ANNUAL REPORT 2016

益華控股有限公司

YI HUA HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2213

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Mr. Chen Jianren
Mr. Fan Xinpei
Mr. Su Weibing
Mr. Lin Guangzheng
Mr. Chen Zhengtao
Mr. Leung Wai Kwan
(Re-designated on 20 June 2016)

Non-executive Director
Mr. Chen Daren

Independent non-executive Directors
Mr. Sun Hong
Mr. Xu Yinzhou
Ms. Hung Wan Fong, Joanne
(Appointed on 20 June 2016)
Ms. Lai Pou Lam, Mina
(Appointed on 19 September 2016)

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

COMPANY SECRETARY

Mr. Tse Wing York, CPA

AUTHORISED REPRESENTATIVES

Mr. Fan Xinpei
Mr. Tse Wing York, CPA

AUDIT COMMITTEE

Ms. Hung Wan Fong, Joanne *(Chairman)*
Mr. Sun Hong
Mr. Xu Yinzhou

REMUNERATION COMMITTEE

Mr. Xu Yinzhou *(Chairman)*
Mr. Fan Xinpei
Mr. Sun Hong
Ms. Hung Wan Fong, Joanne

NOMINATION COMMITTEE

Mr. Chen Jianren *(Chairman)*
Mr. Sun Hong
Mr. Xu Yinzhou
Ms. Hung Wan Fong, Joanne

REGISTERED OFFICE

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKS

The PRC:
Industrial and Commercial Bank of China
Ping An Bank

Hong Kong:
The Hongkong and Shanghai Banking Corporation Limited
Industrial And Commercial Bank of China (Asia) Limited
The Bank of East Asia Limited

AUDITORS

PricewaterhouseCoopers

INTERNAL CONTROL ADVISER

Baker Tilly Hong Kong Risk Assurance Limited

LEGAL ADVISERS TO THE COMPANY

As to the PRC law
JunZeJun Law Offices

COMPANY WEBSITE

www.yihua.com.cn

STOCK CODE

2213

FINANCIAL HIGHLIGHTS AND SUMMARY

Operating results	2012 RMB'000	2013 RMB'000	2014 RMB'000	2015 RMB'000	**2016 RMB'000**
Revenue	678,876	713,951	710,146	655,277	**582,598**
Operating profit	58,686	27,104	45,927	40,145	**121,434**
Profit for the year from continuing operations	42,519	14,663	29,066	20,531	**73,908**
Profit for the year	43,643	16,667	29,066	20,531	**73,908**
Total comprehensive income attributable to owners of the Company	42,565	15,051	27,054	26,478	**71,935**
Total comprehensive income attributable to owners of the Company from continuing operations	42,014	14,069	27,054	26,478	**71,935**
Earnings per share attributable to owners of the Company	0.1576	0.0548	0.0601	0.0402	**0.1470**
	(note 1)	(note 1)	(restated, note 2)	(restated, note 2)	
Earnings per share attributable to owners of the Company from continuing operations	0.1556	0.0512	0.0601	0.0402	**0.1470**
	(note 1)	(note 1)	(restated, note 2)	(restated, note 2)	
Consolidated balance sheet summary					
Non-current assets	140,141	234,478	355,584	455,214	**792,010**
Current assets	514,666	458,702	375,425	360,013	**772,850**
Total assets	654,807	693,180	731,009	815,227	**1,564,860**
Non-current liabilities	9,543	11,677	35,300	54,720	**333,042**
Current liabilities	556,575	548,478	533,618	516,546	**928,950**
Total liabilities	566,118	560,155	568,918	571,266	**1,261,992**
Net assets	88,689	133,025	162,091	243,961	**302,868**
Equity attributable to owners of the Company	91,817	132,304	159,358	239,867	**297,401**
Non-controlling interest	(3,128)	721	2,733	4,094	**5,467**
Total equity	88,689	133,025	162,091	243,961	**302,868**

FINANCIAL HIGHLIGHTS AND SUMMARY

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

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

Note 2: The weighted average of ordinary shares for the purpose of calculating basic earnings per share for the year ended 31 December 2014 and 2015 has been retrospectively adjusted for the effect of the bonus issue and scrip dividend scheme of the Company as disclosed in note 26.

CHAIRMAN'S STATEMENT

INDUSTRY REVIEW

2016 was still a challenging year for traditional retailers in the PRC. In the face of the impact of increasingly mature online sales platforms and factors such as changes in consumers' consumption habits, traditional retailers took various measures in response. The main direction was to strengthen the experience consumption.

In view of this, the Group adjusted the operating business of certain existing stores in 2016 and expanded experience consumption elements such as introducing food and beverage, entertainment, and other tenants so as to attract more shoppers.

BUSINESS REVIEW

For the year ended 31 December 2016, the Group's revenue was approximately RMB582.6 million, representing a decline of approximately 11.1% over the last year. Gross profit (revenue less purchases of and changes in inventories) was approximately RMB314.8 million, representing a decrease of 14.5% over the last year. Operating profit was approximately RMB121.4 million, representing an increase of 202.5% over the last year. Profit attributable to owners of the Company was approximately RMB73.2 million, representing an increase of 281.8% over the last year.

CHAIRMAN'S STATEMENT

Completion of the acquisition of the entire equity interests in 恩平市康盛酒店管理有限公司 (Enping Kangsheng Hotel Management Company Limited) ("Enping Kangsheng Hotel")

On 24 June 2016, the Group completed the acquisition of Enping Kangsheng Hotel, a company principally engaged in development and leasing commercial properties. As at the date of completion, Enping Kangsheng Hotel owned three properties, including a five-star hotel with a gross floor area of approximately 66,000 sq.m. ("**Block A**"), a business hotel with a gross floor area of approximately 19,000 sq.m. ("**Block C**"), and an annex building consisting of a shopping arcade with a gross floor area of approximately 5,000 sq.m. (the "**Annex Building**"). The Group considers that these properties will be a long-term investment. These three properties had all been leased out as at the balance sheet date. Since Block A and Block C were still in their respective rent-free periods in 2016, no rental income was brought to the Group. As the respective rent-free periods will be ended in 2017, they are going to bring stable rental income to the Group then. From the acquisition date to 31 December 2016, the Annex Building brought approximately RMB905,000 in revenue to the Group.

CHAIRMAN'S STATEMENT

Expansion of cross-border merchandise direct sales experience stores

During 2016, the Group entered into a franchise agreement with a franchisee to open a cross-border merchandise direct sales experience store. By entering into this franchise agreement, the Group is entitled to receive a planning, design and consulting service fee of RMB2,500,000 and a franchise fee of RMB500,000. The Group has recognised the revenue of RMB1,000,000 as of 31 December 2016. It has always been the Group's strategy to expand the cross-border merchandise direct sales experience stores at a low cost. By adopting the franchise model, the Group not only can lower the expansion cost, but also have a franchise fee income.

Making adjustments to loss-making stores

In view of the weak growth momentum of retail business in the PRC, the Group has taken various measures to reduce the loss-making stores, including the adjustment of concessionaire sales to fixed rental income, by reducing the department store area and increasing the areas for leasing out to catering and entertainment tenants.

CHAIRMAN'S STATEMENT

New business opportunity

As at 31 December 2016, 小霸王文化發展有限公司 (Subor Cultural Development Co., Ltd.) (formerly known as 中山市小霸王文化產業有限公司 (Zhongshan Subor Cultural Industry Co. Ltd.)) ("**Subor Cultural**") was held as to 49% by the Group, 48% by Mr. Fang Hong Qi ("**Mr. Fang**"), and 2% and 1% by two other individual shareholders respectively. Subor Cultural, an associated company of the Group, is currently commencing and developing business in the areas of production of game consoles, virtual reality ("**VR**") and development of video games in the PRC.

Subor Cultural cooperates with a multinational semiconductor company (the "**Supplier**") in relation to the purchase of semiconductor products for a game system which fully supports VR. The Supplier is a company incorporated in the United States of America which is engaged in the supply of semiconductor products for servers, workstations, personal computers and embedded systems. The Group has been actively exploring other business opportunities in order to diversify the existing business of the Group and to explore new markets with significant growth potential. The potential new business represents a good opportunity for the Group to expand its business portfolio, diversify its income sources and possibly enhance its financial performance.

CHAIRMAN'S STATEMENT

OUTLOOK AND PROSPECTS

Looking forward, the traditional retail business in the PRC will continue to slow down amidst the challenges arising from e-commerce, shopping centres and branded shops. Therefore, the Group will expand its sources of income and control operating costs in the following directions to alleviate the unfavourable operating conditions.

Purchasing properties at a low cost

The Group will continue to focus on the acquisition of properties with good potential that can bring in stable rental income and decent investment return. As a well-known complex operator in Guangdong Province, the Group is able to take advantage of its reputation to acquire properties in prime locations at a low cost. The Group is in the process of negotiating with a property owner with the intention of acquiring a target property. When the potential acquisition is realised, it would bring a high investment return to the Group.

Making adjustments to stores

The Group will continue to streamline the number of stores, adjust the structure of the segment areas, as well as adhere to the strategy of reducing the areas for the department store segment and increase the leasing areas for catering and entertainment tenants so as to increase shopper traffic.

CHAIRMAN'S STATEMENT

Opening stores at a low cost

The Group will open more stores at a very low cost in 2017 and it is expected that one store will be opened in 2017. Benefitting from the Group's visibility in Guangdong Province and its solid operations management experience, the Group is able to obtain operating premises from its cooperation partners at a very low cost, which greatly reduces the Group's operating risks.

Appreciation

On behalf of the Board, I would like to extend my gratitude to our management team, our customers, our business associates and all of our fellow staff members for their continued support and dedication to the Group. The Group will respond to the future challenges with flexibility so as to maximise the return on investment for shareholders.

Chen Jianren
Chairman

30 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

RESULTS OF OPERATION

Revenue

For the year ended 31 December 2016, the Group recorded a revenue of approximately RMB582.6 million, representing a decrease of approximately 11.1% or approximately RMB72.7 million year on year.

The following table sets forth a breakdown of the Group's revenue for the two years ended 31 December 2016.

	Year ended 31 December													
	2016							2015						
	Department store segment RMB'000	Supermarket segment RMB'000	Electrical appliances segment RMB'000	Furniture segment RMB'000	Consulting service segment RMB'000	Property investment segment RMB'000	Total RMB'000	Department store segment RMB'000	Supermarket segment RMB'000	Electrical appliances segment RMB'000	Furniture segment RMB'000	Consulting service segment RMB'000	Property investment segment RMB'000	Total RMB'000
Direct sales of goods	2,672	222,535	83,234	20	-	-	308,461	2,893	238,192	99,526	420	-	-	341,031
Commission income from concessionaire sales	151,805	11,836	7,648	-	-	-	171,289	182,652	11,797	7,751	-	-	-	202,200
Management fee and service income from operations	34,255	11,688	4,711	-	-	-	50,654	41,434	8,277	5,589	-	-	-	55,300
Rental income	22,153	5,864	1,304	2,100	-	905	32,326	7,078	4,781	1,921	1,196	-	-	14,976
Consulting service income	-	-	-	-	19,868	-	19,868	-	-	-	-	41,770	-	41,770
	210,885	251,923	96,897	2,120	19,868	905	582,598	234,057	263,047	114,787	1,616	41,770	-	655,277

MANAGEMENT DISCUSSION AND ANALYSIS

Direct sales of goods

For the year ended 31 December 2016, our revenue from direct sales was approximately RMB308.5 million, representing a decrease of approximately RMB32.5 million or approximately 9.5%, from approximately RMB341.0 million for the year ended 31 December 2015.

The decrease was mainly due to the decrease in supermarket segment and electrical appliances segment by 6.6% and 16.4%, respectively. The both intensifying competition environment and the change in the consumption habit to e-commence platform led to the decrease as a result.

Commission income from concessionaire sales

For the year ended 31 December 2016, our revenue from concessionaire sales was approximately RMB171.3 million, representing a decrease of approximately RMB30.9 million, or approximately 15.3%, from approximately RMB202.2 million for the year ended 31 December 2015. The decrease was due to (i) the weak consumption sentiment; and (ii) the transformation of concessionaire sales to fixed rental income. The income from the concessionaire sales is charged at a certain percentage of the concessionaire sales, in view of the weak consumption sentiment, we leased out more areas to catering and beverage business operators. By doing so, it can stablise the income and also attract more pedestrians flow.

Management fee and service income from operations

For the year ended 31 December 2016, the management fee and service income from operations were approximately RMB50.7 million, representing a decrease of approximately RMB4.6 million, or approximately 8.3%, from approximately RMB55.3 million for the year ended 31 December 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

Rental income

For the year ended 31 December 2016, our revenue from rental income was approximately RMB32.3 million, representing a significant increase of approximately RMB17.3 million, or approximately 115.3%, from approximately RMB15.0 million for the year ended 31 December 2015. The increase was mainly attributable to (i) the transformation of concessionaire sales to fixed rental income; and (ii) the rental income generated from the investment properties.

Consulting service income

For the year ended 31 December 2016, the Group has entered into two agreements with two independent commercial complex operators and recorded a revenue of RMB19.9 million for the service provided, representing a decrease of approximately RMB21.9 million, or approximately 52.4%, from approximately RMB41.8 million for the year ended 31 December 2015.

Gross profit and gross profit margin

For the year ended 31 December 2016, our total gross profit were approximately RMB314.8 million, a decrease of approximately RMB53.2 million, or approximately 14.5%, from approximately RMB368.0 million for the year ended 31 December 2015. The gross profit margin for the years ended 31 December 2016 and 2015 was approximately 54.0% and approximately 56.2%, respectively, represented a decrease of approximately 2.2%. The decrease in our gross profit margin was partly due to the decrease in the consulting service income which has a higher gross profit margin.

Other income

For the year ended 31 December 2016, our other income was approximately RMB3.3 million, a decrease of approximately RMB2.7 million, from approximately RMB6.0 million for the year ended 31 December 2015. The amount represents the one-off government grant received or receivable and amortisation of government grant related to assets.

Gain from bargain purchase

On 24 June 2016, the Group acquired 100% equity interests in Enping Kangsheng Hotel at a consideration of RMB120.0 million. Enping Kangsheng Hotel engaged in development and leasing commercial properties in Enping City, Guangdong Province. As at the completion date, Enping Kangsheng Hotel owned three properties, including a five-star hotel, a business hotel and an annex building. As the fair value of the net identifiable assets of Enping Kangsheng Hotel as at 24 June 2016 is in excess of the consideration given, a negative goodwill of RMB32.6 million was recognised.

On 16 November 2016, the Group acquired 100% equity interests in 肇慶市華萊置業發展有限公司 (Zhaoqing Hualai Property Development Company Limited) ("**Zhaoqing Hualai**") at a consideration of RMB1.0. Zhaoqing Hualai engaged in property development and sales in Zhaoqing City, Guangdong Province. As the fair value of the net identifiable assets of Zhaoqing Hualai as at 16 November 2016 is in excess of the consideration given, a negative goodwill of RMB72.4 million was recognised.

MANAGEMENT DISCUSSION AND ANALYSIS

Fair value gain on investment properties

The fair value gain on investment properties represented the increase in fair value of investment properties held by Enping Kangsheng Hotel. Following the completion of acquisition of Enping Kangsheng Hotel, the Group has leased out the five-star hotel and the commercial hotel which were vacant prior to the acquisition. In addition, the Group raised up the rental for the annex building after the acquisition. As a result, a fair value gain on investment properties with an amount of approximately RMB71.8 million was recognized.

Other gains – net

For the year ended 31 December 2016, our other gains were approximately RMB5.7 million, a decrease of approximately RMB1.0 million, or approximately 14.9%, from approximately RMB6.7 million for the year ended 31 December 2015.

The decrease was mainly due to the decrease in property related income and gain from written-off payables, which was partially offset by the gain from disposal of available-for-sales assets with an amount of approximately RMB1.7 million.

Purchases of and changes in inventories

For the year ended 31 December 2016, the purchases of and changes in inventories was approximately RMB267.8 million, representing a decrease of approximately RMB19.5 million, or approximately 6.8%, from approximately RMB287.3 million for the year ended 31 December 2015.

Employee benefit expenses

For the year ended 31 December 2016, our employee benefit expenses were approximately RMB102.4 million, a decrease of approximately RMB0.7 million, or approximately 0.7%, from approximately RMB103.1 million for the year ended 31 December 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

Depreciation and amortisation

For the year ended 31 December 2016, our depreciation and amortisation were approximately RMB30.3 million, an increase of approximately RMB3.0 million, or approximately 11.0%, from approximately RMB27.3 million for the year ended 31 December 2015.

Provision for impairment of property, plant and equipment

During the year ended 31 December 2016, the Group conducted impairment assessment on the property, plant and equipment, and identified the recoverable amounts cannot recover the carrying value of the property, plant and equipment for certain retail stores. A provision for impairment on property, plant and equipment with an amount of RMB28.6 million was recognized during the year ended 31 December 2016.

Operating lease rental expenses and property management fee

For the year ended 31 December 2016, our operating lease rental expenses and property management fee was approximately RMB122.1 million, an increase of approximately RMB4.3 million, or approximately 3.7%, from approximately RMB117.8 million for the year ended 31 December 2015.

This increase was primarily due to the organic growth for the matured stores.

Other operating expenses

For the year ended 31 December 2016, the other operating expenses were approximately RMB95.7 million, a decrease of approximately RMB5.8 million, or approximately 5.7%, from approximately RMB101.5 million for the year ended 31 December 2015.

The decrease was mainly attributable to the decline in utilities expenses and advertising, promotion and related expenses.

MANAGEMENT DISCUSSION AND ANALYSIS

Finance expenses – net

For the year ended 31 December 2016, our net finance expenses was approximately RMB20.7 million, an increase of approximately RMB12.5 million, or approximately 152.4%, from approximately RMB8.2 million for the year ended 31 December 2015. The increase was mainly attributable to (i) the increase in bank borrowings during the year ended 31 December 2016; (ii) the foreign exchange losses on borrowings which were denominated in Hong Kong dollars.

Income tax expense

The income tax expense was approximately RMB24.8 million for the year ended 31 December 2016, representing an increase of approximately RMB13.4 million, or approximately 117.5%, from approximately RMB11.4 million for the year ended 31 December 2015. Our effective income tax rate was approximately 25.2% for the year ended 31 December 2016 and approximately 35.7% for the year ended 31 December 2015.

Net profit for the year

Due to the aforesaid reasons, the net profit for the year increased substantially by approximately RMB53.4 million or approximately 260.5% from approximately RMB20.5 million for the year ended 31 December 2015 to approximately RMB73.9 million for the year ended 31 December 2016.

Profit attributable to owners of the Company

For the year ended 31 December 2016, the profit attributable to owners of the Company was approximately RMB73.2 million, represented a substantial increase of approximately RMB54.0 million or 281.2% as compared to approximately RMB19.2 million for the year ended 31 December 2015.

LIQUIDITY AND FINANCIAL RESOURCES

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

The Group's cash and cash equivalents and the near cash instruments (including restricted cash and term deposits) stood at approximately RMB202.6 million and approximately RMB145.4 million as at 31 December 2016 and 2015, respectively. The outstanding borrowings and bonds payable of the Group amounted to approximately RMB445.5 million and RMB50.1 million respectively as at 31 December 2016.

As at 31 December 2016 and 2015, total current assets of the Group amounted to approximately RMB772.9 million and approximately RMB360.0 million, respectively, whereas total current liabilities amounted to approximately RMB929.0 million and approximately RMB516.5 million, respectively, which resulted in a net current liabilities position of approximately RMB156.1 million and approximately RMB156.5 million, respectively as at 31 December 2016 and 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

Gearing ratio

As at 31 December 2016 and 2015, the gearing ratios were approximately 163.6% and 57.1%, respectively. The gearing ratio is calculated as total borrowings divided by total equity as at the balance sheet dates.

Pledge of assets

As at 31 December 2016, certain investment properties and properties under development of the Group with an aggregate carrying amount of RMB515.5 million (2015: Nil) were pledged as collateral for the Group's borrowings.

Employees

As at 31 December 2016, total number of employees for the Group was 1,517 (as at 31 December 2015: 1,966). The Group ensures that all levels of employees are paid competitively within the standard in the market and employees are rewarded on performance related basis within the framework of the Group's salary, incentives and bonus scheme.

