANCIAL REVIEW

The key financial performance indicators of the Company can generally be categorized into revenue, profits attributable to owners of the Company and core net profit attributable to owners of the Company. These indicators provide a measure of our performance against the key drivers of the Company. For details of the financial performance indicators, please refer to "Revenue" and "Profit, core net profit attributable to owners of the Company and earnings per share" on pages 31 to 32 and page 36 respectively.

1. Revenue

In 2016, the Group's revenue was RMB9,282.4 million, representing an increase of 6.0% from RMB8,756.1 million in 2015. The stable growth in our revenue was primarily due to an increase in revenue from our Owned/Leased Portfolio Shopping Malls.

The following table sets forth our revenue by business segment:

	For the year ended 31 December			
	2016 (RMB'000)	2016 %	2015 (RMB'000)	2015 %
Owned/Leased Portfolio Shopping Malls	**5,870,695**	**63.2**	5,259,961	60.1
Managed Shopping Malls	**2,740,945**	**29.5**	3,141,708	35.9
Sales of merchandise and related services	**205,442**	**2.2**	115,838	1.3
Others	**465,311**	**5.1**	238,613	2.7
Total	**9,282,393**	**100.0**	8,756,120	100.0

- Owned/Leased Portfolio Shopping Malls: The income rose from RMB5,260.0 million in 2015 to RMB5,870.7 million in 2016, representing an increase of 11.6%, mainly due to the increase of operating area, the average rent and management fee. As at the end of 2016, the number of portfolio shopping malls opened by the Group was more than that at the end of 2015 by 11, with the corresponding increase in the total operating area of 697,198 sq.m. At the same time, we used centralized management and scale effect to make all shopping malls have marketing synergy, and offered merchants promotions and other value-added services, enhanced the operation and management level of the mall, then ensured that the level of rent and management fees could increase when the already opened mall renewed the agreement with merchants. In 2016, the average operating income of real unit of portfolio shopping malls opened by the Group was RMB113/sq.m per month, which fell slightly compared with RMB114/sq.m per month in 2015, mainly due to lower operating income of the newly opened shopping malls during the Reporting Period; since the beginning of 2015, the operating income of the already opened mall kept growing, and the same mall growth rate of mature shopping malls was 5.2% in 2016.

FINANCIAL REVIEW (continued)

1. Revenue (continued)

- Managed Shopping Malls. Revenue decreased from RMB3,141.7 million in 2015 to RMB2,740.9 million in 2016, representing a decrease of 12.8%, which was mainly due to the decrease of revenue from services of construction consultation and management fees.

2. Cost of sales and services

The cost of sales and services of the Group mainly included staff salary, malls rent and fixed expenses etc. that were directly related to the operation of our Owned/Leased Portfolio Shopping Malls. The cost of sales and services of the Group increased from RMB2,242.0 million in 2015 to RMB2,658.2 million in 2016, representing an increase of 18.6%, mainly because the number of operational staff and the salary and welfare increased due to the expansion of the shopping mall network of the Company.

The following table sets forth our cost of sales and services by business segment:

	Year ended 31 December			
	2016 (RMB'000)	2016 %	2015 (RMB'000)	2015 %
Owned/Leased Portfolio Shopping Malls	**1,403,606**	**52.8**	1,224,836	54.6
Managed Shopping Malls	**939,804**	**35.4**	823,170	36.7
Sales of merchandise and related services	**134,882**	**5.1**	90,003	4.0
Others	**179,880**	**6.7**	103,972	4.7
Total	**2,658,172**	**100.0**	2,241,981	100.0

- Owned/Leased Portfolio Shopping Malls: the cost of sales and services increased by 14.6% from RMB1,224.8 million in 2015 to RMB1,403.6 million in 2016, mainly due to the increase of salary of relevant staff in the newly opened shopping malls in the current period and the second half of the previous period and the increase of provision of annual bonus in the current period.

FINANCIAL REVIEW (continued)

2. Cost of sales and services (continued)

- Managed Shopping Malls: the cost of sales and services of Managed Shopping Malls increased from RMB823.2 million in 2015 to RMB939.8 million in 2016, representing an increase of 14.2%, mainly due to the significant increase in the number of our Managed Shopping Malls opened as at the end of 2016 as compared with that as at the end of 2015.

3. Gross profit and gross profit margin

In 2016, the Group's gross profit was RMB6,624.2 million, representing an increase of 1.7 % from RMB6,514.1 million in 2015. In 2016, the Group's integrated gross profit margin was 71.4%, representing a decrease of 3.0 percentage points from 74.4% in 2015, mainly due to the decrease in gross profit margin of relevant revenue of Managed Shopping Malls.

The following table sets forth our gross profit margin by business segments:

	For the year ended 31 December	
	2016	2015
Owned/Leased Portfolio Shopping Malls	**76.1%**	76.7%
Managed Shopping Malls	**65.7%**	73.8%
Sales of merchandise and related services	**34.3%**	22.3%
Others	**61.3%**	56.4%
Integrated gross profit	**71.4%**	74.4%

- Owned/Leased Portfolio Shopping Malls: Gross profit increased from RMB4,035.1 million in 2015 to RMB4,467.1 million in 2016, representing an increase of 10.7%; gross profit margin decreased from 76.7% in 2015 to 76.1% in 2016, maintaining a stable level.

- Managed Shopping Malls: Gross profit decreased from RMB2,318.5 million in 2015 to RMB1,801.1 million in 2016, representing a decrease of 22.3%; gross profit margin decreased from 73.8% in 2015 to 65.7% in 2016, mainly due to the decrease in revenue of construction consultation and management fees with a higher gross profit margin and the decrease in gross profit margin of annual management fees.

FINANCIAL REVIEW (continued)

4. Other income

Other income of the Group mainly include interest income from bank deposits, other loans and receivables, government grants and received and compensatory payment receivable.

Other income was RMB199.4 million in 2016 (other income were RMB194.3 million in 2015), of which the interest income was RMB96.1 million and government grants were RMB85.9 million.

5. Other gains and losses

Other gains and losses of the Group mainly include the change in net of the provision for doubtful debts, impairment loss on available-for-sale equity investments and intangible assets, gains and losses of disposal of property, plant and equipment and gains and losses of disposal of subsidiaries. Other losses were RMB567.3 million in 2016 (other losses were RMB206.3 million in 2015), of which the allowance for doubtful debts was RMB336.5 million, mainly because we adopted a more conservation standard when reviewing the trade receivables related to the income of Managed Shopping Malls.

6. Sales and distribution expenses

The sales and distribution expenses of the Group mainly include advertising and marketing expenses, energy and maintenance costs, salary costs of marketing personnel and new business related staff, after-sales service expenses, etc. The sales and distribution expenses increased from RMB1,196.9 million in 2015 to RMB1,205.7 million in 2016 representing an increase of 0.7%; the proportion of the sales and distribution expenses in the revenue of the Group decreased from 13.7% in 2015 to 13.0% in 2016.

7. Administrative expenses

Administrative expenses of the Group mainly include the salary and welfare expenses of the administrative personnel, office expenses, property tax, other miscellaneous taxes and professional fees. Administrative expenses were increased from RMB882.4 million in 2015 to RMB1,149.3 million in 2016 with an increase of 30.2%; the proportion of administrative expenses in the revenue of the Group increased from 10.1% in 2015 to 12.4% in 2016, which was mainly because the Group expanded its operation scale and developed new businesses which resulted in the increase of employee compensation and office expenses.

FINANCIAL REVIEW (continued)

8. Finance costs

The finance costs of the Group mainly include interest in bank and other loans, interest in finance lease and interest in bonds. Finance costs were increased from RMB854.3 million in 2015 to RMB949.2 million in 2016 with an increase of 11.1%. The total interest expenses decreased from RMB1,250.7 million in 2015 to RMB1,209.2 million in 2016, representing a decrease of 3.3%, which was mainly due to the overall decrease of market interest rate during the Reporting Period, the improvement of efficiency in the use of funds of the Group, optimization of loan structure, issuance of onshore corporate bonds with lower coupon rate and reduced average financing cost.

The finance costs of the Group were mainly affected by relevant interest-bearing bank loans and bonds balance required by property investment. With the completion of the investment property and the opening of the relevant malls, we will no longer capitalize interest expense associated with the investment properties and record it as the cost. Capitalized interest expenses decreased from RMB396.4 million in 2015 to RMB260.1 million in 2016, representing a decrease of 34.4% mainly due to the completion of the construction of part of shopping malls and the cessation of the capitalization.

9. Treasury Policies and Objectives

The Group adopted prudent liquidity risk management policies in order to maintain flexibility of fund utilization, which include maintaining sufficient cash and funding through an adequate amount of committed credit facilities.

10. Income tax expense

In 2016, the income tax expenses of the Group were RMB1,358.8 million, representing a drop of 13.6% compared with RMB1,572.6 million in 2015, with the decrease rate higher than that of the pre-tax profit. Through effective tax planning, the rate of the effective income tax decreased from 26.5% in 2015 to 23.7% in 2016.

FINANCIAL REVIEW (continued)

11. Profit, core net profit attributable to owners of the Company and earnings per share

In 2016, profit attributable to owners of the Company amounted to RMB4,036.3 million, representing a decrease of 1.5% from RMB4,098.1 million in 2015; core net profit attributable to owners of the Company amounted to RMB2,554.7 million, remaining relatively flat compared with that of RMB2,552.7 million in 2015. The above was a result of the decrease in proportion of a higher gross profit margin business.

	For the year ended 31 December		
	2016 (RMB'000)	2015 (RMB'000)	Growth
Profit attributable to owners of the Company	**4,036,269**	4,098,068	-1.5%
Profit margin attributable to owners of the Company	**43.5%**	46.8%	-3.3ppts
Core net profit attributable to owners of the Company	**2,554,746**	2,552,735	0.1%
Core net profit margin attributable to owners of the Company	**27.5%**	29.2%	-1.7ppts

In 2016, the Group's earnings per share was RMB1.11, comparing with RMB1.22 in 2015.

12. Trade and other receivables

As at the end of the Reporting Period, the trade and other receivables of the Group were RMB2,008.5 million, of which the trade receivables and bills receivable were RMB836.3 million, which were mainly the outstanding first entrance fee to be paid by partners of Managed Shopping Malls and the construction consultation and management fees to be paid by the contractors. The trade and other receivables decreased by RMB132.5 million at the end of 2016 compared with that at the end of 2015. It was mainly because the Group increased the efforts in the collection of trade receivables during the Reporting Period and the allowance for doubtful debts of outstanding amounts in previous years has increased.

13. Investment properties and changes in fair value of investment properties

As at the end of the Reporting Period, the Group's book value of investment properties amounted to RMB77,090.0 million, representing an increase of 9.2% from RMB70,593.0 million as at the end of 2015, which was mainly due to the increase of rental rate of our owned malls and advancement of project progress of investment properties under construction during the Reporting Period. In 2016, the Group gained RMB2,652.2 million due to the increase in fair value of investment properties mainly because the rise of rent and management fees of owned malls and completion and opening of several shopping malls under construction in some developed cities during the Reporting Period resulted in the increase in fair value of investment properties. The Group will continue to derive rental income from the investment properties and may consider disposing certain investment properties as and when appropriate and in accordance with market conditions.

FINANCIAL REVIEW (continued)

14. Capital expenditures

The Group's capital expenditures were primarily related to acquisition and construction expenditures for investment properties. In 2016, the Group's capital expenditures amounted to RMB3,189.9 million (in 2015, the Group's capital expenditures amounted to RMB3,288.1 million), primarily due to advancement of project progress of investment properties under construction.

15. Bank balances, cash and cash flow

As at the end of the Reporting Period, the Group's bank balances and cash were RMB6,150.2 million, representing an increase of RMB196.1 million from RMB5,954.1 million as at the end of 2015.

	For the year ended 31 December	
	2016	2015
	(RMB'000)	(RMB'000)
Net cash from (used for) operating activities	**3,893,741**	3,309,333
Net cash from (used for) investment activities	**(5,016,660)**	(3,912,985)
Net cash from (used for) financing activities	**1,266,880**	2,859,712
Net increase in cash and cash equivalents	**143,961**	2,256,060

In 2016, the Group's net cash inflow from operating activities was RMB3,893.7 million, representing an increase of 17.7% from RMB3,309.3 million in 2015, mainly due to the increase of pre-received rental and service fee of the Group during the Reporting Period.

In 2016, the investment activities of the Group generated a net cash outflow of RMB5,016.7 million, representing an increase of 28.2% compared with a net outflow of RMB3,913.0 million in 2015, which was mainly due to the increase of payment of various projects and investment of the Group during the Reporting Period.

In 2016, the financing activities of the Group generated a net cash inflow of RMB1,266.9 million, representing a decrease of RMB1,592.8 million compared with a net inflow of RMB2,859.7 million in 2015, which was mainly due to the relatively large scale of the Group's H Share offering in 2015 and no equity financing in the Reporting Period.

FINANCIAL REVIEW (continued)

16. The debt situation and debt ratio

As of the end of the Reporting Period, the total amount of debt of the Group was RMB21,558.4 million, of which banks and other borrowings were RMB11,234.8 million, and bonds were RMB10,323.6 million. Banks and other borrowings and bonds of the Group are denominated in RMB.

The following table sets out our specific debt:

	31 December 2016 (RMB'000)	31 December 2015 (RMB'000)
Bank and other borrowings		
Bank loans, secured	**9,705,833**	8,349,819
Bank loans, unsecured	**19,000**	535,000
Other loans, secured	**1,510,000**	439,733
	11,234,833	9,324,552
Fixed-rate borrowings	**1,510,010**	839,733
Variable-rate borrowings	**9,724,823**	8,484,819
	11,234,833	9,324,552
The borrowings are repayable		
Within one year or on demand	**2,787,296**	2,297,382
More than one year, but not exceeding two years	**3,344,038**	2,192,768
More than two years, but not exceeding five years	**3,444,250**	3,339,116
More than five years	**1,659,249**	1,495,286
	11,234,833	9,324,552
Actual interest rate range		
Fixed rate bank borrowings	**4.90–7.59**	6.15–7.59
Floating rate bank borrowings	**4.41–8.00**	5.89–7.38

	31 December 2016 (RMB'000)	31 December 2015 (RMB'000)
Bonds		
Unsecured medium-term notes		
— Bonds due in 2017	**894,941**	889,791
— Bonds due in 2018	**497,031**	495,449
— Bonds due in 2016	**—**	497,195
Private placement medium-term notes		
— Private placement notes due in 2017	**994,527**	989,277
Corporate bonds		
— Corporate bonds due in 2020	**4,973,683**	4,960,494
— Corporate bonds due in 2021	**1,485,447**	—
— Corporate bonds due in 2023	**1,477,940**	—
	10,323,569	7,832,206

FINANCIAL REVIEW (continued)

16. The debt situation and debt ratio (continued)

Among the total debt of the Group, the portion to be repaid in one year or on demand was RMB4,676.8 million; the portion to be repaid more than one year but not more than two years was RMB3,841.1 million; the portion to be repaid more than two years but not more than five years was RMB9,903.4 million; the portion to be repaid over five years was RMB3,137.1 million; the Group shall timely repay the above loans at the maturity date of the same.

The following table sets out our major debt ratio:

	As at 31 December 2016	As at 31 December 2015
Asset-liability ratio[1]	**48.1%**	45.6%
Net gearing ratio[2]	**33.2%**	25.5%

	For the year ended 31 December	
	2016	2015
Interest expenses coverage ratio[3]	**3.63**	3.65

Notes:

(1) Asset-liability ratio is calculated as the total liabilities divided by total assets as at the end of each period.

(2) Represents the total interest-bearing bank and other borrowings, bonds and obligations under finance leases net of bank balances and cash as a percentage of total equity at the end of each period.

(3) Interest expense coverage ratio is our adjusted EBITDA divided by our interest expenses before capitalization for each period. Adjusted EBITDA represents profit before tax, adding back finance costs, depreciation, amortization and impairment, further adjusted to exclude gains from increases in the fair value of investment properties, share of profit of associates, share of results of joint ventures, other gains and losses, other expenses and other income.

17. Credit rating

As at the end of the Reporting Period, the main credit rating of the Group was rated as BBB+ by Fitch Ratings, Inc. and BBB by Standard & Poor's Financial Services LLC, and its outlook and prospects were rated as stable by both of them.

18. Pledge of assets of the Company

As at the end of the Reporting Period, the Group had pledged investment properties with book value of RMB54,814.0 million and restricted bank deposits of RMB70.5 million for obtaining loans and providing guarantees.

FINANCIAL REVIEW (continued)

19. Contingent liabilities

As at the end of the Reporting Period, the Group issued financial guarantees with its partners to a bank in respect of a loan in the amount up to RMB400 million granted to a joint venture, of which RMB98 million (as of 31 December 2015: RMB178 million) have been utilised by the joint venture as at 31 December 2016.

As at the end of 2016 and 2015, the Group and its partner provided financial guarantees to a financial institution in respect of a loan in the amount up to RMB1,500 million granted to an associate, of which the Group provided guarantee according to its equity proportion of 25%, which is RMB375 million, to secure the above facility.

(1) the Group pledged its shares in the associate to secure 15% of this loan, which is up to RMB225 million; and

(2) the Group issued financial guarantee to 10% of this loan, which is up to RMB150 million.

During the Reporting Period, the Group and its partner provided financial guarantees to a financial institution in respect of a new loan in the amount up to RMB2,500 million granted to this associate, of which the Group provided guarantee according to its equity proportion of 25%, which is RMB625 million, to secure the above facility.

As at the end of the Reporting Period, RMB500 million and RMB500 million (as of 31 December 2015: RMB1,000 million and N/A) of the two facilities have been utilised by the associate, respectively.

The Group believes that the fair value of the above financial guarantees provided by the Group is not significant and the guaranteed joint ventures and associates are in good financial positions.

20. Material acquisitions and disposals

During the Reporting Period, the Company had no material acquisitions and disposals in relation to our subsidiaries or joint ventures/associates.

21. Future plans for major investments

Our future major investments of the Group are primarily capital expenditures in respect of acquisition and construction of investment properties (including through acquisition of subsidiaries). We expect to capitalize on secular growth trends in the home improvement and furnishings industry by strategically opening new shopping malls in selected cities in China with attractive market attributes. As at the end of the Reporting Period, the amount of which the Group has contracted for but not provided in the financial statements was RMB4,359.5 million. The capital commitment as disclosed in Note 43 to the Consolidated Financial Statements on page 218 was primarily in relation to the development of our Portfolio Shopping Malls. It is one of our strategies, and we expect to strengthen our market leadership through strategic expansion of our shopping mall network and brand portfolio.

FINANCIAL REVIEW (continued)

21. Future plans for major investments (continued)

The source of the Group's future major investment funds will mainly come from the cash of business operation, bank loans, issuing bonds and the equity capital contributed by the Shareholders. We will adhere to a prudent and rational financial management strategy, plan and arrange the investment and operating expenses based on the cash inflow, expand financing channels while maintain a reasonable financial condition and debt ratio level to provide better funding for business development in the future. Currently, we do not have detailed plans for material investments except opening new shopping malls which are in our ordinary course of business. Accordingly, we foresee that our major source of funding will be from our operating cash flow, revenue from our shopping malls, borrowings from banks and other financing activities of the Group.

22. Foreign exchange risk

The Group operates in China. All income and almost all expenditure of the Group are in RMB. The Group owns a small amount of bank deposit in HK dollars and US dollars, and the dividend will be paid in HK dollars to H shareholders. The Company's directors believe that the Group's foreign currency risk is relatively small, and the Group implements no foreign currency hedging policy currently. The Group manages foreign exchange risks by regularly checking foreign currency exchange rates. The Group will consider hedging policies to deal with material foreign exchange risks where necessary.

23. Human Resources

As at the end of the Reporting Period, the Group has 19,060 employees (31 December 2015: 17,086 employees). The Group signs labour contract with employees according to the Labor Law of the People's Republic of China and the relevant provisions of the employee's locality. The Group will determine the employee's basic wage and bonus level according to the employee's performance, work experience and the market wage standard, and shall pay social insurance and housing provident fund for the employees. In 2016, the Group has paid a total of RMB2,164.0 million for salary expenditures (2015: RMB1,730.3 million). Meanwhile, the Group also kept investing resources to provide various education and training opportunities for the staff, aiming to standardize the management work and improve the operation performance, and continuously improved the knowledge and technical competence as well as professional practice competence of the employees.

24. Events after the Reporting Period

The Company received the "Notice of Acceptance of Registration" (Zhong Shi Xie Zhu [2016] SCP No. 400) from the National Association of Financial Market Institutional Investors (中國銀行間市場交易商協會), according to which the Company can issue a super short-term commercial papers in tranches with a registered amount of RMB3 billion in Shanghai Pudong Development Bank. Please refer to the Company's related announcement on 19 January 2017 for details.

At the board meeting held on 28 February 2017, the Board resolved to submit to the extraordinary general meeting, the domestic shareholders' class meeting and the H shareholders' class meeting respectively for consideration and approval by the shareholders by way of special resolution a proposal for extension of the validity period of the shareholders' approval for the proposed A Share offering for a future period of 12 months commencing from the date of passing the relevant special resolutions.

RISKS FACTORS

1. Risks caused by slackened macro-economy and cyclical fluctuation of real estate industry

The recent years has witnessed China's persistent slackened macroeconomic growth trend. In 2016, China's GDP showed 6.7% year-on-year growth, which was the lowest growth rate for the past 25 years, and it may be further reduced in the future. The slowdown in macro-economic growth may slow down the expected urbanization in China, and pose adverse effect to the improvement of residents' disposable income and standard of living. Meanwhile, the real estate industry, as the basic industry under the continued regulation of China, is closely related to the country's macroeconomic development with the manifestation of the strong cyclical characteristics. The potential adverse changes caused by slower growth of the macro-economy and cyclical fluctuation of real estate industry may weaken the demand for home improvement and furnishings retail industry, and thus posing certain negative impact on the Company's operating performance.

According to the data of Frost & Sullivan, the sales amount achieved in Chinese home improvement and furnishings industry in 2016 was RMB4.0 trillion, representing an increase of 7.6% on a year-on-year basis. The industry growth rate was significantly higher than that of China's macroeconomic overall growth. The Company will actively seize favorable opportunities of the rapid development in the home improvement and furnishings industry and increase the market share by the fast and steady expansion of the shopping mall network; while improving economies of scale and operational efficiency and strengthening the sustained stability of profitability, so as to better cope with and withstand the risks associated with macroeconomic and industry volatility.

2. Risks associated with talent shortage and loss

As our business scale is under continuous development and expansion, demand for high-level management talents and professionals increases continuously. If the Company's reserve of talents cannot keep up with the rapid development rate of the Group's business, then it will pose an adverse impact on the Company's operational stability.

We have set up different personnel training and reserve plans for the fresh graduates, excellent employees and supervisory employees, and we continue to invest resources to provide various types of education and training opportunities so as to enhance their knowledge and technical level as well as the ability of business practices. Meanwhile, the Company will continue to strengthen information construction so as to improve the efficiency of business, and thus providing guarantee for the building of our pool of talents required for business expansion.

RISKS FACTORS (continued)

3. Risks associated with expanding business development

Based on the nationwide retail platform and the largest database of businesses and consumers in the Chinese home improvement and furnishings industry, we plan to further develop the attractive Internet-related products and services as well as the supply chain related products and services. Compared with our shopping mall business, the business model and risks of expanding business may vary, but we may not have enough experience to effectively manage such expanding business and the related risks. Such expanding business may bring us new challenges and risks. If the expanding business failed to achieve the expected results, then our business, financial condition, results of operations and prospects as a whole may be adversely affected.

By relying on a strong industrial influence in the existing business accumulation, rich management experience and national distribution network system, we will provide high-quality brand, market, customer and product resources support for the implementation of the above-mentioned expanding business. It will flexibly select and adjust the operating mode of operation and based on the market changes and business needs, so as to reduce the uncertainty of expanding business and other related risks.

OUTLOOK AND PROSPECTS

We have persistently adhered to the mission of "building a warm and harmonious homeland enhancing consumption and living taste". In 2017 and thereafter, we will continue to follow the operation and management model of "market-oriented management and shopping mall management", provide better and more professional services for consumers, consolidate our market leadership and strengthen the brand of "Red Star Macalline" of "Home Furnishings Expert" in the consumers' mind to build the most pioneering and professional "omni-channel platform provider in home improvement and furnishings industry".

Our future development plans are as follows:

1. To continue the implementation of two-pronged business model of Portfolio Shopping Malls and Managed Shopping Malls; to strengthen the market leadership through strategic expansion of shopping mall network and brand portfolio

In terms of shopping mall network construction, we will further strengthen the market leading position in Tier I and II Cities through self-operation mode, and continue to selectively open new home shopping malls in the core cities; at the same time, by relying on the sound brand reputation, mature shopping mall development, tenant sourcing and operation and management capabilities in the home improvement and furnishings industry, we will quickly penetrate into the Tier III Cities and Other Cities through the asset-light managed business model, so as to further expand the operation coverage of companies in the country, and thus accelerating market penetration. Moreover, we are also exploring vigorously the possibility of property asset securitization of owned furniture malls to promote the capital operating efficiency of enterprise.

OUTLOOK AND PROSPECTS (continued)

1. **To continue the implementation of two-pronged business model of Portfolio Shopping Malls and Managed Shopping Malls; to consolidate the market leadership through strategic expansion of shopping mall network and brand portfolio (continued)**

   As for the brand portfolio construction, we will cover a wider range of consumer groups and market segment and serve our merchants to further enhance our market share through diversified brand strategy.

2. **Striving to become new retail benchmark in home decoration and furnishing industry**

   As one of the most influential brands in the home industry in China, we will, from the perspective of truly understanding and satisfying the needs of consumers, always furnish consumers with a better and more in-depth experience, more professional and all-round value-added services, and more convenient and humanized service mode. We will provide a trustworthy circulation platform that can integrate a sufficient number of home decoration and furniture industry brand commodities to satisfy the various needs and consumer Pain Points, enhance the online and offline integration experience of consumers, establish the most valuable circulation platform in home decoration and furniture industry, and strive to become new retail benchmark in the home improvement and furnishing industry.

3. **Enhancing the long-term competitiveness of the enterprise through digital strategies**

   The digital strategies such as "1001" we are pursuing are aimed at enhancing the long-term competitiveness of enterprise to meet new growth opportunities by making use of internet, big data, cloud computing and other information technologies.

4. **The Group actively made innovations and valued capital market and financial instruments**

   The Group will positively explore new business model and integrate upstream and downstream resources of home decoration and furniture industry through investment, merger and acquisition and other ways, and in particular look for opportunities into smart household field and offer services for enlarging enterprise scale, strengthening corporate strength, preparing for future and leading the development of the industry.

5. **We will improve corporate governance, standardize the operation, and fulfill the social responsibility.**

   We will make continuous improvement in corporate governance framework, organizational process and management mechanism, abide by national laws and business ethics and create the commercial atmosphere of "standardized operation" as well as undertake and fulfill social responsibility proactively.

Directors, Supervisors and Senior Management

EXECUTIVE DIRECTORS

Mr. CHE Jianxing, aged 50, the founder of our Group, has been the chairman, an executive Director, the chief executive officer and the general manager of our Company, since its establishment in June 2007. Mr. CHE is primarily responsible for the overall management, strategic development and business planning of our Group. Mr. CHE has over 29 years of industry experience. He started his career in furniture manufacturing in the late'80s. He then established Changzhou Red Star Furniture Store* (常州市紅星傢俱城) in December 1990 and served as its general manager from 1990 to 1994. He subsequently founded Red Star Furniture Group in June 1994 and served as its chairman of the board of directors and chief executive officer from 1994 to 2007. Mr. CHE is Ms. CHEN Shuhong's husband and Ms. CHE Jianfang's brother. Mr. CHE is a member of the executive committee of All-China Federation of Industry & Commerce (中華全國工商業聯合會). Mr. CHE was awarded as the "Shanghai Outstanding Star" by Shanghai government, Shanghai Industry & Commerce (上海工商業聯合會) and Shanghai Outstanding Enterprise Promotion Association (上海光彩事業促進會) in February 2014, the "Changzhou Outstanding Entrepreneur" by Changzhou government in January 2012 and the "Working Model of Jiangsu Province" by Jiangsu Provincial People's Government in April 2006. For Mr. CHE's interest in the shares and underlying shares of the Company, please refer to the section headed "Report of Directors" of this annual report.

Ms. ZHANG Qi, aged 57, joined our Company in June 2012 and has been the vice chairman, an executive Director and a vice general manager of our Company since then. Ms. ZHANG is primarily responsible for the business development, strategy and investment planning, operating management of Managed Shopping Malls, construction progress of Portfolio Shopping Malls, Internet financial segment, overall management of the Xingyijia* (星藝佳) business, legal compliance and internal control of our Group. Prior to joining our Company, Ms. ZHANG served in various positions in the Huangpu District office, Shanghai City of the Industrial and Commercial Bank of China (中國工商銀行) ("ICBC"), including the director of South Three Sub-branch, the secretary of the communist party branch of South three sub-branch, the director of Nanjing Road East sub-branch, the vice director of deposit department, the assistant director and the vice director, from July 1984 to September 1992. From September 1992 to January 2000, she successively served as the vice president, the president and the secretary of the communist party committee of Huangpu sub-branch and Jing'an sub-branch of the Shanghai branch of ICBC. From January 2000 to March 2008, Ms. ZHANG worked in the Shanghai branch of ICBC, where she served in various positions, including the director of the retail division and the securities clearing division, the assistant president, the vice president and the deputy secretary of the communist party committee. From March 2008 to June 2012, Ms. ZHANG served as the general manager and the secretary of the communist party committee of the private banking department of ICBC.

Ms. ZHANG studied in the Cadre Class of Financing Management (金融管理幹部專修班) at the Faculty of Economics of Fudan University (復旦大學) from September 1985 to July 1987. She graduated with a master's degree in finance from Shanghai University of Finance Economics (上海財經大學) in June 1998. Ms. ZHANG also completed the executive master of business administration program jointly organized by Shanghai National Accounting Institute (上海國家會計學院) and Arizona State University in October 2005. Ms. ZHANG was accredited by ICBC as a senior economist in August 1997. She received the honor of "Shanghai Financial Talent" granted by Shanghai Financial Work Committee of Communist Party (中共上海市金融工作委員會) and Shanghai Financial Services Office (上海市金融服務辦公室) in March 2004.

Ms. CHE Jianfang, aged 48, joined our Company in June 2007 and has been an executive Director and a vice general manager of our Company since then. Ms. CHE is primarily responsible for merchandising management of our Group. Prior to joining our Company, Ms. CHE worked as the general manager at the Changzhou Red Star Furniture General Factory* (常州市紅星傢俱總廠) from 1990 to 1993, mainly responsible for general operation of the business. She served as the general manager responsible for national investment operation at Red Star Furniture Group from 1994 to 2007. Ms. CHE is Mr. XU Guofeng's wife and Mr. CHE Jianxing's sister. Ms. CHE completed the "Senior Executive Program for China" jointly organized by China Europe International Business School (中歐國際工商學院) ("CEIBS"), Harvard Business School and the School of Economics and Management of Tsinghua University (清華大學經濟管理學院) in December 2007. She also completed the China CEO Program jointly organized by Cheung Kong Graduate School of Business (長江商學院), Columbia Business School, the International Institute for Management Development and London Business School in July 2011. Currently, Ms. CHE serves as the vice-chairman of Shanghai Entrepreneur Association (上海市企業家聯合會) and has always been committed to social welfare undertakings. She further established Red Star Bright Fund (紅星光彩基金). For Ms. CHE's interest in the shares and underlying shares of the Company, please refer to the section headed "Report of Directors" of this annual report.

Mr. JIANG Xiaozhong, aged 47, joined our Company in June 2007 and has been an executive Director and a vice general manager of our Company since December 2012. Mr. JIANG is primarily responsible for business development and operation of our Group. Prior to joining our Company, from June 1994 to June 2007, Mr. JIANG served in various positions at Red Star Furniture Group, including as secretary of the communist party branch committee, secretary of the communist party committee and as vice president, primarily responsible for business operation, administration and communist party committee related work.

Mr. JIANG completed a three-year correspondence course for cadre in administrative management at the Communist Party School of Jiangsu Province (江蘇省委黨校) in July 1992. He graduated with an executive master of business administration degree from the executive master of business administration program at Cheung Kong Graduate School of Business (長江商學院) in September 2011.

NON-EXECUTIVE DIRECTORS

Ms. CHEN Shuhong, aged 44, joined our Company in June 2007 and has been a non-executive Director since then. Ms. CHEN is primarily responsible for overseeing our Company's management and strategic development. Prior to joining our Company, Ms. CHEN worked at the Changzhou Red Star Furniture General Factory* (常州市紅星傢俱總廠) from July 1992 to December 1993, and was mainly responsible for finance-related work. She then served as a manager of Changzhou Home Furnishing Wholesale Center* (常州建材傢俱批發中心) from January 1994 to June 1999. Ms. CHEN served as the chief financial officer of Red Star Furniture Group from June 1999 to June 2007. Ms. CHEN is Mr. CHE Jianxing's wife and Mr. CHEN Donghui's sister.

Ms. CHEN obtained a college degree for adult higher education in accounting from Industrial College of Jiangsu Province (江蘇省工業學院) (now known as Changzhou University (常州大學)) in 2003. She graduated with an executive master of business administration degree from the executive master of business administration program of The Hong Kong University of Science and Technology (香港科技大學) in June 2012. For Ms. CHEN's interest in the shares and underlying shares of the Company, please refer to the section headed "Report of Directors" of this annual report.

Mr. XU Guofeng, aged 50, joined our Company in June 2007 and has been a Director and a vice general manager of our Company since December 2010. He has been a non-executive Director of our Company since he resigned as vice general manager in November 2014. Mr. XU is primarily responsible for overseeing our Company's management and strategic development. Prior to joining our Company, Mr. XU served as a factory manager at the Changzhou Red Star Furniture General Factory* (常州市紅星傢俱總廠) from 1991 to 1994, where he was mainly responsible for production and business operation. He then served as a vice president of Red Star Furniture Group from 1994 to 2007, where he was mainly responsible for managing construction-related work and participating in the decision making for significant events. Mr. XU is Ms. CHE Jianfang's husband and Mr. XU Guoxing's brother. Mr. XU completed a correspondence course in business administration at Beijing Business Management Correspondence College (北京經濟管理函授學院) in July 2004. He also completed the executive master of business administration program at Cheung Kong Graduate School of Business (長江商學院) in September 2011.

Mr. Joseph Raymond GAGNON, aged 39, joined our Company in December 2009 and has been a non-executive Director of our Company since then. Mr. GAGNON is primarily responsible for participating in formulating our Company's corporate and business strategies. He joined Warburg Pincus Asia LLC, an affiliate of Warburg Pincus (美國華平投資集團), in September 2005 and currently serves as its managing director and the head of its real estate investment business in Asia. Mr. GAGNON previously worked for GE Capital from July 2000 to August 2005, where he last served as a business development manager with GE Capital Real Estate in Tokyo. Mr. GAGNON has been a director of Vingroup Joint Stock Company, a company listed on the Ho Chi Minh City Stock Exchange (stock code: VIC), since July 2013. Mr. GAGNON also served as a non-executive director of Sunshine 100 China Holdings Ltd. (陽光100中國控股有限公司), a company listed on the Hong Kong Stock Exchange (stock code: 02608), from June 2011 to September 2014.

Mr. GAGNON graduated with a bachelor of science degree in mathematical economics from Wake Forest University in the United States in August 2000. On 14 June 2012, Mr. GAGNON was appointed as a director of Titan Investment Group Limited ("TIGL"), a company incorporated in Hong Kong. TIGL was financially distressed at the time when Mr. GAGNON was appointed as a director. Mr. GAGNON's role included seeking means of reorganizing the TIGL group for the benefit of its shareholders and creditors. On 18 June 2012, one of TIGL's shareholders made an application to the British Virgin Island court for the appointment of liquidators to TIGL. On 17 July 2012, TIGL was appointed as the liquidators as part of the reorganization process that Mr. GAGNON supported and assisted with implementing. On 17 September 2012, a consortium agreed to purchase substantially all of the assets of the TIGL group.

Mr. ZHANG Qiqi, aged 35, joined our Company in December 2010 and has been a non-executive Director of our Company since then. Mr. ZHANG is primarily responsible for participating in formulating our Company's corporate and business strategies. He joined Beijing Warburg Pincus Investment Consulting Co., Ltd., an affiliate of Warburg Pincus in July 2009 and currently serves as its executive director. Mr. ZHANG previously worked as an associate and successively a senior associate at the Shanghai branch of PWC Consulting (Shenzhen) Co., Ltd. from August 2003 to July 2007. Mr. ZHANG graduated with a bachelor's degree in international economics and trade (English) from Shanghai International Studies University (上海外國語大學) in July 2003 and a master of business administration degree from the Booth School of Business, University of Chicago, in June 2009.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LI Zhenning, aged 63, joined our Company in March 2012 and has been our independent non-executive Director since then. He is primarily responsible for participating in the decision making for our Company's significant events and advising on issues relating to corporate governance, audit, strategy and investment, and the nomination, remuneration and assessment of our Directors and senior management. Prior to joining our Company, Mr. LI engaged in investment activities and acted as a financial consultant in his personal capacity from May 1995 to December 2002. He was an independent director of Shanghai Zhangjiang Hi-tech Park Development Co., Ltd. (上海張江高科技園區發展股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600895), from May 2008 to April 2010. Mr. LI founded Shanghai Rising Fund Management Company Ltd. (上海睿信投資管理有限公司) in December 1997 and has been serving as its chairman of the board of directors since then. He has also been serving as the chairman of the board of directors of Shanghai Juying Culture Communication Co., Ltd. (上海聚英文化傳播有限公司) since November 2006. Mr. LI graduated from Renmin University of China (中國人民大學) with a bachelor's degree in western economics in June 1982 and a master's degree in economics in June 1985.

Mr. LEE Kwan Hung, aged 51, has been appointed as our independent non-executive Director since February 2015. He is primarily responsible for participating in the decision making for our Company's significant events and advising on issues relating to the nomination of our Directors and senior management. From December 1992 to April 1994, Mr. LEE worked in the Listing Division of the Hong Kong Stock Exchange, where he successively served as a manager and a senior manager, and was a partner of Woo, Kwan, Lee & Lo from April 2001 to February 2011. Mr. LEE is currently a consultant at Howse Williams Bowers. He has been an independent non-executive director of several companies listed on the Hong Kong Stock Exchange, including Embry Holdings Limited (安莉芳控股有限公司) (stock code: 1388) since November 2006, NetDragon Websoft Inc. (網龍網絡控股有限公司) (stock code: 777) since June 2008, Asia Cassava Resources Holdings Limited (亞洲木薯資源控股有限公司) (stock code: 841) since January 2009, Futong Technology Development Holdings Limited (富通科技發展控股有限公司) (stock code: 465) since November 2009, Newton Resources Ltd. (新礦資源有限公司) (stock code: 1231) since December 2010, Tenfu (Cayman) Holdings Company Limited (天福(開曼)控股有限公司) (stock code: 6868) since August 2011, China BlueChemical Ltd. (中海石油化學股份有限公司) (stock code: 3983) since June 2012, Landsea Green Properties Co., Ltd. (朗詩綠色地產有限公司) (stock code: 106) since July 2013, China Goldjoy Group Limited (中國金洋集團有限公司) (stock code: 1282) since November 2015, Fse Engineering Holdings Limited (豐盛機電控股有限公司) (stock code: 331) since November 2015, and Ten Pao Group Holdings Limited (天寶集團控股有限公司) (stock code: 1979) since November 2015. Mr. LEE was also the independent non-executive director of Yuexiu REIT Asset Management Limited (越秀房托資產管理有限公司), which is the manager of Yuexiu Real Estate Investment Trust (越秀房地產投資信託基金) (stock code: 405), from November 2005 to October 2014, the independent non-executive director of Far East Holdings International Limited (遠東控股國際有限公司) (stock code: 36) from March 2012 to November 2014 and the independent non-executive director of Walker Group Holdings Limited (盈進集團控股有限公司) (stock code: 1386) from February 2011 to March 2016, the shares of which or the units or shares of the said management funds are listed on the Hong Kong Stock Exchange. Mr. LEE obtained his Bachelor of Laws (Honours) degree and Postgraduate Certificate in Laws from the University of Hong Kong in 1988 and 1989 respectively. He was admitted as a solicitor in Hong Kong in 1991 and in the United Kingdom in 1997.