Contingent liabilities

On 5 September 2016, the Company provided a financial guarantee in favour of a supplier ("**Supplier**") of an associate company of the Group ("**Associate Company**"). Pursuant to which the Company agreed to guarantee in favour of the Supplier, in proportion to the equity interests in the Associate Company held by the Group, certain payment obligations of the Associate Company under an agreement entered into by the Associate Company and the Supplier on the same day, with a maximum of US$10.0 million (equivalent to approximately RMB69.4 million).

Foreign exchange exposure

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

Material Acquisition, Disposal and Significant Investment

During the year ended 31 December 2016, a wholly-owned subsidiary of the Company ("**Purchaser**") entered into an equity transfer agreement with two vendors and the target company, Enping Kangsheng Hotel, pursuant to which the Purchaser agreed to acquire the entire equity interests in Enping Kangsheng Hotel at a consideration of RMB120 million. As one of the vendors, 廣東益華集團投資有限公司 (Guangdong Yihua Group Investment Company Limited), which held 58.08% equity interests in Enping Kangsheng Hotel, is the connected person of the Company. As a result, the acquisition constitutes a concerted transaction under the Chapter 14A of the Listing Rules. Details of the acquisition are set out in the announcements of the Company dated 14 January 2016, 19 May 2016 and 24 June 2016.

During the year ended 31 December 2016, the Group acquired the entire equity interests in Zhaoqing Hualai with the consideration of RMB1. Details of the acquisition are set out in the announcement of the Company dated 8 November 2016.

Save as disclosed above, the Group did not have any other significant investments and disposals during the year ended 31 December 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

DIVIDENDS

The Board has resolved to recommend the payment of a final dividend for the year ended 31 December 2016 of HK$0.1 per ordinary share (2015 final dividend: HK$0.1 per ordinary share).

The Board also proposed to offer a scrip dividend option to allow shareholders to elect to receive the final dividend wholly or partly in the form of new fully paid shares in lieu of cash.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 12 June 2017 to 16 June 2017, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for Shareholders to attend and vote at the AGM, all completed transfer documents accompanying with the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Friday 9 June 2017.

The register of members of the Company will be closed from 22 June 2017 to 23 June 2017, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all completed transfer documents accompanying with the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 21 June 2017.

USE OF IPO PROCEEDS

The net proceeds from the Company's listing on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing**") (after deducting underwriting fees and related expenses) amounted to approximately HK$93.7 million, which are intended to be applied in the manner consistent with that set out in the prospectus, dated 26 November 2013 (the "**Prospectus**"). During the period from 11 December 2013, being the listing date of the Company to 31 December 2016, all the proceeds had been applied in the intended uses as disclosed in the Prospectus.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

CHAIRMAN AND EXECUTIVE DIRECTORS

Mr. Chen Jianren (陳健仁), aged 63, is an executive Director, chairman, chairman of the nomination committee of the Company. Mr. Chen is the founder of our Group. He is responsible for the formulation of the overall strategy and setting of business direction of our Group. He was also appointed as the director and general manager of Guangdong Yihua Group Investment Company Limited (廣東益華集團投資有限公司) ("**Yihua Investment**") since 2005. Prior to joining Yihua Investment, he was the director of Zhongshan Yihua Group Company Limited (中山市怡華集團有限公司) from 1987 to 2002 and the director and general manager of Zhongshan King Hotel (中山市京華酒店) in 1985. Mr. Chen has approximately 30 years of experience in corporate management. As a director of certain members of Yihua Investment and its subsidiaries (collectively, "**Yihua Investment Group**"), Mr. Chen has extensive experience in the tertiary industry particularly in regards to property development.

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

Mr. Fan Xinpei (范新培), aged 62, is an executive Director, chief executive officer, member of the remuneration committee of the Company. Mr. Fan is responsible for our overall development and strategic plans and the formulation and implementation of our operational plans. He is also responsible for our new development projects, the opening and location of our new stores and formulating our business and organisational structure. Mr. Fan joined our Group since the establishment of Guangdong Yihua Department Store Limited ("**Guangdong Yihua**") and was appointed as president of Guangdong Yihua since May 1995. Prior to joining our Group, Mr. Fan worked in Zhongshan Yihua Group Company Limited (中山市怡華集團有限公司) as vice president from 1987 to 1995. He was elected as the Standing Committee Member of the 10th session of the Zhongshan Municipal People's Political Consultative Conference (政協中山市第十屆委員會常委), the Representative of the 14th session of the Zhongshan Municipal People's Congress (中山市人大代表), Vice-Chairman of Council of China Chain-Store and Franchise Association of Guangdong Province (廣東省連鎖經營協會理事會副會長) in March 2012, Vice-Chairman of Zhongshan City Business Association (中山市商業行業協會理事會常務副會長) in March 2005, Chairman of Zhongshan Commerce Circulation Association (中山市商貿流通協會會長) in August 2009. He was also awarded as National Working Model of Commercial System (全國商務系統勞動模範) by Ministry of Commerce, PRC in January 2008.

Mr. Su Weibing (蘇偉兵), aged 58, is an executive Director of the Company. Mr. Su is responsible for the overall operation and planning of the imported foods operations. He joined our Group in 1995 and was appointed as our vice president of Guangdong Yihua in 2001. Prior to joining us, Mr. Su has gained extensive experience while being a director and the general manager of First Department Store Limited (百貨一商店股份有限公司) in Tongliao, Inner Mongolia, the PRC.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Lin Guangzheng (林光正), aged 57, is an executive Director of the Company. Mr. Lin is responsible for the investment and development department. He served in Guangdong Yihua as an office manager and assistant president from July 1995 to June 1997 and has worked as assistant president from July 1997 to November 2000. He was appointed as the vice president of Guangdong Yihua in December 2000.

Mr. Chen Zhentao (陳正陶), aged 33, is an executive Director of the Company. Mr. Chen is responsible for the overall operation and planning of the department store section, electronic appliance section, supermarket section and finance of the Group. Before joining to our company, Mr. Chen has more than 4 years of hands-on experience in international finance. Mr. Chen is currently the vice president of Guangdong Yihua Group Investment Company Limited (廣東益華集團投資有限公司) and was the vice-president, the assistant to the general manager and the manager of administrative department of Zhenjiang Hualong Plaza Properties Company Limited (鎮江華龍廣場置業有限公司) from May 2012 to May 2014, from May 2011 to May 2012 and from January 2010 to April 2011 respectively. He graduated from Aston University with a bachelor degree in Managerial and Administrative Studies in 2007.

Mr. Chen Zhengtao is the son of Mr. Chen Jiaren, the chairman of the Board and an executive Director, and the nephew of Mr. Chen Daren, the controlling shareholder of the Company and a non-executive Director.

Mr. Leung Wai Kwan (梁維君), aged 53, is an executive Director of the Company, was appointed as an independent non-executive Director on 12 November 2013 and has been re-designated as an executive Director with effect from 20 June 2016. Prior to the re-designation, Mr. Leung was the chairman of the audit committee and a member of each of the audit committee, the remuneration committee and the nomination committee of the Company.

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

NON-EXECUTIVE DIRECTOR

Mr. Chen Daren (陳達仁), aged 61, is a non-executive Director of the Company. Mr. Chen has been the director of Yihua Investment and also the executive director of Guangdong Yucca Hotel Management Co. Ltd. (廣東逸豪酒店管理有限公司) since 2004. Mr. Chen has extensive experience in corporate management. As the deputy general manager of Yihua Investment, Mr. Chen has extensive experience in the tertiary industry and principally involved in the businesses relating to hotels, food and beverages and entertainment of Yihua Investment. He is responsible for the overall development and strategic plans of this area in Yihua Investment Group.

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

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Sun Hong (孫洪), aged 68, is an independent non-executive Director, member of the audit committee, member of the remuneration committee and member of the nomination committee of the Company. He was appointed as the chairman of Guangdong Chain Operations Association (廣東省連鎖經營協會會長) from March 2012 to March 2015, and was appointed as council member of the China Chain Store and Franchise Association (中國連鎖經營協會常務理事) in December 1998 and the honorary president of Guangdong Chamber of Daily Used Chemicals (廣東省日化商會榮譽會長) in 2011. He has been the committee member of the Advisory Committee in Economic Decision-making and Promotion of Shunde District (順德區(經濟促進)經濟決策諮詢委員會) from October 2011 to December 2013. He was elected as a member of the expert committee of Guangdong Consumer Council (廣東省消費者委員會專家委員會委員) from March 2012 to March 2015. On 19 August 2015, he was appointed as and is currently an independent non-executive director of China Shun Ke Long Holdings Limited, a company listed on the Stock Exchange (stock code: 974).

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

Mr. Xu Yinzhou (徐印州), aged 70, is an independent non-executive Director, chairman of the remuneration committee, member of the nomination committee and member of the audit committee of the Company. He was the assistant dean in Guangdong University of Business Studies (廣東商學院副院長) between 2001 and 2007. Mr. Xu has been elected as the Policy Adviser in the second session of the policy advisory committee of the Guangzhou Municipal Government Office (廣州市人民政府第二屆決策諮詢專家) with effective from March 2010.

Mr. Xu graduated from Chemistry studies in Peking University (北京大學) in March 1970 and Trade Economics in Renmin University of China (中國人民大學) in July 1984, and is qualified as Professor in commerce and economics as accredited by Department of Personnel of Guangdong Province (廣東省人事廳) in December 1995 and tutor in business administration as accredited by Commerce School of Jinan University (暨南大學廣東商學院) in December 2003. He was also appointed as the vice president of the Guangdong Economic Society (廣東經濟學會副會長) in December 2005.

Ms. Hung Wan Fong, Joanne (洪緼舫) ("**Ms. Hung**"), aged 43, is an independent non-executive Director, chairman of the audit committee, member of the audit committee, member of the nomination committee and member of the remuneration committee of the Company. Ms Hung has about 20 years of experiences in audit and assurance. Ms Hung is currently a director of an international accounting firm, where she focuses on serving listed companies over a wide variety of industries. Ms. Hung has also been involved in various transaction support assignments including initial public offerings, capital market transactions and financial due diligence in acquisitions of companies. Prior to joining the current position, Ms. Hung worked in various international accounting firms in Hong Kong. Ms. Hung graduated from the City University of Hong Kong with a bachelor degree of Accountancy in 1996. Ms. Hung is a practicing certified public accountant of the Hong Kong Institute of Certified Public Accountants.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Ms. Lai Pou Lam, Mina (黎甫琳), aged 62, is an independent non-executive Director. Prior to joining our group, Ms Lai was formerly a Senior Manager (Leasing & Management) of Hang Lung Properties Limited, whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (Stock code: 101), and had worked with Hang Lung Properties Limited for more than 20 years. Prior to joining Hang Lung Properties Limited, she was the General Manager of China Hong Kong Trade Centre Limited, where she was responsible for the setting up of China Hong Kong Trade Centre in Rotterdam, the Netherlands, which provided marketing and trade support services to Hong Kong and Chinese businesses in Europe. Ms. Lai holds a Master of Business Administration degree from the University of Leicester in the United Kingdom.

SENIOR MANAGEMENT

Ms. Wang Guping (王古坪), aged 51, was appointed as our assistant president of Guangdong Yihua in February 2003 and she is also the deputy general manager of the investment and development department since January 2014. She is responsible for internal control management of our Group and a member of the internal control committee.

Mr. Wei Chaoling (**魏超靈**) ("**Mr. Wei**"), aged 38, was appointed as president of Guangdong Yihua Commerce Limited since 2014. He is mainly responsible for the development, merger and acquisition, and operation of the composite real estate (real estate, commercial property, and industrial cities) business. Before joining the Company, Mr. Wei founded a company that provided business consultancy services, planning, and sales, and acted as the general manager of the company.

Mr. Deng Zhipeng (**鄧志鵬**) ("**Mr. Deng**"), aged 37, was appointed as general manager of Guangdong Yihua Commerce Limited and Yihua Wanguo Commerce Limited since 2014. He is responsible for the development, merger and acquisition, and operation of the composite real estate (real estate, commercial property, and industrial cities) business of the Company and developing its convenience store operations under the brand name of Wanguo. Before joining the Company, Mr. Deng was the general manager for development for southern China of Red Star Macalline Group Corporation Ltd. (Stock code: 1528) from 2009 to 2013. Before that, Mr. Deng had been the manager of the development departments of China Resources Vanguard Co., Ltd. and Carrefour China from 2002 to 2009.

COMPANY SECRETARY

Mr. Tse Wing York (謝永鑰), aged 37, is our company secretary and chief financial controller. Mr. Tse joined our Group in March 2012. Mr. Tse has over seven years of experience in auditing and financial management. Prior to joining our Group, Mr. Tse worked in ShineWing (HK) CPA Limited (a certified public accounting firm) between July 2004 and September 2010 and left as an audit manager. From 3 October 2011 to 7 May 2013, Mr. Tse was the company secretary of Inno – Tech Holdings Limited, a company listed on the Stock Exchange (Stock code: 8202). Mr. Tse graduated from Lingnan University with a bachelor's degree in business administration in 2004. Mr. Tse is a member of the Hong Kong Institute of Certified Public Accountants.

CORPORATE GOVERNANCE REPORT

The board of the directors (the "**Board**") and its subsidiaries (the "**Group**") is pleased to present this Corporate Governance Report for the year ended 31 December 2016.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to enhancing corporate governance and transparency of the Group by applying the principles in the code provisions of the Code on Corporate Governance Practices (the "**Code**") set out in Appendix 14 of the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange. The Company has complied with the code provisions in the Code for the year ended 31 December 2016.

DIRECTORS' SECURITIES TRANSACTIONS

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

BOARD OF DIRECTORS

During the year ended 31 December 2016 and up to the date of this report, the Board comprises six executive Directors, one non-executive Director and four independent non-executive Directors.

Composition of the Board

Executive Directors

Name	**Other positions in the Company**
Mr. Chen Jianren	Chairman of the Board Chairman of the Nomination Committee
Mr. Fan Xinpei	Chief Executive Officer Member of the Remuneration Committee
Mr. Su Weibing	–
Mr. Lin Guangzheng	–
Mr. Chen Zhengtao	–
Mr. Leung Wai Kwan *(Re-designated on 20 June 2016)*	–

Non-executive Director

Name	**Other positions in the Company**
Mr. Chen Daren	–

Independent non-executive Directors

Name	**Other positions in the Company**
Mr. Sun Hong	Member of Audit Committee Member of Remuneration Committee Member of Nomination Committee
Mr. Xu Yinzhou	Member of Audit Committee Chairman of Remuneration Committee Member of Nomination Committee
Ms. Hung Wan Fong, Joanne *(Appointed on 20 June 2016)*	Chairman of Audit Committee Member of Audit Committee Member of Remuneration Committee Member of Nomination Committee
Ms. Lai Pou Lam, Mina *(Appointed on 19 September 2016)*	–

CORPORATE GOVERNANCE REPORT

Responsibility of the Board

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

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

Board meetings

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

During the year ended 31 December 2016, the Company had held four Board meetings and the attendance records are set out below:

Name	**Meetings attended/ Total number of meetings held**
Mr. Chen Jianren	4/4
Mr. Fan Xinpei	4/4
Mr. Su Weibing	4/4
Mr. Lin Guangzheng	4/4
Mr. Chen Zhengtao	4/4
Mr. Leung Wai Kwan *(Re-designated on 20 June 2016)*	4/4
Mr. Chen Daren	4/4
Mr. Sun Hong	4/4
Mr. Xu Yinzhou	4/4
Ms. Hung Wan Fong, Joanne *(Appointed on 20 June 2016)*	2/4
Ms. Lai Pou Lam, Mina *(Appointed on 19 September 2016)*	1/4

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

CORPORATE GOVERNANCE REPORT

Independence of the independent non-executive Directors

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

Appointment and re-election of Directors

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

Board diversity policy

The board diversity policy of the company sets out the objectives and principles regarding board diversity for the benefits of achieving the Company's strategic objectives with a view of having a balanced diversity of both skills and experience and of perspective. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and/or length of service. The ultimate decision will be based on merit and candidates will be considered against measurable objectives, taking into account the Company's business and needs.

Directors' remuneration

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

Directors' continuing professional development

To ensure Director's contribution to the Board remains informed and relevant, the Company encourages Directors to participate in continuous professional development to develop and refresh their knowledge and skills and understanding of the business and markets in which the Group operates. The Company would provide a comprehensive induction package covering the summary of the responsibilities and obligations of a director of a Hong Kong listed company, the Company's constitutional documents and the Guides on Directors' Duties issued by the Hong Kong Companies Registry to each newly appointed director to ensure he/she to have sufficient awareness of good corporate governance practices.

CORPORATE GOVERNANCE REPORT

Directors are also provided with monthly performance updates of the Group, and information such as performance and key operational highlights to enable the Board as a whole as well as each Director to discharge their duties. For the financial year ended 31 December 2016, all Director have participated in appropriate continuous professional development and provided the Company with their records of training. A summary of training records provided by the current Directors is as follows:

Name of Directors	Reading articles, newspaper, journal and/or updates	Attending trainings and/or seminars
Executive Directors		
Mr. Chen Jianren	✓	✓
Mr. Fan Xinpei	✓	✓
Mr. Su Weibing	✓	✓
Mr. Lin Guangzheng	✓	✓
Mr. Chen Zhengtao	✓	✓
Mr. Leung Wai Kwan	✓	✓
Non-executive Director		
Mr. Chen Daren	✓	✓
Independent non-executive Directors		
Mr. Sun Hong	✓	✓
Mr. Xu Yinzhou	✓	✓
Ms. Hung Wan Fong, Joanne	✓	✓
Ms. Lai Pou Lam, Mina	✓	✓

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE

The Remuneration Committee comprises four members namely, Mr. Xu Yinzhou (Chairman and independent non-executive Director), Mr. Fan Xinpei (executive Director), Mr. Sun Hong (independent non-executive Director) and Ms. Hung Wan Fong, Joanne (independent non-executive Director).

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

During the year ended 31 December 2016, the Remuneration Committee had held two Remuneration Committee meeting and the attendance records are set out below:

Name	**Meetings attended/ Total number of meetings held**
Mr. Xu Yinzhou *(Chairman)*	2/2
Mr. Fan Xinpei	2/2
Mr. Sun Hong	2/2
Mr. Leung Wai Kwan *(Re-designated on 20 June 2016)*	1/2
Ms. Hung Wan Fong, Joanne *(Appointed on 20 June 2016)*	1/2

Set out below is the summary of work of the Remuneration Committee in the financial year ended 31 December 2016:

– reviewed the remuneration policy of the Directors and the senior management for 2016; and

– reviewed the remuneration of the executive Directors, non – executive Directors and the independent non-executive Directors.

AUDIT COMMITTEE

The Audit Committee comprises three members namely, Ms. Hung Wan Fong, Joanne (Chairman and independent non-executive Director), Mr. Xu Yinzhou (independent non-executive Director) and Mr. Sun Hong (independent non-executive Director).

During the year ended 31 December 2016, the Audit Committee held two meetings. The members of Audit Committee reviewed and discussed the Group's audited financial statements for the year ended 31 December 2016 with the external auditor of the Company. They were of the opinion that these financial statements had complied with the applicable accounting standards, the Listing Rules and legal requirements, and that adequate disclosures had been made. Additional meetings may also be held by the Audit Committee from time to time to discuss special projects or other issues which it considers necessary. The external auditor of the Company may request a meeting of the Audit Committee to be convened if they consider that is necessary.

CORPORATE GOVERNANCE REPORT

The main duties of the Audit Committee are as follows:

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

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

Name	**Meetings attended/ Total number of meetings held**
Ms. Hung Wan Fong, Joanne *(Appointed on 20 June 2016) (Chairman)*	1/2
Mr. Sun Hong	2/2
Mr. Xu Yinzhou	2/2
Mr. Leung Wai Kwan *(Re-designated on 20 June 2016)*	1/2

NOMINATION COMMITTEE

The Nomination Committee comprises four members namely, Mr. Chen Jianren (Chairman and executive Director), Mr. Xu Yinzhou (independent non-executive Director), Mr. Sun Hong (independent non-executive Director) and Ms. Hung Wan Fong, Joanne (independent non-executive Director).

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

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

During the year ended 31 December 2016, the Nomination Committee held two meeting. The members of Nomination Committee reviewed and discussed the current structure, size and composition of the Board.