Mr. DING Yuan, aged 47, joined our Company in March 2012 and has been appointed as our independent non-executive Director since then. He is primarily responsible for participating in the decision making for our Company's significant events and advising on issues relating to corporate governance and audit. Mr. DING has more than ten years of experience in teaching and researching financial accounting, financial statement analysis, corporate governance and mergers and acquisitions. Mr. DING served as a tenured professor in accounting and management control at the HEC School of Management in France from September 1999 to September 2006. Mr. DING has joined the CEIBS since September 2006, and is currently serving as the Cathay Capital professor, vice president and dean in Accounting. Since July 2013, Mr. DING has been serving as an independent non-executive director, the chairman of the audit committee and a member of the nomination committee and the remuneration committee of Landsea Green Properties Co., Ltd. (朗詩綠色地產有限公司), a company listed on the Hong Kong Stock Exchange (stock code: 106). He has been an independent non-executive director, the chairman of the remuneration committee and a member of nomination committee and audit committee of Man Wah Holdings Limited (敏華控股有限公司), a company listed on the Hong Kong Stock Exchange (stock code: 1999) since December 2016. He is currently a director of Jaccar Holdings, a private investment company. Mr. DING was an independent director and the chairman of the audit committee at Anhui Gujing Distillery Co., Ltd. (安徽古井貢酒股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000596), from June 2008 to June 2011 and at TCL Corporation (TCL集團股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000100), from June 2008 to June 2014. He has been a director and the chairman of the audit committee of MagIndustries Corp., a company listed on the Toronto Stock Exchange (stock code: MAA), since July 2011 to June 2015. Mr. DING graduated with a doctor of philosophy degree in management science from the College of Business Administration, Bordeaux IV University in France in May 2000.

Mr. QIAN Shizheng, aged 64, joined our Company in April 2016 and has been appointed as our independent non-executive Director of our Company since then. He is primarily responsible for participating in the decision making for our Company's significant events and advising on issues relating to corporate governance, audit and the remuneration and assessment of our Directors and senior management. Mr. QIAN has over 30 years of experience in the theory and practice of finance and accounting. Mr. QIAN served as the Deputy Dean of the Department of Accounting at Shanghai Fudan University from August 1983 to December 1997. During the period from January 1998 to June 2012, he served as the executive director and vice president of Shanghai Industrial Holdings Limited (上海實業控股有限公司), a company listed on the Hong Kong Stock Exchange (stock code: 363), and concurrently served as the vice chairman of Haitong Securities Co., Ltd. (海通證券股份有限公司), a company listed on both the Shanghai Stock Exchange (stock code: 600837) and the Hong Kong Stock Exchange (stock code: 6837). During the period from June 2014 to February 2017, Mr. Qian served as an independent director at Shanghai Chengtou Holding Co., Ltd. (上海城投控股股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600649). Mr. QIAN returned to Shanghai Fudan University (上海復旦大學) in July 2012 and is now a professor at the School of Management of Shanghai Fudan University. Mr. QIAN is concurrently acting as an independent director at Shanghai Lujiazui Finance and Trade Zone Development Co., Ltd. (上海陸家嘴金融貿易區開發股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600663), Shanghai Laiyifen Co., Ltd., (上海來伊份股份有限公司) a company listed on the Shanghai Stock Exchange (stock code: 603777), Hanhua Financial Holding Co., Ltd.* (瀚華金控股份有限公司), a company listed on the Hong Kong Stock Exchange (stock code: 3903), Jingrui Holdings Limited (景瑞控股有限公司)*, a company listed on the Hong Kong Stock Exchange (stock code: 1862) and Lonking Holdings Limited (中國龍工控股有限公司)*, a company listed on the Hong Kong Stock Exchange (stock code: 3339), respectively. Mr. QIAN obtained his bachelor's degree in economics from the Accounting Department at Shanghai University of Finance and Economics in July 1983 and obtained his master's degree in economics and PhD in management from Shanghai Fudan University in January 1993 and July 2001, respectively.

SUPERVISORS

Ms. NG Ellen Hoi Ying, aged 36, has been the shareholder representative Supervisor of our Company since December 2010, mainly responsible for overseeing business development and operations of our Company. Ms. NG currently serves as a managing director of Warburg Pincus Asia LLC, an affiliate of Warburg Pincus. Ms. NG served as an analyst in the investment banking division of Bank of America Merrill Lynch in Hong Kong from July 2003 to September 2005. She joined Warburg Pincus Asia LLC in October 2005 and was promoted to her current position in December 2015. Ms. NG graduated with a bachelor's degree in economics from the University of Pennsylvania in May 2003. She has been a CFA charterholder accredited by CFA Institute since September 2005.

Mr. ZHENG Hongtao, aged 50, joined our Company in January 2016 and has been an independent Supervisor. He has been engaging in teaching and research work at Beijing National Accounting Institute (北京國家會計學院) as a director of corporate governance and risk control center. Mr. ZHENG was a teacher at Guangdong Zhongkai Technology and Economics College (廣東仲愷技術經濟學院) from July 1995 to December 1996. From January 1997 to October 1997, Mr. ZHENG was a researcher at the Rural Economics Research Center of the Ministry of Agriculture (農業部農村經濟研究中心). From October 1997 to September 1998, Mr. ZHENG served as an investment project manager at the investment banking division of Everbright Securities Company Limited (光大證券股份有限公司) (which was subsequently listed on both the Hong Kong Stock Exchange (stock code: 6178) and the Shanghai Stock Exchange (stock code: 601788)).

Mr. ZHENG participated in post-doctoral research in finance at Zhongnan University of Economics and Law (中南財經政法大學) from July 2002 to December 2006. He graduated from Huazhong Agricultural University (華中農業大學) with a doctoral degree in agricultural economics and management and a master's degree in agriculture in June 2001 and June 1995, respectively.

Mr. ZHENG is currently an independent director of CNNC SUFA Technology Industry Co., Ltd., iHandy and Hebei Changshan Biochemical Pharmaceutical Co. Ltd. and Beijing Taikong Panel Industry Corp (北京太空板業股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 300334), and Venustech Group Co., Ltd. (啟明星辰信息技術集團股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002439), since 2012 and 2014 respectively. In February 2010, Mr. ZHENG was named as a professor by the Ministry of Finance of the People's Republic of China. Mr. ZHENG was an independent director of Tangshan Jidong Cement Co., Ltd. (唐山冀東水泥股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000401) and Hengxin Mobile Business Co., Ltd. (恒信移動商務股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 300081) for the three years prior to the date of this annual report.

Mr. CHEN Gang, aged 40, joined our Company in January 2016 and has been an independent Supervisor. Mr. CHEN served as the senior manager and director of the investment banking division of Huatai United Securities Co., Ltd. (華泰聯合證券有限責任公司), formerly known as United Securities Co., Ltd. (聯合證券有限責任公司) and the general manager of its investment banking (4) division of Shanghai from July 2001 to August 2006. From August 2006 to February 2007, he served as an assistant of general manager of the headquarters of mergers and acquisitions financing department of China Securities and the person in charge of the Shanghai branch of the company. From February 2007 to January 2010, he served as the vice general manager and successively the executive general manager of the investment banking division of Zhongtai Securities Co., Ltd. (中泰證券股份有限公司), formerly known as Qilu Securities Co., Ltd. (齊魯證券有限公司). From February 2010 to December 2016, he successively acted as assistant to president and general manager of the investment banking division of Zhongshan Securities Co., Ltd., vice general manager of the OTC Market division and general manager of the new third board business of Zhongshan Securities Co., Ltd. Since January 2017, he has been appointed as general manager of the investment banking division in LC Securities. Mr. CHEN graduated from Beijing University of Posts and Telecommunications (北京郵電大學) with a major in English for Science and technology and a bachelor's degree in engineering in July 1998. Mr. CHEN completed the finance courses (including insurance courses) of the Economics College in Fudan University and obtained the master's degree in economy in July 2001, completed the world economy courses of the Economics College in Fudan University and obtained doctoral degree in economy in July 2009, and engaged in post-doctoral research on politics in the International Relationships and Public Affairs College in Fudan University and graduated in July 2012. Mr. CHEN is currently a part-time master tutor at the School of Economics of the Fudan University and a master tutor in Shanghai Advanced Institute of Finance (上海交通大學高級金融學院). He is also a member of the Tenth Session of the Central Finance and Economics Committee of China National Democratic Construction Association (中國民主建國會中央財政金融委員會). Mr. CHEN was accredited as a Chinese Certified Public Accountant by Shanghai Institute of Certified Public Accountants (上海註冊會計師協會) in November 2004. In September 2009, Mr. CHEN was accredited by Jiangsu Office of Personnel (江蘇省人事廳) as a senior economist. Mr. CHEN was listed in the first batch of sponsors in Chinese securities market in 2004.

Mr. PAN Ning, aged 50, has been the chairman of the supervisory committee of the Company since February 2012. He was previously a vice general manager of the Company from June 2007 to December 2011, mainly responsible for overseeing the audit and evaluating investment decisions of the Company. Prior to joining the Company, Mr. PAN worked as an officer successively at the Changzhou branch of the People's Bank of China, the Changzhou branch of Industrial and Commercial Bank of China and Changzhou Commercial Bank from November 1983 to March 2002. Mr. PAN served as a vice president of Red Star Furniture Group from 2002 to 2007, mainly responsible for corporate finance work.

Mr. PAN completed a part-time course in finance at Jiangsu Radio and Television University (江蘇廣播電視大學) (now known as Jiangsu Open University (江蘇開放大學)) in July 1991 and a postgraduate course in monetary banking at Suzhou University (蘇州大學) in June 1998. He completed the "Senior Executive Program for China" jointly organized by China Europe International Business School, Harvard Business School and the School of Economics and Management of Tsinghua University (清華大學經濟管理學院) in December 2009. Mr. PAN completed the finance executive master of business administration course in Shanghai Advanced Institute of Finance (上海交通大學上海高級金融學院) and obtained his master's degree in executive master of business administration in June 2016. Mr. PAN was accredited by the Jiangsu branch of Industrial and Commercial Bank of China as an economist in June 1992.

Ms. CHAO Yanping, aged 46, has been the employee representative supervisor of the Company since December 2010. Ms. CHAO has been serving as a general manager of the Company's first development center since June 2007, mainly responsible for overseeing business development and operations of the Company. She has also been serving as an executive partner of Shanghai Hongmei Investment since February 2012. Prior to joining the Company, Ms. CHAO worked as the general manager of Shanghai region in Red Star Furniture Group from 2002 to 2007, mainly responsible for projects investment and development.

Ms. CHAO completed part-time study in business administration at the University of Shanghai for Science and Technology (上海理工大學) in January 2010.

SENIOR MANAGEMENT

Mr. LI Bin, aged 42, joined our Company in January 2016 and now serves as vice general manager of our Company. Prior to joining the Company, Mr. LI was appointed as a chief account director in Hefei Royalstar Electronic Appliance Group Co., Ltd. prior to January 2005 and as a deputy chief operating officer and CEO of operating headquarters in Sunning Commerce Group Co., Ltd. prior to September 2015.

Mr. LI graduated from International Trade Major of Shanghai University of International Business and Economics and now is taking MBA courses for senior executives in Fudan University.

Mr. LIU Yuanjin, aged 62, joined our Company in June 2007 and has been a vice general manager of our Company. He is primarily responsible for the business development and operations of our Company. Prior to joining our Company, Mr. LIU worked at Changzhou Juqian Street Primary School (常州市局前街小學) from September 1971 to January 1977. Mr. LIU was a member and a deputy secretary of the communist youth league committee of Tianning District, Changzhou City from January 1977 to September 1981. From July 1985 to August 1997, Mr. LIU worked in the government of Tianning District, Changzhou City, where he successively served as head of the industry department, head of the planning economy department and the deputy district chief. From August 1997 to December 2003, Mr. LIU served as deputy head and deputy secretary of the central management committee and a member of the party committee of the Changzhou National High Technology Development Zone (常州市國家高新技術開發區), and concurrently served as the deputy district chief and deputy secretary of the communist party committee of Xinbei District, Changzhou City. Mr. LIU served as a vice president of Red Star Furniture Group from 2004 to 2007, mainly responsible for the development of projects in their early stage.

Mr. LIU completed his studies in engineering management at Tianjin University (天津大學) in July 1985. He completed the "Senior Executive Program for China" jointly organized by CEIBS, Harvard Business School and the School of Economics and Management of Tsinghua University (清華大學經濟管理學院) in December 2007. He completed the EMBA course of Cheung Kong Graduate School of Business (長江商學院) in 2014. Mr. LIU is currently taking the CEO course of China Europe International Business School.

Mr. PAN Ping, aged 61, joined our Company in June 2007 and has been a vice general manager of our Company since 30 December 2010. He is primarily responsible for the business development and operations of our Company. Prior to joining our Company, Mr. PAN served as the deputy general manager and the deputy secretary of the communist party committee of Wuxi Commercial Mansion (無錫商業大廈), the general manager of Wuxi Shopping Mall (無錫商場) and the general manager and the secretary of the party committee of Wuxi Electrical Appliances Corporation (無錫交家電總公司) from 1985 to 1996. Mr. PAN served as the deputy district chief of Chong'an District, Wuxi City from 1996 to 2003. From 2003 to 2007, Mr. PAN served as a vice president of Red Star Furniture Group, mainly responsible for business development and operation. Mr. PAN also served as supervisor of Jinke Real Estate Group Co. Ltd. (金科地產集團股份有限公司), a company listed on the Shenzhen Stock Exchange (Stock Code: 000656) from January 2012 to March 2014 and as director from May 2014 to March 2015.

Mr. PAN completed his studies in politics at Wuxi Workers Part-Time University (無錫市工人業餘大學) in August 1977 and the study in party and politics at Communist Party School of Wuxi Municipal Committee (中共無錫市委黨校) in July 1985. Mr. PAN was accredited as a senior economist by Senior Economics Qualification Review Committee of Jiangsu Province (江蘇省經濟專業高級職務任職資格評審委員會) in June 1995. Mr. PAN completed the "Corporate CEO/Finance CEO Program in China" jointly opened by Cheung Kong Graduate School of Business (長江商學院), London Business School, Columbia Business School, Research College on International Enterprises Strategies of the Hitotsubashi University in Japan (日本一橋大學國際企業戰略研究學院), ESMT and IMD in November 2015. On 29 December 2016, Mr. PAN resigned as a member of the senior management.

Mr. XI Shichang, aged 42, joined our Company in July 2010 and has been the chief financial officer of our Company since December 2010. He is primarily responsible for overseeing corporate finance and financial management of our Company. Prior to joining our Company, from October 1999 to December 2002, Mr. XI worked at Shanghai Zhong Yong Xin Accounting Firm (上海中永信會計師事務所). From January 2003 to July 2010, Mr. XI worked at Deloitte & Touche Tohmatsu Certified Public Accountants Co., Ltd.

Mr. XI graduated with a bachelor's degree in finance from Shanghai University of Finance and Economics (上海財經大學) in July 1995 and a master of business administration degree from the executive master of business administration program at CEIBS in October 2013. Mr. XI has been a Certified Public Accountant accredited by Shanghai Institution of Certified Public Accountants (上海註冊會計師協會) since June 2011.

Mr. LI Jianhong, aged 43, joined our Company in February 2013 and has been a vice general manager of our Company since March 2013. He is primarily responsible for the investment and financing of our Company. Prior to joining our Company, Mr. LI worked as the head of the finance department of Xiamen Customs in the 1990s. Mr. LI joined Man Wah Holdings Ltd. (敏華控股有限公司), a company listed on the Hong Kong Stock Exchange (Stock Code: 01999) in September 2000 and served as its executive director, chief operating officer and vice president from April 2005 to October 2011.

Mr. LI graduated with a bachelor's degree in accounting from Xiamen University (廈門大學) in July 1994, and obtained a distance education degree in executive master of business administration from Peking University (北京大學) in January 2007. Mr. LI obtained a master of business administration degree from Booth School of Business, University of Chicago in March 2010. Mr. LI was accredited as a Chinese Certified Public Accountant by CICPA in June 2001.

Mr. XU Guoxing, aged 45, joined our Company in June 2007 and has been a vice general manager of our Company since 30 December 2010. He is primarily responsible for the building material distribution business and the decoration business of our Company. Prior to joining our Company, Mr. XU worked in Changzhou Red Star Furniture General Factory* (常州市紅星家俱總廠) and Changzhou Red Star Furniture Store* (常州市紅星家俱城) from 1992 to 1994, mainly responsible for the sales of furniture. Mr. XU worked as sales manager in Red Star Furniture Group from 1994 to 2007, mainly responsible for the sales of furniture. Mr. XU is Mr. XU Guofeng's brother.

Mr. XU completed the study of business administration at Nanjing College of Artillery Academy of the People Liberation Army (中國人民解放軍炮兵學院南京分院) in June 2004. He also completed the EMBA Program in October 2012 at Cheung Kong Graduate School of Business (長江商學院). He is currently the vice president of Jiangsu Furniture Industry Association (江蘇省家居行業協會). On 29 December 2016, Mr. XU resigned as a member of the senior management.

Mr. ZHANG Peifeng, aged 45, joined our Company in October 2008 and has been a vice general manager of our Company since 30 December 2010. He is primarily responsible for the property management of our Company. Prior to joining our Company, Mr. ZHANG worked in Whirlpool Corporation (China) (美國惠而浦水仙公司(中國)), a company mainly producing household appliances, from September 1997 to March 1999. Mr. ZHANG then worked in Shanghai B&Q Decoration and Construction Material Co., Ltd. (上海百安居裝飾建材有限公司) from June 1999 to July 2005. From August 2005 to November 2006, Mr. ZHANG worked at the Home Depot (China) (家得寶 (中國)), a company mainly selling home furniture and construction materials. From January 2007 to May 2008, Mr. ZHANG worked in Best Buy Commercial (Shanghai) Co., Ltd. (百思買商業(上海)有限公司).

Mr. ZHANG graduated with a bachelor's degree in English literature from Qufu Normal University (曲阜師範大學) in July 1994 and a master's degree in English language from Shanghai International Studies University (上海外國語大學) in February 1997.

Mr. XIE Jian, aged 46, joined our Company in March 2011 and has been a vice general manager of our Company since April 2011. He is primarily responsible for human resources, cultural promotion management, administration and management of our Company. Prior to joining our Company, Mr. XIE served as a general manager responsible for human resources and service quality of New World Department Store China Ltd. (新世界百貨(中國)有限公司) from April 1995 to January 2011.

Mr. XIE completed his studies in politics and education at Wuxi Education College (無錫教育學院) in July 1990. He obtained a bachelor's degree in business management through self-study examination from Nanjing University (南京大學) in July 1995. Mr. XIE obtained a master of business administration degree from the executive master of business administration program at Shanghai Jiao Tong University in June 2015. Mr. XIE was awarded as the "Excellent Trainer of the Industry" by China Building Materials Circulation Association (中國建築材料流通協會) in November 2010 and was appointed as "First Thinktank — Human Resources Expert" and "China Pioneer HR"in October 2013 by First Thinktank (第一資源智庫). He is currently serving as the MBA occupation tutor by Antai College of Economics & Management, Shanghai Jiao Tong University (上海交通大學安泰經濟與管理學院) and the head of the Human Resources Committee of the China's Chain Stores by the CCFA. He entered the "2015 China Top 100 Individuals for Promoting the HR Reform" selected in April 2015. The team led by Mr. XIE has been awarded "Best Corporate University" for 6 years in a row since 2011 and has been granted "China Best Employer Award" for 4 years in a row since 2013.

Mr. GUO Binghe, aged 43, joined our Company in June 2007 and has been a vice general manager of our Company since October 2011. Since December 2013, he has also been the secretary of the Board. He is primarily responsible for legal compliance, corporate governance, internal control, investor relations and information disclosure of our Company and providing support and assistance to the Board in the performance of its duties. Prior to joining our Company, Mr. GUO worked in the investment banking division of Shenyin & Wanguo Securities Co., Ltd. (申銀萬國證券股份有限公司) from July 2001 to March 2004. He then worked in Skyone Securities Co., Ltd. (天一證券有限公司) from March 2004 to October 2005. From 2006 to 2007, Mr. GUO served as assistant chief financial officer of Red Star Furniture Group.

Mr. GUO completed his studies in English education at Anhui Education College (安徽教育學院) (now known as Hefei Normal University (合肥師範學院)) in July 1998, and obtained a master's degree in economics from Fudan University in July 2001 and a degree of executive master of business administration from Cheung Kong Graduate School of Business (長江商學院). Mr. GUO was accredited as an intermediate economist by Ningbo Municipal People's Government in January 2005.

Mr. WANG Wei, aged 47, joined our Company in June 2007 and has been a vice general manager of our Company since March 2013. He is primarily responsible for the business development and operation of our Company. Mr. WANG has held several positions successively since joining our Company, including the general manager of Chongqing Red Star Macalline Shibo Home Living Plaza Company Limited (重慶紅星美凱龍世博家居生活廣場有限責任公司) and Chengdu Red Star Macalline Shibo Home Living Plaza Company Limited (成都紅星美凱龍世博家居生活廣場有限責任公司) from June 2007 to August 2008, the general manager of our operating center in the southwest region and Shanghai from August 2008 to June 2009, the assistant president and the general manager of our operating center in the Beijing-Shanghai Southwest region from June 2009 to August 2012, the general manager of our operating center in the Beijing-Shanghai Southwest region from September 2010 to August 2012. Prior to joining our Company, Mr. WANG served as the assistant general manager of Wuhan GOME Electrical Appliances Ltd.(武漢國美電器有限公司) from March 2004 to December 2005. From December 2005 to June 2007, Mr. WANG served as the assistant general manager of the development center of Red Star Furniture Group, mainly responsible for the operation of shopping malls in Changzhou and Xuzhou.

Mr. WANG graduated with a bachelor's degree in Chinese from Hubei University (湖北大學) in June 1992 and a master's degree in business administration from Wuhan University of Technology (武漢理工大學) in June 2005. He graduated from Renmin University of China with an EMBA in June 2015.

Mr. CHEN Donghui, aged 40, joined our Company in June 2007 and has been a vice general manager of our Company since March 2013. He is primarily responsible for the development of online business of our Company. Mr. CHEN has held several positions successively since joining our Company, including the general manager of the fourth operating center and the general manager of Shandong, Northeast and North China regions from June 2007 to June 2010, the assistant to the president and general manager of Northeast and North China regions from June 2010 to December 2013. Prior to joining our Company, Mr. CHEN held several positions successively in Red Star Furniture Group, including as its accountant from December 1994 to July 1996, the vice general manager in charge of business operation of its several operating subsidiaries from July 1996 to August 2006, and the general manager of its forth operation center and Shandong, Northeast and North China regions from August 2006 to June 2007. Mr. CHEN is Ms. CHEN Shuhong's brother.

Mr. CHEN completed the advanced course of business administration at Shanghai Jiao Tong University (上海交通大學) in April 2005 and his studies in business administration through online education at East China Normal University (華東師範大學) in January 2014. He obtained his master's degree in executive master of business administration in Shanghai Fudan University (上海复旦大學) in June 2016.

Mr. ZHANG Xian, aged 38, joined our Company in June 2007 and has been a vice general manager of our Company since March 2015. He is primarily responsible for the general operation of shopping malls and management of the pre-paid card, building materials collection and logistics businesses of our Company. Mr. ZHANG has held several positions successively since joining our Company, including the vice general manager of the fourth operating center, the vice general manager of Shandong and Northeast regions, and the general manager of Sourthern area of Jiangsu Province from June 2007 to December 2010, the assistant president and the general manager of operation and promotion center from December 2010 to January 2015. Prior to joining our Company, Mr. ZHANG held several positions successively in Red Star Furniture Group, including the head of its human resources department and the director of its president office from January 1999 to January 2005, the vice general manager of its fourth operation center, the vice general manager of Shandong and Northeast regions, and the general manager of Sourthern area of Jiangsu Province area from January 2005 to June 2007. Mr. ZHANG was awarded the honourable title of "Shanghai Youth 4th Medal" in April 2016.

Mr. ZHANG graduated with a master's degree in business administration from Guangxi Normal University (廣西師範大學) in June 2013.

Ms. TANG Zhengmao, aged 47, joined our Company in April 2015 and has been vice general manager and financial consultant of the board of directors of the Company since August 2015. Ms. TANG is primarily responsible for the international investor relations, domestic and overseas financing and market value management of the Company, and provides financial analysis and suggestion, and investment proposals to the Board. Before joining our Company, Ms. TANG worked in the Research Institute of Shenzhen Headquarters of Junan Securities Co., Ltd., Investment Banking Division of Hong Kong Branch and Sales Division from 1994 to 1999. During 2001 to 2002, Ms. TANG served in the New York Investment Bank Headquarters of Credit Suisse First Boston, and later worked in SOHO China Ltd. from 2002 to 2014, where she was successively appointed as the manager/chief inspector of Business Expending Department, chief inspector of Corporate Financing and Investor Relations Department, secretary of the board of directors, executive director and CFO.

Ms. TANG completed her undergraduate courses of Economics and postgraduate courses of Western Economics in Fudan University in 1991 and 1994, respectively, and obtained a MBA master's degree in Business School of Yale University in 2001. During the Reporting Period, Ms. TANG resigned.

Report of Directors

The Board of Directors is pleased to present this annual report together with the audited Consolidated Financial Statements of the Company and its subsidiaries for the end of the Reporting Period.

CORPORATE INFORMATION AND GLOBAL OFFERING

The Company was incorporated in the PRC on 6 January 2011 as a sino-foreign joint stock company with limited liability. The Company's H Shares were listed on the Main Board of the Hong Kong Stock Exchange on 26 June 2015.

PRINCIPAL ACTIVITIES

The Group operates as a leading home improvement and furnishings shopping mall operator in China principally engaged in the operation of owned/leased portfolio shopping malls, managed shopping malls, sales of merchandise and related services businesses. The principal activities of the Group are as follows:

i. owned/leased portfolio shopping malls including leasing floor areas to the tenants and providing comprehensive and continuous operation and management support to them;

ii. managed shopping malls including providing initiation, consultation and management services to the Group's partners and the construction contractors to develop and manage the shopping malls under the Group's own brand;

iii. sales of merchandise and related services including retail sales of home furnishing merchandise and providing related decorating services.

Please refer to Note 50 to the Consolidated Financial Statements on pages 238 to 240 for details of the principal activities of the principal subsidiaries of the Group. There were no significant changes in the nature of the Group's principal activities during the Reporting Period.

SUMMARY OF FINANCIAL INFORMATION AND OPERATING RESULTS

Please refer to the section headed "Management Discussion and Analysis" on pages 10 to 44 for a summary of financial information and operating results of the Group for the end of the Reporting Period.

BUSINESS REVIEW

A review of the business of the Group during the year and a discussion on the Group's future business development are provided in the section headed "Chairman's Statement" on pages 7 to 9 as well as the section headed "Management Discussion and Analysis" on pages 10 to 44. Description of possible risks that the Group may be facing can be found in the section headed "Management Discussion and Analysis" on pages 10 to 44. Also, the risk management objectives and policies of the Group can be found in the section headed "Corporate Governance Report" on page 88. Particulars of important events affecting the Group that have occurred since the end of the financial year ended 31 December 2016 are provided in Note 51 to the Consolidated Financial Statements on page 240 and the section headed "Management Discussion and Analysis" on pages 10 to 44. An analysis of the Group's performance during the year using financial key performance indicators is provided in the section headed "Management Discussion and Analysis" on pages 10 to 44.

ENVIRONMENTAL POLICIES AND PERFORMANCE

We are subject to certain environmental protection laws and regulations, including the Prevention and Control of Water Pollution Law of the People's Republic of China (《中華人民共和國水污染防治法》), the Prevention and Control of Atmospheric Pollution Law of the People's Republic of China (《中華人民共和國大氣污染防治法》), the Prevention and Control of Noise Pollution Law of the People's Republic of China(《中華人民共和國環境噪聲污染防治法》), the Prevention and Control of Environmental Pollution by Solid Waste Law of the People's Republic of China (《中華人民共和國固體廢物污染環境防治法》), the Environmental Impact Assessment Law of the People's Republic of China (《中華人民共和國環境影響評價法》), the Administrative Regulations on Environmental Protection for Acceptance Examination upon Completion of Buildings (《建設項目竣工環境保護驗收管理辦法》) and the Administrative Regulations on Environmental Protection for Development Projects (《建設項目環境保護管理條例》). Each of our property development projects is required under People's Republic of China laws to undergo environmental impact assessments. We must submit the relevant environmental impact study or report to the environmental authorities, along with other required documents, for evaluation and approval by the authorized environmental protection authorities. The approval from the relevant government authorities will specify the standards applicable to the construction project with respect to areas such as air pollution, noise emissions and water and waste discharge. Such measures are required to be incorporated into the design, construction and operation of the particular project. Upon completion of each project, the relevant government authorities will also inspect the site to ensure that all applicable environmental standards have been complied with.

We have taken and will continue to take specific measures to ensure our compliance with applicable environmental laws and regulations, including (i) strictly selecting construction contractors and supervising the process of construction; (ii) applying for review by the relevant government authorities in a timely manner after the project is completed; and (iii) actively adopting environmentally friendly equipment and designs. We also undertake voluntary environmental protection actions and make energy conservation and emission reduction our top considerations when designing our property projects. In 2016, we incurred environmental compliance costs of approximately RMB179.84 million. We expect the annual costs of compliance going forward to be substantially similar, assuming that there will not be any material changes in environmental protection rules and regulations.

As at the end of the Reporting Period, none of our shopping malls had received any material fines or penalties associated with any breach of any environmental laws or regulations since the commencement of their operations.

The Board has overall responsibility for our environmental social and governance ("ESG") strategy and reporting. The Board is responsible for evaluating and determining our ESG-related risks, and ensuring that appropriate and effective ESG risk management and internal control systems are in place. A confirmation regarding effectiveness of these systems has been provided to the Board during the year ended 31 December 2016. A separate ESG report complying with the disclosure requirements under Appendix 27 to the Listing Rules will be published by the Group separately, in any event no later than three months after the publication of this annual report.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Group and its activities are required to comply with the requirements of laws and regulations of China, including but not limited to The Company Laws of the People's Republic of China (《中華人民共和國公司法》), The Law of the PRC on Protection of Consumer Rights and Interest (《中華人民共和國消費者權益保護法》), The Law of Administration of Urban Real Estate of the PRC (《中華人民共和國城市房地產管理法》), Construction Law of the People's Republic of China (《中華人民共和國建築法》), laws, regulations and other normative documents. The Group focuses on internal risk management and control. The independent financial management center, legal department, internal control compliance department are responsible for conducting analysis and review of the laws and regulations applicable to the Company within the internal approval process and assign a professional team to effectively conduct management, inspections and rectification, to ensure that the Group is in compliance with relevant laws and regulations in all major aspects.

The Group has complied with the requirements under the Companies Ordinance, the Listing Rules and the SFO for, among other things, the disclosure of information and corporate governance. The Group has adopted the Model Code.

RELATIONS WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

The Group understands well that employees are valuable assets and thus offers competitive remuneration portfolio to attract and motivate employees. The Group reviews the employees' remuneration portfolio on a regular basis and makes necessary adjustment to align the market standards. The Group also understands that it is of great importance to maintain good relations with suppliers and customers for the realization of the short-term and long-term goals. For the purpose of maintaining the competitiveness of brands and the leading position, the Group is committed to providing premium products and services to customers. During the Reporting Period, the Group has no material and significant dispute with suppliers and/or customers.

KEY RISKS AND UNCERTAINTIES

For details of the Group's key risks and uncertain factors for the end of the Reporting Period, please refer to pages 10 to 44 in the section headed "Management Discussion and Analysis".

BANK LOANS AND OTHER BORROWINGS

Please refer to Note 32 to the Consolidated Financial Statements on pages 199 to 200 for details of bank loans and other borrowings of the Group as of the end of the Reporting Period.

BONDS

On 14 July 2016, the issue of the second tranche Corporate Bonds of the Company was completed with an issue size of RMB3,000,000,000 at coupon rates of 3.50% and 4.29% for Category I Bonds and Category II Bonds, respectively, and issue price at 100% of its principal value. Such Corporate Bonds are listed on the Shanghai Stock Exchange.

The net proceeds from the Corporate Bonds are used to repay the loan of the Company and its subsidiaries. For further details, please refer to the announcements issued by the Company on 8 July, 12 July and 15 July 2016, respectively.

Please refer to Note 33 to the Consolidated Financial Statements on pages 201 to 202 for details of bonds of the Group for the end of the Reporting Period.

CONTINGENT LIABILITIES

Please refer to Note 47 to the Consolidated Financial Statements on page 227 for details of contingent liabilities of the Group for the end of the Reporting Period.

INVESTMENT PROPERTIES

All investment properties we owned were for rental income, and they are subject to medium-term lease in the PRC. Set out below are investment properties that are considered material by our Directors.

No.	Property	Existing Use	Fair value in existing state as at the end of the Reporting Period RMB'000
1.	Shanghai Zhenbei Phase II Mall No. 1058 Zhenbei Road Shanghai The PRC	Shopping Mall	4,636,000

No.	Property	Existing Use	Fair value in existing state as at the end of the Reporting Period RMB'000
2.	Shanghai Pudong Hunan Mall No. 518 Linyu Road Pudong New Area Shanghai The PRC	Shopping Mall	4,323,000
3.	Zhengzhou Shangdu Mall No. 1 Shangdu Road Zhengdong New District Zhengzhou City Henan Province The PRC	Shopping Mall	3,496,000
4.	Shanghai Wenshui Mall No. 1555 Wenshui Road Baoshan District Shanghai The PRC	Shopping Mall	3,406,000
5.	Nanjing Kazimen Mall No. 29 Kazimen Street Qinhuai District Nanjing City Jiangsu Province The PRC	Shopping Mall	3,382,000
6.	Beijing East Fourth-Ring Mall No. 193 East Fourth-Ring Middle Road Chaoyang District Beijing The PRC	Shopping Mall	3,170,000

No.	Property	Existing Use	Fair value in existing state as at the end of the Reporting Period RMB'000
7.	Shenyang Tiexi Mall No. 35 Bei Er East Road Tiexi District Shenyang City Liaoning Province The PRC	Shopping Mall	3,095,000
8.	Shanghai Pudong Jinqiao Mall No. 100 Jinzang Road Pudong New Area Shanghai The PRC	Shopping Mall	2,767,000
9.	Beijing West Fourth-Ring Mall No. 113 West Fourth Ring Road Fengtai District Beijing The PRC	Shopping Mall	2,605,000
10.	Beijing North Fourth-Ring Mall No. 1 Beishatan, Chaoyang District Beijing The PRC	Shopping Mall	2,358,000

PROPERTY, PLANT AND EQUIPMENT

Please refer to Note 18 to the Consolidated Financial Statements on pages 178 to 179 for details of movements in the property, plant and equipment of the Group for the end of the Reporting Period.

DISTRIBUTABLE RESERVES

The distributable reserves of the Company as at the end of the Reporting Period amounted to RMB2,548.6 million.

Please refer to the consolidated statement of changes in equity on pages 121 to 123 and Note 49 to the Consolidated Financial Statements on pages 236 to 237 for the change in reserves of the Group and information about the statement of financial position of the Company for the end of the Reporting Period.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARY, ASSOCIATES AND JOINT VENTURES

The Group had no material acquisition or disposal of the subsidiaries, associates and joint ventures during the Reporting Period.

FINAL DIVIDEND AND TAXATION RELIEF

The Board resolved to propose to the Shareholders in the forthcoming annual general meeting on 8 June 2017 for the distribution of a final dividend of RMB0.42 per share for the year ended 31 December 2016 payable to the Shareholders whose names are listed in the registers of members of the Company on 20 June 2017. The proposal for the distribution of the final dividend above is subject to the consideration and approval of the Shareholders at the AGM.

Pursuant to the PRC Individual Income Tax Law (《中華人民共和國個人所得稅法》), the Implementation Regulations of the PRC Individual Income Tax Law (《中華人民共和國個人所得稅法實施條例》), other laws and regulations and relevant regulatory documents promulgated by the State Administration of Taxation of the PRC, the Company shall, as a withholding agent, withhold and pay individual income tax at the rate of 10% for the individual holders of H Shares in respect of the dividend for 2016 to be distributed to them. The individual holders of H Shares may be entitled to certain tax preferential treatments pursuant to the tax treaties between the PRC and the countries (regions) in which the individual holders of H Shares are domiciled and the tax arrangements between mainland China, Hong Kong or Macau.

For non-resident enterprise holders of H Shares, the Company will withhold and pay enterprise income tax at the tax rate of 10% for such holders of H Shares pursuant to relevant regulatory documents of the State Administration of Taxation of the PRC.

For investors of the Shanghai Stock Exchange investing in the H Shares of the Company, the Company will distribute the cash dividend for 2016 to the Shanghai Branch of China Securities Depository and Clearing Corporation Limited which, as the nominee of the investors of H Shares of Southbound Trading, will then distribute the cash dividends to the relevant investors of H Shares of Southbound Trading through its depository and clearing system. Pursuant to the Notice on the Tax Policies Related to the Pilot Program of the Shanghai-Hong Kong Stock Connect (Caishui [2014] No. 81) (《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》), for domestic individual investors, the Company shall withhold and pay individual income tax at the rate of 20% on behalf of the investors. For domestic securities investment funds, the tax payable shall be the same as that for individual investors. The Company will not withhold and pay the income tax of dividends for domestic enterprise investors which shall report and pay the relevant tax themselves. The record date and the date of distribution of cash dividends and other arrangements for the investors of Southbound Trading will be the same as those for the holders of H Shares of the Company.

Should the holders of H Shares of the Company have any doubt in relation to the aforesaid arrangements, they are recommended to consult their tax advisors for relevant tax impact in mainland China, Hong Kong and other countries (regions) on the possession and disposal of the H Shares of the Company.

RETIREMENT BENEFITS

Please refer to Note 39 to the Consolidated Financial Statements on page 208 for details of retirement benefits of the Group for the end of the Reporting Period.

FINANCIAL SUMMARY

The Group's financial summary for the last five financial years is set out on page 241 of this annual report. This summary does not form part of the Consolidated Financial Statements.

MAJOR SUPPLIERS AND CUSTOMERS

Purchases from the largest supplier of the Group for the end of the Reporting Period represented approximately 32.7% of the Group's total purchases. The total purchases attributable to the five largest suppliers of the Group accounted for approximately 49.5% of the total purchases of the Group for the end of the Reporting Period.

Sales to the largest third party customer for the end of the Reporting Period represented approximately 0.3% of the Group's total revenue. The total sales attributable to the five largest third party customers of the Group accounted for approximately 1.5% of the Group's total revenue for the end of the Reporting Period.

For the Reporting Period, none of the Directors or their respective Close Associates or any Shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interests in the five largest suppliers or customers of the Group.

CHARITABLE DONATIONS

The donations by the Group for the end of the Reporting Period amounted to RMB5.9 million.

CONNECTED AND CONTINUING CONNECTED TRANSACTIONS

Among the related party transactions disclosed in Note 48 to the Consolidated Financial Statements, the following transactions constitute continuing connected transactions for the Company and are required to be disclosed in this annual report in accordance with Chapter 14A of the Listing Rules. The Company did not enter into any connected transaction during the Reporting Period.

(i) Changzhou RSHFC Lease Agreement

On April 1, 2011, the Company's wholly owned subsidiary, Changzhou Macalline entered into a lease agreement with Changzhou RSHFC, pursuant to which Changzhou Macalline will lease a piece of property from Changzhou RSHFC for the operation and management of Changzhou Decoration Mall.

The Changzhou RSHFC Lease Agreement has an initial term of ten years commencing from its signing date. Changzhou Macalline will pay annual rental and service fees in the fixed amount of RMB13.8 million per annum for the initial three years, followed by a 10% increase for the fourth year and a 3% increase for each of the remaining six years. Such pricing mechanism has been determined by reference to (i) the prevailing market prices of similar properties in the same area; (ii) costs of acquisition of the property by Changzhou RSHFC; and (iii) depreciation costs of the properties. During the term of the Changzhou RSHFC Lease Agreement, Changzhou Macalline has the exclusive right to use the leased property. Subject to applicable laws and regulations, the Changzhou RSHFC Lease Agreement may be renewed based on the parties' negotiation following the written notice from Changzhou Macalline at least two months before the expiry of the lease.

Since Changzhou RSHFC is an individual proprietorship enterprise established by Mr. CHE Jianxing in his personal capacity, transferring the property to our Group by way of asset transfer would give rise to tax implications for Changzhou RSHFC under applicable the PRC laws, which would ultimately be translated into our purchase price for such property. Accordingly, we decided to lease the property from Changzhou RSHFC for our management and operation of Changzhou Decoration Mall.