CORPORATE GOVERNANCE REPORT

The following is the attendance record of the committee meeting held by the Nomination Committee:

Name	**Meeting attended/ Total number of meetings held**
Mr. Chen Jianren *(Chairman)*	2/2
Mr. Xu Yinzhou	2/2
Mr. Sun Hong	2/2
Mr. Leung Wai Kwan *(Re-designed on 20 June 2016)*	1/2
Ms. Hung Wan Fong, Joanne *(Appointed on 20 June 2016)*	1/2

EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

Total fee for services, being provided by external auditors – PricewaterhouseCoopers, relating to the audit of the Group's financial statements for the year ended 31 December 2016 is approximately RMB2.3 million.

CORPORATE GOVERNANCE

The corporate governance functions are performed by the Board.

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

During the year ended 31 December 2016, the Board has performed the following duties in respect of its corporate governance functions:

a. reviewing the Company's policies and practices on corporate governance;

b. reviewing and monitoring the training and continuous professional development of Directors and senior management;

c. reviewing and monitoring the Company's policies and practices in compliance with legal and regulatory requirements;

d. reviewing and monitoring the code of conduct applicable to employees; and

e. reviewing the Company's compliance with the code of disclosure in the Corporate Governance Report.

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges that it is its duty to monitor the risk management and internal control systems of the Group on an ongoing basis and review their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

During the year, the Board, through the Audit Committee, conducted an annual review of both design and implementation effectiveness of the risk management and internal control systems of the Group, covering all material controls, including financial, operational and compliance controls, with a view to ensuring that resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions are adequate. In this respect, the Audit Committee communicates any material issues to the Board.

During the year, the Group appointed Baker Tilly Hong Kong Risk Assurance Limited ("**Baker Tilly**") to:

- assist in identifying and assessing the risks of the Group through a series of workshops and interviews; and

- independently perform internal control review and assess effectiveness of the Group's risk management and internal control systems.

The results of the independent review and assessment were reported to the Audit Committee and the Board. Moreover, improvements in internal control and risk management measures as recommended by Baker Tilly to enhance the risk management and internal control systems of the Group and mitigate risks of the Group were adopted by the Board. Based on the findings and recommendations of Baker Tilly as well as the comments of the Audit Committee, the Board considered the internal control and risk management systems effective and adequate.

The Group has established internal control procedures for the handling and dissemination of inside information in order to comply with Chapter 13 of the Listing Rules as well as Part XIVA of the Securities and Futures Ordinance. The internal control mechanism includes information flow and reporting processes, confidentiality arrangements, disclosure procedures, and staff training arrangements, etc.

Our Enterprise Risk Management Framework

The Group established its enterprise risk management framework in 2016. While the Board has the overall responsibility to ensure that sound and effective internal controls are maintained, management is responsible for designing and implementing an internal control system to manage all kinds of risks faced by the Group.

CORPORATE GOVERNANCE REPORT

Through the risk identification and assessment processes, risks are identified, assessed, prioritized and allocated treatments. Our risk management framework follows the COSO Enterprise Risk Management – Integrated Framework, which allows the Board and management to manage the risks of the Group effectively. The Board receives regular reports through the Audit Committee that oversights risk management and internal audit functions.

Principal Risks

In the Year of 2016, the following principal risks of the Group were identified and classified into strategic risks, operational risks, financial risks and compliance risks.

Risk Areas	Principal Risks
Strategic Risks	Competition risk; reputation risk
Operational Risks	Product liability risk; compliant risk; leakage of sensitive information risk; risk of cash management; recruitment of inexperienced staff; unauthorized expenses; concentration of decision making;
Financial Risks	Liquidity risk, interest rate risk, foreign exchange risk
Compliance Risks	Risk of non-compliance with ordinances related to employment; change of listing rules and relevant company regulations and ordinances

Our Risk Control Mechanism

The Group adopts a "three lines of defence" corporate governance structure with operational management and controls performed by operations management, coupled with risk management monitoring carried out by the finance and compliance team and independent internal audit outsourced to and conducted by Baker Tilly. The Group maintains a risk register to keep track of all identified major risks of the Group. The risk register provides the Board, the Audit Committee, and management with a profile of its major risks and records management's action taken to mitigate the relevant risks. Each risk is evaluated at least annually based on its likelihood of occurrence and potential impact upon the Group. The risk register is updated by management as the risk owners with addition of new risks and/or removal of existing risks, if applicable, at least annually, after the annual risk evaluation has been performed. This review process can ensure that the Group proactively manages the risks faced by it in the sense that all risk owners have access to the risk register and are aware of and alert to those risks in their area of responsibility so that they can take follow-up action in an efficient manner.

Our risk management activities are performed by management on an ongoing process. The effectiveness of our risk management framework will be evaluated at least annually, and periodic management meeting is held to update the progress of risk monitoring efforts. Management is committed to ensure that risk management forms part of the daily business operation processes in order to align risk management with corporate goals in an effective manner.

The Company will continue to engage external independent professionals to review the Group's system of internal controls and risk management annually and further enhance the Group's internal control and risk management systems as appropriate.

CORPORATE GOVERNANCE REPORT

The directors and the internal audit of the Group have reviewed the need for an internal audit function and are of the view that in light of the size, nature and complexity of the business of the Group, it would be more cost effective to appoint external independent professionals to perform internal audit function for the Group in order to meet its needs. Nevertheless, the directors and the internal audit of the Group will continue to review at least annually the need for an internal audit function.

On going compliance of non-compliance incidents

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

(i) Employee theft

The Audit Committee had reviewed the report issued by the Internal Control Adviser in relation to the findings on the effectiveness of the financial management (including cash) cycle. Based on the evaluation report of the Internal Control Adviser, the Audit Committee is of the view that recommended measures of the Internal Control Adviser are effectively implemented.

(ii) Prevention of bribery and anti-money laundering

During the year ended 31 December 2016, the Group continues to enforce the policies on prevent bribery and anti-money laundering activities in connection with the issuance of Consumption Cards. After considering the compliance records and review results of the internal control committee, the Audit Committee is satisfied that, those measures continued to be effectively implemented.

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

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

CORPORATE GOVERNANCE REPORT

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

PERFORMANCE OF DEED OF NON-COMPETITION UNDERTAKING

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

(a) not directly or indirectly engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with the existing business activity of our Group or be in competition with our Group in any business activities which our Group may undertake in the future save for the holding (by him/her/it and/or his/her/its associates) of not more than 5% shareholding interests in any company listed on the Stock Exchange or any other stock exchange;

(b) not take any direct or indirect action which constitutes an interference with or a disruption to the business activities of our Group including, but not limited to, solicitation of customers, suppliers and staff members of our Group; and

(c) keep our Directors informed of any matters of potential conflicts of interest between the Covenantors (including their associates) and our Group.

CORPORATE GOVERNANCE REPORT

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

The Company has received confirmation letters from each of the Covenantors confirming that, during the year 2016, they have not violated the terms under the Deed of Non-Competition Undertaking. The independent non-executive Directors had reviewed and confirmed that the Covenantors have complied with the provisions of the deed and the deed has been enforced by the Company in accordance with its terms.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

COMMUNICATION WITH SHAREHOLDERS

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

1. The annual general meeting provides a forum for the Shareholders to raise comments and exchange views with the Board. The Chairman and the Directors are available at the annual general meetings of the Company to address Shareholders' queries;

2. Separate resolutions are proposed at the general meetings on each substantially separate issue and procedures for convening extraordinary general meetings and putting forward proposals are included in the annual report to the Shareholders to facilitate enforcement of Shareholders' rights; and

3. The Shareholders can visit the Company's website at www.yihua.com.cn to learn the general background of the Company and its activities, which enable the general public to have a better understanding of the Group.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS

Convening of extraordinary general meetings and putting forward proposals

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

Procedures by which enquiries may be put to the Board

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

CHANGES IN CONSTITUTION DOCUMENTS

There is no change in the constitutional documents of the Company during the year 2016.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The board of directors of the Company (the "**Board**") and its subsidiaries (the "**Group**") hereby presents its ESG report ("**ESG Report**") for the year ended 31 December 2016. The ESG Report is prepared in accordance with the requirements contained in Appendix 27 "Environmental, Social and Governance ("**ESG**") Reporting Guide" ("**ESG Reporting Guide**") of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

ESG PHILOSOPHY

The Group considers that sustainable development is one of the core values of the Group, and incorporates the concept of sustainable development into business operations to create long-term value for employees, customers, business partners, shareholders, investors and the community.

ORGANIZATIONAL STRUCTURE

The Board is responsible for our ESG strategy and reporting, including evaluating and determining our ESG-related risks and ensuring that appropriate and effective ESG risk management and internal control systems are in place. The ESG working group is set up by appointing the management and employees of various functional departments in the Group. By reviewing the operation of the Group and internal discussion, they identify relevant ESG issues and assess the importance of the issues to our business and stakeholders.

According to the general disclosure requirements of the ESG Reporting Guide, the identified major ESG issues have been included in this ESG Report which aims to disclose the ESG performance of the Group's operations in a balanced way.

RELATIONSHIPS WITH STAKEHOLDERS

For the Group, the development of the enterprise is based on a people-centred basis. All people related to the organization, including employees, customers, business partners and suppliers, creditors, shareholders and potential investors, local governments, and the communities, are all important to and influence the Company. We believe that communicating with stakeholders will help us to better develop our business strategies in response to their needs. This will at the same time allow us to anticipate risks and support the stable and healthy development of our business and the community and continue to develop mutually beneficial relationships with the stakeholders through different channels and promote sustainable development.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL

As part of corporate responsibility, the Group assumes responsibility for environmental protection and is fully aware of the importance of sustainable environmental development to achieving its business sustainability. Due to the nature of its businesses, it will not have a significant impact on the environment and will not produce harmful pollutants. The Group strictly complies with the relevant laws and regulations such as the Environmental Protection Law of the People's Republic of China (《中國人民共和國環境保護法》), the Prevention and Control of Environmental 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》), and 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 Group continuously keeps track of the latest national and regional environmental protection ordinances, actively responds to national environmental policies, and will take steps to closely monitor and manage our environmental impact.

A1 EMISSIONS

The major environmental issues from daily operation include greenhouse gas emissions generated from electricity consumption, water consumption and waste water, solid waste and indoor air quality. The Group has developed a number of energy-saving measures to help reduce emissions as further described in the next section "Use of Resources".

The Group will not generate hazardous waste emissions at its places of operation. All waste water is drained to the urban drainage and sewage treatment facilities for treatment strictly in accordance with local regulation, and the solid waste is taken to designated refuse collection points for processing by the cleaning company.

A2 USE OF RESOURCES

In order to reduce energy consumption and improve energy conservation management and implement green operations and green office practices, we have taken the following energy-saving measures:

Lighting

We are actively turning the lighting system into LED lighting, and now more than 50% of the premises are using LED lighting instead. In our department stores, we use more natural light near the entrance and the atrium, and thus shorten the time the lights are on during the day. In the evening, the lights are switched on at a fixed time, and the time of switching on and off lights is adjusted with reference to how bright it is outside. On the outside of our department stores, outdoor lighting and sign lights are installed with timers. The time of switching on and off lights is adjusted according to seasonal changes. We use natural light more to shorten the time the lights are on. In our warehouses and offices, staff are required to switch lights off when they are not used.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Air-conditioning and refrigeration equipment

The central air-conditioning is pre-set to switch on automatically to control the indoor temperature. When there are relatively fewer shoppers, the temperature of the air-conditioning will be adjusted in order to save energy. The mesh filters of the air-conditioning units are regularly cleaned and maintained to improve ventilation so as to reduce energy consumption. Air curtains are installed at the entrances of the department stores to reduce the escape of cooled air. When the department stores are closed, the screens of the refrigeration equipment in our supermarkets are drawn down to retain its chilling effect.

Other measures to reduce electricity use

The environmentally-friendly option of the printers is pre-selected so that they automatically switch to the energy-saving mode when idle. To further control our electricity requirements, we have provided guidance to employees to set electronic equipment at the energy-saving mode.

We also encourage employees to wear suitable clothes at the temperature of the office.

Water

In order to promote water conservation, promotional signs for water conservation are posted in public areas such as office areas and toilets. The pipelines and water supply facilities are regularly maintained and repaired to reduce leakage. Also, sensors are installed to provide the required amount of water and flush water so as to save water.

Using environmentally-friendly bags

Customers and employees are mobilized to protect the environment and save energy by promoting the reduced use of plastic bags and recommending them to bring their own shopping bags and use environmentally-friendly bags more.

Reducing paper use

Customers are actively encouraged to reduce the use of wrapping paper, and staff are encouraged to use environmentally-friendly paper as office paper and try to use both sides of a piece of paper or reuse used paper as far as possible to reduce paper use.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A3 THE ENVIRONMENT AND NATURAL RESOURCES

Due to the nature of its businesses, other than the above in relation to emissions and use of resources, the Group does not have a significant direct impact on the environment and natural resources in its operations. Yet, we have implemented the following environmental protection measures:

Ambient noise

A central public announcement system is used in our department stores. The volume of background music in our department stores is controlled within national standards. There are daily inspections to ensure that the volume of the public announcement system in our department stores is appropriate. The use of loudspeakers and loud promotion are prohibited when selling products at counters. Staff are not allowed to and customers are promptly reminded not to speak loudly in the department stores so as to reduce and control ambient noise.

Indoor air quality

The air-conditioning units in the department stores are regularly cleaned and disinfected, and the indoor air quality is tested so that staff and customers can work and shop in a safe environment.

Management of business vehicles

The Group has been strengthening business vehicle management, optimizing vehicle utilization, and reducing the use of vehicles. The vehicles are regularly maintained to reduce carbon dioxide emission and extend its vehicle life. At the same time, employees are arranged to travel by public transport as far as possible when they go out for business.

B. SOCIAL

B1 EMPLOYMENT AND LABOUR PRACTICES

The Group regards employees as the primary stakeholders in enterprise development. It attaches great importance to injecting into enterprise management more institutional design features that embody the value and dignity of labour and has built a set of humanized human resource management rules. The Group identifies and absorbs talents, and will not treat them differently because of gender, age, race, religion, or disability, so as to give equal opportunities to everybody. We give the post to those who are competent.

The particulars of the staff's pay and leave system, attendance system, working environment and conditions, standards of behaviour and services, benefits system, and complaint system are included in the Staff Manual for employees' reference, which is regularly reviewed. The Group encourages all employees to freely express their views so that they understand their own rights and obligations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group strictly complies with all the labour laws and regulations of China and Hong Kong covering all aspects of employment and employee benefits and the Group does not employ child labour and prohibits forced labour. In our staff recruitment process, we carefully inspect the applicants' identity documents to ensure that the Group will not employ child labour. At the same time, the Group refuses to force an employee to work by means of violence, threat, or illegal restraint of liberty of the person.

During the reporting period, the Company did not have any instances of significant non-compliance in relation to the labour standards stipulated in the relevant laws and regulations.

Summary of employment performance indicators:

During the reporting period, the total number of employees of the Group is 1,517. They are working full-time in China and Hong Kong.

Employees classified by gender:

	Total number of staff
Male	519
Female	998
	1,517

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Employees classified by age:

	Total number of staff
Age	
18-30	382
30-60	1,129
≥60	6
	1,517

Leaving employees classified by gender:

	Number of leavers
Male	356
Female	430
	786

B2 HEALTH AND SAFETY

To safeguard the occupational health and safety of the employees, the Group complies with the relevant local laws and regulations of China and Hong Kong and strives to provide employees with a safe, healthy, and comfortable working environment. These efforts include arranging body checks for all staff, regular safety inspection of drinking equipment, air-conditioning, and circuits, regular disinfestation and dust removal, and more. The Group in particular requests that the staff must comply with the safety code in the Staff Manual and the provisions of the Fire Safety Management Code. The Group regularly holds fire drills and conducts training in relation to knowledge of safety, fire prevention, and fire extinguishment for all staff to raise their awareness of safety and fire prevention. They will learn how to use fire-fighting equipment such as fire extinguishers and fire hydrants and learn emergency protection measures to protect themselves from injuries in case there is an accident.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B3 DEVELOPMENT AND TRAINING

The success of the Company and the quality of its services depends to a large extent on the importance attached to staff training. We continuously raise staff quality through staff training in various forms, including expert lectures and internal training. New staff members are given special training to help them to get to know the Company as soon as possible and to adapt to their positions. Current staff are providing with training specifically related to the their position, and improving skills and career development. This will not only allow employees to fully display their personal talents in their areas of work. Meanwhile, they can also plan their personal development, so that employees can continue to explore their own potential and achieve their personal career development goals as the Company progresses steadily. Directors and senior management receive professional training so that they understand the latest company law, regulatory policies, corporate governance, financial management, market trends, and other information.

B4 HEALTHY LIVING

The Group cares for our employees and firmly believes that the health and well-being of our employees is the foundation of the Group's success. The Group organizes a number of interesting activities for the staff, including trips, barbecues, picnics, fun sports day, and more, so that employees can stretch their bodies and relieve work stress.

B5 SUPPLY CHAIN MANAGEMENT

The Group is committed to maintaining a sustainable supply chain with its suppliers and contractors and actively works with them to control product quality and project construction processes based on standards regarding business ethics, the environment, and health and safety so as to guarantee service quality. When we choose suppliers and contractors to provide services, we will first assess and investigate their reputation, their technical and service capabilities, and their credit, etc. and their performance is monitored to ensure that it meets the standards, contract terms, and quality requirements. Qualified suppliers and contractors are recorded on an approved list for selection on future procurement. If the results of the assessment of a supplier or contractor do not meet the requirements, the relevant supplier or contractor will be removed from the approved list.

We are confident that by complying with our procurement policy and procedures, we can establish and maintain long-term cooperation partnerships with our suppliers and contractors. At the same time, we purchase from local suppliers and contractors as far as possible considering from an environmental perspective so as to reduce pollutant emission during the course of transportation and encourage them to promote environmental protection measures and products.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B6 PRODUCT RESPONSIBILITY

The Group's procurement department has centralized management and control of suppliers and established a comprehensive procurement mechanism for managing and supervising the Group's supply chain processes. Efficient supply chain management has a monitoring effect on the cost control, quality, and sales of products. It ensures that product quality and project quality conforms to applicable laws and regulations.

In relation to product procurement, the Group will check whether the capacity, labelling, signs, and so on of the products are in line with national requirements, and will check the suppliers' "Record Form of Enter-Exit Inspection and Quarantine for Declaration Enterprise" (出入境檢驗檢疫報檢企業備案), "Record Filing and Registration of Foreign Trade Operators" (對外貿易經營者備案登記) and other relevant approval documents for imported products. If a product is found to have quality problems, the supervisor will be notified immediately and the goods will be removed from the shelves. The Group regularly reviews the suppliers' operation qualifications and scope of business and whether they have the corresponding agency authorization. Suppliers with problems are immediately replaced and eliminated.

In relation to project work, the Group will communicate with the customer and confirms the work plan before proceeding, and actively monitor and control the process and coordinates with the customer. During the construction phase, the Group will hold regular meetings with contractors and regularly inspects the site to manage product quality and avoid the occurrence of errors. The Group provides contractors or subcontractors with guidance and guidelines about the model of the prototype of the building and the sample before mass production or construction begins.

Complaints about products and services

The Group attaches great importance to the views of customers and arranges specialized after-sales service to follow up customer questions and opinions. All complaints are handled promptly to ensure that the cases can be processed and the customers answered in the shortest possible time.

Protecting customer privacy

The Group attaches much importance to its relationship with customers, respects each customer's privacy. All customers' personal data are managed by assigned staff so as to ensure that customer data are not leaked in order to protect the privacy and security of each customer.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B7 ANTI-CORRUPTION

In order to maintain a fair, impartial and efficient operating and working environment, the Group upholds a high standard of operation integrity in the course of operation and does not allow any form of corruption and bribery. It strictly abides by the laws and regulations in relation to anti-corruption and anti-bribery in China and Hong Kong.

The Group has an Anti-corruption Code to regulate the behaviour of all departments and employees, and requires all suppliers to sign a "Sunshine Agreement" when they sign our contract, which requires both parties to restrain their employees to be honest and self-disciplined so as to put an end to all conducts of commercial bribery.

B8 COMMUNITY INVESTMENT

We promote the social contribution of our member companies to the local communities in which they operate, and attach much importance to cultivating a sense of social responsibility among our employees and encourage them to make better contributions to our communities during and after work.

The Group actively work for the well-being of the community. There are 102 jobs directly created during the reporting period. Our employees are actively involved in local community activities, including donation in money and in kind, charity sales, visiting homes for the elderly, charity walks, giving blood to the Red Cross, and more as a way of caring for the vulnerable groups in the local communities.