For each of the years ended December 31, 2014, 2015 and 2016, Changzhou Macalline paid annual rental and service fees of RMB14.8 million, RMB15.5 million and RMB16.0 million, respectively, to Changzhou RSHFC pursuant to the Changzhou RSHFC Lease Agreement. Based on the pricing mechanism as described above, the annual caps for the lease for each of the years ended/ending December 31, 2015, 2016 and 2017 is expected to be RMB15.5 million, RMB16.0 million and RMB16.5 million, respectively.

For the Reporting Period, the rental and service fees paid and payable by Changzhou Macalline pursuant to the Changzhou RSHFC Lease Agreement amounted to RMB16.0 million.

(ii) Contract management agreements with Xuzhou RSHFC, Xuzhou RSHFP, Yangzhou RSHFP, Jining Hongrui and Shaanxi Hongrui

The Company entered into a contract management agreement and the supplemental agreement, as the case may be, with each of Xuzhou RSHFC, Xuzhou RSHFP, Yangzhou RSHFP, Jining Hongrui and Shaanxi Hongrui (the "Associated Business Partners"), pursuant to which the Company will manage and operate the home improvement and furnishings shopping malls owned by each respective Associated Business Partner. As such contract management agreements are of the same nature and have been entered into with parties connected with us by virtue of being the Associates of Mr. CHE Jianxing and Ms. CHE Jianfang, these agreements have been classified as aggregated under the Listing Rules.

Under each of the contract management agreements, the Company initially charged our Associated Business Partners a fixed amount of the management fee ranging from RMB2.0 million to RMB6.0 million per annum, as the case may be, which was in line with our pricing policy for contract management arrangements entered into prior to 2013. In December 2013 and January 2014, the Company entered into supplemental agreements with Xuzhou RSHFC, Xuzhou RSHFP and Jining Hongrui, under which the Company and the relevant Associated Business Partners agreed to revise the pricing mechanism relating to the management fee from a fixed flat rate to a percentage of the total amount of rental received by each respective Associated Business Partner, subject to a minimum amount of the annual management fee. The adjustment was made after arm's length negotiations between us and each respective Associated Business Partner to reflect current market conditions. The terms and conditions under our contract management agreements with Yangzhou RSHFP and Shaanxi Hongrui remain unchanged, except that the Company waived part of the management fee payable by Shaanxi Hongrui in 2014 on a one-off basis due to Shaanxi Hongrui's special request. Each of these five contract management agreements is for a term ranging from seven to ten years commencing from its signing date.

The amount of the management fee under the five contract management agreements was determined based on: (i) the local market conditions; (ii) our estimation of the future rental income level for each respective shopping mall; and (iii) our respective business partner's expectation of the future rental income.

For each of the years ended December 31, 2014, 2015 and 2016, the Company received management fees in the total amount of RMB17.0 million, RMB13.0 million and RMB12.5 million under the five contract management agreements with the Associated Business Partners. Based on (i) the pricing mechanism as described above, (ii) the market conditions, (iii) our current estimation of the future rental income level for each respective shopping mall; and (iv) our respective business partner's expectation of the future rental income, the annual caps for the management fees for each of the years ended/ending December 31, 2015, 2016 and 2017 is expected to be RMB17.3 million, RMB17.8 million and RMB18.3 million, respectively.

For the Reporting Period, the management fees received and receivable by the Company pursuant to these agreements and these supplemental agreements amounted to RMB12.5 million.

Most of the home improvement and furnishings shopping malls managed and operated by us under the five contract management agreements are located in Tier III Cities and Other Cities in the PRC. The Associated Business Partners intended to leverage our operational experience and reputation through cooperation with us. Our Directors believe that it is in our interest, and in line with our business strategy, to leverage the Associated Business Partners' knowledge and experience to expand our geographic coverage and improve our market share and brand awareness in these new local markets, with relatively low capital need.

(iii) RSED Framework Agreement

Our direct wholly owned subsidiary, Xingyi Tonghui, entered into a pre-paid cards purchase framework agreement with RSED on March 20, 2015 and a supplemental agreement dated June 3, 2015 (the "RSED Framework Agreement"), pursuant to which Xingyi Tonghui will sell our single-purpose pre-paid cards to RSED and/or its subsidiaries ("RSED Group") for its use as a promotion method in connection with its property sales business. The RSED Framework Agreement has a term of three years from its signing date to March 20, 2018.

Under the RSED Framework Agreement, Xingyi Tonghui and RSED Group will enter into separate pre-paid card purchase agreements on normal commercial terms which will set out the purchase price and the purchase volume. The purchase price shall be determined after arm's length negotiations by reference to the face value of the pre-paid cards, the actual purchase volume, and the then market conditions. Xingyi Tonghui shall provide facilities and services for cardholders to purchase products using the pre-paid cards.

RSED Group is primarily engaged in real estate development, operation and management of department stores, and the construction and management of multipurpose complexes. Our cooperation with RSED Group could promote the sales of our pre-paid cards and the performance of Xingyi Tonghui. It would also help to bring new customers to our home improvement and furnishings shopping malls and as a result increase the sales of our shopping malls.

The annual caps for the RSED Framework Agreement for each of the years ending December 31, 2015, 2016 and 2017 is expected to be RMB100 million, RMB150 million and RMB200 million, respectively, in terms of face value of the pre-paid cards. Such annual caps were determined based on (i) the pricing mechanism as described above; and (ii) an estimate of RSED Group's purchase volume of our pre-paid cards, which is expected to increase taking into account RSED Group's current estimate of its contracted sales amount for 2015 to 2017, which is RMB10,000 million, RMB15,000 million and RMB20,000 million respectively for each of the three years ended/ending December 31, 2017.

For the Reporting Period, there is no actual amount occurred with RSED Group.

(iv) Lease Agreement with Shanghai Hongmei in connection with the leasing of the Jinshan Property

On 25 September 2015, the Company entered into a lease agreement with Shanghai Hongmei Properties Limited in connection with the leasing of the Jinshan Property (the "Lease Agreement"). In June 2016, the Company, its wholly-owned subsidiary, Shanghai Red Star Macalline Kaiheng Household Co., Ltd. (上海紅星美凱龍楷恒家居有限公司) ("Red Star Macalline Kaiheng") and Shanghai Hongmei entered into a supplemental agreement pursuant to which the rights and obligations of the Company under the Lease Agreement have been transferred to Red Star Macalline Kaiheng. Other than that, the terms and conditions of the Lease Agreement remain the same.

There was no historical transaction between the Group and Shanghai Hongmei, as the Jinshan Property is a newly built property.

The Jinshan Property is located at the area under development in Shanghai, the PRC, and the Group has opened the first upscale large home improvement and furnishings shopping mall, namely, Shanghai Jinshan Shopping Mall (上海金山商場), in the area in May 2016. The Directors believe that the lease could enable the Group to enter into a neighboring market of Shanghai at reasonable costs and to further improve the Group's market share and brand awareness in Shanghai, which will help the Group to consolidate its leading position in the Shanghai market and will be beneficial to its long-term development.

The annual caps in respect of the Lease Agreement based on the annual rent and any other fees payable by the Company for each of the years ended/ending 31 December 2016, 2017 and 2018 is expected to be RMB7 million, RMB9 million and RMB12 million, respectively. The rent payable in respect of the lease pursuant to the Properties Limited Lease Agreement was determined following arm's length negotiation between the Company and Shanghai Hongmei with reference to the prevailing pricing mechanisms of other shopping malls operated by the Group in nearby areas and in similarly-ranked cities, the expected rent that may be received by the Company from the tenants in connection with the shopping mall to be opened at the Jinshan Property, and development stage of the home improvement and furnishings market in the local area.

For the Reporting Period, the annual rent and other fees paid and payable by the Company pursuant to the Lease Agreement amounted to RMB4.7 million.

The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of Listing Rules.

The independent non-executive Directors, after taking into consideration of factors such as market environment, transaction amounts, corporate governance, have confirmed that the abovementioned continuing connected transactions for the year ended 31 December 2016 were entered into by the Group: (i) in the ordinary and usual course of its business; (ii) on normal commercial terms; and (iii) in accordance with the relevant agreements governing them and on terms that were fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Company has assigned the finance department to monitor the continuing connected transactions. The finance department will prepare relevant information and materials in relation to the continuing connected transactions and submit the same to the Secretariat of the Board of Directors for compliance checking before submitting all relevant information and materials to the Board for consideration. All relevant information will be attached as appendices to the board resolutions. In relation to those continuing connected transactions conducted during the Reporting Period, the finance department and the Secretariat of the Board of Directors have reviewed and considered the relevant information and materials to ensure compliance with relevant requirements (such as not exceeding the annual caps and ensuring the transactions are carried out in accordance with their respective terms) so as to protect the interests of our Shareholders.

The auditor of the Company has issued its unqualified letter containing its findings and conclusions in respect of the abovementioned continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules, confirming that (i) nothing has come to their attention that causes the auditor to believe that the abovementioned continuing connected transactions have not been approved by the Board of Directors, (ii) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes the auditor to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group, (iii) nothing has come to their attention that causes the auditor to believe that the transactions were not entered into, in all material respects, in accordance with the terms of the relevant agreements governing such transactions; and (iv) with respect to the aggregate amount of each of the transactions, nothing has come to their attention that causes the auditor to believe that the amounts have exceeded the maximum aggregate annual value disclosed in the Prospectus and the previous announcement dated 25 September 2015. A copy of the auditor's letter has been provided by auditor to the Hong Kong Stock Exchange.

SHARE CAPITAL

Please refer to Note 37 to the Consolidated Financial Statements on pages 204 to 205 for details of movements in the Company's total issued shares for the end of the Reporting Period.

EQUITY-LINKED AGREEMENT

There was no equity-linked agreement entered into by the Company for the end of the Reporting Period.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Reporting Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

USE OF PROCEEDS FROM GLOBAL OFFERING

The net proceeds from the Global Offering amounted to approximately RMB5,573.3 million. The Board resolved on 31 July 2015 to change the intended use of part of the net proceeds from the Global Offering. For further details, please refer to the announcement of the Company dated 31 July 2015.

As at the end of the Reporting Period, the Company has utilized 76% of the net proceeds in total for the development of nine Portfolio Shopping Malls, investment or acquisition of other home improvement and furnishings retailers and other market participants, refinancing of our existing indebtedness, development of our O2O business and information technology systems, working capital and other general corporate purposes.

BOARD OF DIRECTORS

The Directors of the Company during the Reporting Period are:

Executive Directors

Mr. CHE Jianxing *(Chairman)*
Ms. ZHANG Qi *(Vice Chairman)*
Ms. CHE Jianfang
Mr. JIANG Xiaozhong

Non-executive Directors

Ms. CHEN Shuhong
Mr. XU Guofeng
Mr. Joseph Raymond GAGNON
Mr. ZHANG Qiqi

Independent Non-executive Directors

Mr. LI Zhenning
Mr. DING Yuan
Mr. LEE Kwan Hung
Mr. QIAN Shizheng (appointed on 19 April 2016)
Mr. ZHOU Qinye (resigned on 19 April 2016)

Each of our Directors entered into a contract with the Company in December 2016. In accordance with Article 90 of the Articles of Association, the Directors shall be elected at general meetings for a term of three years, which is renewable upon re-election when it expires.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at the end of the Reporting Period, the interests and short positions of our Directors, Supervisors and chief executive in the shares, underlying shares or debentures of the Company or any of our associated corporations (within the meaning of Part XV of the SFO), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Listing Rules, were as follows:

SHARES AND UNDERLYING SHARES OF THE COMPANY AND ASSOCIATED CORPORATIONS

(i) The Company

Name of Shareholders	Title	Class of Shares	Nature of interest	Number of underlying shares held	Approximate percentage in relevant class of Shares[1]	Approximate percentage in total Shares[1]
CHE Jianxing (車建興)[2]	Chairman, Chief Executive Officer and Executive Director	Domestic Shares	Interest of controlled corporation	2,480,315,772 (Long Position)	96.85%	68.44%
CHEN Shuhong (陳淑紅)[3]	Non-executive Director	Domestic Shares	Interest of spouse	2,480,315,772 (Long Position)	96.85%	68.44%

Notes:

(1) As at the end of the Reporting Period, the Company had 3,623,917,038 issued Shares in total, comprising of 2,561,103,969 Domestic Shares and 1,062,813,069 H Shares.

(2) Mr. CHE Jianxing indirectly holds 68.44% of the issued Shares in total of the Company through his 92.00% direct interest in Red Star Macalline Holding Group Company Limited (紅星美凱龍控股集團有限公司) (formerly known as "Shanghai Red Star Macalline Investments Company Limited" (上海紅星美凱龍投資有限公司)) ("RSM Holding", a limited liability company incorporated in the PRC) and is deemed to be interested in the 2,480,315,772 Domestic Shares held by RSM Holding for the purpose of the SFO.

(3) Ms. CHEN Shuhong is the spouse of Mr. CHE Jianxing. Under the SFO, Ms. CHEN Shuhong is deemed to be interested in the same number of Shares in which Mr. CHE Jianxing is interested.

(ii) Associated Corporation

Name of Director	Name of Associated Corporation	Nature of interest	Equity interest in the Associated Corporation	Approximate percentage in the Associated Corporation[1]
CHE Jianxing (車建興)	RSM Holding[1]	Beneficial interest	46,000,000 (Long Position)	92%
CHE Jianfang (車建芳)	RSM Holding[1]	Beneficial interest	4,000,000 (Long Position)	8%

Note:

(1) RSM Holding is the investment holding company of the Company, which is held as to 92% by Mr. CHE Jianxing and as to 8% by Mr. CHE Jianxing's sister, Ms. CHE Jianfang and therefore an "associated corporation" of the Company within the meaning of Part XV of the SFO. As at 31 December 2016, RSM Holding held 2,480,315,772 Domestic Shares of the Company which accounted for approximately 68.44% of the total issued Shares of the Company. Of which 135,910,236 shares held by RSM Holding (representing approximately 3.75% of the total number of issued shares of the Company) are subject to the charge granted by RSM Holding in favor of AVIC Capital Co., Ltd. (中航信託股份有限公司). 372,870,460 shares held by RSM Holding (representing approximately 10.29% of the total number of issued shares of the Company) are subject to the charge granted by RSM Holding in favor of Shanghai Pudong Development Bank Co. Ltd. Putuo Branch (上海浦東發展銀行股份有限公司普陀支行). For further details of the charges, see the section headed "Share Charges by the Controlling Shareholders" in the Prospectus.

Save as disclosed above, as at the end of the Reporting Period, none of our Directors, Supervisors or chief executive has any interests or short positions in the shares, underlying shares and debentures of the Company or associated corporations (a) which will have to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or (b) which will be required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein or (c) which will be required to be further notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at the end of the Reporting Period, the interests or short positions in the shares or underlying shares which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO, and which will be required, pursuant to Section 336 of the SFO, to be recorded in the register referred to therein, as well as persons (other than the Directors, Supervisors or chief executive of the Company), or corporations deemed, directly and/or indirectly, to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at our general meetings were as follows:

Name of Shareholders	Class of Shares	Capacity/nature of Interest	Number of Share interested	Approximate percentage in relevant class of Shares[1]	Approximate percentage in total share capital[1]
RSM Holding	Domestic Shares	Beneficial owner	2,480,315,772	96.85%	68.44%
Warburg Pincus & Co.[2]	H Shares	Interest of controlled corporation	519,225,069	48.85%	14.33%
Warburg Pincus Partners GP LLC[2]	H Shares	Interest of controlled corporation	519,225,069	48.85%	14.33%
Warburg Pincus Partners, L.P.[2]	H Shares	Interest of controlled corporation	519,225,069	48.85%	14.33%
Warburg Pincus Real Estate I GP, LLC[2]	H Shares	Interest of controlled corporation	519,225,069	48.85%	14.33%
Candlewood Investment SRL[2]	H Shares	Other	338,054,924	31.81%	9.33%
Warburg Pincus Real Estate I L.P.[2]	H Shares	Interest of controlled corporation	338,054,924	31.81%	9.33%
Springwood Investment SRL[2]	H Shares	Other	181,170,145	17.05%	5.00%
WPRE I Redstar Manager LLC[2]	H Shares	Interest of controlled corporation	181,170,145	17.05%	5.00%
WPRE I Redstar, L.P.[2]	H Shares	Interest of controlled corporation	181,170,145	17.05%	5.00%
Central Huijin Investment Ltd.[3]	H Shares	Interest of corporation controlled	53,500,000	5.03%	1.48%
China Reinsurance (Group) Corporation[3]	H Shares	Beneficial owner	53,500,000	5.03%	1.48%

Notes:

(1) As at 31 December 2016, the Company had 3,623,917,038 issued Shares in total, comprising of 2,561,103,969 Domestic Shares and 1,062,813,069 H Shares.

(2) Warburg Pincus Real Estate I, L.P. is the sole quota-holder of Candlewood Investment SRL ("Candlewood"). Warburg Pincus Real Estate I, L.P. is 100%-controlled by Warburg Pincus Real Estate I GP, LLC.

WPRE I Redstar, L.P. is the sole quota-holder of Springwood Investment SRL ("Springwood"). WPRE Redstar Manager LLC is the general partner of WPRE I Redstar, L.P.. Warburg Pincus Real Estate I GP, LLC is a member of WPRE Redstar Manager LLC.

Accordingly, Warburg Pincus Real Estate I GP, LLC is deemed to be interested in the shareholding interest of each of Warburg Pincus Real Estate I, L.P., Candlewood Investment SRL, WPRE Redstar Manager LLC, WPRE I Redstar, L.P. and Springwood Investment SRL in the Company pursuant to the disclosure requirements under the SFO.

Warburg Pincus Partners, L.P. is a member of Warburg Pincus Real Estate I GP, LLC. Warburg Pincus Partners GP LLC is a general partner of Warburg Pincus Partners, L.P.. Warburg Pincus & Co. is a member of Warburg Pincus Partners GP LLC.

Accordingly, Warburg Pincus & Co. is deemed to be interested in the shareholding interest of each of Warburg Pincus Partners GP LLC, Warburg Pincus Partners, L.P., Warburg Pincus Real Estate I GP, Warburg Pincus Real Estate I, L.P., Candlewood Investment SRL, WPRE Redstar Manager LLC, WPRE I Redstar, L.P. and Springwood Investment SRL in the Company pursuant to the disclosure requirements under the SFO.

338,054,924 H Shares held by Candlewood are subject to the charge granted by Candlewood in favor of Bank of China Limited Macau Branch.

181,170,145 H Shares held by Springwood are subject to the charge granted by Springwood in favor of Bank of China Limited Macau Branch.

(3) China Reinsurance (Group) Corporation is a joint stock limited company incorporated in the People's Republic of China listed on the Main Board of The Stock Exchange of Hong Kong Limited (stock code: 1508) ("China Reinsurance"). Central Huijin Investment Ltd. is a shareholder of China Reinsurance and is deemed to be interested in 53,500,000 H Shares, pursuant to the disclosure requirement under the SFO.

Save as disclosed above, as at the end of the Reporting Period, the Company is not aware of any other person (other than the Directors, Supervisors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Please refer to the section headed "Directors, Supervisors and Senior Management" for biographical details of the Directors, Supervisors and senior management of the Company.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS AND INTERESTS IN TRANSACTION, ARRANGEMENT AND CONTRACT OF SIGNIFICANCE

The re-election of each Director was approved by Shareholders at the 2016 third extraordinary general meeting of the Company held on 30 December 2016. Each of our Directors entered into a contract with the Company in December 2016. The principal particulars of these service contracts comprise:

(a) a term of three years commencing from the date on which the relevant Shareholders' approvals for the appointment were obtained; and

(b) termination provisions in accordance with their respective terms.

Each independent non-executive Director shall be subject to retirement by rotation for every two sessions, while other Directors shall be subject to retirement by rotation for every three sessions.

No Director has an unexpired service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than normal statutory obligations).

Ms. NG Ellen Hoi Ying, the shareholder representative Supervisor, entered into service contract with the Company in December 2016. Mr. PAN Ning and Ms. CHAO Yanping, the employee representative Supervisors, entered into service contracts with the Company in December 2016. Mr. ZHENG Hongtao and Mr. CHEN Gang, the independent Supervisors, entered into service contracts with the Company in December 2016.

The principal particulars of these service contracts comprise:

(a) a term of three years commencing from the date on which the relevant Shareholders' approvals for the appointment were obtained (save as from the date on which the third session of the supervisory committee commences for the employee representative Supervisors); and

(b) termination provisions in accordance with their respective terms. The Supervisors may be re-appointed for successive reappointments.

No Supervisor has an unexpired service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than normal statutory obligations).

Save as disclosed in this annual report, as at the end of the Reporting Period, none of the Directors and the Supervisors or entities connected with the Directors and the Supervisors was materially interested, either directly or indirectly, in any transaction, arrangement or contract which is significant in relation to the business of the Group to which the Company or any of its subsidiaries was a party.

CONTRACT OF SIGNIFICANCE WITH CONTROLLING SHAREHOLDERS

Save as disclosed in this annual report with regard to those transactions entered into with our controlling shareholder RSED, as at the end of the Reporting Period, there is no other contract of significance entered into between us and our Controlling Shareholders.

MANAGEMENT CONTRACTS

Other than the service contracts of the Directors, the Company has not entered into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of the Company during the year ended 31 December 2016.

DIRECTORS' PERMITTED INDEMNITY PROVISION

At no time during the year ended 31 December 2016 and up to the date of this annual report, there was or is, any permitted indemnity provision being in force for the benefit of any of the Directors and Supervisors (whether made by the Company or otherwise) or an associated company (if made by the Company). The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and senior officers of the Group as of the end of the Reporting Period.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

As disclosed in the Prospectus, Mr. CHE and his Close Associates continue to hold interests in certain businesses which are in competition, or are likely to compete (the "Restricted Business"), with the core operations (i.e. the business of operating and managing home improvement and furnishings shopping malls in the PRC) of the Group (the "Core Operations").

1. Greenland Jinniu Shopping Mall

Mr. CHE, through Chengdu Property (an indirect wholly-owned subsidiary of RSED), holds 50% equity interest in Greenland Jinniu, which in turn holds Chengdu Jinniu Shopping Mall and its corresponding assets and liabilities. Such 50% equity interest was disposed by the Company to Chengdu Property in the process of disposal of our equity interest in companies engaging in real estate development business in 2011 considering Greenland Jinniu primarily engages in real estate development business and Chengdu Jinniu Shopping Mall was then at the stage of construction-in-process. In order to consolidate the Group's Core Operations and minimize potential competition and conflict of interests with the Controlling Shareholders, the Company entered into a repurchase framework agreement in December 2011 (as supplemented by two supplemental agreements), pursuant to which the Company was granted an option to repurchase, among others, Chengdu Jinniu Shopping Mall. In anticipation of the opening of Chengdu Jinniu Shopping Mall, our Group entered into a contract management agreement with Greenland Jinniu in November 2013, pursuant to which our Group would operate and manage Chengdu Jinniu Shopping Mall under our own brand, pending repurchase of the shopping mall. After Greenland Jinniu Shopping Mall commenced operations for more than two year since August 2014, our Directors considered that its business operations have reached a mature stage. On 23 October 2015, the

Company entered into the Repurchase Agreement with Chengdu Property, pursuant to which the Company agreed to repurchase 50% of the interest in Chengdu Jinniu Shopping Mall (held by Chengdu Property through Greenland Jinniu). For further details, please refer to the Prospectus — "Relationship with Our Controlling Shareholders" and the Company's announcement dated 23 October 2015. As at the end of the Reporting Period, the Company has not exercised the repurchase option as referred to in the Repurchase Framework Agreement.

2. Interest in Certain Project Companies

Mr. CHE, through RSED and its subsidiaries, holds minority equity interest in 64 Project Companies which hold certain Managed Shopping Malls. On 23 October 2015, the Company entered into an equity transfer framework agreement with RSED pursuant to which the Company agreed to acquire 100% equity interest in Shanghai Red Star Macalline Industrial Company Limited (上海紅星美凱龍實業有限公司) ("Target Company"), which upon completion of a restructuring, will hold equity interests in the Project Companies. If the Target Company fails to acquire the relevant equity interest in the Project Companies, the Company can exercise an option to purchase such equity interest in the relevant Project Companies. For further details, please refer to the Prospectus — "Relationship with Our Controlling Shareholders" and the Company's announcement dated 23 October 2015. As at the end of the Reporting Period, the equity interest of the relevant Project Companies subject to the equity transfer framework agreement have been transferred to the Company and therefore Mr. CHE no longer has a competing interest outside of the Company.

3. Property held by Changzhou RSHFC

Changzhou Macalline, a wholly-owned subsidiary of the Company, has leased a piece of property from Changzhou RSHFC for the operation and management of Changzhou Decoration Mall. Changzhou RSHFC is an individual proprietary enterprise (個人獨資企業) established by Mr. CHE under the PRC laws. Prior to April 2011, Changzhou RSHFC had used the property to operate its Portfolio Shopping Mall then named as "Changzhou Red Star Mall". In order to consolidate the Group's Core Operations and minimize potential competition and conflict of interests with the Controlling Shareholders, Changzhou RSHFC ceased to engage in home improvement and furnishing shopping mall business from April 2011 and leased property to Changzhou Macalline in view of the transfer of such property to the Group would give rise to tax implications.

We have adopted corporate governance measures to manage potential conflict of interest between the Group and the Controlling Shareholders. As the transactions contemplated under the Repurchase Agreement in relation to the repurchase of 50% interest in Chengdu Jinniu Shopping Mall and the equity transfer framework agreement in relation to the acquisition of Project Companies constitute connected transactions, the Directors who have a material interest have abstained from voting on the board resolution to approve the transactions. For further details, please refer to "Connected and Continuing Connected Transactions" of this annual report.

Save as disclosed in the Prospectus and in this annual report, none of Directors and Controlling Shareholders has interest in business which is in competition, or is likely to compete, with the Company.

NON-COMPETITION UNDERTAKING

In order to ensure that there is no competition between our Core Operations and the other business activities of Mr. CHE and his Close Associates, Mr. CHE and RSM Holding (formerly known as Shanghai Red Star Macalline Investment Company Limited) have entered into a non-competition undertaking (the "Non-Competition Undertaking") in favor of our Company, under which they have undertaken that they will not and will use their best efforts to procure that their respective Close Associates (other than any member of our Group) will not, directly or indirectly, whether as principal or agent, either on their own account or in conjunction with or on behalf of any person, firm, or company, engage, participate or hold any right or interest in any Restricted Business.

Under the Non-Competition Undertaking, Mr. CHE and RSM Holding have, among others, (i) undertaken to offer new business opportunity in any Restricted Business to the Company on terms and conditions no less favorable than those offered to them or their respective Close Associates; (ii) undertaken to assist our repurchase of the relevant shopping malls, including Chengdu Jinniu Shopping Mall; and (iii) granted an option and right of first refusal for the Company to purchase the property leased from Changzhou RSHFC. For further details, please refer to the Prospectus — "Relationship with Our Controlling Shareholders".

Mr. CHE and RSM Holding have confirmed their compliance with the Non-Competition Undertaking during the Reporting Period. The independent non-executive Directors have also reviewed the compliance with the Non-Competition Undertaking by the Mr. CHE and RSM Holding and are satisfied that they have complied with the undertakings.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Directors', Supervisors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, at no time during the Reporting Period was the Company or any of its subsidiaries or holding company or any subsidiary of the Company's holding company, a party to any arrangement that would enable the Directors or the Supervisors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or the Supervisors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

EMOLUMENTS OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT AND THE FIVE HIGHEST PAID INDIVIDUALS

Please refer to Notes 13 and 14 to the Consolidated Financial Statements on pages 167 to 172 for details of the emoluments of the Directors, Supervisors and senior management and the five highest paid individuals of the Company.

The table below shows the remuneration of senior management by band:

(RMB)	**2016 (members of senior management)**	2015 (members of senior management)
1–1,000,000	**–**	1
1,000,000–1,500,000	**–**	5
1,500,000–2,000,000	**5**	6
2,000,000–2,500,000	**2**	–
2,500,000–3,000,000	**3**	–
3,000,000–3,500,000	**1**	–
3,500,000–4,000,000	**–**	–
4,000,000–4,500,000	**1**	–

REMUNERATION POLICY AND DIRECTORS' REMUNERATION

The remuneration of our employees consists of basic salary and performance bonuses. The Company conducts annual evaluations of our employees, supplemented by random checks from time to time. The evaluation results are linked directly with the employees' compensation. Selected employees with outstanding work performance and records are promoted to managerial positions.

In accordance with the applicable PRC laws and regulations, as well as compulsory requirements of the local authorities where our shopping malls are located, the Company contributed to various social insurance plans such as pension contribution plans, medical insurance plans, unemployment insurance plans, maternity insurance plans and work injury insurance plans for our employees. The amount of required contribution as a percentage of our employees' salaries varies from place to place, depending on relevant salary levels, location of the operation and other factors such as the average age of our employees.

Our Directors receive compensation in the form of Directors' fees, salaries, housing allowances and other allowances, benefits in kind, the employer's contribution to the pension schemes and discretionary bonuses.

Please refer to Note 13 to the Consolidated Financial Statements on pages 167 to 171 for details of the Directors' remuneration for the end of the Reporting Period.

CONFIRMATION OF INDEPENDENCE FROM THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors, namely Mr. ZHOU Qinye (resigned on 19 April 2016), Mr. LI Zhenning, Mr. DING Yuan, Mr. LEE Kwan Hung and Mr. QIAN Shizheng (appointed on 19 April 2016), the confirmation of their respective independence pursuant to Rule 3.13 of the Listing Rules. The Company has duly reviewed the confirmation of independence of each of these Directors. The Company considers that the independent non-executive Directors have been independent from the date of their appointment to the end of the Reporting Period or their respective date of resignation (as the case may be) and remain so as at the date of this annual report (as the case may be).

MATERIAL LEGAL PROCEEDINGS

As at the end of the Reporting Period, the Company was not involved in any material litigation or arbitration and no material litigation or arbitration were pending or threatened or made against the Company so far as the Company is aware.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the Reporting Period, except deviation from code provision A.2.1 of the Corporate Governance Code, the Company has complied with the provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, which sets out principles of good corporate governance in relation to, among other matters, the Directors, the chairman and chief executive officer, board composition, the appointment, re-election and removal of directors, their responsibilities and remuneration and communications with shareholders. Our Directors are satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interest between our Group and the Controlling Shareholders and/or Directors to protect the interest of our minority shareholders.

Please refer to section headed “Corporate Governance Report” on page 88 for details.

AUDITOR

The Consolidated Financial Statements have been audited by Deloitte Touche Tohmatsu, Certified Public Accountants. Deloitte Touche Tohmatsu shall retire and being eligible, offer itself for re-appointment, and a resolution to this effect shall be proposed at the forthcoming AGM.

The Company has not changed its auditor in any of the preceding three years.

AUDIT COMMITTEE

The Audit Committee has reviewed the accounting principles and policies adopted by the Group and the Consolidated Financial Statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles of Association or the laws of the PRC.

SUFFICIENCY OF PUBLIC FLOAT

The Hong Kong Stock Exchange had granted a waiver under Rule 8.08(1)(d) of the Listing Rules to accept a lower public float percentage of the Company's issued share capital (the "Minimum Public Float") on the conditions that:

i. the Minimum Public Float of the Company should be at the highest of (a) 15.10%; (b) such percentage of Shares held by the public after completion of the Global Offering; and (c) such percentage of Shares held by the public after the exercise of the over-allotment option;

ii. the Company will confirm sufficiency of public float in successive annual reports after Listing; and

iii. the Company will implement appropriate measures to ensure continual maintenance of the Minimum Public Float prescribed by the Hong Kong Stock Exchange.

The over-allotment option has not been exercised. Accordingly, the Company has complied with the public float requirement which is at the highest of such percentage (being 15.10%) of Shares held by the public immediately after the Global Offering. Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained the prescribed public float under the waiver.

VOTING BY POLL

During the Reporting Period, all votes of shareholders were taken by poll in the annual general meeting and extraordinary general meetings of the Company. Pursuant to the Rule 13.39(4) of the Listing Rules, all votes of shareholders will be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands.

CLOSURE OF REGISTERS OF MEMBERS

The Registers of Members will be closed from 9 May 2017 to 8 June 2017, and from 15 June 2017 to 20 June 2017, during which periods no transfer of shares will be registered. In order to qualify for attending and voting at the forthcoming AGM, unregistered holders of shares of the Company shall lodge share transfer documents with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration before 4:30 p.m. on 8 May 2017. In order to qualify for the proposed final dividend (subject to the approval by the Shareholders at the forthcoming AGM), unregistered holders of shares of the Company shall lodge share transfer documents with Computershare Hong Kong Investor Services Limited at the above mentioned address for registration before 4:30 p.m. on 14 June 2017.

CHANGES IN INFORMATION OF DIRECTORS AND SUPERVISORS

Pursuant to Rule 13.51B of the Listing Rules, the changes in information of Directors and Supervisors of the Company during the Reporting Period are set out below:

Name	Position	Details of Changes
Mr. ZHOU Qinye	Independent non-executive Director	Mr. ZHOU Qinye resigned as an independent non-executive Director on 19 April 2016.
Mr. QIAN Shizheng	Independent non-executive Director	Mr. QIAN Shizheng was appointed as an independent non-executive Director on 19 April 2016. Mr. QIAN Shizheng ceased to be an independent director of Shanghai Chengtou Holding Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600649) since February 2017.
Mr. DING Yuan	Independent non-executive Director	Mr. DING Yuan has been an independent non-executive director, chairman of the remuneration committee and member of the nomination and audit committee of Man Wah Holdings Limited (敏華控股有限公司), a company listed on the Hong Kong Stock Exchange (stock code: 1999) since December 2016.

FUTURE DEVELOPMENT

Please refer to the section headed "Outlook and Prospects" on pages 43 to 44 for future development of the Company.

IMPORTANT EVENTS AFTER THE REPORTING PERIOD

The Company received the "Notice of Acceptance of Registration" (Zhong Shi Xie Zhu [2016] SCP No. 400) (the "Notice") from the National Association of Financial Market Institutional Investors (中國銀行間市場交易商協會) (the "Association"), according to which the Company can issue a super short-term commercial papers in tranches with a registered amount of RMB3 billion in Shanghai Pudong Development Bank. Please refer to the Company's related announcements on 19 January 2017 for details.

At the board meeting held on 28 February 2017, the Board resolved to submit to the extraordinary general meeting, the domestic shareholders' class meeting and the H shareholders' class meeting held on 19 April 2017, respectively, for consideration and approval by the shareholders by way of special resolution a proposal for extension of the validity period of the shareholders' approval for the proposed A share offering for a future period of 12 months commencing from the date of passing the relevant special resolutions.

By Order of the Board
CHE Jianxing
Chairman

Shanghai, 20 March 2017

Report of Supervisors

1. MEETINGS OF THE SUPERVISORY COMMITTEE AND RELEVANT RESOLUTIONS

The Supervisory Committee convened a total of five meetings in 2016, and details of the relevant meetings and the resolutions are as follows:

(1) The third extraordinary meeting of the second session of the Supervisory Committee was convened on 31 January 2016. The resolution in respect of the election of chairman of the second session of the Supervisory Committee of the Company was reviewed and passed.

(2) The fourth meeting of the second session of the Supervisory Committee was convened on 21 March 2016. The resolution in respect of the Report of the Supervisory Committee for the year ended 31 December 2015, the resolution in respect of the 2015 profit distribution plan of the Company, and the resolution in respect of re-appointment of Deloitte Touche Tohmatsu CPA, Ltd and Deloitte Touche Tohmatsu as the audit institutions of the Company for the year of 2016 were reviewed and passed.

(3) The fifth meeting of the second session of the Supervisory Committee was convened on 22 August 2016. The resolution in respect of the reviewed financial statements for the six months ended 30 June 2016, the resolution in respect of the financial statements for the first half of 2016, the resolution in respect of the interim dividend for the six months ended 30 June 2016, the resolution in respect of the interim report and interim results announcement for the six months ended 30 June 2016, and the resolution in respect of the Report on Self-evaluation of Internal Control of the Company as at 30 June 2016 were reviewed and passed.

(4) The fourth extraordinary meeting of the second session of the Supervisory Committee was convened on 15 November 2016. The resolution in respect of the nomination of Ms. NG Ellen Hoi Ying as a candidate for supervisor of the third session of the Supervisory Committee, the resolution in respect of the nomination of Mr. CHEN Gang as a candidate for supervisor of the third session of the Supervisory Committee, and the resolution in respect of the nomination of Mr. ZHENG Hongtao as a candidate for supervisor of the third session of the Supervisory Committee were reviewed and passed.

(5) The first extraordinary meeting of the third session of the Supervisory Committee was convened on 30 December 2016. The resolution in respect of the election of chairman of the third session of the Supervisory Committee was reviewed and passed.

2. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE REGARDING CERTAIN MATTERS

(1) Statutory compliance: during the year of 2016, members of the Supervisory Committee continued to supervise the Company's operations through attending Board meetings, reviewing reports on special projects, conducting on-site inspections and meetings with staff, conducting audit and specific survey. With reference to various regulations, the Supervisory Committee was of the opinion that the decision-making process was lawful, the internal control was effective, and the Directors and the senior management of the Company have diligently carried out their duties, and there is no behavior of violation of the laws, regulations, the Articles of Association, nor had they prejudiced the Company's and Shareholders' interests. The Supervisory Committee had reviewed the Company's internal control audit report for the year 2016 prepared by Deloitte & Touche, and was of the view that the report reflected the actual situation of the Company's corporate governance and internal control, with an objective opinion on audit and agreed to publish the relevant report.

(2) Financial monitoring: during the Reporting Period, the Supervisory Committee diligently performed its duty of monitoring the Company's financial situation, including reviewing the Company's operations and its risks and providing audited opinions to each periodic report. The Supervisory Committee was of the opinion that the Company's financial report reflected a true and fair view on the Company's financial position and operating results.

(3) Use of proceeds from fund raising exercises: the Supervisory Committee continued to review the deposit and use of proceeds raised from the Global Offering of H Shares by the Company during the year and was not aware of any issues regarding the raised funds. During the Reporting Period, the Company completed the issuance of the second tranche of Corporate Bonds on the Shanghai Stock Exchange, with the size of RMB3,000,000,000 and the coupon rates of the Category I Bonds and the Category II Bonds are 3.50% and 4.29%, respectively.. The Supervisory Committee had monitored the issuance of relevant bonds and the use of funds thereof, and had found no violation of regulations.

(4) Stock incentive plan: during the Reporting Period, the Company has no stock incentive plan.

(5) Major asset acquisitions and disposals: during the Reporting Period, the Company did not conduct any major asset acquisitions and disposals.

(6) Connected and continuing connected transactions: During the Reporting Period, the Supervisory Committee has monitored the continuing connected transactions of the Company for the year, including: (i) the lease agreement with Changzhou RSHFC, (ii) the management agreements with Xuzhou RSHFC, Xuzhou RSHFP, Yangzhou RSHFP, Jining Hongrui and Shaanxi Hongrui, (iii) the RSED Framework Agreement with RSED and (iv) the Lease Agreement with Shanghai Hongmei in connection with the leasing of the Jinshan Property. The Company did not enter into any connected transaction during the Reporting Period.

The independent non-executive Directors, after taking into consideration factors such as market environment, transaction amounts, corporate governance, have confirmed that the abovementioned continuing connected transactions for the year ended 31 December 2016 were entered into by the Group: (i) in the ordinary and usual course of its business; (ii) on normal commercial terms; and (iii) in accordance with the relevant agreements governing them and on terms that were fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Company has assigned the finance department to monitor the continuing connected transactions. The finance department will prepare relevant information and materials in relation to the continuing connected transactions and submit the same to the Secretariat of the Board of Directors for compliance checking before submitting all relevant information and materials to the Board for consideration. All relevant information will be attached as appendices to the board resolutions. In relation to the continuing connected transactions conducted during the Reporting Period, the finance department and the Secretariat of the Board of Directors have reviewed and considered the relevant information and materials to ensure compliance with relevant requirements (such as not exceeding the annual caps and ensuring the transactions are carried out in accordance with their respective terms) so as to protect the interests of our Shareholders.

The auditors of the Company has issued its unqualified letter containing its findings and conclusions in respect of the abovementioned continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules, confirming that (i) nothing has come to their attention that causes the auditors to believe that the abovementioned continuing connected transactions have not been approved by the Board, (ii) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes the auditors to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group, (iii) nothing has come to their attention that causes the auditors to believe that the transactions were not entered into, in all material respects, in accordance with the terms of the relevant agreements governing such transactions; and (iv) with respect to the aggregate amount of each of the transactions, nothing has come to their attention that causes the auditors to believe that the amounts have exceeded the maximum aggregate annual value disclosed in the Prospectus and the announcement dated 25 September 2015. A copy of the auditors' letter has been provided by the auditors of the Company to the Hong Kong Stock Exchange.

In the future, with the further development of the Company's businesses, the Supervisory Committee will, base on its existing work nature, firmly implement the Company's established strategies and policies, fulfill its duties as prescribed by national laws and regulations as well as the Articles of Association, and supervise the Company to operate in such a way as to practically guarantee and safeguard the legitimate interests of the Company and Shareholders.

The Supervisory Committee of Red Star Macalline Group Corporation Ltd.

20 March 2017

Corporate Governance Report

The Group is committed to high-standard corporate governance so as to protect the interests and legal rights of the Shareholders and to promote the Company's value and accountability. H Shares of the Company were listed on the main board of the Hong Kong Stock Exchange on 26 June 2015.

The Company adopted the following corporate governance principles and practices:

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Other than deviation from code provision A.2.1, during the Reporting Period, the Company has complied with the provisions of the Corporate Governance Code, Appendix 14 to the Listing Rules, which sets out the principles of good corporate governance principles in relation to, among other matters, the directors, the chairman and the chief executive, board composition, the appointment, re-election and removal of directors, their responsibilities and remuneration; and communications with shareholders. Directors are satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interest between the Group and the Controlling Shareholders and/or Directors to protect the minority Shareholders' interests.

DEVIATION FROM CODE PROVISION A.2.1 OF THE CORPORATE GOVERNANCE CODE

Mr. CHE Jianxing ("Mr. CHE") is the Chairman and chief executive officer of the Company. In view of Mr. CHE's experience, personal profile and his roles in our Group as mentioned above and that Mr. CHE has assumed the role of chief executive officer and the general manager of the Group since June 2007, the Board considers it beneficial to the business prospect and operational efficiency of the Group that Mr. CHE, in addition to acting as the Chairman of the Board, continues to act as the chief executive officer of the Company. While this will constitute a deviation from Code Provision A.2.1 of the Corporate Governance Code, the Board believes that this structure will not impair the balance of power and authority between the Board and the management of the Company, given that: (i) decision to be made by our Board requires approval by at least a majority of our Directors and that the Board comprises 4 independent non-executive Directors out of the 12 Directors, which is in compliance with the Listing Rules requirement of one-third, and we believe that there is sufficient check and balance in the Board; (ii) Mr. CHE and the other Directors are aware of and undertake to fulfill their fiduciary duties as Directors, which require, among other things, that he acts for the benefit and in the best interests of the Company and will make decisions for the Group accordingly; and (iii) the balance of power and authority is ensured by the operations of the Board which comprises experienced and high caliber individuals who meet regularly to discuss issues affecting the operations of the Company. Moreover, the overall strategic and other key business, financial, and operational policies of the Group are made collectively after thorough discussion at both Board and senior management levels.

The Board will continue to review the effectiveness of the corporate governance structure of our Group in order to assess whether separation of the roles of Chairman and chief executive officer is necessary.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted a code of conduct regarding Directors' and Supervisors' securities transactions on terms as required under the Model Code. The Company has made specific queries to the Directors and Supervisors, and all Directors and Supervisors have confirmed their compliance with the provisions set out in the Model Code during the Reporting Period.

BOARD OF DIRECTORS

Board Composition

As at the end of the Reporting Period, the Board comprises 12 Directors, including 4 executive Directors, 4 non-executive Directors and 4 independent non-executive Directors. The following list sets forth the information in respect of the current members of the Board.

Name	Positions	Date of Re-appointment[1]
Mr. CHE Jianxing[2]	Chairman and Executive Director	30 December 2016
Ms. ZHANG Qi	Vice Chairman and Executive Director	30 December 2016
Ms. CHE Jianfang	Executive Director	30 December 2016
Mr. JIANG Xiaozhong	Executive Director	30 December 2016
Ms. CHEN Shuhong	Non-executive Director	30 December 2016
Mr. XU Guofeng[3]	Non-executive Director	30 December 2016
Mr. Joseph Raymond GAGNON	Non-executive Director	30 December 2016
Mr. ZHANG Qiqi	Non-executive Director	30 December 2016
Mr. LI Zhenning	Independent non-executive Director	30 December 2016
Mr. DING Yuan	Independent non-executive Director	30 December 2016
Mr. LEE Kwan Hung	Independent non-executive Director	30 December 2016
Mr. QIAN Shizheng[4]	Independent non-executive Director	30 December 2016

Notes:

(1) The Directors were re-elected at the extraordinary general meeting held on 30 December 2016.

(2) Mr. CHE Jianxing is the husband of Ms. CHEN Shuhong and the brother of Ms. CHE Jianfang.

(3) Mr. XU Guofeng is the husband of Ms. CHE Jianfang.

(4) With effect from 19 April 2016, Mr. ZHOU Qinye resigned as an independent non-executive Director. On 19 April 2016, Mr. QIAN Shizheng was appointed as an independent non-executive director.

Biographies of the Directors are set out in the section headed "Directors, Supervisors and Senior Management" of this annual report.

During the Reporting Period, the Board complied with the requirements of appointing at least three independent non-executive Directors (among whom at least one independent non-executive Director holds the appropriate professional qualifications or accounting or relevant financial management knowledge) set out in Rules 3.10(1) and 3.10(2) of the Listing Rules at any time.

The Company also complied with the requirements of appointing independent non-executive Directors, accounting for one-third of the members of the Board set out in Rule 3.10A of the Listing Rules. Independence of each independent non-executive Director has been confirmed in accordance with Rule 3.13 of the Listing Rules, and the Company regards them as independent.

The Company regards increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

All Directors (including the independent non-executive Directors) enabled the Board with different valuable experiences in business and professional knowledge so that the Board of Directors could fulfill its function efficiently and effectively. The independent non-executive Directors were invited to join the Audit Committee, the Remuneration and Evaluation Committee, the Nomination Committee and the Strategy and Investment Committee.

Board Meeting

In accordance with the Articles of Association, the board meetings are divided into regular meetings and provisional meetings. Board meetings shall be convened at least four times a year and be called for by the Chairman. A notice of at least 14 days shall be sent to all Directors before the meeting is convened so that they may attend the meeting and include any relevant matters for discussion in the meeting agenda.

Other than the connected transactions to be reviewed by the Board set out in the Articles of Association, Board meetings shall be attended by more than half of the Directors.

Minutes of the Board meetings and Committee meetings shall record all matters considered and decisions made by the Board and Committees, including all questions raised by the Directors. Drafts of the minutes of the Board meetings and Committee meetings are/will be sent to each Director within a reasonable period of time after the meeting.

Save as disclosed in the Prospectus and in this annual report, to the best knowledge of the Company, there are no financial, business, family, or other material relationships among members of the Board.

Appointment, Re-election and Re-appointment of Directors

In accordance with the provisions set out in the Articles of Association, the Directors shall be elected by the general meeting of Shareholders and shall serve three-year terms. Upon expiration of the term, the Directors may be re-elected and re-appointed. Each independent non-executive Director shall be subject to retirement by rotation once every two sessions. The Company has implemented a set of effective programs to the appointment of new Directors. The Nomination Committee and Remuneration and Evaluation Committee have priority to discuss nomination of the new Directors and shall submit proposals to the Board. New directors shall be elected by the general meeting of Shareholders.

The Company has entered into service contracts or appointment letters for a service term of three-year with all Directors (including the non-executive Directors).

Directors' Training

Introductory and Continuous Professional Development

All newly appointed Directors are granted with necessary induction training and information so as to have an appropriate understanding of the operating status and business of the Company as well as their responsibilities under relevant laws, rules, provisions and articles. The Company also arranges periodical seminars for the Directors in order to provide the latest information on any development and changes in the Listing Rules, and other relevant laws and regulations. The Directors are also informed about the performance, current status and prospect of the Company regularly, so as to fulfill their responsibilities.

Trainings attended by all Directors in the Reporting Period are as below:

Name of Directors	Training Description
CHE Jianxing	A, B
ZHANG Qi	A, B
CHE Jianfang	A, B
JIANG Xiaozhong	A, B
CHEN Shuhong	A, B
XU Guofeng	A, B
Joseph Raymond GAGNON	A, B
ZHANG Qiqi	A, B
ZHOU Qinye (resigned as independent non-executive Director with effect from 19 April 2016)	A, B
LI Zhenning	A, B
DING Yuan	A, B
LEE Kwan Hung	A, B
QIAN Shizheng (appointed as independent non-executive Director with effect from 19 April 2016)	A, B

Notes:

A. Trainings related to governance of listed company and directors' responsibility, organized by law firms, compliance advisor, external auditor and etc.;

B. Reading provisions connected to company governance, Directors' responsibilities and internal control risk management and attending lecture, forum and conference, etc.

Duties Performed by the Board and Management

The Board is responsible for the general meeting of Shareholders and perform the following duties: to approve and supervise all policy issues, overall strategy, budgeting, internal control and risk management system, material transactions (especially the transactions in which the parties with conflict of interest may be involved), Director appointment and other material financial and operating affairs. The Directors may seek independent professional opinions when fulfilling their duties, and the cost will be borne by the Company. The Company also encourages the Directors to seek independent consultation with senior management of the Company.

The senior management is responsible for daily management, administration and operation of the Group, and the Board shall discuss the authorization function and duty periodically. Any material transactions established by the management shall be approved by the Board in advance.

CORPORATE GOVERNANCE FUNCTION

The Board is responsible for establishing the corporate governance policy of the Company and fulfilling the following corporate governance duties:

(1) To develop and review the corporate governance policy and routines of the Company;

(2) To review and monitor training and continuous professional development of the Directors and senior management;

(3) To review and monitor policies and routines of the Company in compliance with the requirements of all applicable laws and regulations;

(4) To establish, review and monitor code of conduct and compliance guidelines suitable for the employees and Directors (if available); and

(5) To review the Company's compliance with the disclosure requirements as set out in the Corporate Governance Code and Corporate Governance Report.

DIRECTORS' LIABILITY INSURANCE

The Company has purchased appropriate insurance against the litigations raised against the Directors on 21 June 2016.

BOARD COMMITTEES

The Board delegates responsibilities to various committees. In accordance with the relevant PRC laws and regulations, the Corporate Governance Code, the Company has established four Board committees, namely the Audit Committee, the Remuneration and Evaluation Committee, the Nomination Committee and the Strategy and Investment Committee.

AUDIT COMMITTEE

We have established an Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and Code Provision C.3 and Code Provision D.2 of the Corporate Governance Code. The Audit Committee consists of three independent non-executive Directors as at the end of the Reporting Period, namely Mr. DING Yuan, Mr. LI Zhenning and Mr. QIAN Shizheng. Mr. DING Yuan, who holds the appropriate professional qualifications as required under Rules 3.10(2) and 3.21 of the Listing Rules, serves as the chairman of the Audit Committee. The primary duties of the Audit Committee include, but not limited to, the following:

- proposing the appointment or change of external auditors;
- overseeing the internal audit system of the Company and its implementation;
- maintaining close communication between the internal auditors and external auditors;
- examining the financial information of the Company and its disclosure, and auditing significant connected transactions as authorized by the Board;
- Monitoring integrity of the Company's financial statements, annual reports and accounts, interim reports, other periodic reports, agreed proceedings, audit reports (hereinafter referred to as the "Materials") and reviewing significant judgments on financial reporting set out in the Materials. Making judgments on the completeness, accuracy and truthfulness of the preparation and disclosure of the Company's financial reports;
- examining the rationality, efficiency and implementation of the risk management and internal control systems of the Company and its subsidiaries and branch offices, and making recommendations to the Board;
- providing comments regarding the performance of internal auditors;
- overseeing the corporate governance of the Company, making recommendations to the Board, and reviewing the corporate governance report disclosed in our annual report; and
- dealing with other matters that are authorized by the Board.

As at the end of the Reporting Period, the Audit Committee has performed its duties with due prudence in accordance with the requirements of Company Law, the Articles of Association, the Terms of Reference of the Audit Committee of the Board of the Company and the relevant laws and regulations. The Audit Committee convened two meetings, details of which are set out below:

Name of Meeting	Dates of Meetings	Contents of Meeting	Attendance at the Meeting
Audit Committee	21 March 2016	1. To review and discuss the report prepared by the auditor of the Group in respect of the annual results of the Group as of 31 December 2015; 2. To review and make recommendation to the Board about the audited financial statements, results announcement and annual report as of 31 December 2015; 3. To review and make recommendation to the Board about the audited financial statements for the years of 2015, 2014 and 2013 of the Group for its A-share IPO application; 4. To review and make recommendation to the Board about the profit distribution program of the Company for the year 2015; 5. To consider and make recommendation to the Board about the resolution of re-appointment of Deloitte Touche Tohmatsu CPA, Ltd and Deloitte Touche Tohmatsu as the audit institutions of the Company for the year 2016; 6. To review the expected connected transaction of the Company for the year 2016; 7. To review the work plan of internal review center for the year 2016; 8. To review the corporate governance report of the Company; 9. To review and make recommendation to the Board about the resolution of the audited self-evaluation report of internal control of the Company as of 31 December 2015.	Mr. DING Yuan, Mr. LI Zhenning and Mr. ZHOU Qinye attended the meeting

Name of Meeting	Dates of Meetings	Contents of Meeting	Attendance at the Meeting
	22 August 2016	1. To review and discuss the report prepared by the auditor of the Group to the Audit Committee in respect of the annual results of the Group for the six months ended 30 June 2016; 2. To review and make recommendation to the Board about the draft of the reviewed financial statements ("Financial Statements") for the six months ended 30 June 2016; 3. To review and make recommendation to the Board about the proposal of the Financial Statements in the first half of 2016; 4. To review and make recommendation to the Board about the proposal of the interim dividend for the six months ended 30 June 2016; 5. To review and make recommendation to the Board about the draft of the interim results announcement to be published on the websites of Hong Kong Stock Exchange and the Company prepared in accordance with Financial Statements for the six months ended 30 June 2016; 6. To review and make recommendation to the Board about the draft of the interim report to be published on the websites of the Hong Kong Stock Exchange and the Company for the six months ended 30 June 2016; 7. To review the summary of internal audit work of the Group in the first half of 2016 and proposed working plan in the second half of 2016; 8. To review and make recommendation to the Board about the proposal of the self-evaluation report of internal control as of 30 June 2016; 9. To review the summary of work on risk management and internal control of the Group in the first half of 2016 and proposed working plan in the second half of 2016.	Mr. DING Yuan, Mr. QIAN Shizheng, and Mr. LI Zhenning attended the meeting

The Audit Committee oversees and monitors the risk management and internal control systems of the Company on an ongoing basis and review with our external auditors and management periodically, not less than annually, the scope, adequacy and effectiveness of the Company's corporate accounting and financial controls, risk management and internal control systems, and any related significant findings regarding risks or exposures and consider recommendations for improvement of such controls. The review should cover all material controls, including financial, operational and compliance controls. Further details regarding the annual review conducted by the Audit Committee are set out in the section headed "Risk Management and Internal Control".

REMUNERATION AND EVALUATION COMMITTEE

The Company established a Remuneration and Evaluation Committee with written terms of reference in compliance with Code Provision B.1 of the Corporate Governance Code.

As at the end of the Reporting Period, the Remuneration and Evaluation Committee consists of three Directors, including one executive Director and two independent non-executive Directors, namely Mr. CHE Jianxing, Mr. LI Zhenning and Mr. QIAN Shizheng. Mr. QIAN Shizheng serves as the chairman of the Remuneration and Evaluation Committee.

The primary duties of the Remuneration and Evaluation Committee include, but are not limited to, the following:

- formulating the remuneration plans for Directors, Supervisors and members of the senior management in accordance with the terms of reference of the Directors, Supervisors and members of the senior management and the importance of their positions as well as the remuneration benchmarks of relevant positions in other comparable companies;
- the remuneration plans include, but are not limited to, criteria and procedures of performance evaluation, the main evaluation system as well as the main reward and penalty scheme and system, etc.;
- making recommendations to the Board on the remuneration packages of individual executive Directors and senior management;
- examining the performance of Directors, Supervisors and members of the senior management of our Company, and conducting annual performance evaluation;
- supervising the implementation of our Company's remuneration plan and incentive system; and
- dealing with other matters that are authorized by the Board.

As at the end of the Reporting Period, the Remuneration and Evaluation Committee has performed its duties with due prudence in accordance with the requirements of Company Laws, the Articles of Association, the Terms of Reference of the Remuneration and Evaluation Committee of the Board and the relevant laws, regulations. The Remuneration and Evaluation Committee convened six meetings, details of which are set out below:

Name of Meeting	Dates of Meetings	Contents of Meeting	Attendance at the Meeting
Remuneration and Evaluation Committee	8 January 2016	1. To review supervisory services contract of the two newly appointed Supervisors and one employee representative Supervisor	Mr. ZHOU Qinye, Mr. CHE Jianxing and Mr. LI Zhenning attended the meeting
	21 March 2016	1. To review on the performance of duties and annual performance assessment of Directors and managers of the Company in 2015; 2. To review and propose to the Board in respect of the remuneration and incentives system of Directors, supervisors and senior management of the Company in 2016.	Mr. ZHOU Qinye, Mr. CHE Jianxing and Mr. LI Zhenning attended the meeting
	18 April 2016	1. To review services contract with independent non-executive Directors of the newly appointed independent non-executive directors.	Mr. ZHOU Qinye, Mr. CHE Jianxing and Mr. LI Zhenning attended the meeting
	19 April 2016	1. In relation to the proposal of selecting the head of Remuneration and Evaluation Committee of the second session of the Board.	Mr. QIAN Shizheng, Mr. CHE Jianxing and Mr. LI Zhenning attended the meeting
	15 November 2016	1. In relation to the proposal of reviewing the remuneration of candidates for Directors of the third session of the Board.	Mr. QIAN Shizheng, Mr. CHE Jianxing and Mr. LI Zhenning attended the meeting
	30 December 2016	1. In relation to the proposal of selecting the head of Remuneration and Evaluation Committee of the third session of the Board.	Mr. QIAN Shizheng, Mr. CHE Jianxing and Mr. LI Zhenning attended the meeting

NOMINATION COMMITTEE

The Company has established a Nomination Committee with written terms of reference in compliance with Code Provision A.5 of the Corporate Governance Code. As at the end of the Reporting Period, the Nomination Committee consists of three Directors, including one executive Director and two independent non-executive Directors, namely Mr. CHE Jianxing, Mr. LEE Kwan Hung and Mr. LI Zhenning. Mr. LI Zhenning serves as the chairman of the Nomination Committee.

The primary duties of the Nomination Committee include, but are not limited to, the following:

- making recommendations to the Board on size and composition of the Board in accordance with our Company's operating activities, asset size and shareholding structure;
- researching and developing criteria and procedures for the election of the Board members, general managers and other members of the senior management, and making recommendations to the Board;
- conducting thorough investigation on suitable candidates for Directors, general managers and other members of the senior management, and making recommendation to the Board;
- reviewing and examining candidates for Directors, general managers and other members of the senior management and making recommendations to the Board; and
- dealing with other matters that are authorized by the Board.

As at the end of the Reporting Period, the Nomination Committee has performed its duties with due prudence in accordance with the requirements of Company Law, the Articles of Association, the Terms of Reference of the Nomination Committee of the Board and the relevant laws, regulations. The Nomination Committee convened four meetings, details of which are set out below:

Name of Meeting	Dates of Meetings	Contents of Meeting	Attendance at the Meeting
Nomination Committee	31 January 2016	1. To review the structure, number of persons, constituents and the diversity of members of the Board, various committees under the Board, general manager and other senior management persons in 2015; 2. To review the principle of director's nomination of the third session of the Board, and continue to play a role in the strategy and governance of the Company.	Mr. LI Zhenning, Mr. CHE Jianxing and Mr. LEE Kwan Hung attended the meeting

Name of Meeting	Dates of Meetings	Contents of Meeting	Attendance at the Meeting
	28 March 2016	1. In relation to the proposal of nominating additional independent non-executive Directors of the second session of the Board.	Mr. LI Zhenning, Mr. CHE Jianxing and Mr. LEE Kwan Hung attended the meeting
	15 November 2016	1. In relation to the proposal of nominating Mr. CHE Jianxing as the candidate of executive Director of the third session of the Board;	Mr. LI Zhenning, Mr. CHE Jianxing and Mr. LEE Kwan Hung attended the meeting
		2. In relation to the proposal of nominating Ms. CHE Jianfang as the candidate of executive Director of the third session of the Board;	
		3. In relation to the proposal of nominating Ms. CHEN Shuhong as the candidate of non-executive Director of the third session of the Board;	
		4. In relation to the proposal of nominating Mr. XU Guofeng as the candidate of non-executive Director of the third session of the Board;	
		5. In relation to the proposal of nominating Mr. JIANG Xiaozhong as the candidate of executive Director of the third session of the Board;	
		6. In relation to the proposal of nominating Ms. ZHANG Qi as the candidate of executive Director of the third session of the Board;	
		7. In relation to the proposal of nominating Mr. Joseph Raymond Gagnon as the candidate of non-executive Director of the third session of the Board;	
		8. In relation to the proposal of nominating Mr. ZHANG Qiqi as the candidate of non-executive Director of the third session of the Board;	

Name of Meeting	Dates of Meetings	Contents of Meeting	Attendance at the Meeting
		9. In relation to the proposal of nominating Mr. LEE Kwan Hung as the candidate of independent non-executive Director of the third session of the Board;	
		10. In relation to the proposal of nominating Mr. QIAN Shizheng as the candidate of independent non-executive Director of the third session of the Board;	
		11. In relation to the proposal of nominating Mr. LI Zhenning as the candidate of independent non-executive Director of the third session of the Board;	
		12. In relation to the proposal of nominating Mr. DING Yuan as the candidate of independent non-executive Director of the third session of the Board;	
	30 December 2016	1. In relation to the proposal of selecting the head of Nomination Committee of the third session of the Board.	Mr. LI Zhenning, Mr. CHE Jianxing and Mr. LEE Kwan Hung attended the meeting

STRATEGY AND INVESTMENT COMMITTEE

We have established a Strategy and Investment Committee with written terms of reference. As at the end of the Reporting Period, the Strategy and Investment Committee consists of five Directors, including three executive Directors, one non-executive Director and one independent non-executive Director: namely Mr. CHE Jianxing, Ms. ZHANG Qi, Mr. JIANG Xiaozhong, Mr. ZHANG Qiqi and Mr. LI Zhenning. Mr. CHE Jianxing serves as the chairman of the Strategy and Investment Committee.

The primary duties of the Strategy and Investment Committee include, but are not limited to, the following:

- researching and recommending to the Board the long-term development and strategic plans of our Company;

- researching and recommending to the Board material investments, financing proposals, capital operation and asset management of our Company, which must be approved via Board meetings or shareholders' meetings in accordance with the Articles of Association;

- researching and recommending to the Board matters that are material to the development of our Company;

- checking the implementation of above-mentioned matters that are approved via Board meetings or shareholders' meetings; and

- dealing with other strategic matters that are authorized by the Board.

As at the end of the Reporting Period, the Strategy and Investment Committee has performed its duties with due prudence in accordance with the requirements of Company Law, the Articles of Association, the Terms of Reference of the Strategy and Investment Committee of the Board and the relevant laws, regulations. The Strategy and Investment Committee convened one meeting, details of which are set out below:

Name of Meeting	Dates of Meetings	Contents of Meeting	Attendance at the Meeting
Strategy and Investment Committee	21 March 2016	1. the development strategy of the Company 2. the development plan of A-Share proposed to be issued by the Company during the current year (2016) and the upcoming two years 3. to formulate and implement assumptions for the development plan 4. major difficulties faced when implementing the development plan 5. the relationship between the operation development plan and current operations 6. utilisation of the proposed A-Share issuance to attain the abovementioned business development goal	Mr. CHE Jianxing, Ms. ZHANG Qi, Mr. JIANG Xiaozhong, Mr. ZHANG Qiqi and Mr. LI Zhenning attended the meeting

ATTENDANCE RECORD OF BOARD MEETINGS

Attendance record of all Directors to the general meetings, Board meetings and committee meetings during the Reporting Period are as below:

Director's Name	Number of attending/ convening Board meetings	Number of attending/ convening Audit Committee meetings	Number of attending/ convening Remuneration and Evaluation Committee meetings	Number of attending/ convening Nomination Committee meetings	Number of attending/ convening Strategy and Investment Committee meetings	Number of attending/ convening general meeting of Shareholders
CHE Jianxing	16/16	–	6/6	4/4	1/1	6/6
ZHANG Qi	16/16	–	–	–	1/1	6/6
CHE Jianfang	16/16	–	–	–	–	6/6
JIANG Xiaozhong	16/16	–	–	–	1/1	6/6
CHEN Shuhong	16/16	–	–	–	–	6/6
XU Guofeng	16/16	–	–	–	–	6/6
Joseph Raymond GAGNON	16/16	–	–	–	–	6/6
ZHANG Qiqi	16/16	–	–	–	1/1	6/6
ZHOU Qinye(1)	6/6	1/1	3/3	–	–	1/1
LI Zhenning	16/16	2/2	6/6	4/4	1/1	6/6
DING Yuan	16/16	2/2	–	–	–	6/6
LEE Kwan Hung	16/16	–	–	4/4	1/1	6/6
QIAN Shizheng (2)	10/10	1/1	3/3	–	–	5/5

Notes:

(1) Mr. ZHOU Qinye resigned as an independent non-executive Director, a member of the Audit Committee and the Chairman of the Remuneration and Evaluation Committee with effect from 19 April 2016. Six Board meetings and one general meeting were convened before his resignation.

(2) Mr. QIAN Shizheng was appointed as an independent non-executive Director, a member of the Audit Committee and the Chairman of the Remuneration and Evaluation Committee with effect from 19 April 2016. Ten Board meetings and five general meetings were convened after his appointment.

DIRECTORS' FINANCIAL STATEMENTS REPORTING RESPONSIBILITY

The Directors are fully aware of their responsibility of preparing the Consolidated Financial Statements of the Company for the year ended 31 December 2016 so as to provide a true and fair view of the situation of the Company and the Group as well as the results and cash flows of the Group.

The management has provided necessary explanation and information to the Board, thus the Board is able to evaluate the financial statements of the Company which are submitted for approval of the Board with full knowledge. The Company has also provided continuously updated information about performance, status and prospect of the Company to all members of the Board.

The Directors were not aware of any material uncertainties with respect to any event or situation which may pose important threat to the sustainable operation of the Group.

Statement of the Directors' reporting responsibilities of Consolidated Financial Statements of the Company made by auditors of the Company is recorded in Independent Auditor's Report on pages 111 to 117 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has established the risk management and internal control systems, monitored and reviewed their effectiveness on an ongoing basis in compliance with Paragraph C.2 of the Corporate Governance Code. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, to promote effective and efficient operation, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board reviews the effectiveness of the risk management and internal control systems on an annual basis, and assesses all important monitoring aspects including financial monitoring, operation monitoring and compliance monitoring as per five internal control elements, namely, internal environment, risk assessment, control activities, information and communication and internal supervision and make sure the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions to ensure that effective risk management and internal control systems are in place.

RISK MANAGEMENT AND INTERNAL CONTROL ORGANISATIONAL SYSTEM

The Company has established a complete risk management and internal control organisational system, which consists of the Board, the Audit Committee, the Internal Control Management Committee (a sub-committee under the Audit Committee), the Internal Control Compliance Department, the Audit Department and all divisions of the Company. Various functions of the Company form the first line of defence of risk management and internal control, which are responsible for the direct identification and management of the risks arising in the course of business during our daily operation, and developing response strategies and specific solutions. The Internal Control Compliance Department and Internal Control Management Committee form the second line of defence of risk management and internal control, which is responsible for building and maintaining the comprehensive risk management framework of the Company, and coordinating the establishment of risk management between various functions of the headquarter and different regions and shopping malls. The Audit Department and the Audit Committee forms the third line of defence, which is responsible for conducting independent supervision which involves supervision and examination to determine if the Company is able to conduct risk management and internal control in accordance with relevant policies, systems and processes for risk management and internal control, and if such measures are effective. The Board undertakes the ultimate responsibility for the establishment and perfection of the risk management and internal control systems as well as the effective implementation of risk management, and acts as the ultimate decision-making body in the Company with respect to risk management and internal control.

In addition, the Board arranges adequate training courses and related budget in respect of the risk management and internal control systems on an annual basis, and has also conducted periodic training on the concept, knowledge, process of risk management and methods of internal control to ensure the adequacy of management resources in risk management and internal control.

CARRYING OUT RISK MANAGEMENT WORK

In order to better cope with the changing market environment and ensure the realization of the Company's business objectives, in 2016, the Company initiated the construction of a comprehensive risk management system at the company-wide level. The system is designed to manage various potential risks to which the Company is exposed in the course of operation through procedures and measures of risk identification, risk assessment, risk response, risk reporting and monitoring. The Company has systematically established a database for risks based on the status quo of our current business and management, with a view to achieving comprehensive identification of and response to risks.

On the basis of risk identification, the Company has established the major risk evaluation criteria from two dimensions, namely the probability of occurrence and the magnitude of influence of relevant risks. Various forms of measures, including risk questionnaire, risk investigation and interviews, as well as forum for risk assessment, were conducted to carry out the multilevel and comprehensive risk assessment work. These measures are developed to identify major risk areas affecting the objectives of the Company and to specify the priority and allocation of resources on risk management.

In order to align the risk points with specific control measures and responsibilities of different roles in the management system, and to ensure sufficient control of such risks, the Company implements basic risk management measures of internal control through specific business processes, including preparation and disclosure of financial reports, inside information processing and disclosure and other management procedures and internal control measures for significant procedures in accordance with laws, regulations and regulatory requirements of Listing Rules.

In respect of external information and communication, the company developed information disclosure and reporting management rules, such as Information Disclosure Management System, News Release and News Spokesman System, etc., to establish a standardized information collection, collation, validation and disclosure of the insider control program, which identified the message security measures. Before the information is completely disclosed to the public, the Company will ensure that the information is absolutely confidential. For information which confidentiality is difficult to maintain or is already leaked, our Company will disclose the relevant information in a timely manner, so as to ensure the effective protection of investors and the interests of related parties.

The major risks to which the Company are exposed will vary with the changes in internal and external business environment and business situations. The Company will continuously monitor the information on significant risks and changes in risks arising from the operation and management of the different risk liability departments and conduct supervision and evaluation on whether each of the departments is able to carry out risk management and the effectiveness of their efforts in accordance with relevant provisions, with a view to further improve the risk management mechanism.

OPERATION OF INTERNAL CONTROL MECHANISM

The management of the Company has set up the Internal Control Management Committee, which leads the Internal Control Compliance Department in the overall planning, design and guidance in relation to the building of the risk management and internal control management system. In 2016, the Internal Control Compliance Department played a leading role in the establishment of the internal control evaluation working group, which carried out self-evaluation of internal control and assessment of the effectiveness of the design and implementation of internal control for the Company's main business and matters. For all deficiencies in internal control as identified in the assessment, the management of the Company has developed feasible rectification plans and promoted the implementation of such rectification. The Internal Control Compliance Department has followed up on such areas subject to rectification, and continued to monitor the progress and the overall effectiveness of the rectification of deficiencies, thus achieving the organized operation of overall internal control.

The Board and the Audit Committee are responsible for the continuous supervision and review of the effective implementation of the Company's risk management and internal control management system and the deficiencies of internal control. Specific supervision and review is carried out by the Audit Department. The Audit Department exercises the right of audit supervision independently without any interference from other departments, units and individuals. This mechanism is designed to maintain the independence, impartiality and authority of the internal audit function.

The Board has reviewed risk management and internal control work carried out in 2016. There has been no significant risk control failure, and no significant risk control weakness has been identified within the Company. The management processes including financial report and information disclosure of the Company are in strict compliance with the Listing Rules. The Board has reviewed the risk management and internal control work conducted by the Company during the Reporting Period and considers the risk management and internal control system effective and sufficient within the Group.

AUDITOR'S REMUNERATION

Statement of the Company's external auditor related to the reporting responsibilities of consolidated financial statements is recorded in the Independent Auditor's Report on pages 111 to 117 of this annual report.

Remuneration of the Company's external auditor Deloitte Touche Tohmatsu paid/payable for the year ended 31 December 2016 was RMB18.2 million. As at the end of the Reporting Period, the external auditor did not provide any non-audit service.

COMPANY SECRETARY

Mr. GUO Binghe, the company secretary of the Company, is responsible for raising corporate governance-related suggestions to the Board, and ensuring compliance with policies and procedures of the Board, applicable laws, rules and regulations.

In order to maintain high-standard corporate governance and ensure that the Company complies with the Listing Rules and applicable Hong Kong laws, we also appointed Ms. LEUNG Suet Lun, a manager of the listing services department of TMF Hong Kong Limited, as an assistant company secretary, to work closely with and provide assistance to Mr. GUO in the discharge of his duties as the company secretary.

For the year ended 31 December 2016, Mr. GUO and Ms. LEUNG have already completed professional training of no less than 15 hours in accordance with Rule 3.29 of the Listing Rules, respectively.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company believes that effective communication with Shareholders is very significant to the investor relations enhancement and investors' understanding of the Company's business, performance and strategies. We are also deeply convinced of the importance of disclosing information of the Company in time without preservation to the Shareholders and investors knowledgeably.

The annual general meeting of Shareholders of the Company provides the shareholders with opportunities to communicate with the Directors directly. The chairman of the Board and directors of the committees will attend the meeting if possible, to answer questions raised by the shareholders. The external auditor of the Company will attend the meeting and answer the questions regarding auditing items, preparation and contents of the auditor's report, accounting policy and independence of the auditor.

The Company adopted a shareholder communication policy so as to promote the effectiveness of communication and establish a bridge between the Company and its Shareholders. Further, a website (www.chinaredstar.com) and enquiry channels for the investors (e-mail: ir@chinaredstar.com) are also available. The Company will release the latest information about the business operation and development, corporate governance practices and other latest information to the public on the website.

SHAREHOLDERS' RIGHTS

In order to protect shareholders' interest and rights, the Company will submit the items for the review of the Shareholders' general meeting in the form of an independent resolution. The resolution submitted to the Shareholders' general meeting will be voted pursuant to the Listing Rules, and the voting result will be published on the websites of the Stock Exchange and the Company in time after the meeting.

Extraordinary Shareholders' Meeting Convening and Proposal

Pursuant to the Articles of Association, where the Shareholders separately or jointly holding more than 10% of the Shares request the Board to convene an extraordinary Shareholders' meeting or Shareholders' class meeting, the following procedures shall be followed:

(1) Shareholders who separately or jointly hold more than 10% of the Shares may request the Board to convene an extraordinary Shareholders' meeting or Shareholders' class meeting by signing a written requirement or several copies with the same format and to illustrate the subject of the meetings. The Board shall convene an extraordinary Shareholders' meeting or Shareholders' class meeting as soon as possible upon the receipt of the aforesaid written request. The Shareholders shall calculate the aforesaid number of shareholdings as of the date of the submission of the written requirement.

(2) If the Board fails to issue a notice of meeting within 30 days upon the receipt of the aforesaid written request, the Supervisory Committee may convene a meeting itself within four months upon the Board's receipt of such request; if the Supervisory Committee fails to convene and chair the meeting, the Shareholders who separately or jointly hold more than 10% of the Shares of our Company for more than 90 consecutive days may convene and preside over themselves, of which the convening procedure shall be at best the same as if convened by the Board. If the Shareholders call and convene a meeting by themselves due to the Board being unable to convene a meeting in accordance with the aforesaid requirement, the expenses reasonably incurred therefrom shall be borne by the Company and be deducted from the amounts due to the relevant Directors as a result of negligence of duty.

A general Shareholders' meeting convened by Shareholders themselves shall be chaired by a person elected by the convener. If no chairman is recommended, the chairman can be elected from the Shareholders. If for any reason the Shareholders cannot elect a chairman, the meeting shall be chaired by the attending Shareholder (including proxy) representing most voting Shares at the meeting.

The Shareholder(s) holding, separately or jointly, 3% or more of the total shares of our Company may put forward extempore proposals to the Company 10 days prior to the convening of the general meeting by submitting the proposals in writing to the convener. The convener shall issue a supplementary notice of the general meeting to the Shareholders within two days upon the receipt of the proposals.

Queries Made to Board of Directors

The Shareholders may send queries for attention of the Board to ir@chinaredstar.com by e-mail.

Articles of Association

The amended Articles of Association were approved by the Shareholders on 31 January 2016 and has become effective since the same date. Save as this, for the year ended 31 December 2016, there had been no alternations to the Articles of Association.

Social Responsibility Report

INTRODUCTION

This social responsibility report does not constitute an ESG report under Appendix 27 of the Listing Rules. An ESG report complying with the disclosure requirements under Appendix 27 of the Listing Rules will be published by the Group separately.

RESPONSIBILITY TO THE INDUSTRY

As a leading brand in the home furnishing circulation industry, Red Star Macalline has been committed to promoting the development and reform of the industry through profound market researches and strategic innovations. Red Star Macalline has been making positive efforts in the introduction and development of new brands and new business models. For example, Red Star Betterhome is a home improvement conglomerate which integrates home improvement R&D and design, technology R&D and construction, main materials, furniture and soft decoration, smart home and housing equipment, introducing a new business model of integrated services to the home furnishings industry.

As a leading company in the home furnishings industry, Red Star Macalline encourages home furnishing enterprises to focus on originality and adhere to the principle of originality and innovated design, in order to provide customers with better products and improve Chinese residents' home improvement tastes. In 2016, Red Star Macalline announced the implementation of the "1001" Strategy to build a design platform which provides house purchasing design, decoration and space design, household products design and soft decoration design services, in an effort to fully integrate the aesthetic principle of design into the whole industrial chains of pan-home consumption. In the future, the design platform will not only employ international designers, but also will serve as an incubator for original Chinese designers. In addition, it will enable the Group to work together with users, manufacturers and service providers to build an industrial chain for original design.

RESPONSIBILITY TO OUR PARTNERS

We are committed to implementing a set of code of business conduct focusing on integrity and make positive efforts in performing our social responsibilities. A strict supplier admission and assessment mechanism has been established to ensure product brands in Red Star Macalline's shopping malls meet the quality requirements of environmental protection.

As for cooperation with our business partners, we made analysis of each supplier's competitive landscape and issued a brand operation and development report on a regular basis to give brand-specific improvement suggestions based on its operating condition, in order to promote the development and innovation of its products as well as the transformation and upgrading of its marketing model. These measures were widely accepted and recognized by a large number of cooperative brands, and enabled us to become a benchmark enterprise in the home improvement and furniture industry which can truly provide value-added services.

RESPONSIBILITY TO OUR CUSTOMERS

Adhering to the principle of "Customers are the base of a corporation", we are committed to obtaining customer satisfaction and loyalty and building a strong brand by offering our clients superior and high-quality services and satisfying their demands in the aspects of product price, environmental protection quality and complaint settlement.

The Group held the “race for green” campaign for the fourth consecutive years in 2016. Subject to national standards, industry standards and the latest domestic and international quality management systems, the race for green evaluation project in which a comprehensive evaluation is conducted on household products and their manufacturers has become a quality award highly recognized by consumers and the whole industry. In this race for green campaign, Red Star Macalline seriously promised “to be responsible for the home environmental protection of every family” and formally announces to incorporate green environmental protection into its corporate mission, which was the first time that Red Star Macalline took green environmental protection as one of its corporate strategies, indicating that green environmental protection will become a major transformation and upgrading direction in home furnishings industry.

RESPONSIBILITY TO OUR STAFF

Adhering to the principle of openness, fairness, recruiting on a selective basis in “non-discriminatory employment”, Red Star Macalline recruits and selects suitable talents for the development of the Company through various channels. Advocating the employment philosophy of “high efficiency and high salary”, Red Star Macalline provides competitive remuneration package and benefits for its employees. In addition, we pay active attention to the growth of our employees. A wider career development platform is provided to our employees by establishing management school, creating and improving the staff training system, and formulating the supporting staff development system with “Sudoku” and other professional development evaluation tools.

Furthermore, Red Star Macalline is devoted to assisting its employees in improving their physical health, alleviating their working pressure, and balancing their work and life by creating a safe, healthy and comfortable working and living environment and implementing various activities to care for its employees.