DIRECTORS' REPORT

The directors of our Company (the "**Directors**") are pleased to report the audited consolidated financial statements of our Company and its subsidiaries (the "**Group**") for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

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

The principal activities and other particular of the Company's subsidiaries are set out in note 38 to the financial statement. The analysis of the principal activities and geographical locations of the operations of the Group during the financial year are set out in note 5 to the financial statements.

RESULTS

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of comprehensive income on pages 71 and 72.

BUSINESS REVIEW

The business review for the year and discussions on the future business development of the Group together with the description of the possible risks and uncertainties of the Group are contained in "Chairman's Statement" on pages 5 to 10 and "Management Discussion and Analysis" on pages 11 to 18 respectively. The "Financial Review" on pages 11 to 18 also includes an analysis of the Group's financial key performance indicators during the year. The descriptions of the financial risk management of the Group are set out in note 3 to the consolidated financial statements.

FINANCIAL HIGHLIGHTS AND SUMMARY

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

Environmental Policies and Performance

The Group is committed to the long term sustainability of the environment and communities. The Group has complied with PRC environmental protection laws and other relevant laws and regulations regarding environmental protection, health and safety, workplace conditions and employment and has adopted effective measures to achieve efficient use of resources, energy saving and waste reduction. For the details of the Group's environmental policies and performance are contained in "Environmental, Social and Governance Report" on pages 36 to 44 of the annual report.

Compliance with the Relevant Laws and Regulations

There was no incident of non-compliance with the relevant laws and regulations that had or would have significant impact by the Group for the year ended 31 December 2016.

DIRECTORS' REPORT

RELATIONSHIP WITH STAKEHOLDERS

The Group understands the success of the Group's business depends on the support from its key stakeholders, including employees, customers, suppliers, banks, regulators and shareholders. During the year ended 31 December 2016, there were no material and significant dispute between the Group and its key stakeholders. The Group will continue to ensure effective communication and maintain good relationship with each of its key stakeholders.

DIVIDENDS

The Board has resolved to recommend the payment of a final dividend for the year ended 31 December 2016 of HK$0.1 per ordinary share (2015 final dividend: HK$0.1 per ordinary share) to shareholders whose names are on the register of members on 23 June 2017, which is subject to the approval by shareholders at the forthcoming Annual General Meeting ("**AGM**") of the Company to be held on 16 June 2017. The proposed final dividend will be payable in cash with an option to receive new, fully paid shares in lieu of cash in whole or in part under the scrip dividend scheme ("**Scrip Dividend Scheme**"). The new shares will, on issue, rank pari passu in all respects with the date of allotment and issue of the new shares except that they shall not be entitled to the proposed final dividend. The circular containing details of the Scrip Dividend Scheme and the relevant election form is expected to be sent to shareholders on or about 26 June 2017.

The Scrip Dividend Scheme is conditional upon the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the new shares to be issued under the Scrip Dividend Scheme.

The proposed final dividend and the share certificates for scrip shares under the Scrip Dividend Scheme are expected to be paid/dispatched on or about 11 August 2017.

MAJOR CUSTOMERS AND SUPPLIERS

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

PROPERTY, PLANT AND EQUIPMENT

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

INVESTMENT PROPERTIES

Details of the movement in investment properties are set out in note 15 and note 36 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in note 26 to the consolidated financial statements.

DIRECTORS' REPORT

EVENTS AFTER THE BALANCE SHEET DATE

Details of the events after the balance sheet date of the Group are set out in note 41 to the consolidated financial statements.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

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

As at 31 December 2016, the Company's share premium available for distribution amounted to approximately RMB124,034,000 of which RMB44,538,000 (equivalent to HK$49,790,000) has been proposed as final dividend for the year. Details of which are set out in note 12 and note 39 to the consolidated financial statements.

DIRECTORS

The Directors during the year ended 31 December 2016 and up to the date of this report were:

Executive Directors
Mr. Chen Jianren *(Chairman)*
Mr. Fan Xinpei *(Chief Executive Officer)*
Mr. Su Weibing
Mr. Lin Guangzheng
Mr. Chen Zhengtao
Mr. Leung Wai Kwan *(Re-designated on 20 June 2016)*

Non-executive Director
Mr. Chen Daren

Independent Non-executive Directors
Mr. Sun Hong
Mr. Xu Yinzhou
Ms. Hung Wan Fong, Joanne *(Appointed on 20 June 2016)*
Ms. Lai Pou Lam, Mina *(Appointed on 19 September 2016)*

Biographical details of the Directors and senior management of the Group are set out in the section headed "Biographies of Directors and Senior Management" on pages 19 to 22.

DIRECTORS' REPORT

CHANGE IN INFORMATION OF DIRECTORS

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

BORROWINGS

Particulars of borrowings of the Group as at 31 December 2016 are set out in note 29 to the consolidated financial statements.

COMMITMENTS

Details of the commitments of the Group are set out in note 34 to the consolidated financial statements.

RELATED PARTY TRANSACTIONS

A summary of the significant related party transactions which were conducted in the ordinary course of business are set out in note 37 to the consolidated financial statements.

The related party transactions mentioned in note 37 (a) (i) and (ii) were connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules. Included in these transactions is an amount of RMB114,000 which were fully exempt from shareholders' approval, annual review and all disclosure requirements as all the applicable percentage ratios are less than 0.1% under Chapter 14A of the Listing Rules.

The related party transactions mentioned in note 37 (a) (iv) were not connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules.

The related party transactions mentioned in note 37 (a) (v) were connected transactions under Chapter 14A of the Listing Rules which were fully exempt from shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules.

The related party transactions mentioned in note 37 (a) (vi) were connected transactions under Chapter 14A of the Listing Rules. As one of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the transactions contemplated under the this transaction was higher than 25% but below 100%, they constituted major transactions of the Company and were subject to reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

Apart from the above, the related party transactions mentioned in note 37 (a) (i) (ii) and (iii) constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

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

DIRECTORS' REPORT

DIRECTORS' AND CONTROLLING SHAREHOLDER'S INTERESTS IN CONTRACTS

Save as disclosed under the headings "Continuing Connected Transactions" in this Directors' Report on pages 54 to 59 and "Related Parties and Significant Related Party Transactions" in note 37 to the financial statements, no Directors or controlling Shareholder or their respective associates had a material interest, either directly or indirectly, in any contract of significance to the business of the Group and to which the Company, its subsidiary, its fellow subsidiaries or its holding company was a party, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

DIRECTORS' SERVICE CONTRACTS

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

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of business of the Company were entered into or were in existence during the year.

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles, every Director is entitled to be indemnified out of the assets of the Company against all costs, changes, expenses, losses and liabilities which he may sustain or incur in or about the execution and/or discharge of his duties and/or the exercise of his powers and/or otherwise in relation to or in connection with his duties, powers or office, to the extent as permitted by laws.

DIRECTORS' REPORT

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

As of 31 December 2016, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("**SFO**")) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO), or (ii) which were required, pursuant to section 352 of the SFO, to be entered into the register maintained by the Company, or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Name of Director	Company/ Name of associated corporation	Capacity/ Nature of interest	Number of shares	Approximate percentage of shareholding
Mr. Chen Daren	The Company	Interest in controlled corporation	268,174,166 (L) *(Note 2)*	53.86%
Mr. Fan Xinpei	The Company	Beneficial owner/ Interest in controlled corporation	44,068,840 (L) *(Note 3)*	8.85%
Mr. Lin Guangzheng	The Company	Beneficial owner	5,362,916 (L)	1.08%
Mr. Su Weibing	The Company	Beneficial owner	4,320,416 (L)	0.87%
Mr. Chen Daren	Jaguar Asian Limited ("**Jaguar Asian**")	Beneficial owner	1 (L) *(Note 2)*	100%

Notes:

1. The letter "L" denotes long position in the shares, underlying shares and debentures of the Company or any of its associated corporations.

2. Jaguar Asian is wholly-owned by Mr. Chen Daren, a non-executive Director. Mr. Chen Daren is deemed to be interested in the 268,174,166 Shares held by Jaguar Asian under the SFO.

3. 44,056,340 Shares and 12,500 Shares were held directly by Mr. Fan Xinpei and EAGLEPASS DEVELOPMENTS LIMITED ("**Eaglepass Developments**") respectively. Eaglepass Developments is owned as to 15.66% and 84.34% by Mr. Lu Hanxing (a former Director who resigned on 4 May 2015) and Gain Profit Management Limited ("**Gain Profit**"), respectively. Gain Profit is wholly-owned by Zhongshan Yinglifeng Trading Developments Limited which is in turn owned as to 66.33%, 9.62%, 9.62%, 4.81%, 4.81% and 4.81% by Mr. Fan Xinpei, Mr. Lin Guangzheng (an executive Director), Mr. Su Weibing (an executive Director), Ms. Wang Guping, Ms. Zhang Rong and Mr. Luo Chengwen respectively. As such Mr. Fan Xinpei is deemed to be interested in the 12,500 Shares held by Eaglepass Developments under the SFO.

DIRECTORS' REPORT

Save as disclosed above, as at 31 December 2016, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in any shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO), or (ii) which were required, pursuant to section 352 of the SFO, to be entered into the register maintained by the Company, or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

PERSONS WHO HAVE AN INTERESTS OR SHORT POSITION WHICH IS DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO AND SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors, as at 31 December 2016, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholder	Nature of interests	Number of Shares held *(Note 1)*	Approximate percentage of shareholding *(Note 2)*
Jaguar Asian Limited	Beneficial owner	268,174,166 (L)	53.86%
Gold-Face Finance Limited *(Note 3)*	Person having a security interest in shares	118,110,750 (L)	23.72%
Good Profit Development Ltd. *(Note 3)*	Interest in controlled corporation/ Person having a security interest in shares	118,110,750 (L)	23.72%
Good Foundation Co. Ltd. *(Note 3)*	Interest in controlled corporation/ Person having a security interest in shares	118,110,750 (L)	23.72%

DIRECTORS' REPORT

Name of Shareholder	Nature of interests	Number of Shares held *(Note 1)*	Approximate percentage of shareholding *(Note 2)*
Upbest Strategic Co. Ltd. *(Note 3)*	Interest in controlled corporation/ Person having a security interest in shares	118,110,750 (L)	23.72%
Upbest Financial Holdings Limited *(Note 3)*	Interest in controlled corporation/ Person having a security interest in shares	118,110,750 (L)	23.72%
Upbest Group Limited *(Note 3)*	Interest in controlled corporation/ Person having a security interest in shares	118,110,750 (L)	23.72%
CCAA Group Limited *(Note 3)*	Interest in controlled corporation/ Person having a security interest in shares	118,110,750 (L)	23.72%
Cheng Kai Ming, Charles *(Note 3)*	Beneficiary of a trust (other than a discretionary interest)	118,110,750 (L)	23.72%
Cheng Wai Ling, Annie *(Note 3)*	Beneficiary of a trust (other than a discretionary interest)	118,110,750 (L)	23.72%
Cheng Wai Lun, Andrew *(Note 3)*	Beneficiary of a trust (other than a discretionary interest)	118,110,750 (L)	23.72%

Notes:

1. The letter "L" denotes long position in the Shares.

2. The approximate percentage of shareholding is calculated based on 497,903,555 Shares in issue as at 31 December 2016.

DIRECTORS' REPORT

3. According to the disclosure of interests forms of substantial Shareholders filed on 18 December 2015, Gold-Face Finance Limited is wholly-owned by Good Profit Development Ltd., which is in turn owned as to 50% and 50% by Good Foundation Co. Ltd. and Upbest Strategic Co. Ltd., respectively. Each of Good Foundation Co. Ltd. and Upbest Strategic Co. Ltd. is wholly-owned by Upbest Financial Holdings Limited, which is in turn wholly-owned by Upbest Group Limited. Upbest Group Limited is owned as to 73.65% by CCAA Group Limited, a trust of which Cheng Kai Ming, Charles, Cheng Wai Ling, Annie and Cheng Wai Lun, Andrew are beneficiaries.

Save as disclosed above, so far as is known to the Directors, as at 31 December 2016, no other persons had, or were deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Mr. Chen Daren is the sole director of Jaguar Asian Limited. Save as disclosed above, as at 31 December 2016, none of the Directors held any directorship or had any employment in a company which has an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

DIRECTORS' REPORT

CONTINUING CONNECTED TRANSACTIONS

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

No.	Date of agreement	Connected party	Subject matter of the transaction	Term	Transaction amount for the year ended 31 December 2016 RMB'000	Annual cap amount for the year ended 31 December 2016 RMB'000
I.	**CCTs subject to announcement and annual reporting**					
A.	**Expenditure Transactions: Hotel and Restaurant Agreement**					
1.	18 November 2015	Yihua Investment *(Note 1)*	Provision of services relating to hotel accommodations, restaurant dining and other related services by Yihua Investment and its subsidiaries	1 January 2016 to 31 December 2018	843	2,875
B.	**Revenue Transactions: Master Supply Agreement**					
1.	18 November 2015	Yihua Investment	Supply of goods, provision of services and utilities by the Group to Yihua Investment and its subsidiaries	1 January 2016 to 31 December 2018	1,809	3,900
C.	**Expenditure Transactions: Tenancy and Management Agreements**					
1.	1 July 2013	Yangjiang Honggao *(Note 2)*	Lease of a portion of Block 1 and 2 of a construction, No 318 Dongfeng 4th Road	1 July 2013 to 30 June 2028	1,193	2,941

DIRECTORS' REPORT

No.	Date of agreement	Connected party	Subject matter of the transaction	Term	Transaction amount for the year ended 31 December 2016 RMB'000	Annual cap amount for the year ended 31 December 2016 RMB'000
2.	1 July 2013	Yangjiang Hongtu *(Note 3)*	Provision of property management services for a portion of Block 1 and 2 of a construction, No 318 Dongfeng 4th Road	1 July 2013 to 30 June 2028	3,163	5,881
II.	**CCTs subject to announcement, annual reporting and independent shareholders' approval**					
D.	**Expenditure Transactions: Tenancy and Management Agreements**					
1.	(1) 12 March 2013 and 18 Noember 2015, (item i and ii)	Guangdong Yihua Management *(Note 4)* (item i and ii)	Lease of properties situated at the following locations of West Wing of Yihua Commercial Center:	12 March 2013 to 31 December 2018 (item i and ii)	9,959	10,375
	(2) 16 December 2014 (item iii and iv)	Jinghua Century *(Note 5)* (item iii and iv)	(i) Levels 1 to 2; (ii) Levels 3 to 4; (iii) Level 5; and (iv) Unit 901 of Level 9	1 January 2015 to 31 December 2017 (item iii and iv)	2,802	2,902
2.	(1) 1 September 2012, as supplemented by an agreement dated 18 November 2015 (item i)	Jinghua Century (item i)	Lease of properties situated at the following locations of East Wing of Yihua Commercial Centre: (i) Levels 1 to 3;	(1) 1 September 2012 to 31 August 2022 (item i)	3,965	4,175
	(2) 16 December 2014 (item ii and iii)	Jinghua Century (item ii and iii)	(ii) Unit 201 of Level 2; and (iii) Unit 501 of Level 5 (iv) 150 car park lots situated	(2) 1 January 2015 to 31 December 2017 (item ii and iii)	831	992
	(3) 18 November 2015 (item iv)	Guangdong Yihua Management (item iv)	at Level B2, Century Plaza	(3) 1 January 2016 to 31 December 2018 (item iv)	522	540
3.	16 December 2014	Yihua Plaza Corporation *(Note 6)*	No. 3 Chuangye Road, Zhongshan City	1 January 2015 to 31 December 2017	879	923

DIRECTORS' REPORT

No.	Date of agreement	Connected party	Subject matter of the transaction	Term	Transaction amount for the year ended 31 December 2016 RMB'000	Annual cap amount for the year ended 31 December 2016 RMB'000
4.	(i) 10 August 2009 and 18 November 2015; (ii) 18 November 2015	Jinhui Century *(Note 7)*	Lease of properties located at: (i) Basement 1 and Levels 1 to 3 of Jinhui Century Square; (ii) Basement 1 of Jinhui Century Square; and an open area at 118 Yingbin Avenue	(i) 17 September 2009 to 16 September 2019; (ii) 1 January 2016 to 31 December 2016	26,882	27,828
5.	1 January 2010 and 18 November 2015	Guomao Hotel *(Note 8)*	Lease of properties located at: Portion of Level 3 of Section B of Zhongshan Guzhen International Hotel;	1 January 2010 to 31 December 2019	1,402	1,730
6.	1 June 2006 and 18 November 2015;	Yihua Investment	Lease of properties located at Basement 1, Levels 1 and 2 of podium building, Levels 2 to 4 of annex building, No.118 Yingbin Avenue Road ("**JP Area**)	16 June 2006 to 25 July 2023	12,724	13,201
	20 September 2008 and 18 November 2015	Yucca Hotel *(Note 9)*	Lease of an additional area of 238 sq.m. at JP Area	22 September 2008 to 25 July 2023		
	18 November 2015	Yucca Hotel	Provision of property management services for main building and auxiliary building at JP Area	1 January 2016 to 31 December 2018		

DIRECTORS' REPORT

No.	Date of agreement	Connected party	Subject matter of the transaction	Term	Transaction amount for the year ended 31 December 2016 RMB'000	Annual cap amount for the year ended 31 December 2016 RMB'000
7.	(i) 31 March 2014, as supplemented by the first supplemental agreement dated 13 May 2014 and the second supplemental agreement dated 20 May 2014	Zhenjiang Hualong *(Note 10)*	Lease of properties located at Levels 1 to 3 of Zhenjiang Yihua Plaza	20 June 2014 to 31 December 2017	8	9,814
		Jiangsu Yihua Plaza *(Note 11)*	Provision of property management services for level 1 to 3 of Zhenjiang Yihua Plaza	20 June 2014 to 31 December 2017		
	(ii) 18 November 2015	Guangdong Yihua Management	Lease of properties located at Units 907, 909 and 916 East Wing and unit 603 of West Wing of Yihua Commercial Center	1 January 2016 to 31 December 2018	710	713
	Aggregate amount for Tenancy and Management Agreements *(Note 12)*				60,684	73,193

Notes:

1. Yihua Investment, is owned as to 49.6%, 28.22%, 11.09% and 11.09% by 中山市順益實業發展有限公司 (Zhongshan Shunyi Industrial Development Limited*) ("**Shunyi Industrial**"), Mr. Lu Hanxing (a former Director), Mr. Chen Daren (a Director and controlling Shareholder) and Mr. Chen Zhengtao (the nephew of Mr. Chen Daren and the son of Mr. Chen Jianren, a Director). Shunyi Industrial is owned as to 90% by Mr. Chen Daren, and the remaining 10% by Mr. Chen Zhengtao

2. 陽江宏高房地產發展有限公司(Yangjiang Honggao Real Estate Development Limited*) ("**Yangjiang Honggao**"), a company established in the PRC with limited liability, which is owned as to 50% by Yihua Investment and 50% by two independent third parties.

3. 陽江市宏圖物業管理有限公司(Yangjiang City Hongtu Property Management Limited Company*) ("**Yangjiang Hongtu**"), a company established in the PRC with limited liability, which is owned as to 50% by Yihua Investment and 50% by two independent third parties.

DIRECTORS' REPORT

4. 廣東益華廣場管理有限公司(Guangdong Yihua Plaza Management Limited) ("**Guangdong Yihua Management**"), is owned as to 60% by Yihua Investment, 10% by Mr. Fan Xinpei (a Director and substantial Shareholder), 10% by Mr. Lu Hanxing (a former Director) and 10% by Mr. Chen Zhengtao a Director, nephew of Mr. Chen Daren (a Director and controlling Shareholder) and son of Mr. Chen Jianren (a Director).

5. 中山市京華世紀酒店有限公司(Zhongshan Jinghua Century Hotel Company Limited*) ("**Jinghua Century**"), a 80% owned subsidiary of Yihua Investment.

6. 中山市益華廣場實業有限公司(Zhongshan Yihua Plaza Industrial Corporation Limited*) ("**Yihua Plaza Corporation**"), which is owned as to 46.5% by Shunyi Industrial and 53.5% by Canton Concord Enterprises Limited ("**Canton Concord**"). Canton Concord is owned as to 2% by Mr. Chen Zhengtao and 98% by Higson Holdings Limited, a company wholly-owned by Mr. Chan Kuong lan, brother of Mr, Chen and Mr. Chen Jianren.

7. 江門市金匯世紀廣場物業管理有限公司(Jiangmen Jinhui Century Century Square Property Management Company Limited*) ("**Jinhui Century**"), is owned as to 90% by Shunyi Industrial, which is in turn owned as to 90% by Mr. Chen Daren (a Director and controlling Shareholder).