RESPONSIBILITY TO ENVIRONMENT AND SOCIAL PUBLIC

Paying high attention to resource conservation and environmental protection, Red Star Macalline incorporates environmental protection into each link and phase of its business operation. It is the only marketplace winning the title of “China Green Home Shopping Mall Model” (中國綠色生態家居示範商場) in domestic home furnishings industry. We are committed to saving energy cost while lowering carbon emission through formulating a series of energy conservation and emission reduction strategies against the major consumed energy resources including water, electricity, gas and construction materials.

Red Star Macalline insists on sharing its development achievements with society while pursuing its self-growth. As a leader in the home furnishing industry, we spare no effort to spread home culture with our expertise, and propagandize home aesthetics and family concept by pushing professional articles and holding such activities as “Family Day”.

Red Star Macalline also takes an active part in public welfare undertakings. In 2016, we sponsored the activity of “Caring for the Children in Mountain Areas” together with large-scale media to call for donations and contributions from all orders of society. We also actively interacted with the left-behind children to warm their inner solitude. Red Star Macalline made charitable donation in a total amount of RMB5.9 million in 2016.

THE MAIN AWARDS OF RED STAR MACALLINE ON PERFORMING THE SOCIAL RESPONSIBILITY IN 2016

Awards/honors	Issuing organization
Most Influential Top Ten Design Companies of the Year (年度十大最具影響力設計機構)	The Committee of China International Architectural Decoration and Design Art Fair (中國國際建築裝飾及設計藝術博覽會組委會)
The Most Popular Furniture Store among Dealers (全國最受經銷商喜愛的家具賣場)	"Oscar" Award Ceremony of Furniture in China (中國家具「奧斯卡」頒獎盛典)
2016 Retail Innovation Prize (2016零售創新大獎)	China Chain Store & Franchise Association (中國連鎖經營協會)
The Quality Leader in National Furniture Industry (全國傢俱行業質量領軍企業)	China Association for Quality Inspection (中國質量檢驗協會)
Top 100 Best Employers in China (中國年度最佳僱主全國100強僱主)	Zhilian Zhaopin (智聯招聘)
The Most Innovative Enterprise of Talent Development in China (中國人才發展創新企業獎)	Xinhua Daily Media Group (Training Magazine) (中國新華報業傳媒集團《培訓》雜誌)
The Best Enterprise University (中國人才發展創新企業獎)	Overseas Management College of Shanghai Jiaotong University (上海交通大學海外管理學院)
Best Learner of Studying Ecological Operation (最佳學習生態運營獎)	www.online-edu.org (中國在線教育資訊網)
Brand Enterprise of Environmental Protection (綠色環保品牌企業)	China Furniture & Decoration Chamber of Commerce (中國工商聯家具裝飾業商會)

Independent Auditor's Report

Deloitte.
德勤

德勤 · 關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F, One Pacific Place
88 Queensway
Hong Kong

TO THE MEMBERS OF RED STAR MACALLINE GROUP CORPORATION LTD.

(Incorporated in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of Red Star Macalline Group Corporation Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 118 to 240, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition regarding initiation and entrance fees	
We identified revenue recognition regarding initiation and entrance fees as a key audit matter due to the significance of the revenue to the consolidated financial statements as a whole. Revenue in relation to the initiation and entrance fees is recognised when it is probable that the economic benefits associated with the transaction will flow to the Group. The Group recognised revenue in relation to the initiation and entrance fees of RMB1,402 million for the year ended 31 December 2016. The relevant disclosures are set out in note 5 and 6 to the consolidated financial statements.	Our audit procedures in relation to revenue recognition regarding initiation and entrance fees included: — Testing key controls in relation to revenue recognition regarding initiation and entrance fees, including preparation and periodic review of the status of the Group's ongoing projects and analysis on whether such projects meet criteria of revenue recognition; — Reviewing the signed agreements to understand the transactions; — Obtaining relevant evidences in relation to the status of the underlying projects (including, where relevant, land use rights certificates, physical inspection of the latest status of the underlying projects and interview the contracted counterparties on a sample basis); — Circulating confirmations to contracted counterparties, on a sample basis, to verify the occurrence and accuracy of the amounts recognised as revenue; — Checking the deposits/payments received, on a sample basis, to the bank statements and inspecting the underlying receipts documentation; and — Challenging and assessing the reasonableness of the judgement made by the management on whether it is probable that the economic benefits associated with the transaction will flow to the Group.

Key audit matter	How our audit addressed the key audit matter
Impairment of trade receivables regarding initiation and entrance fees	
We identified impairment of trade receivables regarding initiation and entrance fees as a key audit matter due to the significance of the balance to the financial statements as a whole, combined with the use of judgment and estimates in assessing the recoverability of trade receivables. The allowance for doubtful debts on trade receivables regarding initiation and entrance fees as at 31 December 2016 amounted to RMB318 million and the impairment loss recorded in profit for the year was RMB197 million. The relevant disclosures are set out in notes 5 and 28 to the consolidated financial statements.	Our audit procedures in relation to impairment of trade receivables regarding initiation and entrance fees included: — Obtaining an understanding of how allowance for doubtful debts is estimated by the management and testing the key controls in relation to impairment of trade receivables; — Challenging and assessing the reasonableness of the key assumptions used by management in determining whether there is objective evidence of allowance for bad and doubtful debts; — Obtaining and verifying evidence regarding the progress of the underlying projects and further investigating whether there is objective evidence of allowance for bad and doubtful debts; and — Testing subsequent settlements on a sample basis.

Key audit matter	How our audit addressed the key audit matter
Impairment of intangible assets – Trademark License of JiSheng Wellborn (the "JSWB License")	
We identified impairment of the JSWB License as a key audit matter due to the significance of the balance to the financial statements as a whole, combined with the key judgment associated with the impairment testing of the JSWB License. The impairment of JSWB License amounted to RMB100 million for the year, whilst the carrying value (after impairment) of JSWB License was RMB380 million as at 31 December 2016. Significant judgement is required by the management in assessing the impairment of the License, which is determined with reference to the value in use, based on the cash flow forecast for each cash generating unit (CGU). The details of JSWB License are set out in notes 5 and 20 of the consolidated financial statements.	Our audit procedures in relation to impairment of JSWB License included: — assessing the competence, capabilities and objectivity of the independent valuer; — involving our internal valuation experts to evaluate work of the valuer, in particular: • The valuation models used by the valuer; and • The key assumptions applied in the valuation such as discount rates; and — challenging the reasonableness of key input data used in the valuation, based on supporting evidence obtained and our knowledge of business and industry.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is KAY, Man Wo, Dick.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

20 March 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	NOTES	**2016** **RMB'000**	2015 RMB'000
Revenue	6	**9,282,393**	8,756,120
Cost of sales and services		**(2,658,172)**	(2,241,981)
Gross profit		**6,624,221**	6,514,139
Other income	7	**199,430**	194,302
Changes in fair value of investment properties	17	**2,652,234**	2,381,694
Other gains and losses	8	**(567,294)**	(206,330)
Selling and distribution expenses		**(1,205,698)**	(1,196,889)
Administrative expenses		**(1,149,310)**	(882,418)
Other expenses	9	**(16,103)**	(120,834)
Share of profit of associates		**83,831**	62,954
Share of profit of joint ventures		**55,087**	50,024
Finance costs	10	**(949,156)**	(854,285)
Profit before tax	12	**5,727,242**	5,942,357
Income tax expense	11	**(1,358,832)**	(1,572,602)
Profit and total comprehensive income for the year		**4,368,410**	4,369,755
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		**4,036,269**	4,098,068
Non-controlling interests		**332,141**	271,687
		4,368,410	4,369,755
EARNINGS PER SHARE	16		
— Basic (RMB)		**1.11**	1.22
— Diluted (RMB)		**N/A**	1.22

Consolidated Statement of Financial Position

As at 31 December 2016

	NOTES	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Investment properties	17	**77,090,000**	70,593,000
Property, plant and equipment	18	**353,592**	333,293
Goodwill	19	**16,592**	16,592
Intangible assets	20	**467,822**	539,267
Interests in associates	21	**290,176**	159,207
Interests in joint ventures	22	**829,421**	749,334
Available-for-sale investments	23	**544,401**	402,930
Loan receivables	24	**160,223**	112,580
Deferred tax assets	25	**577,294**	347,444
Restricted bank deposits	29	**70,451**	71,758
Other non-current assets	26	**2,642,634**	2,003,413
		83,042,606	75,328,818
CURRENT ASSETS			
Inventories		**35,707**	16,173
Loan receivables	24	**500,441**	160,100
Other financial assets	27	**—**	61,000
Trade and other receivables	28	**2,008,532**	1,627,561
Tax recoverable		**82,781**	41,834
Restricted bank deposits	29	**17,265**	—
Bank balances and cash	30	**6,150,150**	5,954,087
		8,794,876	7,860,755
CURRENT LIABILITIES			
Trade and other payables	31	**6,598,760**	5,766,274
Rental and service fee received in advance		**2,066,352**	1,776,581
Tax liabilities		**205,472**	285,375
Bank and other borrowings	32	**2,787,296**	2,297,382
Bonds	33	**1,889,468**	497,195
		13,547,348	10,622,807
NET CURRENT LIABILITY		**(4,752,472)**	(2,762,052)
TOTAL ASSETS LESS CURRENT LIABILITIES		**78,290,134**	72,566,766

Consolidated Statement of Financial Position

As at 31 December 2016

	NOTES	**2016** RMB'000	2015 RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	25	**11,634,375**	10,667,539
Bank and other borrowings	32	**8,447,537**	7,027,170
Bonds	33	**8,434,101**	7,335,011
Obligations under finance leases	34	**419,693**	349,065
Deferred income	35	**195,413**	194,354
Other non-current liabilities	36	**1,471,340**	1,725,423
		30,602,459	27,298,562
NET ASSETS		**47,687,675**	45,268,204
CAPITAL AND RESERVES			
Share capital	37	**3,623,917**	3,623,917
Share premium		**5,617,001**	5,617,001
Reserves		**34,229,707**	31,903,641
Equity attributable to owners of the Company		**43,470,625**	41,144,559
Non-controlling interests	38	**4,217,050**	4,123,645
TOTAL EQUITY		**47,687,675**	45,268,204

The consolidated financial statements on pages 118 to 240 were approved and authorised for issue by the Board of Directors on 20 March 2017 and are signed on its behalf by:

CHE Jianxing	**CHEN Shuhong**
DIRECTOR	*DIRECTOR*

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Share capital RMB'000	Share premium RMB'000	Statutory surplus reserve RMB'000 (note a)	Merge reserve RMB'000 (note b)	Share options reserve RMB'000	Other reserves RMB'000 (note c)	Retained earnings RMB'000	Attributable to owners of the Company RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2016	3,623,917	5,617,001	1,030,718	(182,045)	169,331	89,338	30,796,299	41,144,559	4,123,645	45,268,204
Profit and total comprehensive income for the year	–	–	–	–	–	–	4,036,269	4,036,269	332,141	4,368,410
Appropriate to reserve	–	–	195,394	–	–	–	(195,394)	–	–	–
Dividends (note 15)	–	–	–	–	–	–	(1,703,241)	(1,703,241)	–	(1,703,241)
Dividends declared to non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	(194,713)	(194,713)
Capital injection by non-controlling shareholders of subsidiaries	–	–	–	–	–	593	–	593	19,757	20,350
Acquisition of additional interests in subsidiaries	–	–	–	–	–	(7,555)	–	(7,555)	(6,445)	(14,000)
Disposal of subsidiaries (note 41)	–	–	–	–	–	–	–	–	(407)	(407)
Deregistration of subsidiaries	–	–	–	–	–	–	–	–	(137)	(137)
Deemed distribution to non-controlling shareholders of subsidiaries (note d)	–	–	–	–	–	–	–	–	(56,791)	(56,791)
At 31 December 2016	3,623,917	5,617,001	1,226,112	(182,045)	169,331	82,376	32,933,933	43,470,625	4,217,050	47,687,675

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Share capital RMB'000	Share premium RMB'000	Statutory surplus reserve RMB'000 (note a)	Merge reserve RMB'000 (note b)	Share options reserve RMB'000	Other reserves RMB'000 (note c)	Retained earnings RMB'000	Attributable to owners of the Company RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2015	3,000,000	234,616	846,467	(182,045)	169,331	4,141	29,372,482	33,444,992	3,968,101	37,413,093
Profit and total comprehensive income for the year	–	–	–	–	–	–	4,098,068	4,098,068	271,687	4,369,755
Appropriate to reserve	–	–	184,251	–	–	–	(184,251)	–	–	–
Dividends (note 15)	–	–	–	–	–	–	(2,490,000)	(2,490,000)	–	(2,490,000)
Dividends declared to non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	(95,064)	(95,064)
Issue of H shares (note 37)	543,588	5,029,741	–	–	–	–	–	5,573,329	–	5,573,329
Share issued (note 37)	80,329	352,644	–	–	–	–	–	432,973	–	432,973
Capital injection by non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	64,359	64,359
Acquisition of subsidiaries (note 40)	–	–	–	–	–	–	–	–	434,796	434,796
Acquisition of additional interests in subsidiaries	–	–	–	–	–	85,197	–	85,197	(353,367)	(268,170)
Disposal of subsidiaries (note 41)	–	–	–	–	–	–	–	–	(19,701)	(19,701)
Deemed distribution to non-controlling shareholders of subsidiaries (note e)	–	–	–	–	–	–	–	–	(147,166)	(147,166)
At 31 December 2015	3,623,917	5,617,001	1,030,718	(182,045)	169,331	89,338	30,796,299	41,144,559	4,123,645	45,268,204

Notes:

(a) In accordance with the Articles of Association of the Company and all subsidiaries established in the PRC, the Company and subsidiaries are required to transfer 10% of the profit after taxation to the statutory surplus reserve until the reserve reaches 50% of the registered capital. Transfer to this reserve must be made before distributing dividends to equity holders. The statutory surplus reserve can be used to make up for previous years' losses, expand the existing operations or convert into additional capital of the subsidiaries.

(b) Merge reserve represents the differences between the existing book values of net assets of the combining entities or businesses under common control and the fair value of consideration paid when the Group acquired entities or businesses from the ultimate holding company or ultimate shareholder.

(c) Other reserve represents the differences between the amount by which non-controlling interests are adjusted and the fair value of consideration paid or received when the Group acquired or disposed of partial interests in existing subsidiaries.

(d) In December 2015, the Group acquired 60.0% interest of a piece of land parcel held by 蘇州凱潤置業有限公司 Suzhou Kairun Properties Company Limited ("Suzhou Kairun") for a consideration of RMB258,000,000 from RSM Enterprise Development. In 2016, 蘇州市木瀆集團有限公司 Suzhou Mudu Group Company Limited("Suzhou Mudu") was established following the split of Suzhou Kairun and such piece of land parcel was injected into Suzhou Mudu. The Group held 60% equity interests in Suzhou Mudu.

The changes of the net assets, which mainly represented payables due to the non-controlling shareholder of Suzhou Mudu, arising from the split was recognized as deemed distribution to non-controlling shareholders of subsidiaries.

(e) The amount mainly represents the impact of repurchase of the transferred shopping mall held by 瀋陽晶森宏普房產開發有限公司 Shenyang Jingsen Hongpu Property Development Company Limited ("Shenyang Jingsen"). In June 2015, the Group completed the repurchase of this transferred shopping mall and the change of the net assets of the transferred shopping mall attributable to non-controlling interests arising from the repurchase (which mainly represented payables due to related parties) was recognised as deemed distribution to non-controlling shareholders of subsidiaries.

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	2016 RMB'000	2015 RMB'000
OPERATING ACTIVITIES		
Profit before tax	**5,727,242**	5,942,357
Adjustments for:		
Finance costs	**949,156**	854,285
Interest income	**(96,127)**	(100,836)
Dividend income from unlisted equity investments	**(3,060)**	(5,965)
Share of profit of associates	**(83,831)**	(62,954)
Share of profit of joint ventures	**(55,087)**	(50,024)
Depreciation of property, plant and equipment	**97,750**	102,019
Amortisation of intangible assets	**24,204**	25,811
Allowance provided for doubtful debts	**336,462**	198,599
Impairment loss on intangible assets	**100,000**	—
Impairment loss on available-for-sale equity investments	**122,225**	—
Changes in fair value of investment properties	**(2,652,234)**	(2,381,694)
Release of deferred income regarding assets related government plants	**(5,007)**	—
Loss on disposal of property, plant and equipment	**4,448**	441
Loss on disposal of intangible assets	**168**	2,575
Gain on disposal of subsidiaries, net	**(20)**	(1,930)
Gain on disposal of an associate	**—**	(3,969)
Loss (gain) from business combination achieved in stages	**8,402**	(2,236)
Gain from bargain purchases in business combinations	**(356)**	(1,845)
Operating cash flows before movements in working capital	**4,474,335**	4,514,634
(Increase) decrease in inventories	**(20,146)**	21,347
Increase in trade and other receivables	**(902,985)**	(483,495)
Increase in other non-current assets	**(40,343)**	(5,195)
Increase (decrease) in rental and service fee received in advance	**294,190**	(331,312)
Increase in trade and other payables, and other non-current liabilities	**837,974**	338,335
Cash generated from operations	**4,643,025**	4,054,314
Income tax paid	**(749,284)**	(744,981)
NET CASH FROM OPERATING ACTIVITIES	**3,893,741**	3,309,333

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	2016 RMB'000	2015 RMB'000
INVESTING ACTIVITIES		
Interest received	**95,984**	100,836
Assets-related government grants received	**6,066**	—
Dividends received from an associate	**—**	37,000
Dividends received from unlisted equity investments	**3,060**	5,965
Payments for investment properties	**(2,479,899)**	(2,926,311)
Payments for acquisition of land use rights	**(360,774)**	—
Payments for deposit for acquisition of office premises	**(210,081)**	—
Payments for property, plant and equipment	**(124,359)**	(76,942)
Payments for intangible assets	**(52,779)**	(19,531)
Proceeds on disposal of property, plant and equipment	**520**	3,728
Proceeds on disposal of intangible assets	**15**	794
Placement of loan receivables	**(376,000)**	(242,870)
Repayment of loan receivables	**171,100**	115,000
Net cash outflow on acquisitions of subsidiaries (note 40)	**(783,364)**	(433,494)
Payments of consideration for acquisitions of subsidiaries in prior year	**(196,840)**	—
Prepayment for repurchase interests in a transferred shopping mall	**—**	(247,705)
Payments for acquisition/establishment of associates	**(40,788)**	—
Payments for establishment of joint ventures	**(25,000)**	—
Payments for acquisition of available-for-sale investments	**(273,701)**	(74,730)
Proceeds on withdrawal of (payment of) debt investment	**61,000**	(61,000)
(Net cash outflow) proceeds on disposal of subsidiaries (note 41)	**(17,574)**	4,112
Placement of bank deposits with original maturity over three months	**(159,725)**	(105,623)
Withdrawal of bank deposits with original maturity over three months	**107,623**	72,456
Payment of restricted bank deposits	**(17,265)**	(64,578)
Withdrawal of restricted bank deposits	**1,307**	49,472
Advance to related parties and third parties	**(395,010)**	(208,242)
Repayment from related parties and third parties	**49,824**	158,678
NET CASH USED IN INVESTING ACTIVITIES	**(5,016,660)**	(3,912,985)

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	2016 RMB'000	2015 RMB'000
FINANCING ACTIVITIES		
Issue of H shares	–	5,782,298
Listing expenses paid	–	(208,969)
Share issued	–	432,973
Proceeds from new borrowings raised	**5,164,130**	4,579,180
Proceeds from new bonds raised	**2,959,905**	4,960,000
Payment of issuance costs of bonds	**(575)**	(1,330)
Repayment of borrowings	**(3,253,849)**	(7,110,627)
Redemption of bonds	**(500,000)**	(600,000)
Capital injection by non-controlling shareholders of subsidiaries	**20,350**	64,359
Payment for acquisition of additional interests in subsidiaries	**(27,450)**	(254,720)
Interest paid	**(1,098,446)**	(1,221,869)
Dividends paid	**(1,703,241)**	(2,490,000)
Dividends paid to non-controlling shareholders of subsidiaries	**(85,063)**	(69,814)
Advance from related parties and third parties	–	26,979
Repayment to related parties and third parties	**(208,881)**	(377,939)
Deposits arising from counter guarantee agreements repaid to related parties	–	(650,809)
NET CASH FROM FINANCING ACTIVITIES	**1,266,880**	2,859,712
NET INCREASE IN CASH AND CASH EQUIVALENTS	**143,961**	2,256,060
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**5,848,464**	3,592,404
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash (note 30)	**5,992,425**	5,848,464

1. GENERAL INFORMATION

The Company was incorporated in the People's Republic of China (the "PRC") on 6 January 2011 as a sino-foreign joint stock limited company under the PRC laws upon the conversion of 上海紅星美凱龍企業管理有限公司Shanghai Red Star Macalline Enterprise Management Company Limited (formerly known as 上海紅星美凱龍家居家飾品有限公司 Shanghai Red Star Macalline Home Furnishing Company Limited), a company with limited liability incorporated in the PRC. The parent and ultimate holding company of the Company is 紅星美凱龍控股集團有限公司Red Star Macalline Holding Group Limited ("RSM Holding", formerly known as 上海紅星美凱龍投資有限公司 Shanghai Red Star Macalline Investment Company Limited), a company with limited liability incorporated in the PRC. The ultimate controlling shareholder is Mr. Che Jianxing.

The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 26 June 2015.

The respective addresses of the registered office and the principal place of business of the Company are disclosed in the corporate information section of the annual report. The principal activities of the Company and its subsidiaries (collectively the "Group") are operating and managing home furnishing shopping malls. The Group is also involved in pan home furnishings consumption, including internet home decoration, internet retail, as well as logistics and delivery services.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company and its subsidiaries. Details of the Company's subsidiaries are set out in note 50.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Group's current liabilities exceed its current assets at the end of current year. Taking into account the available facilities from bank and non-bank financial institutions, the available approved limits for placement of bonds and cash flows from operations, the directors of the Company believe that the Group will continue to operate as a going concern and consequently, the consolidated financial statements have been prepared on a going concern basis.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

Amendments to IFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board ("IASB") for the first time in the current year:

Amendments to IFRS 11	Accounting for Acquisitions of Interest in Joint Operations
Amendments to IAS 1	Disclosure Initiative
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to IFRSs	Annual Improvements to IFRSs 2012–2014 Cycle

The application of amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and amendments to IFRSs and International Financial Reporting Interpretations Committee ("IFRIC") in issue but not yet effective

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

IFRSs	
IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers[1]
IFRS 16	Leases[2]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[1]
Amendments to IFRS 15	Clarifications to IFRS 15 Revenue from Contracts with Customers[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 7	Disclosure Initiative[4]
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[4]
Amendments to IAS 40	Transfers of Investment Property[1]
Amendments to IFRSs	Annual Improvements to IFRS Standards 2014–2016 Cycle[5]

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for annual periods beginning on or after 1 January 2019
[3] Effective for annual periods beginning on or after a date to be determined
[4] Effective for annual periods beginning on or after 1 January 2017
[5] Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (continued)

IFRS 9 Financial Instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of IFRS 9 which are relevant to the Group are:

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods.

Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured as financial assets at fair value through other comprehensive income ("FVTOCI"). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

In relation to the impairment of financial assets, IFRS 9 adopts an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at the reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at 31 December 2016, application of IFRS 9 in the future may have a material impact on the classification and measurement of the Group's financial assets. The Group's available-for-sale investments, including those currently stated at cost less impairment, will either be measured as fair value through profit or loss or be designated as FVTOCI (subject to fulfillment of the designation criteria). In addition, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost. However, it is not practicable to provide a reasonable estimate of the financial effect on the Group's financial statements until a detailed review has been completed.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (continued)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company consider that the performance obligations may not be similar to the current identification of separate revenue components under IAS 18. The Group needs to distinguish more specific goods and services transferred from the comprehensive services stated in the contracts and identify performance obligations. In addition, the allocation of total consideration to the respective performance obligations will be based on relative fair values which will potentially affect the timing and amounts of revenue recognition, and more disclosures relating to revenue is required. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review. In addition, the application of IFRS 15 in the future may result in more disclosures in the consolidated financial statements.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (continued)

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under the IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

Under IAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of RMB5,099,266,000 as disclosed in note 44. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors complete a detailed review.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interest in existing subsidiaries that do not result in the Group losing control over the subsidiary are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

Changes in the Group's ownership interests in existing subsidiaries (continued)

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Merger accounting for business combination involving entities under common control

The consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been consolidated from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of profit or loss and other comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

Business combinations other than common control combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations other than common control combination (continued)

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 and IAS 19 respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquire or share-based payment arrangements of the Group entered into to replace the share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquire (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another IFRS.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interests were disposed of.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

The Group’s policy for goodwill arising on the acquisition of an associate is described below.

Acquisition of assets and liabilities through acquisition of subsidiary

Where an acquisition of an assets or a group of assets and liabilities that not constitute a business, the Group identify and recognise the individual identifiable assets acquired and liabilities assumed by allocating purchase price to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase and no goodwill will be recognised in respect of these transactions.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures (continued)

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in the consolidated financial statements using the equity method of accounting. The financial statements of associates or joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances.

Under the equity method, investments in associates or joint ventures are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates or joint ventures. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures (continued)

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment (or a portion thereof) is classified as held for sale. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part of interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods or services provided in the normal course of business, net of discounts and sales related taxes.

Initiation, entrance and membership fees

Initiation and entrance fee, which is not related to other goods and service provided, is recognised as revenue when no significant uncertainty as to its collectability exists.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Rendering of services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract (provided that it is probable that the economic benefits will flow to the Group and the outcome of the transaction involving the rendering of services can be estimated reliably)

Sale of goods

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Dividend and interest income

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Rental income

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

Construction contracts

When the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognized losses, the surplus is shown as the amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below).

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

Borrowing costs

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Share-based payment transactions of the Company

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions of the Company (continued)

At the end of the reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax (continued)

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than properties under construction less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Buildings under development for future owner-occupied purpose

When buildings are in the course of development for production or for administrative purposes, the amortisation of prepaid lease payments provided during the construction period is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including properties under construction for such purposes).

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of the reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Internally-generated intangible assets — research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

Internally-generated intangible assets — research and development expenditure (continued)

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

Impairment of tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the standard cost method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets

The Group's financial assets are classified into available-for-sale financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sale of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including loan receivables, other non-current assets, trade and other receivables, restricted bank deposits, and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Available-for-sale financial assets (continued)

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of each reporting period (see accounting policy on impairment loss on financial assets below).

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been affected.

For an AFS equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

For financial assets carried at amortised cost, the amount of impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see the accounting policy below).

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, 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, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of available-for-sale debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities including trade and other payables, bank and other borrowings, bonds, obligations under finance leases and other non-current liabilities are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Financial guarantee contracts (continued)

Financial guarantee contracts issued by the Group are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

(i) the amount of obligation under the contract, as determined in accordance with IAS 37; and

(ii) the amount initially recognised less, where appropriate, cumulative amortisation over the guarantee period

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, which are described in note 4, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the entity's accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

Revenue recognition — Initiation and entrance fees

The Group enters into contract management arrangements with its partners to manage their shopping malls under the Group's brand name. The Group usually charge its partners initiation and entrance fees. The directors of the Company were required to consider when it is appropriate to recognise the revenue from initiation and entrance fees.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Critical judgements in applying the entity's accounting policies (continued)

Revenue recognition — Initiation and entrance fees (continued)

In making their judgment, the directors of the Company considered the detailed criteria for the recognition of revenue set out in IAS 18. As the initiation and entrance fees permits only initiation, and all other services or products are paid for separately, and there is a separate annual management fee, the directors of the Company are satisfied that initiation and entrance fees are recognised as revenue when no significant uncertainty as to its collectability exists.

Deferred taxation on investment properties

For the purposes of measuring deferred tax arising from investment properties that are measured using the fair value model under IAS 40 amounting to RMB77,090,000,000 as at 31 December 2016 (2015: RMB70,593,000,000), the directors of the Company concluded that the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time.

Therefore, in determining the Group's deferred tax on investment properties, the directors of the Company have determined that the presumption that investment properties measured using the fair value model are recovered through sale is rebutted and the Group estimated the deferred tax on the basis of recovering through use.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, which may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months from the end of the reporting period.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty (continued)

Trade and other receivables

The Group makes allowances for bad and doubtful debts based on an assessment of the recoverability of trade and other receivables. In determining whether there is objective evidence of allowance for bad and doubtful debts, the Group takes into consideration the collectability, aged analysis of trade and other receivables and estimation of future cash flows. The amount of the allowance for bad and doubtful debts is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. Where the actual future cash flows are less than expected, an allowance for bad and doubtful debts may arise.

The carrying amount of trade and other receivables of the Group is RMB2,008,532,000, which is after allowance for bad and doubtful debts as at 31 December 2016 (2015: RMB1,627,561,000).

Intangible assets

The intangible assets are amortised on a straight-line basis over estimated useful lives. The management assessed the estimated useful lives of intangible assets annually.

In addition, the management considers the potential impairment based on the recoverable amount. The intangible assets with finite useful lives are reviewed for impairment when events or circumstances indicate the carrying value may not be recoverable. Factors that would indicate potential impairment may include, but are not limited to, the significant change in technology, and operating or cash flow losses associated with the intangible assets.

Determining whether intangible assets is impaired requires an estimation of the recoverable amount of the cash-generating units ("CGUs") to which intangible assets has been allocated. The recoverable amount of CGUs at the end of the reporting period is based on the value in use calculation which requires the management of the Group to estimate the future cash flows expected to arise from the CGUs and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty (continued)

Intangible assets (continued)

The carrying amount of intangible assets of the Group is RMB467,822,000, which is after impairment as at 31 December 2016 (2015: RMB539,267,000).

Investment properties

Investment properties of RMB77,090,000,000 as at 31 December 2016 (2015: RMB70,593,000,000) are stated at fair values based on the valuation performed by independent professional valuers. In determining the fair values, the valuers have based on a method of valuation which involves certain estimates of market condition. In relying on the valuation report, the directors of the Company have exercised their judgment and are satisfied that the assumptions used in the valuation are reflective of the current market conditions. Changes to these assumptions would result in changes in the fair values of the Group's investment properties and the corresponding adjustments to the amount of fair value gain or loss reported in profit or loss.

Property, plant and equipment

The management determines the estimated useful lives, residual values and the depreciation method in determining the related depreciation charges for its property, plant and equipment. This estimate is based on the management's experience of the actual useful lives and residual values of items of property, plant and equipment of similar nature and functions. The management will accelerate the depreciation charge where the economic useful lives are shorter than previously estimated due to removal or closure of shopping malls. The management will also write-off or write-down the carrying value of the items which are technically obsolete or non-strategic assets that have been abandoned. Actual economic useful lives may differ from estimated economic useful lives. Periodic review could result in a change in depreciation period and therefore depreciation charge in the future periods.

In addition, management assesses impairment whenever events or changes in circumstances indicate that the carrying amount of an item of property, plant and equipment may not be recoverable. When the recoverable amounts of property, plant and equipment differ from the original estimates, adjustment will be made and recognised in the period in which such event takes place. The carrying amounts of property, plant and equipment as of the Group at 31 December 2016 was RMB353,592,000 (2015: RMB333,293,000).

6. SEGMENT INFORMATION AND REVENUE

The Group is organised into business units based on their types of activities. These business units are the basis of information that is prepared and reported to the Group's chief operating decision maker (i.e. the Chairman of the Company) for the purposes of resource allocation and assessment of performance. The Group's operating segments under IFRS 8 are identified as the following four business units:

Owned/leased Portfolio Shopping Malls: this segment derives revenue from leasing floor areas to the tenants and providing comprehensive and continuous operation and management support to them.

Managed Shopping Malls: this segment derives revenue from providing initiation, consultation and management services to the Group's partners and the construction contractors to develop and manage the shopping malls under the Group's own brand.

Sales of merchandise and related services: this segment derives revenue from retail sales of home furnishing merchandise and providing related decorating services.

Other: this segment derives revenue from providing other comprehensive service to the customers, including strategy consultation, home design consultation, construction service, internet home decoration, internet retail, as well as logistics and delivery services.

The accounting policies applied in determining segment revenue and segment results of the operating segments are the same as the Group's accounting policies described in note 4. Segment profit represents the profit earned by each segment without allocation of other income, changes in fair value of investment properties, other gains and losses, other expense, share of profits of associates, share of results of joint ventures, finance costs, central administrative expenses and income tax expenses. This is the measure reported to the Group's chief operating decision maker for the purpose of resource allocation and performance assessment.

No segment assets and liabilities, and other segment information are presented as they were not regularly provided to the chief operating decision maker for the purpose of resource allocation and performance assessment.

6. SEGMENT INFORMATION AND REVENUE (continued)

The following is an analysis of the Group's revenue and results by reportable and operating segment.

	Owned/ leased portfolio shopping malls RMB'000	Managed shopping malls RMB'000	Sales of merchandise and related services RMB'000	Other RMB'000	Total RMB'000
Year ended 31 December 2016					
Segment revenue from external customers	**5,870,695**	**2,740,945**	**205,442**	**465,311**	**9,282,393**
Segment profit	**2,977,807**	**1,144,786**	**(27,134)**	**206,447**	**4,301,906**
Year ended 31 December 2015					
Segment revenue from external customers	5,259,961	3,141,708	115,838	238,613	8,756,120
Segment profit	2,712,363	1,779,606	(101,944)	80,121	4,470,146

Reconciliations of segment revenues and results

	2016 RMB'000	2015 RMB'000
Revenue		
Segment revenue and consolidated revenue	**9,282,393**	8,756,120
Profit		
Segment profit	**4,301,906**	4,470,146
Other income	**199,430**	194,302
Changes in fair value of investment properties	**2,652,234**	2,381,694
Other gains and losses	**(567,294)**	(206,330)
Central administrative expense	**(32,693)**	(35,314)
Other expenses	**(16,103)**	(120,834)
Share of profits of associates	**83,831**	62,954
Share of profits of joint ventures	**55,087**	50,024
Finance costs	**(949,156)**	(854,285)
Consolidated profit before tax	**5,727,242**	5,942,357

6. SEGMENT INFORMATION AND REVENUE (continued)

Revenue from major products and services

The following is an analysis of the Group's revenue from external customers:

	2016 RMB'000	2015 RMB'000
Revenue from own/leased portfolio shopping malls	**5,870,695**	5,259,961
Revenue from managed shopping malls:		
— Initiation and entrance fees	**1,401,718**	1,409,903
— Annual management fees	**1,327,764**	1,268,071
— Construction consultation and management fees	**11,463**	463,734
	2,740,945	3,141,708
Revenue from sales of merchandise and related services:		
— Sales of merchandise	**22,543**	58,292
— Provision of related services	**182,899**	57,546
	205,442	115,838
Others	**465,311**	238,613
	9,282,393	8,756,120

Geographical information

All the revenue and operating results of the Group are derived from the PRC based on location of the operations. All the Group's non-current assets are located in PRC based on geographical location of the assets.

Revenue from major customers

No revenue from transactions with a single external customer amounted to 10% or more of the Group's revenue during the year.

7. OTHER INCOME

	2016 RMB'000	2015 RMB'000
Interest income on:		
— bank deposits	**87,792**	79,492
— other loans and receivables	**8,335**	21,344
Total interest income	**96,127**	100,836
Government grants (note)	**85,928**	67,599
Dividends from unlisted equity investments	**3,060**	5,965
Compensation received and receivable	**14,315**	19,902
	199,430	194,302

Note: The amount mainly represented the government grants received by the Group based on certain proportions of taxes actually paid by the Group.

8. OTHER GAINS AND LOSSES

	2016 RMB'000	2015 RMB'000
Allowance for doubtful receivables, net	**(336,462)**	(198,599)
Impairment loss on available-for-sale equity investments	**(122,225)**	—
Impairment loss on intangible assets	**(100,000)**	—
Loss on disposal of property, plant and equipment	**(4,448)**	(441)
Loss on disposal of intangible assets	**(168)**	(2,575)
Gain on disposal of subsidiaries, net (note 41)	**20**	1,930
Gain on disposal of an associate	**—**	3,969
(Loss) gain from business combination achieved in stages	**(8,402)**	2,236
Gain from bargain purchases in business combinations (note 40)	**356**	1,845
Net foreign exchange losses	**(4,558)**	(953)
Others	**8,593**	(13,742)
	(567,294)	(206,330)

9. OTHER EXPENSES

	2016 RMB'000	2015 RMB'000
Donations	**5,882**	2,337
Compensation paid and payable (note)	**124**	73,087
Listing expense for H Share IPO	**—**	45,410
Listing expense for A Share IPO	**10,097**	—
	16,103	120,834

Note: The amount in 2015 mainly represented the compensation made to the property owners and the tenants arising from the closure of leased shopping malls, and the compensation made by the Group as it was accused in legal actions involving the alleged default of the Group in accordance with the terms of contract.

10. FINANCE COSTS

	2016 RMB'000	2015 RMB'000
Interest on bank and other borrowings	**668,620**	950,851
Interest on finance leases	**27,039**	23,324
Interest on bonds	**513,576**	276,549
Total borrowing costs	**1,209,235**	1,250,724
Less: amount capitalized in the cost of qualifying assets (note)	**(260,079)**	(396,439)
	949,156	854,285

Note: The weighted average capitalisation rate on funds borrowed for the year ended 31 December 2016 is 5.5% per annum.

11. INCOME TAX EXPENSE

	2016 RMB'000	2015 RMB'000
Income tax expenses comprise:		
Current tax:		
PRC enterprise income tax	**637,295**	737,550
Overprovision in prior years	**(8,861)**	(11,471)
	628,434	726,079
Deferred tax — current year (note 25)	**730,398**	846,523
Income tax expenses	**1,358,832**	1,572,602

Under the Law of People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the Company and its PRC subsidiaries is 25% except for certain subsidiaries of the Group in the PRC are under the Western China Development Plan and were approved to enjoy the preferential tax rate of 15% in accordance with the EIT LAW and relevant regulations.

11. INCOME TAX EXPENSE (continued)

The tax charge for the year can be reconciled to the profit before tax per consolidated statement of profit or loss and other comprehensive income as follows:

	2016 RMB'000	2015 RMB'000
Profit before tax	**5,727,242**	5,942,357
Tax at the PRC enterprise income tax rate of 25%	**1,431,811**	1,485,589
Tax effect of share of profit of associates	**(20,958)**	(15,739)
Tax effect of share of profit of joint ventures	**(13,772)**	(12,506)
Tax effect of dividends from unlisted equity investments	**(765)**	(1,491)
Tax effect of expenses that are not deductible for tax purpose (note 1)	**24,623**	39,181
Tax effect of debt restructure within the Group (note 2)	**(25,000)**	(51,268)
Effect of tax losses not recognised and deductible temporary differences not recognised	**85,516**	160,346
Utilisation of tax losses not previously recognised	**(15,289)**	(6,862)
Effect of preferential tax rate of subsidiaries	**(98,473)**	(13,177)
Overprovision in prior year	**(8,861)**	(11,471)
	1,358,832	1,572,602

Note 1: Expenses not deductible for tax purpose mainly comprised of expenses exceeding the standard allowable deduction and donations.

Note 2: Pursuant to the debt forgiveness arrangement between the Company and its certain subsidiaries, the Company would waive the debt due from these subsidiaries. The losses arising from such debt forgiveness of the Company are tax deductible, while the gains of these subsidiaries are not taxable as they have accumulated tax losses which were not recognised as deferred tax assets, therefore there is a decrease of income tax expense in the consolidated financial statements.

12. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging (crediting):

	2016 RMB'000	2015 RMB'000
Staff costs (including directors):		
— Salary and other benefits	**1,986,903**	1,561,246
— Retirement benefits scheme contributions	**177,088**	169,065
Total staff costs	**2,163,991**	1,730,311
Rental income and related management fee from investment properties	**5,870,695**	5,259,961
Less: direct operating expenses	**(1,403,606)**	(1,224,836)
	4,467,089	4,035,125
Operating lease rentals	**591,560**	577,570
Auditors' remuneration	**15,648**	10,990
Cost of inventories recognised as an expense	**130,358**	90,003
Depreciation for property, plant and equipment	**97,750**	102,019
Amortisation of intangible assets	**24,204**	25,811

13. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' EMOLUMENTS

Details of the emoluments paid or payable to directors, supervisors and chief executive are as follows:

	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefit scheme contributions RMB'000	Performance related incentive payments RMB'000	Total RMB'000
For the year ended 31 December 2016					
Executive directors					
Mr. Che Jianxing	—	6,659	42	1,650	8,351
Ms. Zhang Qi	—	6,041	42	1,500	7,583
Ms. Che Jianfang	—	2,459	42	1,205	3,706
Mr. Jiang Xiaozhong	—	1,859	42	3,600	5,501
	—	17,018	168	7,955	25,141

The executive directors' remuneration shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefit scheme contributions RMB'000	Performance related incentive payments RMB'000	Total RMB'000
Non-executive directors					
Ms. Chen Shuhong	—	1,259	42	400	1,701
Mr. Xu Guofeng (note 1)	—	—	—	—	—
Mr. Joseph Raymond Gagnon (note 2)	—	—	—	—	—
Mr. Zhang Qiqi (note 2)	—	—	—	—	—
	—	1,259	42	400	1,701

13. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' EMOLUMENTS (continued)

The non-executive directors' remuneration shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefit scheme contributions RMB'000	Performance related incentive payments RMB'000	Total RMB'000
Independent non-executive directors					
Mr. Li Zhenning	600	—	—	—	600
Mr. Ding Yuan	800	—	—	—	800
Mr. Zhou Qinye (resigned in April 2016)	—	—	—	—	—
Mr. Lee Kwan Hung	600	—	—	—	600
Mr. Qian Shizheng (appointed in April 2016)	450	—	—	—	450
	2,450	—	—	—	2,450

The independent non-executive directors' remuneration shown above were mainly for their services as directors of the Company.

	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefit scheme contributions RMB'000	Performance related incentive payments RMB'000	Total RMB'000
Supervisors					
Mr. Pan Ning	—	1,259	42	300	1,601
Ms. Ng Ellen Hoi Ying (note 2)	—	—	—	—	—
Ms. Chao Yanping	—	751	42	—	793
Mr. Chen Gang (appointed in January 2016)	—	165	—	—	165
Mr. Zheng Hongtao (appointed in January 2016)	—	165	—	—	165
Total	—	2,340	84	300	2,724

13. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' EMOLUMENTS (continued)

The supervisors' remuneration shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefit scheme contributions RMB'000	Performance related incentive payments RMB'000	Total RMB'000
For the year ended 31 December 2015					
Executive directors					
Mr. Che Jianxing	—	6,658	40	—	6,698
Ms. Zhang Qi	—	6,040	40	—	6,080
Ms. Che Jianfang	—	2,408	40	—	2,448
Mr. Jiang Xiaozhong	—	1,858	40	—	1,898
	—	16,964	160	—	17,124

The executive directors' remuneration shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefit scheme contributions RMB'000	Performance related incentive payments RMB'000	Total RMB'000
Non-executive directors					
Ms. Chen Shuhong	—	1,258	40	—	1,298
Mr. Xu Guofeng	—	2,458	40	—	2,498
Mr. Joseph Raymond Gagnon (note 2)	—	—	—	—	—
Mr. Zhang Qiqi (note 2)	—	—	—	—	—
	—	3,716	80	—	3,796

13. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' EMOLUMENTS (continued)

The non-executive directors' remuneration shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefit scheme contributions RMB'000	Performance related incentive payments RMB'000	Total RMB'000
Independent non-executive directors					
Mr. Xia Bing (resigned in February 2015)	100	—	—	—	100
Mr. Li Zhenning	600	—	—	—	600
Mr. Ding Yuan	800	—	—	—	800
Mr. Zhou Qinye	600	—	—	—	600
Mr. Lee Kwan Hung (appointed in February 2015)	550	—	—	—	550
	2,650	—	—	—	2,650

The independent non-executive directors' remuneration shown above were mainly for their services as directors of the Company.

	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefit scheme contributions RMB'000	Performance related incentive payments RMB'000	Total RMB'000
Supervisors					
Mr. Pan Ning	—	1,258	40	—	1,298
Ms. Ng Ellen Hoi Ying (note 2)	—	—	—	—	—
Ms. Chao Yanping	—	751	40	—	791
	—	2,009	80	—	2,089
Total	2,650	22,689	320	—	25,659

13. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' EMOLUMENTS (continued)

The supervisors' remuneration shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

Note 1: The director's emoluments were borne by a related party of the Company.

Note 2: These directors and supervisor's emoluments were borne by one shareholder of the Company.

Mr. Che Jianxing is also the chief executive of the Company and his emolument for the role as chief executive is also included above.

Performances bonuses were determined by the management having regard to the performance of the directors and supervisors of the Company and the Group's operating results.

During the year, no emoluments were paid by the Group to any director or supervisor of the Company as an inducement to join or upon joining the Group or as compensation for loss of office (2015: nil). No director or supervisor of the Company waived any emoluments during the year (2015: nil).

14. EMPLOYEES' EMOLUMENTS

All of the five individuals with the highest emoluments in the Group were directors or supervisors of the Company for the year ended 31 December 2015, whose emoluments are included in the disclosures above.

Of the five individuals with the highest emoluments in the Group, four were directors or supervisors of the Company for the year ended 31 December 2016, whose emoluments are included in the disclosures above. The emoluments of the remaining one for the year ended 31 December 2016 were as follows:

	2016 RMB'000
Salaries and other benefits	**1,364**
Performance related incentive payments	**3,090**
	4,454

Performances bonuses were determined by the management having regard to the performance of this individual and the Group's operating results.

During the year, no emoluments were paid by the Group to this individual as an inducement to join or upon joining the Group or as compensation for loss of office (2015: nil).

14. EMPLOYEES' EMOLUMENTS (continued)

His emoluments is within the following bands:

	2016 No. of employees
HK$5,000,001 to HK$5,500,000	**1**
	1

15. DIVIDENDS

	2016 RMB'000	2015 RMB'000
Dividends recognised as distribution during the year		
— 2015 Final (RMB0.47 per share)	**1,703,241**	—
— 2014 Final (RMB0.83 per share)	**—**	2,490,000
	1,703,241	2,490,000

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2016 of RMB0.42 per share has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting.

16. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share for the year ended 31 December 2016 and 2015 is based on the following data:

	2016 **RMB'000**	2015 RMB'000
Earning for the purpose of basic and diluted earnings (2015: basic and diluted) per share (profit for the year attributable to owners of the Company)	**4,036,269**	4,098,068
Number of ordinary shares (2015: weighted average number of ordinary shares) for the purpose of basic and diluted earnings per share	**3,623,917,038**	3,352,560,031

No diluted earnings per share is presented for 2016 as there was no dilutive potential ordinary shares.

The computation of diluted earnings per share in 2015 does not assume the exercise of the Company's over-allotment options granted pursuant to the listing of the Company's shares in the Stock Exchange as the exercise price of the options was higher than the average market price for the shares during the outstanding period. The over-allotment options were subsequently lapsed on 19 July 2015. The Group did not have any other dilutive potential ordinary shares in issue during 2015.

17. INVESTMENT PROPERTY

	Completed investment properties RMB'000	Investment properties under development RMB'000	Total RMB'000
Fair Value			
At 1 January 2015	56,239,000	6,727,000	62,966,000
Additions	206,865	3,004,257	3,211,122
Acquisition of subsidiaries (note 40)	922,302	1,111,882	2,034,184
Transfer	2,943,000	(2,943,000)	—
Change in fair value recognised in profit or loss	1,517,833	863,861	2,381,694
At 31 December 2015	61,829,000	8,764,000	70,593,000
Additions	**679,028**	**2,333,957**	**3,012,985**
Acquisition of subsidiaries (note 40)	**831,781**	**—**	**831,781**
Transfer	**6,411,000**	**(6,411,000)**	**—**
Change in fair value recognised in profit or loss	**1,971,191**	**681,043**	**2,652,234**
At 31 December 2016	**71,722,000**	**5,368,000**	**77,090,000**

The investment properties are all situated on the land under medium-term lease in the PRC. The fair values of the Group's investment properties at the end of the reporting period were valued by Jones Lang LaSalle, a firm of independent qualified professional valuers not connected with the Group, who have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations.

The valuation of completed investment properties has been arrived at with adoption of income approach based on the rental income of the property derived from the existing lease and achievable in the existing market with due allowance for the reversionary income potential of the leases, which have been then capitalised to determine the market value at an appropriate capitalisation rate.

The valuation of certain investment properties at an early development stage has been arrived at by direct comparison approach assuming sale of the property interests in their existing state with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the relevant market.

17. INVESTMENT PROPERTY (continued)

The valuation of other investment properties under development has been arrived at with adoption of residual approach which assumed that they will be developed and completed in accordance with the latest development proposal. In arriving at the opinion of value, reference has been made to comparable evidence as available in the relevant market and the valuation also take into account the accrued construction cost and professional fees relevant to the stage of construction as at the valuation date and the remainder of the cost and fees expected to be incurred for completing the development.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The following table gives information about how the fair values of these investment properties are determined (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements are categorised based on the degree to which the inputs to the fair value measurements is observable.

At 31 December 2016

Investment properties held by the Group in the consolidated statement of financial position	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Range
Completed investment properties	Level 3	Income approach The key inputs are: Market rent per square meter per month; Capitalisation rate	Market rent per square meter per month (leased floor area)* Capitalisation rate**	RMB14.1 to RMB341 5.5% to 8.0%
Certain investment properties at an early development stage	Level 3	Direct comparison approach The key input is: Price of the land per square meter	Price of the land per square meter (gross floor area)***	RMB2,169 to RMB4,369
Other investment properties under development	Level 3	Residual approach The key inputs are: Market rent per square meter per month; Capitalisation rate	Market rent per square meter per month (leased floor area)* Capitalisation rate**	RMB38.5 to RMB103 6.5% to 7.5%

17. INVESTMENT PROPERTY (continued)

At 31 December 2015

Investment properties held by the Group in the consolidated statement of financial position	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Range
Completed investment properties	Level 3	Income approach The key inputs are: Market rent per square meter per month; Capitalisation rate	Market rent per square meter per month (leased floor area)* Capitalisation rate**	RMB31 to RMB327 5.5% to 8.0%
Certain investment properties at an early development stage	Level 3	Direct comparison approach The key input is: Price of the land per square meter	Price of the land per square meter (gross floor area)***	RMB1,323 to RMB5,110
Other investment properties under development	Level 3	Residual approach The key inputs are: Market rent per square meter per month; Capitalisation rate	Market rent per square meter per month (leased floor area)* Capitalisation rate**	RMB38 to RMB101 6.5% to 7.5%

* A slight increase in the market rent per square meter per month (leased floor area) used would result in a significant increase in the fair value measurement of the investment properties, and vice versa.

** A slight increase in the capitalisation rate used would result in a significant decrease in the fair value measurement of the investment properties, and vice versa.

*** A slight increase in the price of the land per square meter (gross floor area) used would result in a significant increase in the fair value measurement of the investment properties, and vice versa.

There were no transfers into or out of Level 3 during the year.

In estimating the fair value of the investment properties, the Group uses market observable data to the extent it is available. The management of the Group works closely with the valuers to establish the appropriate valuation techniques and inputs to the model.

17. INVESTMENT PROPERTY (continued)

The unrealised gain on property revaluation amounting to RMB2,652,234,000 was recognised in profit or loss during the current year (2015: RMB2,381,694,000).

The Group has pledged investment properties of approximately RMB54,814,000,000 and RMB45,009,000,000 at 31 December 2016 and 2015, respectively. to secure bank and other borrowing granted to the Group as set out in note 32.

The Group was in process of obtaining the relevant ownership property certificates for the investment properties under development with carrying amounts of RMB13,309,000,000 and RMB8,779,000,000 as at 31 December 2016 and 2015, respectively. In the opinion of the directors of the Company, the relevant property ownership certificates can be obtained in due time without incurring significant costs.

The Group has not fully obtained the relevant land use right certificates and ownership property certificates for investment properties in respect of the transferred shopping malls held by each of 雲南紅星美凱龍置業有限公司 Yunnan Red Star Macalline Property Company Limited ("Yunnan Property") and 大連紅星美凱龍投資發展有限公司 Dalian Red Star Macalline Investment Development Company Limited ("Dalian Investment"), which amounted to RMB2,280,000,000 as at 31 December 2016 (2015: RMB2,223,000,000). In the opinion of the directors of the Company, the relevant land use right certificates and property ownership certificates can be fully obtained in due time without incurring significant costs.

Save the transferred shopping malls as disclosed above, the Group has not obtained relevant land use right certificates and ownership property certificates for certain investment properties, of which the relevant certificates are held by 上海紅星美凱龍企業發展有限公司 Shanghai Red Star Macalline Enterprise Development Company Limited ("RSM Enterprise Development") and its subsidiaries, joint ventures and associates (collectively refer to as "RSM Enterprise Development Group"), amounting to RMB1,660,000,000 as at 31 December 2016 (2015: RMB1,548,000,000).

One shopping mall was situated on the land which is for scientific research and design use. The carrying amount of the investment property in respect of this shopping mall was RMB1,645,000,000 as at 31 December 2016 (2015: RMB1,675,000,000).

18. PROPERTY, PLANT AND EQUIPMENT

	Dedicated equipment RMB'000	Motor vehicles RMB'000	Electronic equipment & furniture RMB'000	Leasehold improvement RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
At 1 January 2015	41,903	108,972	186,201	454,515	16,568	808,159
Additions	—	9,342	21,583	7,290	38,727	76,942
Acquisitions of subsidiaries (note 40)	—	—	1,011	—	—	1,011
Transfer	478	—	67	30,119	(30,664)	—
Disposals	(113)	(6,126)	(6,245)	(1,358)	—	(13,842)
Disposals of subsidiaries (note 41)	—	—	(616)	—	(467)	(1,083)
At 31 December 2015	**42,268**	**112,188**	**202,001**	**490,566**	**24,164**	**871,187**
Additions	**431**	**11,936**	**38,561**	**5,022**	**68,177**	**124,127**
Acquisitions of subsidiaries (note 40)	**—**	**50**	**48**	**—**	**—**	**98**
Transfer	**36**	**—**	**3,603**	**22,727**	**(26,366)**	**—**
Disposals	**(12,655)**	**(4,639)**	**(3,358)**	**(3,896)**	**—**	**(24,548)**
Disposals of subsidiaries (note 41)	**—**	**—**	**(1,243)**	**(563)**	**—**	**(1,806)**
At 31 December 2016	**30,080**	**119,535**	**239,612**	**513,856**	**65,975**	**969,058**
Accumulated depreciation						
At 1 January 2015	16,278	62,235	103,516	263,678	—	445,707
Charge for the year	2,959	14,357	26,955	57,748	—	102,019
Eliminated on disposals	(92)	(4,397)	(4,765)	(419)	—	(9,673)
Eliminated on disposals of subsidiaries (note 41)	—	—	(159)	—	—	(159)
At 31 December 2015	**19,145**	**72,195**	**125,547**	**321,007**	**—**	**537,894**
Charge for the year	**1,320**	**14,985**	**31,405**	**50,040**	**—**	**97,750**
Eliminated on disposals	**(12,590)**	**(4,020)**	**(1,027)**	**(1,943)**	**—**	**(19,580)**
Eliminated on disposals of subsidiaries (note 41)	**—**	**—**	**(593)**	**(5)**	**—**	**(598)**
At 31 December 2016	**7,875**	**83,160**	**155,332**	**369,099**	**—**	**615,466**
Carrying amount						
At 31 December 2015	23,123	39,993	76,454	169,559	24,164	333,293
At 31 December 2016	**22,205**	**36,375**	**84,280**	**144,757**	**65,975**	**353,592**

18. PROPERTY, PLANT AND EQUIPMENT (continued)

The above items of property, plant and equipment, other than construction in progress, are depreciated using the straight-line method after taking into account of their estimated residual values over the following estimated useful lives:

Dedicated equipment	—	10 years
Motor vehicles	—	5 years
Electronic equipment & furniture	—	3 to 5 years
Leasehold improvement	—	over the shorter of the term of the lease or 10 years

19. GOODWILL

	RMB'000
At 1 January 2015	—
Acquisition of a subsidiary (Note 40)	16,592
At 31 December 2015 and 31 December 2016	**16,592**

20. INTANGIBLE ASSETS

	Development Costs RMB'000	License RMB'000	Software RMB'000	Others RMB'000	Total RMB'000
Cost					
At 1 January 2015	—	525,000	44,495	9,206	578,701
Additions	—	—	19,531	—	19,531
Disposals	—	—	(5,706)	(40)	(5,746)
At 31 December 2015	—	525,000	58,320	9,166	592,486
Additions	**38,967**	**—**	**13,812**	**—**	**52,779**
Acquisition of subsidiaries (note 40)	**—**	**—**	**170**	**—**	**170**
Disposals	**—**	**—**	**(205)**	**—**	**(205)**
Disposal of subsidiaries	**—**	**—**	**(8)**	**—**	**(8)**
At 31 December 2016	**38,967**	**525,000**	**72,089**	**9,166**	**645,222**

20. INTANGIBLE ASSETS (continued)

	Development Costs RMB'000	License RMB'000	Software RMB'000	Others RMB'000	Total RMB'000
Accumulated amortisation					
At 1 January 2015	—	10,208	10,681	8,896	29,785
Charge for the year	—	17,500	8,268	43	25,811
Eliminated on disposals	—	—	(2,356)	(21)	(2,377)
At 31 December 2015	—	27,708	16,593	8,918	53,219
Charge for the year	**—**	**17,500**	**6,657**	**47**	**24,204**
Impairment loss recognized in the year	**—**	**100,000**	**—**	**—**	**100,000**
Eliminated on disposals	**—**	**—**	**(22)**	**—**	**(22)**
Eliminated on disposals of subsidiaries	**—**	**—**	**(1)**	**—**	**(1)**
At 31 December 2016	**—**	**145,208**	**23,227**	**8,965**	**177,400**
Carrying amount					
At 31 December 2015	—	497,292	41,727	248	539,267
At 31 December 2016	**38,967**	**379,792**	**48,862**	**201**	**467,822**

20. INTANGIBLE ASSETS (continued)

In May 2014, the Company entered into a trademark licensing agreement with JiSheng Wellborn ("JSWB"), a high-end home furnishing shopping mall operator, pursuant to which JSWB authorises the Group to use eight of its registered trademarks in the Group's managed shopping malls or sub-license the trademarks to a third party in home furnishing retail business for 30 years from 1 June 2014 to 30 May 2044 for a cash consideration of RMB525,000,000. The consideration was recognised as intangible assets and will be amortised over the useful life of 30 years.

The home improvement and furnishings retail industry is highly competitive and the development of new JSWB managed shopping malls did not meet the expansion plan during past few years, which is regarded as an indication that the JSWB license may be impaired. The recoverable amount of JSWB has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5— year period, and discount rate of 14% (2015: 15%). The cash flows beyond the 5-year period are extrapolated steadily. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted revenue (including the number of new JSWB managed shopping malls developed) and gross margin, such estimation is based on the similar home furnishing shopping mall's past performance and management's expectations for the market development.

In the opinion of the management, the recoverable amount of JSWB is less than its carrying amount, thus an impairment loss of RMB100,000,000 has been provided during the year.

The above intangible assets have finite useful lives. Such intangible assets are amortised on a straight-line basis over the following periods.

Licenses	— 30 years
Software	— from 2 to 10 years
Others	— 3 years

21. INTERESTS IN ASSOCIATES

	2016 RMB'000	2015 RMB'000
Cost of investments in unlisted associates	**206,637**	146,850
Share of post-acquisition profits and other comprehensive income, net of dividends received	**83,539**	12,357
	290,176	159,207

As at 31 December 2016 and 2015, the Group had interests in the following associates:

Name of entity	Place of registration	Proportion of nominal value of registered capital 2016	2015	Proportion of voting power held 2016	2015	Principal activities
深圳市紅星美凱龍世紀中心家居生活廣場有限公司 Shenzhen Red Star Macalline Century Center Home Furnishing Plaza Company Limited ("Shenzhen Red Star")	The PRC	**37%**	37%	**37%**	37%	Shopping malls operation
海爾消費金融有限公司 Haier Consume Financing Company Limited ("Haier Financing") (note a)	The PRC	**25%**	25%	**25%**	25%	Consume financing
武漢紅星美凱龍正達物流有限公司 Wuhan Red Star Macalline Zhengda Logistics Company Limited ("Wuhan Zhengda") (note b)	The PRC	**40%**	40%	**40%**	40%	Logistics storage
上海嘉展建築工程有限公司 Shanghai Jiazhan Construction Engineering Company Limited	The PRC	**5%**	N/A	**33%**	N/A	Home decoration
杭州紅星美凱龍環球家居有限公司 Hangzhou Red Star Macalline Global Home Living Company Limited ("Hangzhou Global") (note c)	The PRC	**19%**	N/A	**33%**	N/A	Shopping malls operation
美屋三六五(天津)科技有限公司 Meiwu 365 (Tianjin) Technology Company Limited	The PRC	**10%**	N/A	**25%**	N/A	Virtual reality platform for home decoration
愛菠蘿網絡科技(北京)有限公司 ArtPollo Network Technology (Beijing) Company Limited	The PRC	**15%**	N/A	**25%**	N/A	E-commerce platform for artwork

21. INTERESTS IN ASSOCIATES (continued)

The above table lists the associates of the Group which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other associates would, in the opinion of the directors of the Company, result in particulars of excessive length.

Notes:

(a) The Group has pledged its equity interest in Haier Financing to secure other borrowing granted to Haier Financing as set out in note 47(b).

(b) During the year ended 31 December 2015, the Group disposed 18% equity interest in its subsidiary, Wuhan Zhengda, to a third party. After the disposal, the Group held 40% equity interest in Wuhan Zhengda and accounted for as interest in an associate. Details are set out in note 41.

(c) In September 2016, certain third parties made capital contribution to Hangzhou Global. Upon the completion of the capital contribution, the Company held 19.0% of the equity interest of Hangzhou Global which was accounted for as interests in an associate. Details are set out in note 41.

Aggregate information of associates that are not individually material

	2016 RMB'000	2015 RMB'000
The Group's share of profit and total comprehensive income for the year	**83,831**	62,954
Aggregate carrying amount of the Group's interests in these associates	**290,176**	159,207

22. INTERESTS IN JOINT VENTURES

	2016 RMB'000	2015 RMB'000
Cost of investment in unlisted joint ventures:	**286,877**	261,877
Share of post-acquisition profits and other comprehensive income, net of dividends received	**542,544**	487,457
	829,421	749,334

22. INTERESTS IN JOINT VENTURES (continued)

As at 31 December 2016 and 2015, the Group had interests in the following joint ventures:

Name of entity	Place of registration	Proportion of nominal value of registered capital		Proportion of voting power held		Principal activities
		2016	2015	**2016**	2015	
成都東泰商城有限公司 Chengdu Dongtai Shopping Mall Company Limited ("Chengdu Dongtai")	The PRC	**50%**	50%	**50%**	50%	Shopping malls operation
上海名藝商業企業發展有限公司 Shanghai Mingyi Enterprise Development Company Limited	The PRC	**50%**	50%	**50%**	50%	Shopping malls operation
蕪湖紅星美凱龍股權投資基金管理有限公司 Wuhu Red Star Macalline Equity Investment Fund Management Company Limited	The PRC	**50%**	N/A	**50%**	N/A	Investment holding
廈門寶象紅星美凱龍家居生活廣場有限公司 Xiamen Baoxiang Red Star Macalline Home Furnishing Plaza Company Limited ("Xiamen Baoxiang")	The PRC	**50%**	N/A	**50%**	N/A	Shopping malls operation

The above table lists the joint ventures of the Group which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other joint ventures would, in the opinion of the directors of the Company, result in particulars of excessive length.

Summarised financial information of material joint venture

Summarised financial information in respect of the Group's material joint venture is set out below. The summarised financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with IFRSs.

The material joint venture is accounted for using the equity method in the consolidated financial statements.

22. INTERESTS IN JOINT VENTURES (continued)

Summarised financial information of material joint venture (continued)

Chengdu Dongtai

	2016 RMB'000	2015 RMB'000
Current assets	**368,542**	359,315
Non-current assets	**1,740,938**	1,686,867
Current liabilities	**109,788**	97,374
Non-current liabilities	**455,700**	517,649

	2016 RMB'000	2015 RMB'000
Revenue	**166,519**	161,907
Profit and total comprehensive income for the year	**112,833**	88,296

Reconciliation of the above summarised financial information to the carrying amount of the interest in the joint venture recognised in the consolidated financial statements:

	2016 RMB'000	2015 RMB'000
Net assets of the joint venture	**1,543,992**	1,431,159
Proportion of the Group's ownership interest in the joint venture	**50%**	50%
Carrying amount of the Group's interest in Chengdu Dongtai	**771,996**	715,580

22. INTERESTS IN JOINT VENTURES (continued)

Aggregate information of joint ventures that are not individually material

	2016 RMB'000	2015 RMB'000
The Group's share of (loss) profit and comprehensive (expense) income	**(1,329)**	5,876
Aggregate carrying amount of the Group's interests in these joint ventures	**57,425**	33,754

23. AVAILABLE-FOR-SALE INVESTMENTS

	2016 RMB'000	2015 RMB'000
Unlisted equity investments, at cost:		
— Oppein (as defined below) (notes a, b)	**157,560**	157,560
— Other private entities established in the PRC (note b)	**386,841**	245,370
	544,401	402,930

Notes:

(a) The amounts represented 4.99% equity interest in Oppein Home Group Inc ("Oppein"), a private entity established in the PRC and involved in furniture manufacture.

(b) The available-for-sale investments are measured at cost less impairment at the end of the reporting periods because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

24. LOAN RECEIVABLES

	2016 RMB'000	2015 RMB'000
Non-current		
Zhejiang Mingdu (as defined below) (note a)	**55,000**	30,000
Daqing Xusheng (as defined below) (note b)	**40,223**	46,080
Anhui Tenghui Investment (as defined below) (note g)	**65,000**	—
Ningbo Longkai Industrial (as defined below) (note c)	**—**	36,500
	160,223	112,580
Current		
Zhejiang Mingdu (as defined below) (note d)	**45,000**	70,000
Zhejiang Borui (as defined below) (note e)	**110,000**	30,100
Wuhan Zhuyeshan (as defined below) (note f)	**60,000**	60,000
Ningbo Longkai Industrial (note c)	**36,500**	—
Huaihua Xingqi (as defined below) (note h)	**36,000**	—
Langfang Aris (as defined below) (note i)	**30,000**	—
Microfinance loans (note j)	**184,789**	—
Less: allowance for doubtful debts	**(1,848)**	—
	500,441	160,100

Notes:

(a) The amounts represent long-term loan to 浙江名都投資有限公司 Zhejiang Mingdu Investment Company Limited ("Zhejiang Mingdu"), a non-controlling shareholder of a subsidiary, under entrusted loan arrangement. The entrusted loan is unsecured, carried fixed interest rate of 4.75% per annum, and is repayable in 2018.

(b) The amounts represent long-term loan to 大慶旭生房地產開發有限公司 Daqing Xusheng Properties Development Company Limited ("Daqing Xusheng"), a non-controlling shareholder of a subsidiary, under entrusted loan arrangement. The entrusted loan is secured by 30% equity interest of this subsidiary held by Daqing Xusheng, carried variable interests of 122% of People's Bank of China Benchmark Rate ("PBOCBR") per annum, and is repayable in 2020.

(c) The amounts represent long-term loan to 寧波隆凱實業有限公司 Ningbo Longkai Industrial Company Limited ("Ningbo Longkai Industrial"). The loan is secured by 20% equity interest of a project company (which is operating and managing a home furnishing shopping mall) held by Ningbo Longkai Industrial, carried fixed interest rate of 8% per annum, and is repayable in 2017. The amounts were classified as short-term as at 31 December 2016.

24. LOAN RECEIVABLES (continued)

Notes: (continued)

(d) The amounts represent short-term loan to Zhejiang Mingdu, a non-controlling shareholder of a subsidiary, under entrusted loan arrangement. The entrusted loan is unsecured, carried fixed interests of 6.4% per annum, and is repayable in 2017.

(e) The amounts represent short-term loan to 浙江博瑞控股集團有限公司 Zhejiang Borui Holding Group Company Limited (“Zhejiang Borui”), a non-controlling shareholder of a subsidiary, under entrusted loan arrangement. The entrusted loan is secured by 40% equity interest of this subsidiary held by Zhejiang Borui. The balances amounting to RMB100,000,000 and RMB10,000,000 carried fixed interests of 6.02% and 8% per annum, respectively, and is repayable in 2017.

(f) The amounts represent short-term loan to 武漢竹葉山集團股份有限公司 Wuhan Zhuyeshan Group Company Limited (“Wuhan Zhuyeshan”) under entrusted loan arrangement. The entrusted loan is secured by 99% equity interest of a project company (which is operating and managing a home furnishing shopping mall) held by Wuhan Zhuyeshan, carried fixed interests of 12.0% per annum, and is repayable in 2017.

(g) The amounts represent long-term loan to 安徽騰輝投資集團有限公司 Anhui Tenghui Investment Group Company Limited (“Anhui Tenghui Investment”) under entrusted loan arrangement. The entrusted loan is secured by 30% equity interest of Anhui Tenghui Investment held by its shareholders. The entrusted loan carried fixed interest rate of 6.0% per annum, and is repayable in 2018.

(h) The amounts represent short-term loan to 懷化星旗房地產開發建設有限公司 Huaihua Xingqi Real Estate Development Construction Company Limited (“Huaihua Xingqi”). The loan is secured by 100% equity interest of Huaihua Xingqi held by its shareholders. The entrusted loan carried fixed interest rate of 15% per annum, and is repayable on demand.

(i) The amounts represent short-term loan to 廊坊愛依瑞斯傢俱有限公司 Langfang Aris Furniture Company Limited (“Langfang Aris”). The loan is guaranteed by proceeds collected on behalf of Langfang Aris in four home furnishing shopping malls in Beijing, carried fixed interest rate of 12% per annum, and is repayable in 2017.

(j) The amounts represented loans offered to small and medium enterprises (“SMEs”), microenterprises and entrepreneurial individuals by a subsidiary of the Company, a licensed microfinance company. Such loans receivable consisted of credit loans, guaranteed loans and collateral-backed loans. All these loans are with the maturity no more than 12 months and carrying the interest rate ranging from 7.1% to 15.7% per annum. As at 31 December 2016, 22.6% of loans receivable were guaranteed loans, and 29.1% of loans receivable were collateral-backed loans. The Group seeks to maintain strict control over its outstanding microfinance loans to minimise credit risk. Overdue balances are reviewed regularly by management. The Group has provided impairment allowance individually or collectively for all outstanding microfinance loans:

	RMB’000
At 1 January and 31 December 2015	—
Impairment losses recognised during the year	1,848
At 31 December 2016	1,848

25. DEFERRED TAXATION

The following are the major deferred tax assets (liabilities) recognised and movements thereon:

	Debt restructure within the Group RMB'000	Investment properties RMB'000	Unpaid staff welfare and other expenses RMB'000	Allowance for bad debts RMB'000	Deferred income RMB'000	Unrealised profit RMB'000	Tax losses RMB'000	Other RMB'000	Total RMB'000
At 1 January 2015	55,451	(9,865,513)	209,538	36,439	36,310	19,232	89,436	22,808	(9,396,299)
(Charge) credit to profit or loss	51,268	(874,761)	(69,893)	43,469	(1,036)	(3,907)	7,607	730	(846,523)
Acquisitions of subsidiaries (note 42)	–	(79,706)	–	–	–	–	–	6,005	(73,701)
Disposal of subsidiaries (note 43)	–	–	(707)	–	–	–	(2,865)	–	(3,572)
At 31 December 2015	**106,719**	**(10,819,980)**	**138,938**	**79,908**	**35,274**	**15,325**	**94,178**	**29,543**	**(10,320,095)**
Credit (charge) to profit or loss	**895**	**(966,900)**	**3,741**	**108,607**	**280**	**12,860**	**104,496**	**5,623**	**(730,398)**
Acquisitions of subsidiaries (note 40)	**–**	**(5,903)**	**–**	**–**	**–**	**–**	**–**	**–**	**(5,903)**
Disposal of subsidiaries (note 41)	**–**	**–**	**(14)**	**–**	**–**	**–**	**(671)**	**–**	**(685)**
At 31 December 2016	**107,614**	**(11,792,783)**	**142,665**	**188,515**	**35,554**	**28,185**	**198,003**	**35,166**	**(11,057,081)**

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purpose:

	2016 RMB'000	2015 RMB'000
Deferred tax assets	**577,294**	347,444
Deferred tax liabilities	**(11,634,375)**	(10,667,539)
	(11,057,081)	(10,320,095)

25. DEFERRED TAXATION (continued)

No deferred taxation asset has been recognised in respect of the following unutilised tax losses and deductible temporary differences due to the unpredictability of future profit streams.

	2016	2015
	RMB'000	RMB'000
Unutilised tax losses	**1,794,057**	1,717,631
Deductible temporary differences	**311,329**	106,847
	2,105,386	1,824,478

The unrecognised tax losses will expire in at the end of the following years:

	2016	2015
	RMB'000	RMB'000
To be expired on:		
31 December 2016	**—**	33,407
31 December 2017	**97,326**	179,796
31 December 2018	**239,867**	329,262
31 December 2019	**407,693**	479,218
31 December 2020	**660,701**	695,948
31 December 2021	**388,470**	—
	1,794,057	1,717,631

26. OTHER NON-CURRENT ASSETS

	2016 RMB'000	2015 RMB'000
Prepayment for acquisition of land use rights	**360,774**	242,319
Prepayment for construction of investment properties	**588,890**	468,910
Prepayment for acquisition of investment properties (note a)	**43,235**	304,454
Amounts due from a third party (note b)	**150,000**	—
Amounts due from non-controlling shareholders of subsidiaries (note c)	**106,000**	121,324
Prepayment to a related party for repurchase interests in a transferred shopping mall (note d) (note 48)	**247,705**	247,705
Amount due from a related party (note 48)	**287,388**	42,092
Deposits paid for construction of investment properties	**197,460**	135,252
Deposits for acquisition of office premises (note g)	**210,081**	—
Deposits paid under medium term operating lease	**84,288**	55,278
Preliminary development cost (note e)	**141,963**	141,562
Equity investment with fixed return (note f)	**198,400**	219,400
Others	**26,450**	25,117
	2,642,634	2,003,413

Notes:

(a) Prepayment for acquisition of investment properties:

	2016 RMB'000	2015 RMB'000
Lanzhou Gaoke (i)	**–**	194,000
Lanzhou Nanmiantan (ii)	**–**	70,000
Others	**43,235**	40,454
	43,235	304,454

i. The amount represented short-term loan to 蘭州高科新元房地產開發有限公司 Lanzhou Gaoke Xinyuan Properties Development Company Limited ("Lanzhou Gaoke") under entrusted loan arrangement for development of a shopping mall on certain land parcel held by Lanzhou Gaoke. The entrusted loans is secured by the land use right of this land parcel, carried fixed interests of 8.0% per annum, and is repayable in 2016.

26. OTHER NON-CURRENT ASSETS (continued)

Notes: (continued)

(a) Prepayment for acquisition of investment properties: (continued)

ii. The amount represented short-term loan to 蘭州市南面灘工貿有限公司 Lanzhou Nanmiantan Company Limited ("Lanzhou Nanmiantan") under entrusted loan arrangement for development of a shopping mall on certain land parcel held by Lanzhou Nanmiantan. The entrusted loans is secured by the land use right of this land parcel, carried fixed interests of 8.0% per annum, and is repayable in 2016.

Pursuant to the respective agreement entered into between the Group and Lanzhou Gaoke/Lanzhou Nanmiantan, the Group will acquire the shopping malls under development with the land use rights of these land parcel and the consideration will be partially settled by the entrusted loans. The directors of the Company recognised the entrusted loans as deemed prepayment for acquisition of investment properties in other non-current assets. The Group has completed the acquisitions during the year.

(b) The amounts of RMB150,000,000 were secured by 100% equity interest of a project company (which is operating and managing a home furnishing shopping mall), interest free and repayable in 2018.

(c) The amounts were unsecured, interest free and repayable on demand. In the opinion of the directors of the Company, the amounts are to be settled after twelve months from the end of the reporting period and were therefore classified as non-current assets.

(d) In October 2015, the Company entered into a repurchase agreement with 成都紅星美凱龍置業有限公司 Chengdu Red Star Macalline Property Company Limited ("Chengdu Property"), a subsidiary of RSM Enterprise Development, pursuant to which Chengdu Property has agreed to sell and the Company has agreed to repurchase 50% of the interests in the transferred shopping mall held by 上海綠地集團成都金牛房地產開發有限公司 Greenland Group Chengdu Jinniu Real Estate Development Co., Ltd. for a consideration of not more than RMB495,410,000. As at 31 December 2016 and 2015, the Company has paid RMB247,705,000, approximately 50% of the consideration.

(e) The amounts represented the preliminary development cost incurred for the project situated on one parcel of land, of which the relevant land use right certificate is held by a non-controlling shareholder of a subsidiary. Pursuant to the agreement entered into between the Group and this non-controlling shareholder, the relevant land use right certificate would be transferred to the Group as the capital contribution by the non-controlling shareholder.

(f) The amounts represented investments held by the Group. Under agreements with other shareholders of these investees, the Group has contractual rights to receive annual payments equal to stated interest rates applied to principal amounts and withdraw principal amounts upon the expiry of the pre-agreed periods. In the opinion of the directors of the Company, such equity investments are financial assets classified as "loans and receivables" in substance.

(g) In December 2016, the Group entered into an agreement with a third party, pursuant to which the Group will acquire office premises at a total consideration of approximately RMB2,100,810,000. As at 31 December 2016, the Group has paid deposit of approximately RMB210,081,000.

27. OTHER FINANCIAL ASSETS

The other financial assets as at 31 December 2015 represented the debt investments in the PRC carrying interest rate ranging from 5.88% to 6.02% per annum and maturity period of approximately three months. The Group has received all the principal and interest in February 2016.

28. TRADE AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade receivables		
— due from third parties	**1,429,845**	1,224,167
— due from related parties (note 48)	**30**	211
Less: allowance for doubtful debts	**(594,507)**	(257,813)
	835,368	966,565
Bills receivable	**900**	2,200
	836,268	968,765
Prepayments to third parties	**155,502**	92,877
Deferred A share IPO expense	**9,340**	—
Other taxes recoverable	**87,842**	29,978
Amounts due from third parties (note a)	**313,185**	258,472
Amounts due from non-controlling shareholders of subsidiaries (note a)	**81,504**	27,324
Amounts due from related parties (note 48)	**130,056**	143,842
Deposits	**81,689**	81,890
Proceeds to be collected on behalf of the tenants (note b)	**350,458**	72,636
Other	**27,933**	23,956
Less: allowance for doubtful debts	**(65,245)**	(72,179)
	1,172,264	658,796
	2,008,532	1,627,561

Notes:

(a) The amounts were unsecured, interest free and repayable on demand.

(b) The Group collect the proceeds from the sale of merchandise by the tenants and remit the proceeds within settlement periods (normally seven days) as pre-agreed with the tenants. The amounts represent the proceeds to be collected on behalf of the tenants from certain banks in the PRC as the customers pay through credit card.

28. TRADE AND OTHER RECEIVABLES (continued)

The following is an analysis of trade receivables and bills receivable by age, net of allowance for doubtful debts, presented based on the date of recognition of revenue at the end of the reporting period:

	2016 RMB'000	2015 RMB'000
Less than 1 year	466,277	715,619
1–2 years	266,285	207,786
2–3 years	99,797	37,996
Over 3 years	3,909	7,364
	836,268	968,765

The Group has not granted any credit period to its customers. Before accepting any new customers, the Group uses past experience to assess the potential customers' credit quality and defines credit limits for the customers. Limits attributed to customers are reviewed regularly.

The Group recognise allowance for doubtful debts based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position.

Trade receivables disclosed above include amounts (see below for aged analysis) which are past due at the end of the reporting period for which the Group has not recognised an allowance for doubtful debts as there has not been a significant change in credit quality and the amounts are still considered recoverable. As at 31 December 2016, the Group held collateral for trade receivables of RMB51,000,000 (2015: RMB51,000,000).

Aging of trade receivables which are past due but not impaired

	2016 RMB'000	2015 RMB'000
Less than 1 year	372,710	555,250

The Group has provided impairment allowance individually or collectively for all trade receivables over 1 year.

28. TRADE AND OTHER RECEIVABLES (continued)

Movement in the allowance for doubtful debts

	2016 RMB'000	2015 RMB'000
Balance at beginning of the year	**329,992**	153,936
Impairment losses recognised during the year	**341,274**	203,599
Impairment losses reversed	**(6,660)**	(5,000)
Amounts written off during the year as uncollectible	**(4,854)**	(22,543)
Balance at end of the year	**659,752**	329,992

Included in the allowance for doubtful debts of the Group are individually impaired trade receivables with an aggregate balance of RMB556,524,000 as at 31 December 2016 (2015: RMB224,292,000), which were in severe financial difficulties.

29. RESTRICTED BANK DEPOSITS

	2016 RMB'000	2015 RMB'000
Deposits pledged for banking facilities (including bank borrowings) granted to the Group (note a)	**70,461**	69,126
Other restricted bank deposits	**17,255**	2,632
	87,716	71,758
Analysed for reporting purposes as:		
— Non-current (note b)	**70,451**	71,758
— Current	**17,265**	—
	87,716	71,758

Notes:

(a) The amounts represented bank deposits denominated in RMB pledged to banks as securities for certain banking facilities (including bank borrowings) granted to the Group.

(b) Deposits pledged as securities for bank and other borrowings granted to the Group that are not expected to be released within twelve months after the end of the reporting period are classified as non-current assets.

29. RESTRICTED BANK DEPOSITS (continued)

The restricted bank deposits carry prevailing market interest rates as follows:

	2016 %	2015 %
Range of interest rate per annum	**3.08–4.35**	2.85–3.25

30. BANK BALANCES AND CASH

Bank balances and cash of the Group comprise cash and short-term bank deposits. The bank balances carry interest at market rates which range from 0.35% to 3.05% per annum as at 31 December 2016 (2015: 0.35% to 3.25% per annum).

	2016 RMB'000	2015 RMB'000
Cash	**45,829**	14,882
Bank deposits with original maturity within three months or less	**5,946,596**	5,833,582
Cash and cash equivalents	**5,992,425**	5,848,464
Bank deposits with original maturity over three months	**157,725**	105,623
Bank balances and cash	**6,150,150**	5,954,087

The bank balances carry prevailing market interest rates as follows:

	2016 %	2015 %
Range of interest rate per annum	**0.35–3.05**	0.35–3.25

Bank balances and cash as at 31 December 2016 and 2015 were mainly denominated in RMB which is not a freely convertible currency in the international market. The exchange rate of RMB is determined by the government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the government of the PRC.

31. TRADE AND OTHER PAYABLES

	2016 RMB'000	2015 RMB'000
Trade payable (note a)	**353,219**	279,541
Other payables:		
Staff cost payables	**540,096**	389,088
Dividends payable to a non-controlling shareholder of a subsidiary	**138,500**	28,850
Other tax payables	**254,410**	213,035
Interests payables	**120,291**	83,467
Amounts due to third parties (note b)	**237,122**	216,979
Amount due to non-controlling shareholders of subsidiaries (note b)	**323,202**	137,918
Amounts due to related parties (note 48)	**19,961**	228,842
Consideration payable to a related party for acquisition of subsidiaries (note c) (note 48)	**30,989**	175,572
Consideration payable to a third party for acquisition of a subsidiary (note d)	**—**	53,308
Consideration payable for acquisition of additional interests in subsidiaries	**—**	13,450
Construction costs payables	**599,650**	732,925
Proceeds collected on behalf of the tenants (note e)	**1,303,285**	809,945
Deposit received from the tenants	**1,809,313**	1,489,485
Received in advance arising from pre-paid cards (note f)	**88,342**	139,693
Intention deposit received (note g)	**270,400**	390,890
Accrued rental and other expenses	**302,218**	269,178
Other	**207,762**	114,108
	6,245,541	5,486,733
	6,598,760	5,766,274

31. TRADE AND OTHER PAYABLES (continued)

Notes:

(a) The following is an analysis of trade payables by aging presented based on the invoice date at the end of the reporting period:

	2016 RMB'000	2015 RMB'000
Less than 1 year	**343,198**	268,677
1–2 years	**5,012**	5,731
2–3 years	**4,555**	5,034
Above 3 years	**454**	99
	353,219	279,541

(b) The amounts were unsecured, interest free and repayable on demand.

(c) The amounts represented consideration payable to RSM Enterprise Development for acquisition of 蘇州凱潤置業有限公司 Suzhou Kairun Properties Company Limited ("Suzhou Kairun") and 上海紅星美凱龍實業有限公司 Shanghai Red Star Macalline Industrial Company Limited ("RSM Industrial"), which has been fully paid in 2016. Details are set out in note 40.

(d) The amounts represented consideration payable to a third party for acquisition of 呼和浩特市紅星美凱龍世博家居廣場有限責任公司 Huhehaote Red Star Macalline Shibo Home Furnishing Plaza Company Limited ("Huhehaote Shibo "), which has been fully paid in 2016. Details are set out in note 40.

(e) The amounts represented the proceeds (from the sale of merchandise by the tenants) collected on behalf of the tenants and will be remitted within settlement periods (normally seven days) as pre-agreed with the tenants.

(f) In 2013, the Group were approved by Shanghai Municipal Commission of Commerce to issue single-purpose pre-paid cards. The proceeds of pre-paid cards will be transferred to the tenants within settlement periods (normally seven days) once the customers purchase merchandise in the shopping malls.

(g) The amounts represent the intention deposits received from customers before the formal contract management arrangements were entered into. The amounts will be deemed as initiation and entrance fees received in advance upon the formal arrangements are entered into, or remitted upon the termination of the collaboration.

32. BANK AND OTHER BORROWINGS

	2016 RMB'000	2015 RMB'000
Bank loans		
— Secured (note a)	**9,705,833**	8,349,819
— Unsecured (note b)	**19,000**	535,000
Other loans, secured (note a, c)	**1,510,000**	439,733
	11,234,833	9,324,552

Notes:

(a) Bank and other loans were secured by certain investment properties and bank deposits of the Group, details of which are set out in notes 17 and 29.

Bank and other loans of RMB1,820,803,000 and RMB1,801,418,000 as at 31 December 2016 and 2015, respectively were also guaranteed by certain related parties, details of which are set out in note 48.

(b) The balances as at 31 December 2016 and 2015 are not guaranteed.

(c) The other loans as at 31 December 2015 mainly represented the entrusted debt investment from certain third parties with a principle of RMB1,200,000,000, which is secured by certain investment properties of the Group, carried fixed interest rate of 7.59% per annum, and is repayable by installments at the end of each quarter staring from 2014, and will be mature on 28 November 2023. The Group has early repaid a large portion of this entrusted debt investment during the years ended 31 December 2015 and 2016.

The Group's borrowing as at 31 December 2016 included entrusted debt investment from a third party with a principal of RMB250,000,000, which is secured by certain investment properties of the Group and the future lease income of a shopping mall, carried fixed interest rate of 5.23% per annum, and will be mature on 3 February 2021.

The remaining balances represented two trust loans from certain third parties with principals of RMB490,000,000 and RMB700,000,000, which were secured by certain investment properties of the Group, carried fixed rate of 4.99% and 4.75% per annum, and will be mature on 25 May 2018 and 25 July 2018, respectively.

32. BANK AND OTHER BORROWINGS (continued)

Notes: (continued)

(c) (continued)

	2016 RMB'000	2015 RMB'000
Fixed-rate borrowings	**1,510,010**	839,733
Variable-rate borrowings	**9,724,823**	8,484,819
	11,234,833	9,324,552
The borrowings are repayable:		
Within one year or on demand	**2,787,296**	2,297,382
More than one year, but not exceeding two years	**3,344,038**	2,192,768
More than two years, but not exceeding five years	**3,444,250**	3,339,116
More than five years	**1,659,249**	1,495,286
	11,234,833	9,324,552
Less: Amount due within one year shown under current liabilities	**2,787,296**	2,297,382
Amount due after one year	**8,447,537**	7,027,170

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2016 %	2015 %
Fixed rate bank borrowings	**4.58–7.59**	5.15–7.59
Floating rate bank borrowings	**3.92–6.41**	5.89–7.38

The floating rate bank borrowings are arranged at the interest rate based on benchmark interest rates of the People's Bank of China.

The Group's bank and other borrowings are denominated in RMB.

33. BONDS

	2016 RMB'000	2015 RMB'000
Unguaranteed medium term note:		
— Bonds 2017 (as defined below) (note a)	**894,941**	889,791
— Bonds 2018 (as defined below) (note b)	**497,031**	495,449
— Bonds 2016 (as defined below) (note c)	**—**	497,195
Private placement notes:		
— Private Bonds 2017 (as defined below) (note d)	**994,527**	989,277
Corporate bonds:		
— Corporate Bonds 2020 (as defined below) (note e)	**4,973,683**	4,960,494
— Corporate Bonds 2021 (as defined below) (note f)	**1,485,447**	—
— Corporate Bonds 2023 (as defined below) (note g)	**1,477,940**	—
	10,323,569	7,832,206

Notes:

(a) In August 2012, the Company established a medium term note program (the "Program 2012") under which it may issue bonds in series or tranches of aggregate nominal amount of up to RMB1,500,000,000. On 13 December 2012, the Company issued bonds due in 2017 (the "Bonds 2017") with an aggregated nominal value of RMB900,000,000 at the face value under the Program 2012. The Bonds 2017 carry interest at the rate of 6.11% per annum, payable annually on December 13, in each year, and will mature on 13 December 2017.

(b) In August 2013, the Company established a medium term note program (the "Program 2013") under which it may issue bonds in series or tranches of aggregate nominal amount of up to RMB1,000,000,000. On 11 September 2013, the Company issued bonds due in 2018 (the "Bonds 2018") with an aggregated nominal value of RMB500,000,000 at the face value under the Program 2013. The Bonds 2018 carry interest at the rate of 7.50% per annum, payable annually on September 11, in each year, and will mature on 11 September 2018.

(c) On 5 December 2013, the Company issued bonds due in 2016 (the "Bonds 2016") with an aggregated nominal value of RMB500,000,000 at the face value under the Program 2013. The Bonds 2016 carry interest at the rate of 7.50% per annum, payable annually on December 5, in each year, and will mature on 5 December 2016.

(d) On 8 December 2014, the Company issued private placement notes due in 2017 (the "Private Bonds 2017") with an aggregated nominal value of RMB1,000,000,000 at the face value. The Private Bonds 2017 carry interest at the rate of 8.00% per annum, payable annually on December 8, in each year, and will mature on 8 December 2017.

(e) On 11 October 2015, the Company issued corporate bonds due in 2020 (the "Corporate Bonds 2020") with an aggregated nominal value of RMB5,000,000,000 at the face value. The Corporate Bonds 2020 carry interest at the rate of 4.50% per annum, payable annually on 11 October, in each year, and will mature on 11 October 2020. At the end of the first three-year period, the Company has an option to adjust the coupon rate and the holders of the Corporate Bonds 2020 also have a right to put all or part of the Corporate Bonds 2020 back to the Company at its principal value.

(f) On 14 July 2016, the Company issued corporate bonds due in 2021 (the "Corporate Bonds 2021") with an aggregated nominal value of RMB1,500,000,000 at the face value. The Corporate Bonds 2021 carry interest at the rate of 3.50% per annum, payable annually on 14 July, in each year, and will mature on 14 July 2021. At the end of the first three-year period, the Company has an option to adjust the coupon rate and the holders of the Corporate Bonds 2021 also have a right to put all or part of the Corporate Bonds 2021 back to the Company at its principal value.

33. BONDS (continued)

Notes: (continued)

(g) On 14 July 2016, the Company issued corporate bonds due in 2023 (the "Corporate Bonds 2023") with an aggregated nominal value of RMB1,500,000,000 at the face value. The Corporate Bonds 2023 carry interest at the rate of 4.29% per annum, payable annually on 14 July, in each year, and will mature on 14 July 2023. At the end of the first five-year period, the Company has an option to adjust the coupon rate and the holders of the Corporate Bonds 2023 also have a right to put all or part of the Corporate Bonds 2023 back to the Company at its principal value.

The movements of Bonds 2017, Bonds 2018, Bonds 2016, Private Bonds 2017, Corporate Bonds 2020, Corporate Bonds 2021 and Corporate Bonds 2023 are set out below:

	2016 **RMB'000**	2015 RMB'000
As at 1 January	**7,887,566**	3,494,977
Net proceeds from Corporate Bonds 2020 issued on 11 October 2015	**—**	4,958,670
Net proceeds from Corporate Bonds 2021 issued on 14 July 2016	**1,483,203**	—
Net proceeds from Corporate Bonds 2023 issued on 14 July 2016	**1,476,127**	—
Redemption of Bonds 2016 on 5 December 2016	**(500,000)**	
Redemption of Bonds 2015 on 31 August 2015	**—**	(600,000)
Interests and issue cost amortised year	**513,576**	276,549
Interest paid during the year	**(434,990)**	(242,630)
As at 31 December	**10,425,482**	7,887,566

The balance of Bonds 2017, Bonds 2018, Bonds 2016, Private Bonds 2017, Corporate Bonds 2020, Corporate Bonds 2021 and Corporate Bonds 2023 at the end of the reporting period represented by:

	2016 **RMB'000**	2015 RMB'000
Other payables — accrued interests	**101,913**	55,360
Bonds (current)	**1,889,468**	497,195
Bonds (non-current)	**8,434,101**	7,335,011
	10,425,482	7,887,566

The balances of Bonds 2017, Bonds 2018, Bonds 2016, Private Bonds 2017, Corporate Bonds 2020, Corporate Bonds 2021 and Corporate Bonds 2023 represent the contractually determined stream of future cash flows discounted at the rate of interest determined by the market instruments of comparable credit status taken into account the business risk and financial risk of the Company. The effective interest rate of Bonds 2017, Bonds 2018, Bonds 2016, Private Bonds 2017, Corporate Bonds 2020, Corporate Bonds 2021 and Corporate Bonds 2023 is 6.76% per annum, 7.89% per annum, 8.11% per annum, 8.48% per annum, 4.80% per annum, 3.90% per annum and 4.65% per annum respectively.

34. OBLIGATIONS UNDER FINANCE LEASES

The Group leased one of its shopping malls under finance leases. The lease term is 40 years, which is for the major part of the economic life of this property in the opinion of the directors of the Company. Interest rates are fixed at 6.55% per annum on the contract date. In 2016, the Group entered into a supplementary agreement with the lessor for additional rental. The lease term of the new contract is 33 years and interest rates are fixed at 4.90% per annum on the contract date. No arrangements have been entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	31/12/2016	31/12/2015	**31/12/2016**	31/12/2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**36,183**	26,315	**34,787**	25,404
Over 1 year but less than 2 years	**31,249**	26,315	**28,156**	23,798
Over 2 years but less than 5 years	**93,747**	78,944	**74,948**	63,082
More than 5 years	**833,309**	728,043	**295,079**	239,974
	994,488	859,617	**432,970**	352,258
Less: unearned finance income	**(561,518)**	(507,359)	**N/A**	N/A
Present value of lease obligations	**432,970**	352,258	**432,970**	352,258
Less: Amount due within one year shown under current liabilities	**(13,277)**	(3,193)		
Amount due after one year	**419,693**	349,065		

35. DEFERRED INCOME

	2016	2015
	RMB'000	RMB'000
As at 1 January	**194,354**	198,498
Received during the year	**6,066**	—
Released to profit or loss	**(5,007)**	(4,144)
As at 31 December	**195,413**	194,354

The Group received government subsidies of approximately RMB6,066,000 during the year ended 31 December 2016 for the development of certain shopping malls (2015: Nil). The amounts are treated as deferred income and will be recognised in profit or loss on a systematic basis over the estimated useful lives of the shopping malls.

36. OTHER NON-CURRENT LIABILITIES

	2016 RMB'000	2015 RMB'000
Initiation and entrance fees received in advance	**415,321**	696,821
Rental payable (note a)	**336,482**	330,307
Amounts due to non-controlling shareholders of subsidiaries (note b)	**719,537**	698,295
	1,471,340	1,725,423

Notes:

(a) Lease payments under an operating lease is recognised as an expense on a straight-line basis over the lease term. For operating leases with increased annual payments, the differences between the rental expenses recognised on a straight-line basis and the actual annual payments are recognised as liabilities.

(b) The amounts are unsecured, interest free and repayable on demand after the subsidiaries become profitable. In the opinion of the directors of the Company, the amounts are to be settled after twelve months from the end of the reporting period and are therefore classified as non-current liabilities.

37. SHARE CAPITAL

	Domestic shares		Foreign shares		Listed H shares		Total	
	Number of share '000	Amount RMB'000	Number of share '000	Amount RMB'000	Number of share '000	Amount RMB'000	Number of share '000	Amount RMB'000
Registered, issued and fully paid at RMB1.0 per share:								
At 1 January 2015	2,561,104	2,561,104	438,896	438,896	–	–	3,000,000	3,000,000
Share issued (note a)	–	–	80,329	80,329	–	–	80,329	80,329
Issuance of H shares (note b)	–	–	–	–	543,588	543,588	543,588	543,588
Conversion into H shares (note b)	–	–	(519,225)	(519,225)	519,225	519,225	–	–
At 31 December 2015 and 2016	2,561,104	2,561,104	–	–	1,062,813	1,062,813	3,623,917	3,623,917

37. SHARE CAPITAL (continued)

Notes:

(a) On 4 January 2015, Candlewood Investment SRL ("Candlewood") and Springwood Investment SRL ("Springwood") entered into a capital increase and subscription agreement with the Company, RSM Investment and other shareholders of the Company, pursuant to which Candlewood and Springwood further subscribed for 60,917,952 shares and 19,411,086 shares of the Company for RMB5.39 each. The total consideration amounted to approximately RMB432,973,000, out of which approximately RMB80,329,000 was paid up as registered share capital and approximately RMB352,644,000 as the share premium of the Company. The capital contribution was fully completed on 12 February 2015. After the capital contribution, the registered capital of the Company increased from RMB3,000,000,000 to RMB3,080,329,038.

(b) On 26 June 2015, upon the approval of the Stock Exchange, the Company has completed its initial public offering of 543,588,000 H shares, which are listed on the Main Board of the Stock Exchange. Moreover, the 519,225,069 foreign shares held by Candlewood and Springwood were converted into H shares upon completion of the initial public offering.

(c) Except for the currency in which dividends are paid, H shares and domestic shares rank pari passu in all respects with each other.

38. NON-CONTROLLING INTERESTS

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of Establishment and principal place of business	Proportion of equity interest held by non-controlling interest Year end December 31		Profit allocated to non-controlling interests Year ended December 31		Accumulated non-controlling interests Year ended December 31	
		2016	2015	**2016**	2015	**2016**	2015
				RMB'000	RMB'000	**RMB'000**	RMB'000
Zhengzhou Red Star Macalline International Home Furnishing Company Limited ("Zhengzhou International") (note 1)	PRC	**40.50%**	40.50%	**99,195**	123,161	**1,049,901**	1,006,036
Chengdu Changyi Red Star Macalline Home Furnishing Market Management Company Limited ("Chengdu Changyi") (note 1)	PRC	**50.00%**	50.00%	**27,391**	31,720	**535,269**	507,878
Individual immaterial subsidiaries with non-controlling interests				**205,555**	116,806	**2,631,880**	2,609,731
				332,141	271,687	**4,217,050**	4,123,645

Note 1: Pursuant to the agreements between the Group and the respective non-controlling shareholder of Zhengzhou International and Chengdu Changyi, the Group hold majority of voting power in Zhengzhou International and Chengdu Changyi. Therefore the Group has control over these entities and accounted for as subsidiaries.

38. NON-CONTROLLING INTERESTS (continued)

Zhengzhou International	2016 RMB'000	2015 RMB'000
Current assets	**270,768**	193,478
Non-current assets	**3,553,125**	3,368,295
Current liabilities	**147,860**	288,221
Non-current liabilities	**1,047,711**	784,026
Equity attributable to owners of the Company	**1,578,421**	1,483,490
Non-controlling interests	**1,049,901**	1,006,036

	2016 RMB'000	2015 RMB'000
Revenue	**228,963**	304,910
Changes in fair value of investment properties	**160,018**	115,585
Expenses	**143,985**	174,173
Profit and total comprehensive income	**244,996**	246,322
Profit and total comprehensive income attributable to owners of the Company	**145,801**	123,161
Profit and total comprehensive income attributable to the non-controlling interests	**99,195**	123,161
	244,996	246,322
Dividends paid to non-controlling interests	**55,330**	65,500
Net cash inflow from operating activities	**106,673**	231,490
Net cash (outflow) inflow from investing activities	**(243,181)**	127,019
Net cash inflow (outflow) from financing activities	**118,131**	(336,036)
Net cash (outflow) inflow	**(18,377)**	22,473

38. NON-CONTROLLING INTERESTS (continued)

Chengdu Changyi	2016 RMB'000	2015 RMB'000
Current assets	**166,695**	125,732
Non-current assets	**1,391,467**	1,342,246
Current liabilities	**168,619**	141,389
Non-current liabilities	**347,771**	339,599
Equity attributable to owners of the Company	**506,503**	479,112
Non-controlling interests	**535,269**	507,878

	2016 RMB'000	2015 RMB'000
Revenue	**70,495**	81,057
Changes in fair value of investment properties	**23,922**	20,443
Expenses	**39,635**	38,060
Profit and total comprehensive income	**54,782**	63,440
Profit and total comprehensive income attributable to owners of the Company	**27,391**	31,720
Profit and total comprehensive income attributable to the non-controlling interests	**27,391**	31,720
	54,782	63,440
Dividends paid to non-controlling interests	**—**	20,864
Net cash inflow from operating activities	**65,074**	58,988
Net cash (outflow) inflow from investing activities	**(56,949)**	165,337
Net cash (outflow) from financing activities	**(8,627)**	(232,765)
Net cash outflow	**(502)**	(8,440)

39. RETIREMENT BENEFIT PLANS

According to the relevant laws and regulations in the PRC, the group entities in the PRC are required to participate in a defined contribution retirement scheme administrated by the local municipal government. The group entities in the PRC contribute funds which are calculated on a certain percentage of the average employee salary as agreed by local municipal government to the scheme to fund the retirement benefits of the employees. The principal obligation of the Group with respect to the retirement benefit scheme is to make the required contributions under the scheme. The total cost charged to profit or loss for the years ended 31 December 2016 amounted to RMB177,088,000 (2015: RMB169,065,000) represent contributions paid or payable to the scheme by the Group.

40. ACQUISITIONS OF SUBSIDIARIES

Acquisitions in 2016:

Acquisition of安徽騰輝物流有限公司

Anhui Tenghui Logistics Company Limited ("Anhui Tenghui Logistics")

In June 2016, the Group acquired 100.0% equity interest in Anhui Tenghui Logistics for a consideration of RMB50,000,000 from an independent third party. The Group also agreed to assume liabilities of RMB173,000,000 of the acquiree. Anhui Tenghui Logistics is principally engaged in leasing of warehouses and was acquired so as to continue the expansion of the Group's principal business.

Acquisition of安徽騰輝投資集團合肥有限公司

Anhui Tenghui Investment Group Hefei Company Limited ("Anhui Tenghui Investment Hefei")

The Group held 5.0% equity interest in Anhui Tenghui Investment Hefei and accounted for as available-for-sale investments before the acquisition. In December 2016, the Group acquired 95.0% equity interest in Anhui Tenghui Investment Hefei for a consideration of RMB30,000,000 from an independent third party. The Group also agreed to assume liabilities of approximately RMB534,598,000 of the acquiree. Anhui Tenghui Investment Hefei is principally engaged in operating and managing a home furnishing shopping mall and was acquired so as to continue the expansion of the Group's principal business.

40. ACQUISITION OF SUBSIDIARIES (continued)

Assets acquired and liabilities recognised at respective date of acquisition are as follows:

	Anhui Tenghui Logistics RMB'000	Anhui Tenghui Investment Hefei RMB'000	Total RMB'000
Cash and cash equivalents	3,375	859	4,234
Trade and other receivables (note a)	12,624	5,538	18,162
Investment properties	244,783	586,998	831,781
Property, plant and equipment	—	98	98
Intangible assets	164	6	170
Trade and other payables	(206,609)	(558,050)	(764,659)
Rental and service fee received in advance	(1,929)	—	(1,929)
Deferred tax liabilities	(2,408)	(3,495)	(5,903)
	50,000	31,954	81,954
Goodwill (bargain purchase) on acquisition of a subsidiary:			
Consideration paid and payable	50,000	30,000	80,000
Plus: fair value of previously held equity interest in the acquiree	—	1,598	1,598
Less: fair value of identifiable net assets acquired	(50,000)	(31,954)	(81,954)
Bargain purchase	—	(356)	(356)
Net cash inflow (outflow) arising on acquisition:			
Cash and cash equivalent balances acquired	3,375	859	4,234
Less: consideration paid in cash	(50,000)	(30,000)	(80,000)
Less: liabilities assumed and settled	(173,000)	(534,598)	(707,598)
	(219,625)	(563,739)	(783,364)

Note a: The amounts represented the fair value of the receivables acquired in these transactions, which approximate the gross contractual amounts of these receivables.

40. ACQUISITION OF SUBSIDIARIES (continued)

Acquisition-related costs for these acquisitions are not material and have been excluded from the consideration transferred and have been recognised as an expense during the year, within the 'administrative expenses' line item in the consolidated statement of profit or loss and other comprehensive income.

Included in the profit for the year ended 31 December 2016 is RMB3,696,000 and RMB nil in respect of Anhui Tenghui Logistics and Anhui Tenghui Investment Hefei after the respective acquisition. Included in the revenue for the year ended 31 December 2016 is RMB2,640,000 and RMB nil in respect of Anhui Tenghui Logistics and Anhui Tenghui Investment Hefei after the respective acquisition.

Had these acquisitions been effected at 1 January 2016, the revenue of the Group for the year ended 31 December 2016 would have been RMB9,288 million, and the profit for the year ended 31 December 2016 would have been RMB4,300 million.

Acquisitions in 2015:

Acquisition of Kuming Diken

In June 2015, the Group acquired 63.0% equity interest in Kuming Diken for a consideration of RMB177,691,000 from an independent third party. Kuming Diken was holding the land use right for a piece of land parcel and has not carried out any substantial business activities. The acquisition has been accounted for as acquisition of assets, which do not constitute a business.

Acquisition of Suzhou Zhongxiang

Suzhou Zhongxiang was established by the Group and a third party in October 2009, the Group held 33% equity interest in Suzhou Zhongxiang and accounted for as interest in an associate. In July 2015, the Group acquired additional 22% equity interest in Suzhou Zhongxiang for a cash consideration of RMB74,076,000 from a third party. Suzhou Zhongxiang is principally engaged in operating and managing a home furnishing shopping mall and was acquired so as to continue the expansion of the Group's principal business.

40. ACQUISITION OF SUBSIDIARIES (continued)

Acquisitions in 2015: (continued)

Acquisition of Huhehaote Shibo

The Group held 9% equity interest in Huhehaote Shibo and accounted for as available-for-sale investments before the acquisition. In July 2015, the Group acquired 51% equity interest in Huhehaote Shibo for a cash consideration of RMB51,000,000 from a third party. Huhehaote Shibo was developing a home furnishing shopping mall and was acquired so as to continue the expansion of the Group's principal business.

Acquisition of Jiabeide (as defined below)

家倍得裝飾有限公司 Jiabeide Decorating Company Limited ("Jiabeide") was established by the Group, the Group held 50% of its equity interest and accounted for its interest in Jiabeide as a joint venture. In July 2015, the Group entered into an agreement with other shareholders of Jiabeide, pursuant to which, the Group has the practical ability to direct the relevant activities of Jiabeide unilaterally, therefore the Group has control over Jiabeide and accounts for its interest in Jiabeide as a subsidiary. Jiabeide is principally engaged in retail sales of home furnishing merchandise and providing related decorating services and was acquired so as to continue the expansion of the Group's principal business.

Acquisition of Suzhou Kairun

In December 2015, the Group acquired 60.0% equity interest in Suzhou Kairun for a consideration of RMB258,000,000 from RSM Enterprise Development. Suzhou Kairun was holding the land use right for a piece of land parcel and has not carried out any substantial business activities. The acquisition has been accounted for as acquisition of assets, which do not constitute a business.

Acquisition of RSM Industrial

In December 2015, the Group acquired 100.0% equity interest in RSM Industrial for a consideration of RMB206,841,000 from RSM Enterprise Development. RSM Industrial was holding equity investments (accounted for as available-for-sale investments and other non-current assets) and has not carried out any substantial business activities. The acquisition has been accounted for as acquisition of assets, which do not constitute a business.

40. ACQUISITION OF SUBSIDIARIES (continued)

Acquisitions in 2015: (continued)

Assets acquired and liabilities recognised at respective date of acquisition are as follows:

	Kuming Diken RMB'000	Suzhou Zhongxiang RMB'000	Huhehaote Shibo RMB'000	Jiabeide RMB'000	Suzhou Kairun RMB'000	RSM Industrial RMB'000	Total RMB'000
Cash and cash equivalents	485	5,955	1,010	31,243	—	4,350	43,043
Trade and other receivables (note a)	—	311	58,454	4,649	—	77,200	140,614
Investment properties	278,581	922,302	403,301	—	430,000	—	2,034,184
Property, plant and equipment	—	123	26	862	—	—	1,011
Available-for-sale investments	—	—	—	—	—	148,230	148,230
Other non-current assets (note a)	—	—	—	—	—	190,250	190,250
Deferred tax assets	—	5,485	71	788	—	1,250	7,594
Borrowings	—	(447,000)	—	—	—	—	(447,000)
Trade and other payables	—	(142,203)	(357,655)	(36,334)	—	(214,439)	(750,631)
Deferred tax liabilities	—	(79,706)	(1,589)	—	—	—	(81,295)
	279,066	265,267	103,618	1,208	430,000	206,841	1,286,000
Goodwill (bargain purchase) on acquisition of a subsidiary:							
Consideration paid and payable	177,691	74,076	51,000	—	258,000	206,841	767,608
Plus: fair value of previously held equity interest in the acquiree	—	88,413	9,326	604	—	—	98,343
Plus: non-controlling interests (note b)	101,375	119,370	41,447	604	172,000	—	434,796
Less: fair value of identifiable net assets acquired	(279,066)	(265,267)	(103,618)	(1,208)	(430,000)	(206,841)	(1,286,000)
Goodwill (bargain purchase)	—	16,592	(1,845)	—	—	—	14,747
Net cash inflow (outflow) arising on acquisition:							
Cash and cash equivalent balances acquired	485	5,955	1,010	31,243	—	4,350	43,043
Less: consideration paid in cash	62,192 (note c)	74,076	51,000	—	225,960 (note d)	63,309 (note d)	476,537
	(61,707)	(68,121)	(49,990)	31,243	(225,960)	(58,959)	(433,494)

40. ACQUISITION OF SUBSIDIARIES (continued)

Acquisitions in 2015: (continued)

Note a: The amounts represented the fair value of the receivables acquired in these transactions, which approximate the gross contractual amounts of these receivables.

Note b: The non-controlling interests in the acquiree at the respective acquisition date was initially measured at the non-controlling interests' proportionate share of the recognised amount of the acquiree's identifiable net assets.

Note c: The Group has prepaid cash consideration of RMB62,191,000 in 2014, which was accounted for as other non-current assets. The remaining consideration of RMB53,308,000 was outstanding as at 31 December 2015 and recorded as other payable disclosed in note 31.

Note d: The remaining consideration of RMB32,040,000 and RMB143,532,000 for Suzhou Kairun and RSM Industrial was outstanding as at 31 December 2015 and recorded as other payable disclosed in note 31, respectively.

Acquisition-related costs for these acquisitions are not material and have been excluded from the consideration transferred and have been recognised as an expense during the year, within the 'administrative expenses' line item in the consolidated statement of profit or loss and other comprehensive income.

Included in the profit for the year ended 31 December 2015 is RMB814,000, RMB17,630,000, RMB78,996,000, RMB746,000, RMB nil and RMB nil in respect of Kunming Diken, Suzhou Zhongxiang, Huhehaote Shibo, Jiabeide, Suzhou Kairun and RSM Industrial after the respective acquisition. Included in the revenue for the year ended 31 December 2015 is RMB nil, RMB20,971,000, RMB nil, RMB45,283,000, RMB nil and RMB nil in respect of Kunming Diken, Suzhou Zhongxiang, Huhehaote Shibo, Jiabeide, Suzhou Kairun and RSM Industrial after the respective acquisition.

Had these acquisitions been effected at 1 January 2015, the revenue of the Group for the year ended 31 December 2015 would have been RMB8,842 million, and the profit for the year ended 31 December 2015 would have been RMB4,448 million.

41. DISPOSAL OF SUBSIDIARIES

Disposals in 2016:

Disposal of 武漢星典裝飾工程有限責任公司

Wuhan Xingdian Home Decorating Company Limited ("Wuhan Xingdian")

In January 2016, the Group disposed 60% equity interest in its subsidiary, Wuhan Xingdian, to a third party for a cash consideration of RMB96,000.

Disposal of 河南星時代裝飾設計工程有限公司

Henan Xingshidai Home Decorating Design Company Limited ("Henan Xingshidai")

In January 2016, the Group disposed 60% equity interest in its subsidiary, Henan Xingshidai, to a third party for a cash consideration of RMB150,000.

Disposal of 上海津麗龍裝飾設計工程有限公司

Shanghai Jinlilong Home Decorating Design Company Limited ("Shanghai Jinlilong")

In January 2016, the Group disposed 80% equity interest in its subsidiary, Shanghai Jinlilong, to a third party for a cash consideration of RMB926,000.

Disposal of 成都尚鼎居裝飾工程有限公司

Chengdu Shangdingju Home Decorating Company Limited ("Chengdu Shangdingju")

In January 2016, the Group disposed 70% equity interest in its subsidiary, Chengdu Shangdingju, to a third party for a cash consideration of RMB320,000.

Deemed disposal of 杭州紅星美凱龍環球家居有限公司

Hangzhou Red Star Macalline Global Home Company Limited ("Hangzhou Global")

In September 2016, certain third parties made capital contribution to Hangzhou Global. Upon the completion of the capital contribution, the Company held 19.0% of the equity interest of Hangzhou Global which was accounted for as interests in an associate and Hangzhou Global ceased to be a subsidiary of the Group.

41. DISPOSAL OF SUBSIDIARIES (continued)

Disposals in 2016: (continued)

The net assets at the respective date of disposals were as follows:

	Wuhan Xingdian RMB'000	Henan Xingshidai RMB'000	Shanghai Jinlilong RMB'000	Chengdu Shangdingju RMB'000	Hangzhou Global RMB'000	Total RMB'000
Cash and cash equivalents	955	928	1,852	1,175	14,156	19,066
Inventories	17	41	294	260	–	612
Trade and other receivables	230	158	911	701	4,850	6,850
Property, plant and equipment	33	209	735	231	–	1,208
Deferred tax assets	–	–	516	169	–	685
Intangible assets	–	–	3	4	–	7
Trade and other payables	(167)	(147)	(506)	(532)	151	(1,201)
Rental and service fee received in advance	(1,020)	(312)	(3,165)	(1,851)	–	(6,348)
Non-controlling interests	119	(351)	(128)	(47)	–	(407)
	167	526	512	110	19,157	20,472
Gain (loss) on disposal of subsidiaries:						
Consideration received and receivable	96	150	926	320	–	1,492
Fair value of the retained interest	–	–	–	–	19,000	19,000
	96	150	926	320	19,000	20,492
Less: net assets disposed	(167)	(526)	(512)	(110)	(19,157)	(20,472)
	(71)	(376)	414	210	(157)	20
Net cash inflow (outflow) arising on acquisition:						
Consideration received	96	150	926	320	–	1,492
Less: bank balances and cash disposed of	(955)	(928)	(1,852)	(1,175)	(14,156)	(19,066)
	(859)	(778)	(926)	(855)	(14,156)	(17,574)

41. DISPOSAL OF SUBSIDIARIES (continued)

Disposals in 2015:

Disposal of Wuhan Zhengda

In November 2015, the Group disposed 18% equity interest in its subsidiary, Wuhan Zhengda, to a third party for a cash consideration of RMB9,000,000. After the disposal, the Group held 40% equity interest in Wuhan Zhengda and accounted for as interest in an associate.

Disposal of 上海景旺裝飾設計工程有限公司

Shanghai Jingwang Home Decorating Design Company Limited ("Shanghai Jingwang")

In December 2015, the Group disposed 65% equity interest in its subsidiary, Shanghai Jingwang, to a third party for a cash consideration of RMB191,000.

Disposal of 上海臻星裝飾工程有限公司

Shanghai Zhenxing Home Decorating Company Limited ("Shanghai Zhenxing")

In December 2015, the Group disposed 70% equity interest in its subsidiary, Shanghai Zhenxing, to a third party for a cash consideration of RMB56,000.

Disposal of 成都心屋裝飾工程設計有限公司

Chengdu Xinwu Home Decorating Design Company Limited ("Chengdu Xinwu")

In December 2015, the Group disposed 65% equity interest in its subsidiary, Chengdu Xinwu, to a third party for a cash consideration of RMB1 yuan.

41. DISPOSAL OF SUBSIDIARIES (continued)

Disposals in 2015: (continued)

The net assets at the respective date of disposals were as follows:

	Wuhan Zhengda RMB'000	Shanghai Jingwang RMB'000	Shanghai Zhenxing RMB'000	Chengdu Xinwu RMB'000	Total RMB'000
Cash and cash equivalents	303	1,300	695	2,837	5,135
Inventories	2	262	20	691	975
Trade and other receivables	66,009	931	766	1,137	68,843
Property, plant and equipment	481	228	59	156	924
Deferred tax assets	47	1,176	1,067	1,282	3,572
Other non-current assets	49,636	—	—	—	49,636
Trade and other payables	(67,023)	(2,936)	(2,808)	(9,300)	(82,067)
Non-controlling interests	(20,771)	(336)	60	1,346	(19,701)
	28,684	625	(141)	(1,851)	27,317
Gain (loss) on disposal of subsidiary:					
Consideration received and receivable	9,000	191	56	—	9,247
Fair value of the retained interest	20,000	—	—	—	20,000
	29,000	191	56	—	29,247
Less: net assets disposed	(28,684)	(625)	141	1,851	(27,317)
	316	(434)	197	1,851	1,930
Net cash inflow (outflow) arising on acquisition:					
Consideration received	9,000	191	56	—	9,247
Less: bank balances and cash disposed of	(303)	(1,300)	(695)	(2,837)	(5,135)
	8,697	(1,109)	(639)	(2,837)	4,112

42. PLEDGED ASSETS

The following assets were pledged to secure certain bank and other borrowings, and banking facilities granted to the Group as set out in note 32 at the end of the reporting period:

	2016	2015
	RMB'000	RMB'000
Investment properties	**54,814,000**	45,009,000
Restricted bank deposits	**70,461**	69,126
	54,884,461	45,078,126

43. CAPITAL COMMITMENTS

	2016	2015
	RMB'000	RMB'000
Contracted but not provided for in the consolidated financial statements:		
— Capital expenditure in respect of acquisition and construction of investment properties (including through acquisition of subsidiaries)	**4,359,469**	2,483,600

In addition, the Group has entered into agreements with its partners, pursuant to which the Group's commitments to contribute funds for development of investment properties jointly with the partners amounted to RMB1,342,613,000 as at 31 December 2015.

44. OPERATING LEASES

The Group as lessee

Minimum lease payments paid under operating leases during the year ended 31 December 2016 was RMB591,560,000 (2015: RMB577,570,000). The Group leases various shopping malls under non-cancellable operating lease agreements. The lease terms are from 1 to 20 years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2016	2015
	RMB'000	RMB'000
Within one year	**529,273**	551,469
In the second to fifth years inclusive	**1,911,516**	2,114,832
Over five years	**2,658,477**	3,235,381
	5,099,266	5,901,682

The Group as lessor

Property rental and management fee income earned during the year ended 31 December 2016 was RMB5,870,675,000 (2015: RMB5,259,961,000). The properties held by the Group for rental purpose have committed tenants from 6 to 18 months, most of which are fixed rental.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments under non-cancellable operating leases:

	2016	2015
	RMB'000	RMB'000
Within one year	**3,280,715**	2,356,705
In the second year	**258,927**	64,242
	3,539,642	2,420,947

45. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged.

The capital structure of the Group consists of debts, which mainly includes borrowings disclosed in note 32 and bonds disclosed in note 33, and equity attributable to owners of the Company, comprising share capital, share premium and other reserves.

The directors of the Company review the capital structure on an annual basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management, the Group will balance its overall structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debts.

46. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2016 **RMB'000**	2015 RMB'000
Financial assets:		
Loan and receivables (including bank balances and cash)	**9,706,889**	8,462,694
Available-for-sale investments	**544,401**	402,930
Total	**10,251,290**	8,865,624
Financial liabilities:		
Amortised costs	**28,838,368**	23,698,576

46. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies

The Group's major financial assets and liabilities include available-for-sale investments, loan receivables, trade and other receivables, restricted bank deposits, bank balances and cash, trade and other payables, bank and other borrowings, bonds and obligations under finance leases. Details of these financial instruments are set out in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

The Group's activities expose primarily to the market risks of changes in interest rates. There has been no change in the Group's exposure to these risks or the manner in which it manages and measures the risks.

(i) Currency risk

The Group collects all of its revenue in RMB and incurs almost all of its expenditures in RMB. A small portion of bank balances and cash of the Group are denominated in Hong Kong dollars ("HKD") and United States dollars ("USD"). The Group pays all dividends in respect of H shares in HKD. The Group currently does not have a foreign currency hedging policy as the directors of the Company consider that the foreign exchange risk exposure of the Group is minimal. However, the Group monitors currency risk exposure by periodically reviewing foreign currency exchange rates and will consider hedging significant foreign currency exposure should the need arise.

No sensitivity analysis has been presented as the directors of the Company consider that the foreign exchange risk exposure of the Group is minimal.

(ii) Interest risk

The Group is exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rates on bank balances, restricted bank deposits, loan receivables and bank and other borrowings which carry at prevailing deposit interest rates or variable interest rates based on the interest rates quoted by the People's Bank of China.

The Group's fair value interest rate risk relates primarily to its fixed rate bank and other borrowings as well as bonds. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the Group monitors fair value interest rate risk exposure by closely monitoring the fair value interest rate risk profile and will consider hedging significant interest rate exposure should the need arise.

46. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Market risk (continued)

(ii) Interest risk (continued)

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

Sensitivity analysis

The sensitivity analysis below has been prepared based on the exposure to interest rates on bank balances, restricted bank deposits and variable rate bank and other borrowings at the end of the reporting period and the stipulated change taking place at the beginning of the financial year and held constant throughout the year. A 50 basis points increase or decrease for variable rate bank and other borrowings and a 25 basis points increase or decrease for loan receivables, bank balances and restricted bank deposits represent management's assessment of the reasonably possible change in interest rate in respect of bank and other borrowings, loan receivables, bank balances and restricted bank deposits, respectively. The sensitivity analysis of the increase/decrease of interest rate may not be meaningful to reflect the actual exposure.

If interest rates had been increased by 50 basis points in respect of variable rate bank and other borrowings and all other variables were held constant, the Group's post-tax profit for the year (net of interest capitalisation effect) would have decreased by:

	2016 **RMB'000**	2015 RMB'000
Decrease in post-tax profit for the year	**34,143**	33,919

The post-tax profit for the year (net of interest capitalisation effect) would have increased by the same amount as mentioned above if interest rates had been decreased by 50 basis points in respect of variable rate bank and other borrowings and all other variables were held constant.

46. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Market risk (continued)

(ii) Interest risk (continued)

Sensitivity analysis (continued)

If interest rates had been increased by 25 basis points in respect of bank balances and restricted bank deposits and all other variables were held constant, the Group's post-tax profit for the year would have increased by:

	2016 **RMB'000**	2015 RMB'000
Increase in post-tax profit for the year	**11,145**	8,757

The post-tax profit for the year would have decreased by the same amount as mentioned above if interest rates had been decreased by 25 basis points in respect of bank balances and restricted bank deposits and all other variables were held constant.

Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from:

(a) The carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position at the end of the reporting period; and

(b) The amounts of contingent liabilities in relation to financial guarantee issued by the Group as disclosed in note 47.

In order to minimize the credit risk, the management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group review the recoverable amount of each individual trade debt and debt investment at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk are significantly reduced.

46. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk (continued)

The Group doesn't have significant concentration of credit risk on trade receivables as trade receivables consist of a large number of customers, spread across diverse geographical areas.

The Group has concentration of credit risk on the Group's amounts due from related parties. However, the credit risk on amounts due from related parties is limited as the related parties are at a good financial position.

The Group has concentration of credit risk on liquid funds which are deposited with several banks. However, the credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Liquidity risk

The directors of the Company have built an appropriate liquidity risk management framework to meet the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

In addition, the following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

The amounts included below for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates different to those estimates of interest rates determined at the end of each year.

46. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Liquidity risk (continued)

	Weighted effective average interest rate %	On demand or less than 1 year RMB'000	1 year to 2 years RMB'000	2 years to 5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
As at 31 December 2016							
Trade and other payables		5,804,254	–	–	–	5,804,254	5,804,254
Other non-current liabilities		–	739,537	65,145	251,337	1,056,019	1,056,019
Bank and other borrowings — fixed rate	5.05	85,692	1,261,406	209,588	29,624	1,586,310	1,510,010
Bank and other borrowings — variable rate	5.10	2,838,043	2,252,012	3,413,493	1,716,000	10,219,548	9,724,823
Bonds	4.95	2,414,340	5,879,350	2,248,050	1,628,700	12,170,440	10,323,569
Obligation under financial leases	6.33	36,183	31,249	93,747	833,309	994,488	419,693
Financial guarantee contracts		273,000	–	–	–	273,000	–
		11,451,512	10,163,554	6,030,023	4,458,970	32,104,059	28,838,368

46. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Liquidity risk (continued)

	Weighted effective average interest rate %	On demand or less than 1 year RMB'000	1 year to 2 years RMB'000	2 years to 5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
As at 31 December 2015							
Trade and other payables		5,164,151	—	—	—	5,164,151	5,164,151
Other non-current liabilities		—	1,028,602	—	—	1,028,602	1,028,602
Bank and other borrowings — fixed rate	7.29	506,141	74,673	225,705	229,010	1,035,529	839,733
Bank and other borrowings — variable rate	6.28	2,539,456	2,563,016	3,773,346	1,456,843	10,332,661	8,484,819
Bonds	5.51	934,990	2,334,990	5,800,000	—	9,069,980	7,832,206
Obligation under financial leases	6.55	26,315	26,315	78,944	728,043	859,617	349,065
Financial guarantee contracts		278,000	—	—	—	278,000	—
		9,449,053	6,027,596	9,877,995	2,413,896	27,768,540	23,698,576

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be forced to settle under the arrangement for the utilised amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the directors of the Company consider that it is more likely than not that such an amount will not be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

46. FINANCIAL INSTRUMENTS (continued)

(c) Fair value measurements

Except as detailed in the following table, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values at the end of the reporting period.

	31 December 2016	
	Carrying amount RMB'000	Fair value RMB'000
Bonds	**10,323,569**	**10,653,284**

	Fair value hierarchy at 31 December 2016	
	Level 2 RMB'000	Total RMB'000
Bonds	**10,653,284**	**10,653,284**

47. CONTINGENT LIABILITIES

a) As at 31 December 2016 and 2015, the Group issued financial guarantees with its partners to a financial institution in respect of a loan in the amount up to RMB400,000,000 granted to a joint venture, of which RMB98,000,000 and RMB178,000,000 have been utilised by the joint venture as at 31 December 2016 and 2015, respectively. In the opinion of the directors of the Company, the fair value of the financial guarantee provided by the Group is not significant as the joint venture is at a good financial position.

b) Haier Financing, the associate of the Group was granted a facility in the amount up to RMB1,500,000,000 and the Group provided guarantees up to the Group's proportion, 25%, which is up to RMB375,000,000, to secure this loan:

   i. the Group pledged its equity interest in Haier Financing to secure 15% of this loan, which is up to RMB225,000,000; and

   ii. the Group issued financial guarantees to 10% of this loan, which is up to RMB150,000,000.

In 2016, Haier Financing was granted a new facility in the amount up to RMB2,500,000,000 and the Group issued financial guarantees up to the Group's proportion, 25%, which is up to RMB625,000,000.

As at 31 December 2016, RMB500,000,000 and RMB500,000,000 (2015: RMB1,000,000,000) of the two facilities have been utilised by Haier Financing, respectively. In the opinion of the directors of the Company, the fair value of the financial guarantee provided by the Group is not significant as Haier Financing is at a good financial position.

48. RELATED PARTY TRANSACTIONS

The Group has the following related party balances and transactions:

(a) During the year, the following parties are identified as related parties to the Group and the respective relationships are set out below:

Name of related party	Relationship
Mr. Che Jianxing	Ultimate controlling shareholder
Ms. Chen Shuhong	Wife of Mr. Che Jianxing
Mr. Che Guoxing	Brother of Mr. Che Jianxing
Ms. Che Jianfang	Sister of Mr. Che Jianxing
Ms. Qian Yumei	Close family member of Mr. Che Jianxing
紅星傢俱集團有限公司 Red Star Furniture Group Limited ("Red Star Furniture")	Controlled by Mr. Che Jianxing
常州市紅星裝飾城 Changzhou Red Star Furnishing City ("Changzhou Furnishing City")	Controlled by Mr. Che Jianxing
揚州紅星美凱龍全球家居生活廣場置業有限公司 Yangzhou Red Star Macalline Global Home Furnishing Plaza Company Limited ("Yangzhou Global")	Controlled by close family member of Mr. Che Jianxing
濟寧鴻瑞置業有限公司 Jining Hongrui Real Estate Company Limited ("Jining Hongrui")	Controlled by close family member of Mr. Che Jianxing
陝西鴻瑞家居生活廣場有限公司 Shaanxi Hongrui Home Furnishing Plaza Company Limited ("Shaanxi Hongrui")	Controlled by close family member of Mr. Che Jianxing

48. RELATED PARTY TRANSACTIONS (continued)

(a) During the year, the following parties are identified as related parties to the Group and the respective relationships are set out below: (continued)

Name of related party	Relationship
徐州紅星美凱龍國際傢俱裝飾城有限公司 Xuzhou Red Star Macalline International Home Furnishing City Company Limited ("Xuzhou International")	Controlled by close family member of Mr. Che Jianxing
徐州紅星美凱龍全球家居生活廣場有限公司 Xuzhou Red Star Macalline Global Home Furnishing Plaza Company Limited ("Xuzhou Global")	Controlled by close family member of Mr. Che Jianxing
興化市星凱家居生活廣場有限公司 Xinghua Xingkai Home Furnishing Plaza Company Limited ("Xinghua Xingkai")	Significantly influenced by close family member of Mr. Che Jianxing
RSM Holding	Ultimate holding company
RSM Enterprise Development Group	Under common control of RSM Holding
金科地產集團股份有限公司 Jinke Property Group Company Limited ("Jinke Property")	Significantly influenced by key management personnel of the Company
上海名藝商業企業發展有限公司及其子公司 Shanghai Mingyi Enterprise Development Company Limited and its subsidiary (collectively "Shanghai Mingyi")	A joint venture of the Group
Chengdu Dongtai	A joint venture of the Group
西安紅星佳鑫家居有限責任公司 Xi'an Red Jiaxin Star Home Furnishing Company Limited ("Xi'an Jiaxin")	A joint venture of the Group

48. RELATED PARTY TRANSACTIONS (continued)

(a) During the year, the following parties are identified as related parties to the Group and the respective relationships are set out below: (continued)

Name of related party	Relationship
Xiamen Baoxiang	A joint venture of the Group
Suzhou Zhongxiang	An associate of the Group (note)
Wuhan Zhengda	An associate of the Group (note)
Haier Financing	An associate of the Group
Shenzhen Red Star	An associate of the Group
Hangzhou Red Star	An associate of the Group
寧波澳洋家居購物廣場有限公司 Ningbo Aoyang Home Shopping Plaza Company Limited ("Ningbo Aoyang")	Significantly influenced by key management personnel of the Company
寧波隆凱家居生活購物有限公司 Ningbo Longkai Home Living Shopping Company Limited ("Ningbo Longkai ")	Significantly influenced by key management personnel of the Company
株洲紅星新安居實業有限公司 Zhuzhou Red Star Xin An Ju Industrial Company Limited ("Zhuzhou Red Star")	Significantly influenced by key management personnel of the Company

Note: Suzhou Zhongxiang ceased to be an associate and became a subsidiary in July 2015, details of which are set out in note 40. Wuhan Zhengda ceased to be a subsidiary and became an associate in November 2015, details of which are set out in note 41.

48. RELATED PARTY TRANSACTIONS (continued)

(b) During the year, the Group has the transactions with following related parties and the details are set out below:

	2016 RMB'000	2015 RMB'000
Initiation and entrance fees and annual management fee received and receivable from following related parties:		
— Yangzhou Global*	**1,979**	2,000
— Jining Hongrui*	**3,831**	4,000
— Shaanxi Hongrui*	**2,887**	3,000
— Xuzhou International*	**1,443**	1,520
— Xuzhou Global*	**2,406**	2,480
— Xinghua Xingkai	**1,386**	5,810
— RSM Enterprise Development Group	**7,272**	11,507
— Shanghai Mingyi	**2,887**	3,000
	24,091	33,317
Rental income from:		
— Ms. Qian Yumei	**1,225**	1,119
	1,225	1,119
Commission income regarding pre-paid cards:		
— Xuzhou Global	**3**	—
— Shaanxi Hongrui	**2**	—
— Chengdu Dongtai	**26**	—
— Shanghai Mingyi	**27**	—
	58	—
Rental expenses paid and payable to:		
— Changzhou Furnishing City*	**15,951**	15,500
— Mr. Che Guoxing	**336**	336
— RSM Enterprise Development Group*	**4,667**	—
— Jinke Property	**—**	9,921
	20,954	25,757

* These transactions are continuing connected transaction as defined in Chapter 14A of Listing Rules.

Acquisition/disposal of equity interests with related parties:

During the year ended 31 December 2015, the Group acquired Suzhou Kairun and RSM Industrial from RSM Enterprise Development, details of which are set out in note 40.

48. RELATED PARTY TRANSACTIONS (continued)

(c) At the end of the reporting period, the Group has provided guarantees or assets pledge to, or obtained guarantees provided by the following related parties and the details are set out below:

(i) Guarantees provided to following related parties for banking facilities granted:

	2016 RMB'000	2015 RMB'000
Chengdu Dongtai (note 47)	**98,000**	178,000
Haier Financing (note 47)	**175,000**	100,000
	273,000	278,000

(ii) Assets pledged in respect of the mortgage loans provided by the banks to related parties:

Equity interest pledged

As at 31 December 2016 and 2015, the Group has pledged its equity interest in Haier Financing to secure 15% of the loan granted to Haier Financing in the amount up to RMB225,000,000, details of which are set out in note 47.

(iii) Guarantees provided by related parties for banking facilities granted:

	2016 RMB'000	2015 RMB'000
— Mr. Che Jianxing	**695,000**	350,000
— Mr. Che Jianxing,		
— Red Star Furniture and RSM Holding	**850,803**	956,418
— Red Star Furniture	**275,000**	385,000
— RSM Holding	**—**	110,000
	1,820,803	1,801,418

48. RELATED PARTY TRANSACTIONS (continued)

(d) At the end of the reporting period, the Group has the balances with following related parties and the details are set out below:

	2016 RMB'000	2015 RMB'000
Accounts receivable: trade nature		
— Xuzhou International	**30**	20
— Xinghua Xingkai	**—**	191
	30	211
Other receivables: non-trade nature		
— Wuhan Zhengda (note)	**10**	10
— RSM Enterprise Development Group (note)	**—**	43,248
— Shanghai Mingyi (note)	**97,600**	88,400
— Xi'an Jiaxin (note)	**50**	50
— Shaanxi Hongrui (note)	**8,396**	12,134
— Ningbo Longkai	**24,000**	—
	130,056	143,842

Note: The amounts are unsecured, interest free and repayable on demand.

	2016 RMB'000	2015 RMB'000
Other non-current assets:		
— RSM Enterprise Development Group (note 26(d))	**247,705**	247,705
— Wuhan Zhengda (note)	**117,092**	42,092
— Hangzhou Red Star (note)	**123,796**	—
— Xiamen Baoxiang (note)	**46,500**	—
	535,093	289,797

Note: The amounts are non-trade in nature, unsecured, interest free and repayable on demand after these entities become profitable. In the opinion of the directors of the Company, the amounts are to be settled after twelve months from the end of the reporting period and are therefore classified as non-current assets.

48. RELATED PARTY TRANSACTIONS (continued)

(d) At the end of the reporting period, the Group has the balances with following related parties and the details are set out below: (continued)

	2016 RMB'000	2015 RMB'000
Rental and service fee received in advance: trade nature		
— Xuzhou Global	**386**	387
— Xinghua Xingkai	**992**	—
— RSM Enterprise Development Group	**3,532**	5,182
— Ms. Qian Yumei	**46**	22
— Shanghai Mingyi	**684**	684
— Ningbo Aoyang	**1,039**	—
	6,679	6,275

	2016 RMB'000	2015 RMB'000
Other payables:		
— RSM Enterprise Development Group		
— acquisition related (note i)	**30,989**	175,572
— RSM Enterprise Development Group		
— other (note ii)	**1,560**	204,596
— Shenzhen Red Star (note ii)	**11,545**	24,246
— Ningbo Aoyang	**970**	—
— Ningbo Longkai	**4,147**	—
— Zhuzhou Red Star	**1,739**	—
	50,950	404,414

Note i: The amounts represented consideration payable to RSM Enterprise Development for acquisition of Suzhou Kairun and RSM Industrial, details of which are set out in note 40.

Note ii: The amounts are non-trade in nature, unsecured, interest free and repayable on demand.

48. RELATED PARTY TRANSACTIONS (continued)

(e) Key management personnel emoluments

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors of the Company and other key management of the Group. The key management personnel compensation are as follows:

	2016 RMB'000	2015 RMB'000
— Short-term employee benefits	**37,431**	38,794
— Retirement benefit contributions	**593**	614
— Performance related incentive payments	**17,716**	—
	55,740	39,408

49. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	**31,962**	27,629
Intangible assets	**425,166**	536,774
Investments in subsidiaries	**10,027,466**	9,762,414
Investments in associates	**67,517**	21,850
Investment in joint ventures	**276,877**	261,877
Available-for-sale investments	**189,051**	22,400
Loan receivables	**40,223**	—
Loan receivables due from subsidiaries	**215,644**	215,644
Deferred tax assets	**338,953**	215,922
Other non-current assets	**1,346,662**	1,215,467
	12,959,521	12,279,977
CURRENT ASSETS		
Inventories	**2,676**	46
Loan receivables	**72,500**	30,100
Trade and other receivables	**19,191,702**	13,172,366
Tax recoverable	**23,317**	—
Restricted bank deposits	**10**	—
Bank balances and cash	**1,605,378**	2,477,919
	20,895,583	15,680,431
CURRENT LIABILITIES		
Trade and other payables	**7,100,486**	4,587,798
Rental and service fee received in advance	**668,558**	726,254
Tax liabilities	**4,822**	120,348
Bank and other borrowings	**1,540,010**	510,000
Bonds	**1,889,468**	497,195
	11,203,344	6,441,595
NET CURRENT ASSETS	**9,692,239**	9,238,836
TOTAL ASSETS LESS CURRENT LIABILITIES	**22,651,760**	21,518,813

49. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

	2016 RMB'000	2015 RMB'000
NON-CURRENT LIABILITIES		
Bank and other borrowings	**1,460,000**	1,200,000
Bonds	**8,434,101**	7,335,011
Deferred income	**—**	54,016
Other non-current liabilities	**376,084**	682,410
	10,270,185	9,271,437
NET ASSETS	**12,381,575**	12,247,376
CAPITAL AND RESERVES		
Share capital	**3,623,917**	3,623,917
Share premium	**5,617,001**	5,617,001
Reserves	**3,140,657**	3,006,458
Total equity	**12,381,575**	12,247,376

Share premium and reserves

	Share premium RMB'000	Statutory surplus reserve RMB'000	Share options reserves RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2015	234,616	666,648	169,331	2,846,860	3,917,455
Profit and total comprehensive income for the year	—	—	—	1,813,619	1,813,619
Transfer	—	184,251	—	(184,251)	—
Dividends (note 15)	—	—	—	(2,490,000)	(2,490,000)
Issue of H shares (note 37)	5,029,741	—	—	—	5,029,741
Share issued (note 37)	352,644	—	—	—	352,644
Balance at 31 December 2015	5,617,001	850,899	169,331	1,986,228	8,623,459
Profit and total comprehensive income for the year	**—**	**—**	**—**	**1,837,440**	**1,837,440**
Transfer	**—**	**195,394**	**—**	**(195,394)**	**—**
Dividends (note 15)	**—**	**—**	**—**	**(1,703,241)**	**(1,703,241)**
Balance at 31 December 2016	**5,617,001**	**1,046,293**	**169,331**	**1,925,033**	**8,757,658**

50. SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 December 2016 and 2015 are as follows:

Name of subsidiary	Principal activity	Place of incorporation/ establishment/ operation	Nominal value of issued and fully paid up share capital/ registered capital	Proportion of ownership interest and voting power held by the Group 2016 %	2015 %
南京名都家居廣場有限公司* Nanjing Mingdu Home Furnishing Plaza Company Limited ("Nanjing Mingdu")	Shopping mall operation	PRC 11 October 2006	Registered RMB80,000,000 Paid up capital RMB80,000,000	100	100
上海紅星美凱龍全球家居有限公司* Shanghai Red Star Macalline Global Home Furnishing Company Limited ("Shanghai Global")	Shopping mall operation	PRC 11 July 2005	Registered RMB150,000,000 Paid up capital RMB150,000,000	100	100
上海虹欣歐凱家居有限公司* Shanghai Hongxin Oukai Home Furnishing Company Limited ("Shanghai Hongxin Oukai") (note)	Shopping mall operation	PRC 19 January 2007	Registered RMB100,000,000 Paid up capital RMB100,000,000	50	50
鄭州紅星美凱龍國際家居有限公司* Zhengzhou Red Star Macalline International Home Furnishing Company Limited ("Zhengzhou International") (note)	Shopping mall operation	PRC 24 June 2005	Registered RMB30,000,000 Paid up capital RMB30,000,000	60.3	60.3
上海紅星美凱龍品牌管理有限公司* Shanghai Red Star Macalline Brand Management Company Limited ("Shanghai Brand Management ")	Brand management	PRC 25 February 2009	Registered RMB5,000,000 Paid up capital RMB5,000,000	100	100

50. SUBSIDIARIES (continued)

Name of subsidiary	Principal activity	Place of incorporation/ establishment/ operation	Nominal value of issued and fully paid up share capital/ registered capital	Proportion of ownership interest and voting power held by the Group 2016 %	2015 %
武漢紅星美凱龍世博家居廣場發展有限公司* Wuhan Red Star Macalline Shibo Home Furnishing Plaza Development Company Limited ("Wuhan Shibo")	Shopping mall operation	PRC 20 August 2010	Registered RMB552,878,664 Paid up capital RMB552,878,664	100	100
上海紅星美凱龍家居藝術設計博覽有限公司* Shanghai Red Star Macalline Home Furnishing Design Expo Company Limited ("Shanghai Design Expo")	Shopping mall operation	PRC 2 December 2010	Registered RMB445,000,000 Paid up capital RMB445,000,000	100	100
瀋陽紅星美凱龍家居有限公司* Shenyang Red Star Macalline Home Furnishing Company Limited ("Shenyang Home Furnishing")	Shopping mall operation	PRC 18 November 2011	Registered RMB30,000,000 Paid up capital RMB30,000,000	100	100
上海星凱程鵬企業管理有限公司* Shanghai Xingkai Chengpeng Business Management Company Limited ("Xingkai Chengpeng")	Investment management	PRC 28 October 2011	Registered RMB1,000,000,000 Paid up capital RMB1,000,000,000	100	100
天津紅星美凱龍國際家居博覽有限公司* Tianjin Red Star Macalline International Home Furnishing Expo Company Limited ("Tianjin International Expo")	Shopping mall operation	PRC 18 July 2013	Registered RMB314,285,714 Paid up capital RMB314,285,714	65	65
北京紅星美凱龍世博家具廣場有限公司* Beijing Red Star Macalline Shibo Furniture Plaza Company Limited ("Beijing Shibo Furniture")	Shopping mall operation	PRC 12 November 2004	Registered RMB29,990,000 Paid up capital RMB29,990,000	100	100

50. SUBSIDIARIES (continued)

Note: The Group's equity interest in these entities is 50%. However, the Group has the practical ability to direct the relevant activities of these entities unilaterally under agreements with other shareholders of these entities. Therefore the Group has control over these entities and accounted for as subsidiaries.

All the subsidiaries were incorporated/established in the PRC as a company with limited liability. The English translation are for translation purpose only and have not been registered.

As of the end of the Reporting Period, all principal subsidiaries set out in the above table have not issued any debt securities.

The above table lists the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

51. EVENTS AFTER THE REPORTING PERIOD

At the Board Meeting on 28 February 2017, the Board resolved to submit to the extraordinary general meeting, the domestic shareholders' class meeting and the H shareholders' class meeting respectively for consideration and approval by the shareholders by way of special resolution a proposal for extension of the validity period of the shareholders' approval for the proposed A share offering for a future period of 12 months commencing from the date of passing the relevant special resolutions, details of which are set out in the Company's published announcements on 28 February 2017 and 3 March 2017.

The Company received the "Notice of Acceptance of Registration" (Zhong Shi Xie Zhu [2016] SCP No. 400) (the "Notice") from the National Association of Financial Market Institutional Investors (中國銀行間市場交易商協會) (the "Association"), according to which the Company can issue a super short-term commercial papers in tranches with a registered amount of RMB3 billion in Shanghai Pudong Development Bank, details of which are set out in the Company's published announcements on 19 January 2017.

Five-Year Financial Summary

	For the year ended 31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**9,282,393**	8,756,120	7,935,131	6,360,703	5,253,733
Profit and total comprehensive income for the year	**4,368,410**	4,369,755	3,922,004	3,269,327	2,256,597
— Owners of the Company	**4,036,269**	4,098,068	3,632,917	3,013,182	1,907,090
— Non-controlling interests	**332,141**	271,687	289,087	256,145	349,507
Earnings per share					
— Basic (RMB)	**1.11**	1.22	1.21	1.00	0.64
— Diluted (RMB)	**N/A**	1.22	N/A	N/A	N/A

	As at 31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
— Non-current assets	**83,042,606**	75,328,818	66,792,413	61,901,164	55,270,616
— Current assets	**8,794,876**	7,860,755	5,125,479	4,959,251	5,788,227
Total Assets	**91,837,482**	83,189,573	71,917,892	66,860,415	61,058,843
— Current liabilities	**13,547,348**	10,622,807	10,419,993	9,288,047	6,887,250
— Non-current liabilities	**30,602,459**	27,298,562	24,084,806	23,093,779	20,987,424
Total liabilities	**44,149,807**	37,921,369	34,504,799	32,381,826	27,874,674
Net assets	**47,687,675**	45,268,204	37,413,093	34,478,589	33,184,169
Total Equity	**47,687,675**	45,268,204	37,413,093	34,478,589	33,184,169
— Equity attributable to owners of the Company	**43,470,625**	41,144,559	33,444,992	30,635,646	29,192,659
— Non-controlling interests	**4,217,050**	4,123,645	3,968,101	3,842,943	3,991,510

Definitions

"AGM"	the annual general meeting of the Company proposed to be convened on Thursday, 8 June 2017
"A Share(s)"	the ordinary shares(s) proposed to be issued by the Company pursuant to the A Share Offering, with a nominal value of RMB1.00 each, which will be listed on the Shanghai Stock Exchange and traded in RMB
"Articles of Association"	articles of association of the Company (as amended from time to time)
"Associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Audit Committee"	Audit Committee of the Board of Directors
"Board" or "Board of Directors"	the board of directors of the Company
"Changzhou Macalline"	Changzhou Macalline International Computer and Electronics Furnishing Plaza Co., Ltd.* (常州美凱龍國際電腦家電裝飾城有限公司), a limited liability company established in the PRC, which is a direct wholly-owned subsidiary of our Company
"Changzhou RSHFC"	Changzhou Red Star Home Furnishing City* (常州市紅星裝飾城), a limited liability company established in the PRC on 13 November 1998, which is directly wholly -owned by Mr. CHE
"Chengdu Property"	Chengdu Red Star Macalline Real Estate Co., Ltd.* (成都紅星美凱龍置業有限公司), a limited liability company established in the PRC on 27 October 2009, which is indirectly wholly-owned by RSED
"China" or "PRC"	the People's Republic of China, except where the context requires, references in this to the PRC or China do not apply to Hong Kong, Macau Special Administrative Region and Taiwan
"Close Associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Company" or "Our Company" or Red Star Macalline"	Red Star Macalline Group Corporation Ltd. (紅星美凱龍家居集團有限公司), a sino-foreign joint stock limited company established in the PRC, the H Shares of which are listed and traded on the Main Board
"Company Laws"	the Company Laws of the People's Republic of China《中華人民共和國公司法》

"Companies Ordinance"	the Companies Ordinance, Chapter 622 of the Laws of Hong Kong
"Connected Person(s)"	has the meaning ascribed thereto under the Listing Rules
"Consolidated Financial Statements"	the audited consolidated financial statements of the Group for the year ended 31 December 2016
"Controlling Shareholders" or "our Controlling Shareholders"	has the meaning ascribed thereto under the Listing Rules, and unless the context otherwise requires, refers to Mr. CHE and RSM Holding
"Corporate Bonds"	Phase II corporate bonds with an aggregate principal amount of RMB3,000,000,000 and coupon rate of 3.50% and 4.29% for Category I Bonds and Category II Bonds, respectively, issued by the Company in the PRC on 14 July 2016
"Corporate Governance Code"	the Corporate Governance Code set out in Appendix 14 to the Listing Rules
"Director(s)"	director(s) of the Company
"Domestic Shares"	ordinary shares issued by our Company, with a Renminbi-denominated nominal value of RMB1.00 each, which are subscribed for and paid up in Renminbi
"GDP"	gross domestic product; except as otherwise specified, all references to GDP growth rates are to real as opposed to nominal rates of GDP growth
"Greenland Jinniu"	Greenland Group Chengdu Jinniu Real Estate Development Co., Ltd.* (綠地集團成都金牛房地產開發有限公司), a limited liability company established in the PRC, which is our Connected Person and indirectly held as to 50% by Greenland Group Chengdu Property Co., Ltd. and 50% by Chengdu Property
"Global Offering"	the initial public offering of the H Shares whereby the H Shares were listed on the Main Board of Hong Kong Stock Exchange on 26 June 2015
"Group"	the Company and its subsidiaries
"H Share(s)"	overseas-listed foreign invested ordinary share(s) with a nominal value of RMB1.00 each in the share capital of the Company, which is/are listed and traded on the Hong Kong Stock Exchange

"HK$" or "HK dollars"	the lawful currency of Hong Kong
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"IFRSs"	International Financial Reporting Standards
"Jining Hongrui"	Jining Hongrui Real Estate Co., Ltd.* (濟寧鴻瑞置業有限公司), a limited liability company established in the PRC, which is our Connected Person and directly held as to 40.2% by Ms. QIAN Yumei, 26.8% by Ms. ZHANG Jianfang and 33% by Jiangsu Kerui Property Management Corporation* (江蘇可瑞資產管理有限公司), an independent third party
"Listing"	listing of the H Shares on the Main Board of the Hong Kong Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Main Board"	the stock exchange (excluding the option market) operated by the Hong Kong Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Hong Kong Stock Exchange
"Managed Shopping Mall(s)"	shopping mall(s) managed by us under contract management agreements
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"Mr. CHE"	Mr. CHE Jianxing
"Nomination Committee"	Nomination Committee of the Board of Directors
"Other Cities"	for the purpose of this annual report only, cities at prefecture-level, excluding Tier I Cities, Tier II Cities and Tier III Cities

"Portfolio Shopping Mall(s)"	all of the following shopping malls: (i) shopping malls in which all or a majority of the operating areas are owned by us; (ii) the Transferred Shopping Malls (other than Chengdu Jinniu Shopping Mall); (iii) shopping malls leased by us; (iv) shopping malls for which we operate and consolidate their results of operation and pay the relevant property owners a fixed amount of annual fees ("fixed-fee Portfolio Shopping Malls"); and (v) shopping malls held by us and associates or joint venture partners and operated by us ("JV/associate Portfolio Shopping Malls"). For the year ended 31 December 2014 and the three months ended 31 March 2014 and 2015, our fixed-fee Portfolio Shopping Malls included (a) Erdos Dongsheng Mall, (b) Yichang Xiling Mall and (c) Quzhou Sanqu Mall. Such fixed-fee Portfolio Shopping Malls were operated by us under contract management agreements for the years ended 31 December 2012 and 2013. We entered into the abovementioned fixed-fee arrangements with respect to such fixed-fee Portfolio Shopping Malls since 2014. Accordingly, such fixed-fee Portfolio Shopping Malls were categorized as our Managed Shopping Malls for the years ended 31 December 2012 and 2013, and were categorized as our Portfolio Shopping Malls for the year ended 31 December 2014 and the three months ended 31 March 2014 and 2015. For the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2014 and 2015, our JV/associate Shopping Malls included (a) Suzhou Park Mall and Shenzhen Xiangmi Lake Mall, which are held by our associates and operated by us, and (b) Wuhu Minghui Mall and Chengdu Shuangnan Mall, which are held by our joint ventures and operated by us. We do not consolidate the results of operation of the relevant companies holding the JV/associate Portfolio Shopping Malls into our consolidated financial information for the years ended 31 December 2012, 2013 and 2014 and the three months ended 31 March 2014 and 2015. The results of operation of and our interests in the relevant companies were reflected in share of profit of associates, share of results of joint ventures, interests in associates, and interests in joint ventures in our consolidated financial information. Accordingly, with respect to the operating information in this annual report, we categorize the abovementioned (i) and (ii) as "Self-owned Portfolio Shopping Malls" and the abovementioned (iii) (iv) and (v) as "Non-self-owned Portfolio Shopping Malls". With respect to the financial information in this annual report, we categorize the abovementioned (i), (ii), (iii) and (iv) as our "Owned/Leased Portfolio Shopping Malls", among which (i) and (ii) are categorized as "Owned Portfolio Shopping Malls", and (iii) and (iv) are categorized as "Leased Portfolio Shopping Malls"

"Project Company"	64 project companies holding certain managed shopping mall companies, and each of them a "Project Company"
"Red Star Furniture Group"	Red Star Furniture Group Co., Ltd.* (紅星傢俱集團有限公司), formerly known as Changzhou Red Star Furniture Group Company* (常州紅星傢俱集團公司), a company established in the PRC on 27 June 1994, which is held as to 45% by Mr. CHE Jianxing, 45% by Changzhou RSHFC and 10% by Ms. CHE Jianfang
"Remuneration and Evaluation Committee"	Remuneration and Evaluation Committee of the Board of Directors
"Reporting Period"	the period from 1 January 2016 to 31 December 2016
"Repurchase Agreement"	the repurchase agreement dated 23 October 2015 entered into between the Company and Chengdu Property
"RMB"	Renminbi, the lawful currency of the PRC
"RSED"	Red Star Macalline Enterprise Development Co., Ltd.* (紅星美凱龍企業發展有限公司) (formerly known as "Shanghai Red Star Macalline Enterprise Development Co., Ltd." (上海紅星美凱龍企業發展有限公司)), a limited liability company established in the PRC on 11 June 2010, which is held as to 70.15% by RSM Holding, 14% by Millbranch Investment SRL, an affiliate of Warburg Pincus LLC, 8.08% by Candlewood Investment SRL, 4.72% by Springwood Investment SRL, 0.81% by Lianyungang Fairbay Infrastructure Construction Company Limited, 0.37% by Shanghai Hongmei, 1.66% by Shanghai Meilong Assets Management Company Limited* (上海美龍資產管理有限公司) and 0.22% by Shanghai Xingkai Business Administration Company Limited* (上海興凱企業管理有限公司)
"RSM Holding"	Red Star Macalline Holding Group Company Limited* (紅星美凱龍控股集團有限公司) (formerly known as "Shanghai Red Star Macalline Investment Company Limited" (上海紅星美凱龍投資有限公司)), a limited liability company established in the PRC and is a Controlling Shareholder of our Company, which is held as to 92% by Mr. CHE and 8% by Ms. CHE Jianfang
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong

"Shaanxi Hongrui"	Shaanxi Hongrui Home Furnishings Plaza Co., Ltd.* (陝西鴻瑞家居生活廣場有限公司), a limited liability company established in the PRC, which is our Connected Person and held as to 39.6% by Ms. QIAN Yumei, 26.4% by Ms. ZHANG Jianfang and 34% by Jiangsu Kerui Property Management Corporation* (江蘇可瑞資產管理有限公司) and YAN Xiaojing, each an independent third party
"Share(s)"	Share(s) of the Company, including both Domestic Share(s) and H Share(s)
"Shareholder(s)"	the holder(s) of the shares of the Company
"Strategy and Investment Committee"	Strategy and Investment Committee of the Board of Directors
"Supervisor(s)"	member(s) of the supervisory committee of the Company
"Tier I Cities"	for the purpose of this annual report, Shanghai, Beijing, Guangzhou and Shenzhen
"Tier II Cities"	for the purpose of this annual report, Chongqing, Tianjin, Suzhou, Hangzhou, Zhengzhou, Changsha, Urumqi, Ningbo, Chengdu, Lanzhou, Nanjing, Nanning, Nanchang, Xiamen, Hefei, Hohhot, Harbin, Dalian, Taiyuan, Kunming, Wuxi, Qingdao, Xi'an, Changchun, Shijiazhuang, Wuhan, Shenyang, Jinan, Wenzhou, Fuzhou, Guiyang, Foshan, Dongguan and Haikou
"Tier III Cities"	for the purpose of this annual report, Daqing, Zhongshan, Yancheng, Baotou, Taizhou, Pingdingshan, Jilin, Anyang, Jiangmen, Chifeng, Xingtai, Zhoukou, Yichang, Yueyang, Songyuan, Jinhua, Handan, Xinyang, Baoding, Nantong, Nanyang, Xianyang, Weihai, Liuzhou, Quanzhou, Luoyang, Maoming, Tangshan, Xuzhou, Guilin, Zhuzhou, Tai'an, Taizhou, Zhuhai, Changzhou, Changde, Huai'an, Zibo, Liaocheng, Tongliao, Chenzhou, Langfang, Huizhou, Zhanjiang, Huzhou, Jiaozuo, Ordos, Heze, Xinxiang, Yulin, Jiaxing, Zhangzhou, Dezhou, Anshan, Hengyang, Xiangyang, Dongying, Linyi, Yangzhou, Zaozhuang, Cangzhou, Jining, Binzhou, Weifang, Yantai, Shaoxing, Wuhu, Xuchang, Ganzhou, Lianyungang, Zhenjiang, Yinchuan, Lhasa, Xining and Shangqiu
"Xuzhou RSHFC"	Xuzhou Red Star Macalline International Home Furnishings City Co., Ltd.* (徐州紅星美凱龍國際傢俱裝飾城有限公司), a limited liability company established in the PRC, which is our Connected Person and directly held as to 50% by Mr. CHE Jianlin, 25% by Mr. CHE Jianguo and 25% by ZHOU Lichen and WANG Lili, each an independent third party

"Xuzhou RSHFP"	Xuzhou Red Star Macalline Global Home Furnishings Plaza Co., Ltd.* (徐州紅星美凱龍全球家居生活廣場有限公司),a limited liability company established in the PRC, which is our Connected Person and held as to 75% by Mr. CHE Jianlin and 25% by Mr. CHE Jianguo
"Xingyi Tonghui"	Shanghai Xingyi Tonghui Business Service Company Limited* (上海星易通匯商務服務有限公司), a limited liability company established in the PRC and a direct wholly-owned subsidiary of our Company
"Yangzhou RSHFP"	Yangzhou Red Star Macalline Global Home Furnishings Plaza Property Co., Ltd.* (揚州紅星美凱龍全球家居生活廣場置業有限公司), a limited liability company established in the PRC, which is our Connected Person and directly held as to 95% by Mr. CHE Jianlin and 5% by YAN Xiaojing, an independent third party
"Jinshan Property"	a building located at No. 1808 Hangzhou Bay Road, Shanghai, the PRC (property ownership certificate Hu Fang Di Jin Zi (2013) No. 010389) with a total gross floor area of approximately 74,917.88 square meters
"Shanghai Hongmei"	Shanghai Hongmei Investment Management Center (Limited Partnership)* (上海洪美投資管理中心(有限合夥)), a limited partnership established in the PRC on 27 February 2012, which is a Shareholder of our Company and holds approximately 0.35% of the issued Shares of our Company
"Prospectus"	the prospectus of the Company dated 16 June 2015