8. 中山市古鎮國貿大酒店有限公司(Zhongshan Guzhen Gumao Hotel Company Limited*) ("**Guomao Hotel**"), a 64% owned subsidiary of Yihua Investment.

9. 江門市逸豪酒店有限公司(Jiangmen Yucca Hotel Company Limited*) ("**Yucca Hotel**"), a 55% owned subsidiary of Yihua Investment and as to 45% by Mr. Chen Daren.

10. 鎮江華龍廣場置業有限公司(Zhenjiang Hualong Plaza Properties Co. Ltd.) ("**Zhenjiang Hualong**"), a company established in the PRC with limited liability, which is owned as to 63.47% by Yihua Investment and as to 36.53% by China Land International Investments Limited ("**China Land International**"). China Land International, a company incorporated in Hong Kong with limited liability, which is owned as to 65% by Mr. Chan Kuong Ian (陳廣仁), a brother of Mr. Chen Daren and Mr. Chen Jianren, as to 35% to two individuals.

11. 江蘇益華廣場管理有限公司("**Jiangsu Yihua Plaza**"), a company established in the PRC with limited liability, is owned as to 22.78% by Yihua Investment and as to 77.22% by China Land International.

12. Pursuant to Rule 14A.25 of the Listing Rules, the CCTs constituted by the Tenancy and Management Agreements under part II items D1 to D7 should be aggregated and treated as if they were one transaction.

DIRECTORS' REPORT

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

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

(i) were approved by the Board;

(ii) were in accordance with the pricing policies of the Company;

(iii) had been entered into in accordance with the relevant agreements governing the transactions; and

(iv) have not exceeded the caps stated in the respective Prospectus and announcements.

SHARE OPTION SCHEME

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

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

DIRECTORS' REPORT

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

For the year ended 31 December 2016, no option has been granted or agreed to be granted under the Scheme.

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITORS

The financial statements for the year ended 31 December 2016 have been audited by PricewaterhouseCoopers. A resolution for their re-appointment as auditors of the Company for the ensuing year will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Mr. Chen Jianren
Chairman

30 March 2017

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

To the Shareholders of Yi Hua Holdings Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Yi Hua Holdings Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 71 to 168, which comprise:

- the consolidated balance sheet as at 31 December 2016;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

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 Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

INDEPENDENT AUDITOR'S REPORT

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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.

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 matters identified in our audit are summarised as follows:

- Assessment on working capital sufficiency
- Valuation of investment properties ("**IP**") and properties under development ("**PUD**")
- Impairment of retail store assets included in property, plant and equipment ("**Store Assets**")

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
Assessment on working capital sufficiency	
Refer to note 2.1.1 in the consolidated financial statements. During the year ended 31 December 2016, the Group incurred a net operating cash outflow of RMB17,857,000. As at 31 December 2016, the current liabilities of the Group exceeded its current assets by approximately RMB156,100,000. In addition, the Group expected to incur significant cash outflows for the due borrowings, capital expenditure for the development projects, the construction projects as well as a proposed acquisition of equity interest in the next twelve months. Therefore, management prepared a cash flow forecast for the year ending 31 December 2017 to assess its working capital sufficiency. The key assumptions used in the forecast included: – Revenue growth rates and cash collection from customers – Operating expenses ratio to revenue – Capital expenditure – Sources of financing We focused on this area because management exercised significant judgements in estimating the future outcomes of events or condition in the assessment.	We obtained management's monthly budgets and forecasts of the Group for the twelve months ending 31 December 2017 and relevant supporting documents. The procedures we performed to evaluate the assessment included: – understood management's business plan for the coming year; – compared the actual operating results of the Group for the year ended 31 December 2016 against the forecast made in prior year, to consider whether the forecast had been subject to management bias; – we challenged the key assumptions for: i. Revenue growth rates and cash collection from customers: compared with the Group's historical performance in the recent three years, checked to lease agreements for the hotel rental income and compared with the subsequent property sales performance in January and February 2017, compared cash collection from customers with the Group's historical records;

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
	ii. Operating expenses ratio to revenue: compared with the Group's historical performance in the recent three years; iii. Capital expenditure: compared the costs to be incurred and the construction progress with the approved budgets, actual construction costs of a comparable project and relevant supporting documents, including construction contracts signed for property, plant and equipment, investment properties and properties under development; iv. Sources of financing: we reviewed the supporting documents related to management's financing plans, including debt agreements and banking facilities contracts. We interviewed the bank credit officers to corroborate management's assessment. – performed sensitivity test analysis over the key estimates such as forecasted revenue growth rates and refinancing plans to assess the potential impact of a range of possible outcomes; and – considered whether the disclosures relating to going concern included in the consolidated financial statements were adequate. We found, based on our audit work, that management's judgements made in assessing the working capital sufficiency were supported by available evidence.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter

Valuation of IP and PUD

Refer to note 4(c) and (d), note 15, note 20 and note 35 to the consolidated financial statements.

The Group initially recognised its IP and PUD acquired through business combination at fair value. Subsequently, IP was then measured at fair value while PUD was measured at cost, i.e. its initially recognised amount at the acquisition date plus the subsequent costs incurred. During the year ended 31 December 2016, the Group recognised bargain purchase gains on business combination which were mainly resulted from revaluation gains of acquired properties. Bargain purchase gains were from the following:

– the business combination of Enping Kangsheng Hotel Management Company Limited ("**Enping Hotel**") as at 24 June 2016, amounted to RMB32,557,000; and

– the business combination of Zhaoqing Hualai Property Development Company Limited ("**Zhaoqing Development**") as at 16 November 2016, amounted to RMB72,408,000.

The year end fair value revaluation gains on IP, including two hotels, a piece of industrial land and two floors of a shopping mall, amounted to RMB71,786,000.

How our audit addressed the Key Audit Matter

In assessing the appropriateness of management's valuation of IP and PUD, we:

– evaluated the independent external valuers' competence, capabilities and objectivity;

– obtained the independent external valuers' reports, and checked the accuracy and relevance of the source data used in the reports;

– involved our internal valuation specialist to assess the appropriateness of valuation methodologies adopted and the key inputs, including interest rates, fair market rents, fair market prices by comparing with our internally developed benchmarks, which were based on knowledge of the property industry; for the fair market rents and fair market prices, we also compared to the lease agreements or pre-sales contracts signed;

– for the fair value of industrial land, we compared to the latest transaction price of similar land use rights through the government website; and

– compared the estimated completion costs to the approved budgets and the relevant supporting documents, including signed contracts for the IP under construction and PUD.

We found the above key assumptions were supported by the available evidence.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
Independent external valuations were obtained for IP and PUD at the acquisition dates and investment properties at year end in order to support management's estimates on the fair value at the date of acquisitions and at year end. Fair values of these properties were derived based on the below approach: – cost approach for IP acquired through the business combination of Enping Hotel as at 24 June 2016; – residual approach for PUD acquired through the business combination of Zhaoqing Development as at 16 November 2016; – income approach for two hotels and two floors of a shopping mall at year end; and – market approach for a piece of industrial land at year end. The valuations were dependent on certain key inputs that required significant management's estimate, including interest rates, fair market rents and fair market prices. The valuation of IP under construction and PUD were also dependent on the estimated construction costs to complete. We focused on this area due to the material balances and the significant management's estimates exercised in determining the fair values on the dates of acquisitions and at year end.	

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of Store Assets	
Refer to note 4(f) and note 14 to the consolidated financial statements. As at 31 December 2016, the Group's Store Assets amounted to RMB323,244,000 with an impairment provision of RMB28,558,000. The PRC retail market continued to evolve, with customers' purchasing habits adapting to include convenience store and online offerings. The retail market was very competitive. As a result, retail stores of the Group incurred losses during the year which was an indicator of impairment. Management considered each store to be a cash generating unit ("**CGU**") and had calculated the value in use of each CGU as its recoverable amount, which was considered higher than its fair value less cost to sell. The value in use was based on discounted future cash flow forecasts over which the management made judgements on certain key inputs, including forecasted sales growth rate, operating expenses ratio to sales, capital expenditure to be incurred during the forecast period and discount rates. We focused on this area as the assessment includes certain key inputs which required significant management's estimates.	We have obtained management's impairment assessments of each CGU and performed the following procedures: – checked the mathematical accuracy of each CGU's calculation sheet; – understood from management the business plan for the coming year; – compared the forecasted sales growth rate and operating expenses ratio to sales with the historical performance in the recent three years; – understood from management the nature and amounts of committed capital expenditure, compared the costs to be incurred to the approved budgets and the relevant supporting documents, including construction contracts signed for property, plant and equipment; – assessed the discount rates applied to the impairment reviews for each store by comparing to our internal benchmark data; and – performed sensitivity test analysis over the forecasted sales growth rate. We found, based on our audit work, that the key assumptions used by management were supportable and appropriate in light of the current environment.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than 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 consolidated 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 HKFRSs issued by the HKICPA 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.

INDEPENDENT AUDITOR'S REPORT

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. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. 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 scepticism 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.

INDEPENDENT AUDITOR'S REPORT

- 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 this independent auditor's report is Ho, Chiu Yin, Ivan.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 March 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts expressed in RMB thousands unless otherwise stated)

	Note	Year ended 31 December 2016	2015
Revenue	5	**582,598**	655,277
Other income	6	**3,276**	5,964
Gain from bargain purchase	35	**104,965**	–
Fair value gain on investment properties	15	**71,786**	9,240
Other gains – net	7	**5,721**	6,667
Purchases of and changes in inventories		**(267,823)**	(287,274)
Employee benefit expenses	8	**(102,389)**	(103,079)
Depreciation and amortisation		**(30,290)**	(27,305)
Provision for impairment of property, plant and equipment	14	**(28,558)**	–
Operating lease rental expense and property management fee		**(122,109)**	(117,800)
Other operating expenses	9	**(95,743)**	(101,545)
Operating profit		**121,434**	40,145
Finance income		**3,951**	2,134
Finance expenses		**(24,646)**	(10,367)
Finance expenses – net	10	**(20,695)**	(8,233)
Share of loss of an associate	16	**(1,990)**	–
Profit before income tax		**98,749**	31,912
Income tax expense	11	**(24,841)**	(11,381)
Profit for the year		**73,908**	20,531
Other comprehensive income:			
Item that will not be reclassified subsequently to profit or loss			
Revaluation gains arising from transfer of property, plant and equipment to investment properties		**–**	6,058
Items that may be reclassified to profit or loss			
Change in value of available-for-sale financial assets		**(1,250)**	1,250
Other comprehensive income for the year, net of tax		**(1,250)**	7,308
Total comprehensive income for the year		**72,658**	27,839

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts expressed in RMB thousands unless otherwise stated)

	Year ended 31 December	
	2016	2015
Profit attributable to:		
– Owners of the Company	**73,185**	19,170
– Non-controlling interests	**723**	1,361
	73,908	20,531
Total comprehensive income attributable to:		
– Owners of the Company	**71,935**	26,478
– Non-controlling interests	**723**	1,361
	72,658	27,839

		Year ended 31 December	
	Note	**2016**	2015 (Restated)
Basic and diluted earnings per share (expressed in RMB per share)	13	**0.1470**	0.0402

The notes on pages 77 to 168 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

(All amounts expressed in RMB thousands unless otherwise stated)

		As at 31 December	
	Note	**2016**	2015
ASSETS			
Non-current assets			
Property, plant and equipment	14	**175,470**	242,934
Investment properties	15,36	**496,235**	58,840
Computer software		**2,249**	908
Investment in an associate	16	**13,010**	–
Deferred income tax assets	17	**3,319**	1,879
Deferred assets	18	**2,138**	726
Available-for-sale financial assets	19	**–**	15,000
Prepayments and other receivables	22	**68,235**	66,501
Amounts due from related parties	37(b)	**1,386**	68,426
Term deposits	24	**29,968**	–
		792,010	455,214
Current assets			
Properties under development	20,36	**376,872**	–
Inventories	21	**59,344**	90,942
Trade receivables, prepayments and other receivables	22	**89,902**	93,571
Tax prepayments		**12,739**	–
Amounts due from related parties	37(b)	**61,389**	30,120
Restricted cash	23	**32,437**	24,921
Term deposits	24	**10**	–
Cash and cash equivalents	25	**140,157**	120,459
		772,850	360,013
Total assets		**1,564,860**	815,227
EQUITY			
Equity attributable to owners of the Company			
Share capital	26	**3,925**	3,840
Other reserves	27	**159,577**	174,863
Retained earnings		**133,899**	61,164
		297,401	239,867
Non-controlling interests		**5,467**	4,094
Total equity		**302,868**	243,961

CONSOLIDATED BALANCE SHEET

(All amounts expressed in RMB thousands unless otherwise stated)

		As at 31 December	
	Note	**2016**	2015
LIABILITIES			
Non-current liabilities			
Borrowings	29	**166,792**	33,154
Deferred income tax liabilities	17	**102,834**	11,398
Deferred revenue	30	**1,717**	1,419
Other payables	28	**61,699**	8,749
		333,042	54,720
Current liabilities			
Trade and other payables	28	**327,333**	289,923
Amounts due to related parties	37(b)	**10,352**	2,504
Deferred revenue	30	**5,157**	6,059
Advances from customers		**112,759**	108,062
Deposits received on sale of properties		**137,633**	–
Current income tax liabilities		**6,904**	3,756
Borrowings	29	**328,812**	106,242
		928,950	516,546
Total liabilities		**1,261,992**	571,266
Total equity and liabilities		**1,564,860**	815,227

The notes on pages 77 to 168 are an integral part of these consolidated financial statements.

The financial statements on pages 71 to 168 were approved by the Board of Directors on 30 March 2017 and were signed on its behalf.

Fan Xinpei	**Su Weibing**
Executive Director	*Executive Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts expressed in RMB thousands unless otherwise stated)

	Attributable to the owners of the Company					
	Share Capital	Other Reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2015	2,830	114,083	42,445	159,358	2,733	162,091
Comprehensive income						
Profit for the year	–	–	19,170	19,170	1,361	20,531
Other comprehensive income						
Change in value of available-for-sale financial assets, net of tax	–	1,250	–	1,250	–	1,250
Revaluation gains of investment properties	–	6,058	–	6,058	–	6,058
Total other comprehensive income, net of tax	–	7,308	–	7,308	–	7,308
Total comprehensive income	–	7,308	19,170	26,478	1,361	27,839
Transactions with owners in their capacity as owners						
Appropriation to statutory reserve	–	451	(451)	–	–	–
Issue of bonus shares *(Note 26(a))*	710	(710)	–	–	–	–
Issue of new shares *(Note 26(b))*	300	82,142	–	82,442	–	82,442
Dividend distributed	–	(28,411)	–	(28,411)	–	(28,411)
Transactions with owners in their capacity as owners	1,010	53,472	(451)	54,031	–	54,031
Balance as at 31 December 2015	3,840	174,863	61,164	239,867	4,094	243,961
Balance at 1 January 2016	3,840	174,863	61,164	239,867	4,094	243,961
Comprehensive income						
Profit for the year	–	–	73,185	73,185	723	73,908
Other comprehensive income						
Change in value of available-for-sale financial assets, net of tax	–	(1,250)	–	(1,250)	–	(1,250)
Total other comprehensive income, net of tax	–	(1,250)	–	(1,250)	–	(1,250)
Total comprehensive income	–	(1,250)	73,185	71,935	723	72,658
Transactions with owners in their capacity as owners						
Capital injection from non-controlling shareholders	–	–	–	–	650	650
Appropriation to statutory reserve	–	450	(450)	–	–	–
Issue of shares upon 2015 Scrip Dividend Scheme *(Note 12 and 26(c))*	85	(85)	–	–	–	–
Dividend distributed	–	(14,401)	–	(14,401)	–	(14,401)
Transactions with owners in their capacity as owners	85	(14,036)	(450)	(14,401)	650	(13,751)
Balance as at 31 December 2016	3,925	159,577	133,899	297,401	5,467	302,868

CONSOLIDATED CASH FLOW STATEMENT

(All amounts expressed in RMB thousands unless otherwise stated)

	Note	Year ended 31 December 2016	2015
Cash flows from operating activities			
Cash generated from/(used in) operations	31	**10,962**	(168)
Interest received		**486**	1,207
Interest paid		**(22,960)**	(7,731)
Income tax paid		**(6,345)**	(9,863)
Net cash used in operating activities		**(17,857)**	(16,555)
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	35	**12,663**	–
Proceeds from disposal of property, plant and equipment		**390**	157
Receipt of government grants		**2,730**	1,800
Proceeds from disposal of available-for-sale financial assets	19	**15,000**	–
Purchases of property, plant and equipment and computer software		**(27,499)**	(32,736)
Purchase of available-for-sale financial assets		**–**	(13,333)
Payment for construction costs of investment properties		**(48,463)**	–
Capital injection to investment in an associate of the Group	16	**(15,000)**	–
Payments for Development Projects incurred by an associate of the Group		**(34,568)**	–
Repayments for Development Projects incurred by an associate of the Group		**23,900**	–
Deposit for an acquisition		**(8,950)**	(53,000)
Increase in term deposits	24	**(29,978)**	–
Net cash used in investing activities		**(109,775)**	(97,112)
Cash flows from financing activities			
Capital injection from non-controlling shareholders		**650**	–
Proceeds from borrowings		**319,996**	117,922
Repayments of borrowings		**(126,973)**	(77,000)
Proceeds from issue of new shares		**–**	82,442
Dividend distribution	12	**(14,401)**	(10,955)
Repayments of advance from a third party		**(34,414)**	–
Net cash generated from financing activities		**144,858**	112,409
Net increase/(decrease) in cash and cash equivalents		**17,226**	(1,258)
Cash and cash equivalents at beginning of the year		**120,459**	120,264
Exchange gains on cash and cash equivalents	7	**2,472**	1,453
Cash and cash equivalents at end of the year		**140,157**	120,459

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

1 GENERAL INFORMATION OF THE GROUP

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

The Company is an investing holding company. The Group is principally engaged in the operations of department stores in the People's Republic of China (the "**PRC**"). Following various acquisitions in 2015 and 2016, the Group has also expanded its business operations into property investment and property development business.

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

These consolidated financial statements are presented in Renminbi ("**RMB**"), unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**") issued by the HKICPA are set out below. The consolidated financial statements of the Group have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, investment properties, which are carried at fair value.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

2.1.1 Going concern

During the year ended 31 December 2016, the Group recorded a net operating cash outflow of RMB17,857,000 (2015: RMB16,555,000). As at 31 December 2016, the current liabilities of the Group exceeded its current assets by approximately RMB156,100,000 (31 December 2015: RMB156,533,000). This is mainly because the Group applied its cash generated from operating activities and short-term borrowings to finance the operation and renovation of department stores, the payments of developments costs for an associate of the Group, and the acquisition and payments of construction costs for the acquired investment properties and properties under development. Included in the current liabilities were advances from customers, primarily relating to consumption cards issued, which would not result in future cash outflows amounting to approximately RMB112,759,000 (31 December 2015: RMB108,062,000). As at 31 December 2016, total borrowings of the Group amounted to RMB495,604,000 (31 December 2015: RMB139,396,000), of which RMB328,812,000 (31 December 2015: RMB106,242,000) are due for repayment in the coming twelve months; while the Group's cash and cash equivalents amounted to RMB140,157,000 (31 December 2015: RMB120,459,000).

As detailed in Note 16, an associate of the Group has entered into a semi-custom development agreement with a supplier for the provision of technical services with regard to a chip development and platform project ("**Development Projects**"). Payments of US$14,000,000 (equivalent to RMB97,118,000) will be made to the supplier if certain relevant development milestones could be reached during the year ending 31 December 2017. In addition, as disclosed in Note 33(a), the Group has provided financial guarantees to this supplier to the extent of US$10,000,000 (equivalent to RMB69,370,000) for the outstanding obligations owed by the associate to the supplier.

The capital expenditure of the Group contracted for but not yet incurred as at 31 December 2016 amounted to RMB56,338,000, including construction costs for property, plant and equipment, investment properties and properties under development (Note 34(a)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

2.1.1 Going concern (continued)

On 23 December 2016, the Group signed a non-legally binding letter of intent with Guangdong Yucca Hotel Management Co. Ltd, which is 75% beneficially owned by Mr. Chen Daren, a director of the Company, for a proposed acquisition ("**Proposed Acquisition**") of certain equity interests in a target company at a consideration to be negotiated between both parties. As at 31 December 2016, a refundable deposit of RMB8,950,000 was paid, as included in amounts due from related parties (Note 37(b)). The Proposed Acquisition is subject to certain completion conditions; and it will expire if the equity transfer agreement in connection with the Proposed Acquisition is not entered into before 31 March 2017 or a later day agreed by both parties. Additional funding will be needed should the Group proceed with this Proposed Acquisition.

In view of these circumstances, the directors of the Company (the "**Directors**") have given due and careful consideration to the liquidity of the Group and its available sources of financing in assessing whether the Group will have sufficient financial resources to fulfil its financial obligations and contracted commitments. A number of measures have been put in place by the Directors to improve the Group's financial position, including:

(i) The Group is implementing various cost control measures to improve the operating performance of the department store business. In addition, with the acquisition of the investment property and property development projects during the year, it is expected that there will be cash inflows from the leasing of the investment properties and sales of properties in the coming twelve months.

(ii) On 10 March 2017, the Group entered into a memorandum of cooperation ("**MOC**") with a financial institution which agrees in principle to provide uncommitted five-year borrowing facilities to the extent of RMB600,000,000 to the Group to finance the aforementioned Development Projects, of which RMB350,000,000 could be drawn in year 2017. Such banking facilities will be made available provided that certain conditions are met which include pledging of the shares of the Company held by Mr. Chen Daren, a director of the Company; pledging of certain properties of the Group, provision of corporate guarantees by certain subsidiaries of the associate of the Group, and provision of personal guarantees by certain directors of the Company and certain key management of the associated company together with their spouses (Note 41(a)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

2.1.1 Going concern (continued)

(iii) On 29 March 2017, the Group obtained uncommitted revolving bank loan facilities of HK$35,000,000 (equivalent to RMB31,150,000) from a bank. Such facilities are secured by the corporate guarantees provided by certain companies within the Group and are pledged by certain properties of the Group (Note 41(b)).

(iv) The Group leased certain properties from companies controlled by Mr. Chen Daren, a director of the Company or companies jointly controlled by Mr. Chen Daren (the "**Landlords**") under certain non-cancellable operating lease agreements with future lease payments payable in the coming twelve months amounting to approximately RMB66,220,000. On 24 March 2017, the Landlords provided undertakings to the Group and agreed that the Group can delay the payments of the rental expenses and property management fees for the year 2017 until the Group has adequate financial resources to repay.

(v) The Group maintains continuous communication with its bankers for renewal of its certain existing bank loans upon their maturities. The Directors are of the opinion that these bank loans can be renewed when their current terms expire.

(vi) The directors of the Company have assessed the available sources of financing and funding for the Group and considered that certain of the Group's investment properties and properties, plant and equipment, which are free from any encumbrances, could be pledged to provide additional financial resources for the Group when needed.

(vii) As at the date of the approval of these consolidated financial statements, the Group has not yet entered into any formal equity transfer agreement with a seller in connection with the Proposed Acquisition. In addition, on 29 March 2017, the Group and the seller entered into a supplementary letter of intent to delay the expiry date of the Proposed Acquisition to 30 June 2017 (Note 41(c)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

2.1.1 Going concern (continued)

The Directors have reviewed the Group's cash flow projection which covers a period of twelve months from 31 December 2016. The Directors are of the opinion that, taking into account the Group's anticipated cash flows generated from the Group's operations as well as the possible changes in its operating performance, successful renewal of its bank loans upon expiry, continuous availability of banking facilities; and the additional financing to be obtained as and when needed, the Group will have sufficient financial resources to meet its financial liabilities as and when they fall due in the coming twelve months from 31 December 2016. Accordingly, the Directors are of the opinion that it is appropriate to prepare the consolidated financial statements on a going concern basis.

2.1.2 Changes in accounting policy and disclosures

(a) The following amended standards have been issued and effective for the annual accounting period beginning on 1 January 2016.

Standards/Interpretations	Subject of amendment
HKFRS 14	Regulatory deferral accounts
Amendment to HKFRS11	Accounting for acquisitions of interests in joint operations
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants
Amendment to HKAS 27	Equity method in separate financial statements
Annual improvements 2014	Annual improvements 2012-2014 cycle
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception
Amendments to HKAS 1	Disclosure initiative

The adoption of amended standards has no material impact on the Group's financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

2.1.2 Changes in accounting policy and disclosures (continued)

(b) The following new and amended standards have been issued but are not effective for the financial year beginning 1 January 2016 and have not been early adopted.

Standards/ Interpretations	Subject of amendment	Effective for annual accounting periods beginning on or after
Amendments to HKAS 12	Income taxes	1 January 2017
Amendments to HKAS 7	Statement of cash flows	1 January 2017
HKFRS 15	Revenue from contracts with customers	1 January 2018
HKFRS 9	Financial instruments	1 January 2018
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018
HKFRS 16	Leases	1 January 2019
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries

2.2.1 Consolidation

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

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(a) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred. Identifiable assets acquired and liabilities are measured initially at their fair values at the acquisition date.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

The excess of the consideration transferred over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of profit or loss.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries (continued)

2.2.2 Separate financial statements

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

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

2.3 Associates

An associate is an entity over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

The Group's share of post-acquisition profit or loss is recognised in the statement of profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to "share of profit of investments accounted for using equity method" in the statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Associates (continued)

Profits and losses resulting from upstream and downstream transactions between the group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in associates are recognised in the statement of profit or loss.

2.4 Segment reporting

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

2.5 Foreign currency translation

(a) ***Functional and presentation currency***

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

(b) ***Transactions and balances***

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Property, plant and equipment

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

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

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

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

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

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other gains – net" in the consolidated statements of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Construction in progress

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

2.8 Investment properties

Investment properties, principally comprising leasehold buildings, are held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. It also includes properties that are being constructed or developed for future use as investment properties.

Investment properties are initially measured at cost, including related transaction costs and where applicable borrowing costs. Investment properties acquired through business combination are initially recognised at fair value on the date of acquisition. After initial recognition, investment properties are carried at fair value, representing open market value determined at each reporting date by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Changes in fair values are recorded in the consolidated statement of comprehensive income as part of a valuation gain or loss in "other gains – net".

When an owner-occupied property becomes an investment property carried at fair value, the Group applies HKAS 16 up to the date of change in use. The Group treats any difference at that date between the carrying amount of the property in accordance with HKAS 16 and its fair value in the same way as a revaluation in accordance with HKAS 16. In other words, any resulting increase in the carrying amount is treated as follows:

(i) to the extent that the increase reverses a previous impairment loss for that property, the increase is recognised in profit or loss.

(ii) any remaining part of the increase is recognised in other comprehensive income and increases the revaluation surplus within equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Computer software

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

2.10 Impairment of non-financial assets

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

2.11 Financial assets

2.11.1 Classification

The Group classifies its financial assets in the following categories: loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables

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

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial assets (continued)

2.11.2 Recognition and measurement

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

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

Dividends on available-for-sale equity instruments are recognised in the consolidated statement of comprehensive income as part of other income when the Group's right to receive payments is established.

2.12 Offsetting financial instruments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Impairment of financial assets

(a) Assets carried at amortised cost

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 Properties under development

Properties under development acquired through business combination are recognised at fair value on the date of acquisition and development costs incurred subsequently.

Properties under development are stated at the lower of cost and net realisable value. Net realisable value is determined by reference to the sale proceeds of properties in the ordinary course of business, less applicable variable selling expenses and the anticipated costs to completion, or by management estimates based on prevailing marketing conditions.

Development cost of property comprises costs of land use rights, construction costs, capitalised finance costs and professional fees incurred during the development period. Upon completion, the properties are transferred to completed properties held for sale.

If a property under development becomes owner-occupied, it is reclassified as property, plant and equipment. A property under development for future use as investment property is classified as investment property under construction when there is evidence of commencement of an operating lease to another party.

Properties under development are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond normal operating cycle.

2.15 Inventories

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

2.16 Trade and other receivables

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Cash and cash equivalents, restricted cash and term deposits

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

Bank deposits which are restricted to use are included in "restricted cash" of the consolidated balance sheet.

Bank deposits with initial terms of over three months are included in "term deposits" in the consolidated balance sheets.

Restricted cash and term deposits with initial terms of over three months are excluded from cash and cash equivalents.

2.18 Share capital

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

2.19 Trade and other payables

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

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

2.20 Borrowings

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Borrowing costs

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

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

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

2.22 Current and deferred income tax

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

(a) Current income tax

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

(b) Deferred income tax

Inside basis differences

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Current and deferred income tax (continued)

(b) Deferred income tax (continued)

Inside basis differences (continued)

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

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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

(c) Offsetting

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

2.23 Employee benefits

(a) Pension obligations

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Employee benefits (continued)

(b) Bonus plans

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

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

(c) Termination benefits

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

2.24 Revenue recognition

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Revenue recognition (continued)

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

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

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

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

Revenue from sale of properties is recognized when the risks and rewards of properties are transferred to the purchases, which is when the construction of the properties has been completed and the properties have been ready for delivery to the purchasers pursuant to the sale agreements, and collectability of related receivables is reasonably assured. Deposits and instalments received on properties sold prior to the date of revenue recognition are include in the balance sheets as “deposits received on sale of properties” under current liabilities.

2.25 Dividend distribution

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

2.26 Bonus points liabilities

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.26 Bonus points liabilities (continued)

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

2.27 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the statement of comprehensive income on a straight – line basis over the expected lives of the related assets.

2.28 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of subsidiaries, joint ventures or associates to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the dates the guarantee is given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms, and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivables for the future premiums is recognised. Subsequent to initial recognition, the Company's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with HKAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by management's judgement. The fee income earned is recognised on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantee is reported in the income statement within other operating expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.28 Financial guarantee contracts (continued)

Where guarantees in relation to loans or other payables of subsidiaries, joint ventures or associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investments in the financial statements of the Company.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

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

At 31 December 2016, if HK$ had weakened/strengthened by 6% against the RMB with all other variables held constant, post-tax profit for the year would have been RMB5,028,000 higher/lower (31 December 2015: RMB1,098,000 lower/higher), mainly as a result of foreign exchange losses/gains on translation of HK$ denominated cash and cash equivalent, term deposits, other receivables, other payables and borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(ii) Interest rate risk

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

As at 31 December 2016, the Group's long-term borrowings of RMB69,524,000 were held at fixed rates (31 December 2015: RMB33,154,000).

(b) Credit risk

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

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

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

As at 31 December 2016 and 2015, the bank balances are deposited with creditworthy banks with no recent history of default.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(c) Liquidity risk

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

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

	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
As at 31 December 2016					
Trade and other payables (excluding other taxes and surcharges payable)	**312,295**	**48,398**	**2,249**	**11,052**	**373,994**
Amounts due to related parties	**10,352**	**–**	**–**	**–**	**10,352**
Borrowings	**351,703**	**76,966**	**62,085**	**53,442**	**544,196**
	674,350	**125,364**	**64,334**	**64,494**	**928,542**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
As at 31 December 2015					
Trade and other payables (excluding other taxes and surcharges payable)	276,466	67	5,109	3,308	284,950
Amounts due to related parties	2,504	–	–	–	2,504
Borrowings	108,541	23,527	–	17,752	149,820
	387,511	23,594	5,109	21,060	437,274

3.2 Capital risk management

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Capital risk management (continued)

The Group's gearing ratio at 31 December 2016 and 2015 was as follows:

	As at 31 December	
	2016	2015
Total borrowings	**495,604**	139,396
Total equity	**302,868**	243,961
Gearing ratio	**163.6%**	57.1%

3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

During the year ended 31 December 2016, the Group has disposed available-for-sale that are measured at fair value.

See Note 15 for disclosures of the investment properties that are measured at fair value, Note 19 for disclosures of the disposal of available-for-sale that are measured at fair value and Note 36 for fair value assessments for investment properties and properties under development on the date of acquisition and investment properties at year end.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (continued)

	As at 31 December	
	2016	2015
Level 2		
Available-for-sale financial assets (Note 19)	–	15,000

On 18 September 2016, the Group disposed the available-for-sale financial assets to a third party at a consideration of RMB15,000,000.

As at 31 December 2015, the valuation was performed based on the market approach by reference to inputs for identical or similar assets or liabilities in markets that were not active. It was categorised as level 2 as the valuation involves the inputs other than quoted prices that were observable for the asset or liability, either directly or indirectly in an active market as such inputs were less subjective than unobservable inputs classified within Level 3.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

(a) PRC corporate income taxes and deferred tax

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(a) PRC corporate income taxes and deferred tax (continued)

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

(b) Bonus points liabilities

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

(c) Fair value of investment properties

The fair value of investment properties at the date of business combination and at year end is determined by using valuation technique. Details of the judgement and assumptions have been disclosed in Note 36.

(d) Fair value of properties under development at the date of business combination

The fair value of properties under development acquired through business combination is determined by using valuation technique. Details of the judgement and assumptions have been disclosed in Note 36.

In determing the fair value, the respective PRC land appreciation tax has been provided and deferred in the deferred tax liabilities. PRC land appreciation tax is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sale of properties less deductible expenditures including sales charges, borrowing costs and all property development expenditures. However, the implementation of these taxes varies amongst various cities in the PRC and the Group has not finalised its land appreciation tax returns for certain years with the related tax authority. Accordingly, significant judgement is required in determining the amount of land appreciation and its related taxes. The ultimate tax determination is uncertain during the ordinary course of business. The Group recognised these liabilities based on management's best estimates. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax expenses and provisions for land appreciation taxes in the period in which such determination is made.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(e) Provision for trade and other receivables

The Group assesses at the end of each reporting period whether there is objective evidence that trade and other receivables is impaired. Trade and other receivables is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the trade and other receivables (a "**loss event**") and that loss event (or events) has an impact on the estimated future cash flows of the trade and other receivables that can be reliably estimated.

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

(f) Provision for impairment of property, plant and equipment.

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on the higher of their fair value less costs to sell and value in use. These calculations require the use of judgements and estimates.

Management judgement is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell and net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rate or the growth rate assumptions in the cash flow projections, could affect the net present value used in the impairment test and as a result affect the Group's financial position and results of operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

5 REVENUE AND SEGMENT INFORMATION

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

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

Revenue

(i) Department store (which offers an extensive variety of merchandise, including watches, jewelries, cosmetics, handbags, leather goods, and children's products, clothing, shoes, textiles, sports wear and beddings);

(ii) Supermarket (trading under the brand "Yihua Lejia Supermarket" (益華樂家超市), which offers mainly daily essential products such as food and beverages, perishables and other household products);

(iii) Electrical appliances (trading under the brand "Yihua Sihai Electrical Appliance Centre" (益華四海電器), which offers a variety of electrical appliances tranging from large household electrical appliances (such as refrigerators, washing machines, air conditioners, televisions, kitchen appliances etc.) to small household electrical appliances (such as rice cookers, hair dryers, toasters etc.));

(iv) Furniture (trading under the brand "Yihua Shijia" (益華世家) in Zhongshan store (main store), Yangjiang store and Jiangmen store);

(v) Consulting service (mainly includes market research and provision of advice on design, decoration and layout for properties);

(vi) Property investment (mainly includes development and leasing commercial properties in the PRC);

(vii) Others (mainly an investment accounted for using the equity method, which is engaged in sale and production of game console, educational software development and virtual reality business).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

The CODM assesses the performance of the operating segments based on a measure of revenue and segment results (revenue less purchase of and changes in inventories, net rental income from investment properties plus its fair value gain, share of loss of an associate, when appropriate). Assets and liabilities for the operating segments are not regularly reported to the CODM.

The Group has identified two new reportable operating segments – "property investment" and "others" during the year.

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

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

The segment results for the year ended 31 December 2016:

	Department store	Supermarket	Electrical appliances	Furniture	Consulting service	Property investment	Others	Total
Segment revenue	210,885	251,923	96,897	2,120	19,868	905	–	582,598
Fair value gain on investment properties	–	–	–	–	–	71,786	–	71,786
Share of loss of an associate	–	–	–	–	–	–	(1,990)	(1,990)
Segment results	207,282	65,755	18,858	2,107	19,580	71,254	(1,990)	382,846
Gain from bargain purchase								104,965
Unallocated losses – other income and other losses, net								(19,561)
Unallocated costs								(348,806)
Finance income								3,951
Finance expenses								(24,646)
Profit before income tax								98,749
Income tax expense								(24,841)
Profit for the year								73,908
Depreciation and amortisation								30,290
Provision for impairment of property, plant and equipment								28,558

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

The segment results for the year ended 31 December 2015:

	Department store	Supermarket	Electrical appliances	Furniture	Consulting service	Total
Segment revenue	234,057	260,047	114,787	1,616	41,770	655,277
Segment results	232,207	67,821	25,034	1,171	41,770	368,003
Unallocated income – other income and other gains, net						21,871*
Unallocated costs						(349,729)
Operating profit						40,145
Finance income						2,134
Finance expenses						(10,367)
Profit before income tax						31,912
Income tax expense						(11,381)
Profit for the year						20,531
Depreciation and amortisation						27,305

* Included fair value gain on investment properties of RMB9,240,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

Entity-wide information

The turnover of the Group is set out as follows:

	Year ended 31 December	
	2016	2015
Direct sales of goods	**308,461**	341,031
Commission income from concessionaire sales	**171,289**	202,200
Management fee and service income from operations	**50,654**	55,300
Rental income	**32,326**	14,976
Consulting service income (Note (a))	**19,868**	41,770
	582,598	655,277

(a) During the year ended 31 December 2016, the Group has provided certain consulting services to two (2015: five) independent property developers. The services mainly include market research and provision of advice on design, decoration and layout for the properties.

6 OTHER INCOME

	Year ended 31 December	
	2016	2015
Government grants	**3,276**	5,964

7 OTHER GAINS – NET

	Year ended 31 December	
	2016	2015
Net foreign exchange gains	**2,472**	1,453
Property related income	**2,354**	3,726
Gain from disposals of available-for-sales assets	**1,667**	–
Gain from written-off payables	**–**	1,019
Others	**(772)**	469
	5,721	6,667

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

8 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended 31 December	
	2016	2015
Wages and salaries	**84,703**	84,364
Social security costs	**12,464**	12,837
Welfare and other benefits	**5,222**	5,878
	102,389	103,079

(a) *Five highest paid individuals*

The five individuals whose emoluments were the highest in the Group for the year include five directors. Their emoluments are reflected in the analysis shown in Note 40. The emoluments reported in this category of an individual who was not a director during the year ended 31 December 2015 was as follows:

	Year ended 31 December	
	2016	2015
Basic salaries and allowances	**–**	607
Discretionary bonuses	**–**	15
Other benefits including retirement benefit contribution	**–**	67
	–	689

The emoluments fell within the following bands:

	Year ended 31 December	
	2016	2015
Emolument bands Nil – HK$1,000,000	**–**	1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

9 OTHER OPERATING EXPENSES

	Year ended 31 December	
	2016	2015
Utilities	**30,929**	34,955
Other taxes	**12,714**	15,705
Advertising, promotion and related expenses	**8,581**	12,414
Bank charges	**5,128**	6,133
Repairs and maintenance	**3,384**	4,266
Travelling and transportation expenses	**4,844**	4,790
Professional service expenses	**5,728**	1,746
Consumables	**3,958**	3,713
Office expenses	**3,463**	2,938
Entertainment expense	**3,586**	2,278
Consumption cards related expenses	**1,154**	621
Insurance expense	**535**	605
Auditor's remuneration	**2,288**	2,271
Other expenses	**9,451**	9,110
	95,743	101,545

10 FINANCIAL INCOME AND EXPENSES

	Year ended 31 December	
	2016	2015
Finance income		
– Interest income derived from cash in banks and other deposits	**3,720**	2,134
– Interest income derived from term deposits	**231**	–
Finance expenses		
– Interest expense on bank borrowings	**(15,120)**	(5,528)
– Interest expense on bonds	**(3,312)**	(2,325)
– Foreign exchange losses on borrowings	**(7,025)**	(2,514)
Less: amounts capitalised on qualifying assets	**811**	–
Finance expenses – net	**(20,695)**	(8,233)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

11 INCOME TAX EXPENSE

	Year ended 31 December	
	2016	2015
Current income tax		
– PRC corporate income tax	**9,464**	9,375
Deferred income tax (Note 17)		
– PRC corporate income tax	**15,377**	2,006
Income tax expense	**24,841**	11,381

(a) The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap 22 of Cayman Islands. Accordingly, it is exempted from Cayman Islands income tax.

(b) Hong Kong profits tax is calculated at 16.5% (2015: 16.5%) of the estimated assessable profit.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

11 INCOME TAX EXPENSE (CONTINUED)

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

	Year ended 31 December	
	2016	2015
Profit before income tax	**98,749**	31,912
Tax effects of:		
– Tax calculated at rates applicable to profits of the consolidated entities in the respective jurisdictions	**1,138**	9,741
– An associate result reported net of tax	**498**	–
– Expenses not deductible for tax purposes	**1,031**	572
– Utilisation of previously unrecognised tax losses	**(90)**	(792)
– Tax losses for which no deferred income tax assets were recognised	**22,264**	1,860
Income tax expense	**24,841**	11,381

(e) The tax charge relating to components of other comprehensive income is as follows:

	Year ended 31 December					
	2016			2015		
	Before tax	**Tax charge**	**After tax**	Before tax	Tax charge	After tax
Fair value gains on available-for-sale financial assets	**(1,667)**	**417**	**(1,250)**	1,667	(417)	1,250
Revaluation gains arising from transfer of property, plant and equipment to investment properties	**–**	**–**	**–**	8,077	(2,019)	6,058
Other comprehensive income	**(1,667)**	**417**	**(1,250)**	9,744	(2,436)	7,308
Deferred tax (Note 17)	**–**	**417**	**–**	–	(2,436)	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

12 DIVIDEND

A dividend for the year ended 31 December 2015 of HK$0.1 per share, amounting to HK$48,801,000 (equivalent to RMB40,885,000) was distributed. Shareholders of the Company holding an aggregate of approximately 167,459,000 shares elected to receive the dividend in cash, and shareholders holding an aggregate of approximately 320,551,000 shares elected to receive in new shares ("**2015 Scrip Dividend Scheme**"). A total of 9,894,000 new shares were allotted to these shareholders in lieu of cash.

The dividend paid in 2016 were HK$16,746,000 (HK$0.1 per share, equivalent to RMB14,401,000 in total). The dividend paid in 2015 were HK$36,000,000 (HK$0.1 per share, equivalent to RMB28,411,000 in total). A dividend in respect of the year ended 31 December 2016 of HK$ 0.1 per share, amounting to a total dividend of HK$49,790,000 (equivalent to RMB44,538,000), is to be proposed at the annual general meeting on. Such dividend will be distributed from the Company's share premium in accordance with the Companies Law of the Cayman Islands in cash with an option to receive new fully paid shares in lieu of cash ("**2016 Scrip Dividend Scheme**"). These consolidated financial statements do not reflect this dividend payable.

	Year ended 31 December	
	2016	2015
Proposed final dividend of HK$0.1 (2015: HK$0.1) per ordinary share	**44,538**	40,885

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

13 EARNINGS PER SHARE

(a) Basic

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

	Year ended 31 December	
	2016	2015 (Restated)
Profit attributable to owners of the Company	**73,185**	19,170
Weighted average number of ordinary shares in issue (thousand shares) *	**497,904**	476,917
Basic earnings per share (expressed in RMB per share)	**0.1470**	0.0402

* The weighted average number of ordinary shares for the purpose of calculating basic earnings per share for the year ended 31 December 2016 and 2015 has been retrospectively adjusted for the effect of the bonus shares of the Company as disclosed in Note 26.

(b) Diluted

As there were no potential dilutive ordinary shares during the year ended 31 December 2016 and 2015, diluted earnings per share was equal to basic earnings per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

14 PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Buildings	Office equipment	Vehicles	Other equipment	Construction in progress	Total
Year ended 31 December 2015							
Opening net book amount	159,179	229	5,999	526	8,392	114,283	288,608
Additions	–	–	1,210	928	5,670	15,412	23,220
Disposals	–	–	(17)	(28)	(112)	–	(157)
Transfer	9,372	–	–	–	–	(9,372)	–
Transfer to investment properties	–	–	–	–	–	(41,523)	(41,523)
Depreciation	(22,708)	(12)	(1,962)	(411)	(2,121)	–	(27,214)
Closing net book amount	145,843	217	5,230	1,015	11,829	78,800	242,934
As at 31 December 2015							
Cost	266,644	344	16,884	3,767	28,086	78,800	394,525
Accumulated depreciation	(120,801)	(127)	(11,654)	(2,752)	(16,257)	–	(151,591)
Net book amount	145,843	217	5,230	1,015	11,829	78,800	242,934
Year ended 31 December 2016							
Opening net book amount	145,843	217	5,230	1,015	11,829	78,800	242,934
Additions	2,368	–	1,056	733	254	8,541	12,952
Acquisition of subsidiaries (Note 35)	–	–	43	–	27	–	70
Disposals	–	–	(147)	(11)	(317)	–	(475)
Transfer	26,182	–	–	–	–	(26,182)	–
Transfer to investment properties	–	–	–	–	–	(21,509)	(21,509)
Depreciation	(24,924)	(12)	(1,961)	(436)	(2,611)	–	(29,944)
Impairment charge	(27,611)	–	–	–	(947)	–	(28,558)
Closing net book amount	121,858	205	4,221	1,301	8,235	39,650	175,470
As at 31 December 2016							
Cost	295,194	344	17,836	4,489	28,050	39,650	385,563
Accumulated depreciation	(145,725)	(139)	(13,615)	(3,188)	(18,868)	–	(181,535)
Accumulated impairment charge	(27,611)	–	–	–	(947)	–	(28,558)
Net book amount	121,858	205	4,221	1,301	8,235	39,650	175,470

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15 INVESTMENT PROPERTIES

At fair value	Completed Investment properties	Investment properties under construction	Total
Year ended 31 December 2015			
Opening net book amount as at 1 January	–	–	–
Transfer from property, plant and equipment	–	41,523	41,523
Revaluation gains recognised as other comprehensive income	–	8,077	8,077
Revaluation gains recognised in profit or loss	–	9,240	9,240
Closing net book amount as at 31 December	–	58,840	58,840
Total gains or losses for the year included in profit or loss for assets held at the end of the year, under "fair value gain on investment properties"	–	9,240	9,240
Change in unrealised gains or losses for the year included in profit or loss for assets held at the end of the year	–	9,240	9,240
Year ended 31 December 2016			
Opening net book amount as at 1 January	–	58,840	58,840
Acquisition of a subsidiary (Note 35.1)	32,730	277,340	310,070
Capitalised subsequent expenditure	–	34,030	34,030
Transfer	43,787	(43,787)	–
Transfer from property, plant and equipment	–	21,509	21,509
Revaluation gains recognised in profit or loss	25,386	46,400	71,786
Closing net book amount as at 31 December	101,903	394,332	496,235
Total gains or losses for the year included in profit or loss for assets held at the end of the year, under "fair value gain on investment properties"	25,386	46,400	71,786
Change in unrealised gains or losses for the year included in profit or loss for assets held at the end of the year	25,386	46,400	71,786

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

15 INVESTMENT PROPERTIES (CONTINUED)

(a) Amounts recognised in profit and loss for investment properties

	Year ended 31 December	
	2016	2015
Rental income	**905**	–
Direct operating expenses from property that did not generate rental income	**(1,437)**	–
	(532)	–

As at 31 December 2016, the Group had no unprovided contractual obligations for future repairs and maintenance (31 December 2015: Nil).

(b) Investment properties pledged as security

As at 31 December 2016, investment properties of RMB341,020,000 (31 December 2015: Nil) and properties owned by some third parties were pledged as collateral for the Group's borrowings of RMB149,063,000 (Note 29).

16 INVESTMENT IN AN ASSOCIATE

As at 31 December 2016, the Group held 49% equity interest of Subor Cultural Development Company Limited (formerly known as Zhongshan Subor Cultural Industry Company Limited), which is principally engaged in sale and production of game console, educational software development and virtual reality business.

The associate has entered into a semi-custom development agreement with an overseas supplier for the provision of technical services with regard to Development Projects. During the year ended 31 December 2016, US$7,000,000 (equivalent to RMB47,743,000) was paid to the supplier for these projects, and employment costs incurred for the engineers working for these projects amounted to RMB1,745,000. The associate capitalised these costs in its financial statements for the year ended 31 December 2016. Further payment of US$14,000,000 (equivalent to RMB97,118,000) will be paid to the supplier of certain relevant development milestones could be reached during the year ending 31 December 2017.

The associate is accounted for using equity method.

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16 INVESTMENT IN AN ASSOCIATE (CONTINUED)

The movement of the investment in an associate is as follows

	Year ended 31 December	
	2016	2015
As at 1 January	**–**	–
Additions	**15,000**	–
Share of post-tax profit of an associate	**(1,990)**	–
As at 31 December	**13,010**	–

Set out below is the summarised financial information for the associate as at 31 December 2016, which, in the opinion of the Directors, is material to the Group.

(a) Summarised balance sheet

	31 December 2016
Cash and cash equivalents	**7,411**
Restricted cash	**4,500**
Prepayment for Development Projects	**49,488**
Other assets	**38,121**
Total assets	**99,520**
Other liabilities	**77,595**
Total liabilities	**77,595**
Share capital	**25,986**
Accumulated losses	**(4,061)**
Net assets	**21,925**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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16 INVESTMENT IN AN ASSOCIATE (CONTINUED)

(b) Summarised statement of comprehensive income

	For the year ended 31 December 2016
Revenue	13,815
Purchases of and changes in inventories	(11,304)
Employee benefit expenses	(4,296)
Depreciation and amortisation	(7)
Other operating expenses	(3,618)
Loss before income tax	(5,410)
Income tax credit	1,349
Loss for the year	(4,061)
Other comprehensive income	–
Total comprehensive loss	(4,061)

(c) Reconciliation of summarised financial information

	31 December 2016
Net assets as at 1 January 2016	–
Loss for the year	(4,061)
Other comprehensive income	–
Capital injected by and attributable to the Group	15,000
Capital injected by and attributable to other shareholders	10,986
Net assets as at 31 December 2016	21,925
Reconciliation item of capital to be injected by other shareholders	4,626
Reconciled net assets as at 31 December 2016	26,551
Interest in an associate	13,010
Carrying value	13,010

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

16 INVESTMENT IN AN ASSOCIATE (CONTINUED)

(d) The Group provided financial guarantees to a supplier of an associate (Note 33).

(e) Capital commitments relating to the Group's interest in an associate

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

	As at 31 December	
	2016	2015
Costs for technical services	**214,353**	–
Property, plant and equipment	**86**	–
	214,439	–

(f) Operating lease commitments relating to the Group's interest in an associate

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

	As at 31 December	
	2016	2015
– Within 1 year	**2,040**	–
– Between 1 and 5 years	**2,654**	–
	4,694	–

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(All amounts expressed in RMB thousands unless otherwise stated)

17 DEFERRED INCOME TAX

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

	As at 31 December	
	2016	2015
Deferred income tax assets:		
– to be recovered after 12 months	**3,319**	1,640
– to be recovered within 12 months	**–**	239
	3,319	1,879
Deferred income tax liabilities:		
– to be settled after 12 months	**(75,063)**	(11,037)
– to be settled within 12 months	**(27,771)**	(361)
	(102,834)	(11,398)
Deferred tax liabilities, net	**(99,515)**	(9,519)

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(All amounts expressed in RMB thousands unless otherwise stated)

17 DEFERRED INCOME TAX (CONTINUED)

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

	Year ended 31 December	
	2016	2015
At the beginning of the year	**(9,519)**	(5,077)
Acquisition of subsidiaries (Note 35)	**(49,886)**	–
Deferred land appreciation tax (Note 35)	**(25,150)**	–
Credit/(charge) to other comprehensive income	**417**	(2,436)
Charge to profit or loss (Note 11)	**(15,377)**	(2,006)
At the end of the year	**(99,515)**	(9,519)

(c) Movement in deferred income tax assets during the year ended 31 December 2016, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Accrued expenses and deferred revenue	Tax losses	Others	Total
Deferred income tax assets				
As at 1 January 2015	3,639	354	2,213	6,206
Credit/(charge) to profit or loss	30	(354)	(35)	(359)
As at 31 December 2015	3,669	–	2,178	5,847
Acquisition of subsidiaries (Note 35)	–	4,572	488	5,060
(Charge)/credit to profit or loss	(2,260)	2,967	1,514	2,221
As at 31 December 2016	1,409	7,539	4,180	13,128

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(All amounts expressed in RMB thousands unless otherwise stated)

17 DEFERRED INCOME TAX (CONTINUED)

(d) Movement in deferred income tax liabilities during the year ended 31 December 2016, without taking into consideration the offsetting of balances within the same tax jurisdiction, as follows:

	Accelerated tax depreciation	Fair value of investment properties over the tax bases	Revaluation of available-for-sale financial assets	Fair value of properties under development over the tax bases	Land appreciation tax	Others	Total
Deferred income tax liabilities							
As at 1 January 2015	10,876	–	–	–	–	407	11,283
(Credit)/charge to profit or loss	(400)	2,310	–	–	–	(263)	1,647
Charge to other comprehensive income	–	2,019	417	–	–	–	2,436
As at 31 December 2015	10,476	4,329	417	–	–	144	15,366
Acquisition of subsidiaries (Note 35)	428	16,764	–	36,785	25,150	969	80,096
(Credit)/charge to profit or loss	(118)	17,946	–	–	–	(230)	17,598
Credit to other comprehensive income	–	–	(417)	–	–	–	(417)
As at 31 December 2016	10,786	39,039	–	36,785	25,150	883	112,643

As at 31 December 2016, the Group did not recognise deferred income tax assets of RMB31,772,000 (31 December 2015: RMB9,598,000) in respect of losses amounting to approximately RMB127,088,000 (31 December 2015: RMB38,393,000), as it is uncertain that future taxable profit will be available against which the tax losses can be utilised. In accordance with the PRC tax law, tax losses may be carried forward to offset against future taxable income for a period of five years.

As at December 2016, deferred income tax liabilities of RMB15,853,000 (31 December 2015: RMB12,086,000) have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain PRC subsidiaries. Such amounts are permanently reinvested. Unremitted earnings totalled RMB158,525,000 as at 31 December 2016 (31 December 2015: RMB120,862,000).

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18 DEFERRED ASSETS

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

19 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Year ended 31 December	
	2016	2015
At 1 January	**15,000**	–
Additions	**–**	13,333
Disposals	**(15,000)**	–
Revaluation gains recognised as other comprehensive income	**–**	1,667
At 31 December	**–**	15,000
Less: non-current portion	**–**	(15,000)
Current portion	**–**	–

During the year, the Group's equity interest in Aquaculture Company was diluted to 7.2% following other investors' additional capital injection. Subsequently, the Group disposed all its equity interest to a third party at a consideration of RMB15,000,000.

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(All amounts expressed in RMB thousands unless otherwise stated)

20 PROPERTIES UNDER DEVELOPMENT

	As at 31 December	
	2016	2015
Fair value of properties under development at date of acquisition (Note 35.2)	**369,400**	–
Additions	**7,473**	–
	376,873	–

All properties under development are expected to be completed within the normal operating cycle.

As at 31 December 2016, properties under development of approximately RMB277,242,000 (31 December 2015: Nil) were pledged as collateral for the Group's borrowings.

21 INVENTORIES

	As at 31 December	
	2016	2015
Merchandise held for direct sales	**58,082**	89,813
Low value consumables	**1,262**	1,129
	59,344	90,942

The cost of inventories recognised as purchase and changes in inventories amounted to approximately RMB267,823,000 for the year ended 31 December 2016 (31 December 2015: RMB287,274,000).

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(All amounts expressed in RMB thousands unless otherwise stated)

22 TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December	
	2016	2015
Trade receivables	**31,802**	23,957
Receivables from sales of consumption cards and arrangements with mobile telecommunications service provider	**424**	632
Other receivables	**47,260**	60,454
Prepayments	**69,048**	64,872
Rental and other deposits	**9,603**	10,157
	158,137	160,072
Less: non-current portion of prepayments and other receivables	**(68,235)**	(66,501)
	89,902	93,571

(a) The carrying amounts of the Group's trade and other receivables as at 31 December 2016 and 2015 approximate their fair values.

(b) The Group's trade and other receivables (excluding prepayments) are denominated in the following currencies:

	As at 31 December	
	2016	2015
RMB	**87,521**	94,128
HK$	**1,568**	1,072
	89,089	95,200

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

22 TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES (CONTINUED)

(c) As at 31 December 2016 and 2015, the aging analysis of trade receivables based on invoice date are as follows:

	As at 31 December	
	2016	2015
Trade receivables		
– Within 2 months	**22,189**	18,221
– Over 2 months	**9,613**	5,736
	31,802	23,957

(d) The balance of trade receivables mainly including management fee and service income from concessionaires and other lessees, the credit terms of which are generally within 30 to 60 days.

(e) As at 31 December 2016, trade receivables of approximately RMB9,613,000 (2015: RMB5,736,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The credit quality of trade receivables was neither past due nor impaired and has been assessed by reference to historical default rates of the counterparties.

(f) The maximum exposure to credit risk as at the balance sheet date is the fair value of each class of receivable mentioned above. The Group does not hold any collateral as security.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

23 RESTRICTED CASH

	As at 31 December	
	2016	2015
Guarantee deposits for borrowings (Note (a))	**11,943**	6,917
Guarantee deposits for construction of pre-sold properties (Note (b))	**8,061**	–
Guarantee deposits for notes (Note (c))	**5,010**	9,105
Guarantee deposits for consumption cards issued (Note (d))	**7,167**	8,899
Others	**256**	–
	32,437	24,921

All restricted cash was denominated in RMB.

(a) Pursuant to certain bank loan agreements, the Group is required to place certain cash deposits as securities for borrowings. Such guarantee deposits will only be released after full repayment of relevant borrowings.

(b) In accordance with the relevant documents issued by the local State-Owned Land and Resource Bureau, certain property development companies of the Group are required to place at designated bank accounts the pre-sale proceeds of properties received as the guarantee deposits for constructions of related properties. The deposits can only be used for purchases of construction materials and payments of construction fees of related property projects upon the approval of the local State-Owned Land and Resource Bureau. Such guarantee deposits will be released according to the completion stage of the related pre-sold properties.

(c) As at 31 December 2016 and 2015, the restricted cash was deposited in a designated bank account for the pledge of notes payable.

(d) As at 31 December 2016 and 2015, the restricted cash was deposited in a designated bank account for the pledge of certain consumption cards issued.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

24 TERM DEPOSITS

As at 31 December 2016, the initial terms of the Group's term deposits were six or twelve months. These term deposits earn interest ranging from 0.7% to 1.75% per annum (2015: Nil).

The Group's term deposits were denominated in the following currencies:

	As at 31 December	
	2016	2015
RMB	**8,510**	–
HK$	**21,468**	–
	29,978	–

25 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2016	2015
Cash at bank	**94,950**	108,331
Short-term bank deposits	**40,100**	7,122
Cash on hand	**5,107**	5,006
	140,157	120,459

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

	As at 31 December	
	2016	2015
RMB	**139,009**	97,837
HK$	**1,088**	22,622
US$	**31**	–
Australian dollar	**29**	–
	140,157	120,459

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

26 SHARE CAPITAL

Authorised share capital

	Number of ordinary shares	Nominal value of ordinary shares *HK$*	Equivalent nominal value of ordinary shares *RMB*
As at 31 December 2015 and 2016	778,000,000	7,780,000	6,126,516

Issued share capital

	Number of ordinary shares	Nominal value of ordinary shares *HK$*	Equivalent nominal value of ordinary shares *RMB'000*
As at 1 January 2015	360,000,000	3,600,000	2,830
Bonus shares distributed (Note (a))	90,000,000	900,000	710
Issue of new shares (Note (b))	38,010,000	380,100	300
As at 31 December 2015	488,010,000	4,880,100	3,840
As at 1 January 2016	488,010,000	4,880,100	3,840
Issue of shares upon 2015 Scrip Dividend Scheme (Note (c))	9,894,000	98,940	85
As at 31 December 2016	497,904,000	4,979,040	3,925

(a) Pursuant to an annual general meeting resolution on 12 June 2015, an aggregate of 90,000,000 shares of HK$0.01 each were allotted and distributed among members of the Company in the proportion of one new share ("**2015 Bonus Shares**") for every four existing shares then held.

(b) In July 2015, an aggregate of 38,010,000 shares of HK$0.01 each were issued by the Company at a price of HK$2.72 per share for a total cash consideration of HK$103,387,000 (equivalent to RMB82,445,000).

(c) Pursuant to an annual general meeting resolution on 9 August 2016, shareholders of the Company holding an aggregate of 167,459,000 shares and 320,551,000 shares elected to receive cash dividend and new shares as dividend respectively (Note 12). Accordingly, an aggregate of 9,894,000 shares of HK$0.01 each were issued and allotted in lieu of cash.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

27 OTHER RESERVES

	Share premium	Statutory reserve (Note (a))	Capital reserve (Note (b))	Other reserves	Total
Balance as at 1 January 2015	85,499	12,334	16,250	–	114,083
Appropriation to statutory reserve	–	451	–	–	451
Issue of 2015 Bonus Shares	(710)	–	–		(710)
Issue of new shares	82,142	–	–	–	82,142
Dividend distributed	(28,411)	–	–	–	(28,411)
Available-for-sale financial assets	–	–	–	1,250	1,250
Revaluation gains from investment properties	–	–	–	6,058	6,058
Balance as at 31 December 2015	138,520	12,785	16,250	7,308	174,863
Balance as at 1 January 2016	138,520	12,785	16,250	7,308	174,863
Appropriation to statutory reserve	–	450	–	–	450
Issue of shares upon 2015 Scrip Dividend Scheme	(85)	–	–	–	(85)
Dividend distributed	(14,401)	–	–	–	(14,401)
Available-for-sale financial assets	–	–	–	(1,250)	(1,250)
Balance as at 31 December 2016	124,034	13,235	16,250	6,058	159,577

(a) Appropriation to reserve fund

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

(b) Capital reserve

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

28 TRADE AND OTHER PAYABLES

	As at 31 December	
	2016	2015
Trade payables	**58,303**	63,979
Notes payable	**16,700**	30,350
Staff salaries, bonuses and welfare payables	**11,305**	11,508
Payables to concessionaires and lessee	**136,985**	127,128
Other taxes and surcharges payable	**15,038**	13,722
Rental and other deposits	**38,664**	17,040
Payables for construction costs	**53,025**	15,546
Unpaid cash consideration for acquisition completed	**26,471**	–
Others	**32,541**	19,399
	389,032	298,672
Less: non-current portion of other payables	**(61,699)**	(8,749)
	327,333	289,923

(a) The Group's trade and other payables (excluding other taxes and surcharges payable) are denominated in following currencies:

	As at 31 December	
	2016	2015
RMB	**372,779**	284,869
HK$	**1,012**	81
Australian dollar	**203**	–
	373,994	284,950

(b) The fair value of trade and other payables approximated their carrying amounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

28 TRADE AND OTHER PAYABLES (CONTINUED)

(c) As at 31 December 2016 and 2015, the aging analysis of trade payables is as follows:

	As at 31 December	
	2016	2015
Trade payables		
– Within 3 months	**49,642**	58,417
– Over 3 months	**8,661**	5,562
	58,303	63,979

29 BORROWINGS

	As at 31 December	
	2016	2015
Non-current		
Long-term borrowings		
– Bonds – unsecured (Note (a))	**50,111**	33,154
– Bank borrowings – secured (Note (b))	**284,185**	–
Less: current portion of long-term borrowings	**(167,504)**	–
	166,792	33,154
Current		
Short-term borrowings		
– Bank borrowings – secured (Note (c))	**137,890**	106,242
Other borrowings – unsecured (Note (d))	**10,000**	–
Other borrowings – secured (Note (e))	**13,418**	–
Current portion of long-term bonds (Note (f))	**22,237**	–
Current portion of long-term bank borrowings	**145,267**	–
	328,812	106,242
Total borrowings	**495,604**	139,396

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

29 BORROWINGS (CONTINUED)

(a) On 4 March 2016, 24 March 2016, 28 April 2016, 2 June 2016, 9 September 2016, the Company issued 7% bonds (the "**2016 Bonds**") which will be due for payment on 3 March 2023, 23 September 2023, 27 October 2023, 1 December 2023, 8 September 2018 respectively. The nominal value of the 2016 Bonds amounted to HK$18,000,000 (equivalent to RMB15,145,000). The net proceeds of the 2016 Bonds, after deducting the transaction costs, amounted to RMB13,655,000.

On 19 January 2015, 5 February 2015 and 12 February 2015, the Company issued 7% bonds (the "**2015 Bonds**") which will be due for payment on 19 January 2022, 5 February 2022 and 12 February 2022 respectively. The nominal value of the 2015 Bonds amounted to HK$15,000,000 (equivalent to RMB11,870,000). The net proceeds of the 2015 Bonds, after deducting the transaction costs, amounted to RMB11,680,000.

(b) The long-term bank borrowings are secured by guarantees given by the Company, subsidiaries within the Group and some third parties. Certain portions of the bank borrowings, amounted to RMB284,185,000, are collectively pledged by the investment properties of the Group of RMB341,020,000 (2015: Nil), the properties under development of the Group of approximately RMB277,242,000 (2015: Nil), properties owned by some third parties and restricted cash of RMB8,378,000.

(c) The short-term bank borrowings are secured by guarantees given by the Company and subsidiaries within the Group. Certain portions of the bank borrowings, amounted to HK$20,000,000 (equivalent to RMB17,890,000) and RMB20,000,000, are respectively secured by the restricted cash of the Group of RMB3,565,000 (2015: RMB6,917,000) and collectively pledged by the investment properties of the Group of RMB289,920,000.

(d) On 27 September 2016, the Company obtained approximately five-month borrowings from a third party, amounting to RMB10,000,000. The borrowings are unsecured, bear fixed interest rates and have fixed repayment terms.

(e) On 20 December 2016, the Company obtained three-month borrowings from a third party, amounting to HK$15,000,000 (equivalent to RMB13,418,000). The borrowings bear fixed interest rates and have fixed repayment terms. The borrowings are secured by guarantees given by one executive director of the Company, and secured by three bank notes of HK$15,900,000 (equivalent to RMB14,223,000) (2015: Nil).

(f) On 17 November 2014, the Company issued 7% bond (the "**2014 Bonds**") which will be due for payment on 17 November 2017 in the nominal value of HK$25,000,000 (equivalent to RMB19,758,000). The net proceeds of the 2014 Bonds, after deducting the transaction costs, amounted to RMB19,486,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

29 BORROWINGS (CONTINUED)

(g) The carrying amounts of the Group's borrowings are denominated in the following currencies.

	As at 31 December	
	2016	2015
RMB	**372,144**	106,242
HK$	**123,460**	33,154
	495,604	139,396

(h) The effective interest rates of the Group's total borrowings are as follows:

	As at 31 December	
	2016	2015
Bonds, unsecured	**8.04%**	7.49%
Long-term bank borrowings, secured	**6.23%**	–
Short-term bank borrowings, secured	**5.30%**	6.54%
Other borrowings, unsecured	**12.00%**	–
Other borrowings, secured	**24.00%**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

29 BORROWINGS (CONTINUED)

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

	As at 31 December	
	2016	2015
Within 1 year	**328,812**	106,242
Between 1 and 5 years	**116,265**	20,767
Over 5 years	**50,527**	12,387
	495,604	139,396

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

30 DEFERRED REVENUE

	As at 31 December	
	2016	2015
Government grants classified as non-current liabilities	**1,717**	1,419
Government grants classified as current liabilities	**407**	–
Bonus points liabilities classified as current liabilities	**4,750**	6,059
	6,874	7,478

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31 CASH GENERATED FROM OPERATIONS

	Year ended 31 December	
	2016	2015
Profit before income tax	**98,749**	31,912
Adjustments for:		
– Depreciation of property, plant and equipment	**29,944**	27,214
– Amortisation of computer software	**346**	91
– Amortisation of government grant relating to assets	**(283)**	(381)
– Provision for impairment of property, plant and equipment	**28,558**	–
– Finance income	**(3,951)**	(2,134)
– Finance expenses	**24,646**	10,367
– Gain from property related income	**(2,354)**	(3,726)
– Fair value gain on investment properties	**(71,786)**	(9,240)
– Gain from bargain purchase	**(104,965)**	–
– Share of loss of an associate	**1,990**	–
Changes in working capital:		
– Trade receivables, prepayment and other receivables, amounts due from related parties	**3,855**	(10,811)
– Tax prepayment	**(142)**	–
– Properties under development	**(6,661)**	–
– Inventories	**31,598**	1,173
– Deferred assets	**(1,412)**	900
– Trade and other payables, amounts due to related parties, deferred revenue, advances from customers	**(21,082)**	(45,803)
– Deposits received on sale of properties	**5,090**	–
– Restricted cash	**(1,178)**	270
Cash generated from/(used in) operations	**10,962**	(168)

There were no significant non-operating non-cash transactions during the year ended 31 December 2016 (2015: RMB29,456,000).

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32 FINANCIAL INSTRUMENTS BY CATEGORY

	As at 31 December	
	2016	2015
Financial assets		
– Loans and receivables		
– Deferred assets	**2,138**	726
– Trade and other receivables excluding prepayments	**89,089**	95,200
– Amounts due from related parties	**62,775**	98,546
– Restricted cash	**32,437**	24,921
– Term deposits	**29,978**	–
– Cash and cash equivalents	**140,157**	120,459
– Available-for-sale financial assets	**–**	15,000
	356,574	354,852
Financial liabilities at amortised cost		
– Trade and other payables excluding other taxes and surcharges payable	**373,994**	284,950
– Amounts due to related parties	**10,352**	2,504
– Borrowings	**495,604**	139,396
	879,950	426,850

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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33 FINANCIAL GUARANTEES

The face value of the financial guarantees issued by the Group as at 31 December 2016 are analysed as follows:

	As at 31 December	
	2016	2015
Guarantees to an associate (Note (a))	**69,370**	–
Guarantees given to banks for mortgage facilities granted to purchasers of the Group's poperties (Note (b))	**82,003**	–
	151,373	–

(a) It represents guarantees provided to a third party supplier of an associate for the provision of semiconductor products for a game system.

Pursuant to the terms of the guarantees, upon default in payment obligations by the associate, the Group is responsible to repay the outstanding payment obligations owed by the associate to the supplier, in proportion to the equity interests in the associate held by the Group, with a maximum of US$10,000,000 (equivalent to approximately RMB69,370,000). The Group's guarantee period starts from 5 September 2016 until expressly revoked by a written notice from the Group to the supplier.

The Group closely monitors the repayment progress of the relevant purchase by the associate. The Directors consider that the likelihood of default in payments is minimal and the financial guarantees measured at fair value is immaterial.

(b) The Group has arranged bank financing for certain purchasers of the Group's property units and provided guarantees to the bank over the repayment obligations of the purchasers. Such guarantees terminate upon the earlier of (i) issuance of the certificate of real estate ownership; or (ii) completion of mortgage registration.

Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage principals together with accrued interest and penalty owed by the defaulted purchasers to the banks and the Group is entitled to take over the legal title and possession of the related properties. The Group's guarantee period starts from the date of grant of the relevant mortgage loan and ends when the certificate of real estate ownership for the mortgagee is issued and submitted to the banks. The Directors consider that the fair value of these contracts at date of inception was minimal and in case of default in payments, the net realisable value of the related properties can cover the repayment of the outstanding mortgage principals together with the accrued interest and penalty and therefore no provision has been made in the financial statements for the guarantees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

34 COMMITMENTS

(a) Capital commitments

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

	As at 31 December	
	2016	2015
Property, plant and equipment	**466**	3,101
Investment properties	**12,298**	–
Properties under development	**43,574**	–
	56,338	3,101

(b) Operating lease commitments

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

	As at 31 December	
	2016	2015
– Within 1 year	**84,517**	71,238
– Between 1 and 5 years	**80,264**	80,368
– Over 5 years	**68,709**	50,042
	233,490	201,648

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

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

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(All amounts expressed in RMB thousands unless otherwise stated)

34 COMMITMENTS (CONTINUED)

(b) Operating lease commitments (continued)

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

	As at 31 December	
	2016	2015
– Within 1 year	**51,913**	8,432
– Between 1 and 5 years	**174,623**	12,903
– Over 5 years	**360,771**	190
	587,307	21,525

35 BUSINESS COMBINATION

35.1 Enping Kangsheng Hotel Management Company Limited ("Enping Hotel")

On 24 June 2016, the Group acquired 100% equity interests of Enping Hotel. It was a jointly controlled company of which Guangdong Yihua Group Investment Company Limited ("**Yihua Investment**") and Guangdong Kangsheng Investment Company Limited hold interest of 58.08% and 41.92% respectively. Yihua Investment is a related party controlled by the Company's ultimate controlling individual, Mr. Chen Daren.

Enping Hotel is principally engaged in development and leasing commercial properties in Enping City, Guangdong Province, for a cash consideration of RMB120,000,000. The commercial properties comprise a five-star hotel, a business hotel, an annex building and an office building. The acquisition is expected to lower the Group's pressure of rising rents and capture the benefit of the capital appreciation of the property.

The negative goodwill of RMB32,557,000 arises from the excess amount of the fair value of the net identifiable assets of Enping Hotel as at 24 June 2016 over the fair value of the consideration given by the Group.

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35 BUSINESS COMBINATION (CONTINUED)

35.1 Enping Kangsheng Hotel Management Company Limited ("Enping Hotel") (continued)

The following table summaries the consideration paid for Enping Hotel, and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date.

	24 June 2016 *RMB'000*
Purchase consideration	
– Consideration paid	**85,732**
– Consideration payable	**34,268**
Total purchase consideration	**120,000**
Less: discount impact for consideration payable due after one year	**(2,820)**
Fair value of purchase consideration	**117,180**

Recognised amounts of identifiable assets acquired and liabilities assumed

Provisional fair value	
Cash and cash equivalents	**33,252**
Property, plant and equipment	**27**
Investment properties (Note 36)	**310,070**
Prepayments	**179**
Other receivables	**74**
Accruals and other payables	**(36,999)**
Amounts due to related parties	**(96,565)**
Borrowings	**(44,100)**
Deferred tax liabilities	**(16,201)**
Total identifiable net assets	**149,737**
Gain from bargain purchase (Note (a))	**32,557**

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35 BUSINESS COMBINATION (CONTINUED)

35.1 Enping Kangsheng Hotel Management Company Limited ("Enping Hotel") (continued)

	24 June 2016 *RMB'000*
Inflow of cash to acquire business, net of cash acquired	
Cash consideration paid	**85,732**
Less: cash consideration paid in the year ended 31 December 2015	**(65,000)**
Cash consideration paid in the year ended 31 December 2016	**20,732**
Less: cash and banks in Enping Hotel acquired	**(33,252)**
Cash inflow on acquisition	**(12,520)**

(a) Gain from bargain purchase recorded in profit and loss

The excess amount of the fair value of the net identifiable assets of Enping Hotel as at 24 June 2016 over the fair value of the consideration given by the Group was recognised as a gain from bargain purchase in profit and loss.

(b) Revenue and profit contribution

The revenue and profit contributed by Enping Hotel in the consolidated statement of comprehensive income since 24 June 2016 was RMB905,000 and RMB71,755,000 respectively.

Had Enping Hotel been consolidated from 1 January 2016, the consolidated statement of comprehensive income would show pro-forma revenue of RMB583,528,000 and profit of RMB78,880,000.

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(All amounts expressed in RMB thousands unless otherwise stated)

35 BUSINESS COMBINATION (CONTINUED)

35.2 Zhaoqing Hualai Property Development Company Limited ("Zhaoqing Development")

On 16 November 2016, the Group acquired 100% equity of Zhaoqing Development, a third party company that principally engaged in property development in Zhaoqing City, Guangdong Province, for a cash consideration of RMB1. The acquisition is expected to diversify the Group's business.

The negative goodwill of RMB72,408,000 arises from the excess amount of the fair value of the net identifiable assets of Zhaoqing Development as at 16 November 2016 over the fair value of the consideration given by the Group.

The following table summaries the consideration paid for Zhaongqing Development, and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date.

	16 November 2016 *RMB'000*
Purchase consideration	**–**
Total purchase consideration paid and fair value of purchase consideration	**–**

Recognised amounts of identifiable assets acquired and liabilities assumed

Provisional fair value	
Cash and cash equivalents	**143**
Restricted cash	**6,338**
Property, plant and equipment	**43**
Properties under development (Note 36)	**369,400**
Prepayments	**529**
Other receivables	**1,311**
Tax prepayment	**12,597**
Deposits received on sale of properties	**(132,543)**
Accruals and other payables	**(11,393)**
Borrowings	**(115,182)**
Deferred tax liabilities (Note (b))	**(58,835)**
Total identifiable net assets	**72,408**
Gain from bargain purchase (Note (a))	**72,408**

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(All amounts expressed in RMB thousands unless otherwise stated)

35 BUSINESS COMBINATION (CONTINUED)

35.2 Zhaoqing Development (continued)

	16 November 2016 *RMB'000*
Inflow of cash to acquire business, net of cash acquired	
Cash consideration paid in the year ended 31 December 2016	–
Less: cash and banks in Zhaoqing Development acquired	**(143)**
Cash inflow on acquisition	**(143)**

(a) Gain from bargain purchase recorded in profit and loss

The excess amount of the fair value of the net identifiable assets of Zhaoqing Development as at 16 November 2016 over the fair value of the consideration given by the Group was recognised as a gain from bargain purchase in profit and loss.

(b) Deferred tax liabilities

The deferred tax liabilities includes deferred land appreciation tax of RMB25,150,000, deferred income tax liabilities recognised on temporary differences arising between the tax bases of the properties under development and their carrying amounts of RMB36,785,000, and deferred income tax assets recognised for tax losses of RMB3,100,000.

(c) Revenue and profit contribution

No revenue was included in the consolidated statement of comprehensive income since 16 November 2016 was contributed by Zhaoqing Development. Zhaoqing Development also contributed a loss of RMB1,970,000 over the same period.

Had Zhaoqing Development been consolidated from 1 January 2016, the consolidated statement of comprehensive income would show pro-forma revenue of RMB582,598,000 and profit of RMB9,494,000.

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36 FAIR VALUE ASSESSMENTS FOR INVESTMENT PROPERTIES AND PROPERTIES UNDER DEVELOPMENT ON THE DATE OF ACQUISITION AND INVESTMENT PROPERTIES AT YEAR-END

(a) Fair value hierarchy

Independent valuations of the Group's investment properties and properties under development on the date of acquisition and investment properties at year-end were performed by independent and professionally qualified valuers to determine the fair values of the respective properties.

On the acquisition date and as at 31 December 2016, all the valuations of the Group's investment properties were within level 3 of the fair value hierarchy as the valuations were arrived at by making reference to certain significant unobservable inputs. There were no transfers between levels 1, 2 and 3 inputs during the year.

On the acquisition date of the properties under development, the valuations were also within level 3 of the fair value hierarchy as the valuations were arrived at by making reference to certain significant unobservable inputs.

(b) Valuation processes of the Group's properties

The valuations of the Group's properties were performed by independent and professionally qualified valuers not related to the Group, who hold relevant recognised professional qualifications and have recent experience in the locations and segments of the properties valued.

The Group's finance department includes a team that reviews the valuations performed by the independent valuers for financial reporting purposes. This team reports directly to the chief financial officer ("**CFO**") and the audit committee. Discussions of valuation processes and results are held between the CFO, the valuation team and the independent valuers at least once every six months, which is in line with the Group's interim and annual reporting dates.

At each reporting date the finance department:

- Verifies all major inputs to the independent valuation reports;
- Assesses property valuation movements when compared to the prior year valuations;
- Holds discussion with the independent valuers.

36 FAIR VALUE ASSESSMENTS FOR INVESTMENT PROPERTIES AND PROPERTIES UNDER DEVELOPMENT ON THE DATE OF ACQUISITION AND INVESTMENT PROPERTIES AT YEAR-END (CONTINUED)

(c) Valuation techniques

Valuations on the date of acquisition and as at 31 December 2016 were based on either:

Market approach by making reference to comparable sales data as available in the relevant markets, with appropriate adjustments to reflect the differences between the subject properties and the comparables in terms of various factors such as location and property size, etc.

Income approach by taking into account the passing rentals of the unexpired term of the existing tenancies of the subject properties, with due allowance on the reversionary potential of the property interests upon expiry of the leases. The rentals are then capitalized by appropriate term and reversionary yields to derive the values of the properties.

Residual approach which is applicable for development sites or properties under construction. The estimated (outstanding) construction cost, professional fees, finance cost, contingencies, marketing and legal cost, and a reasonable developer's profit margin were deducted from the gross development values of the subject properties to arrive at their "as-is" values.

Cost approach takes into account the values of the subject lands on the basis of their existing uses, plus the construction costs incurred up to the respective valuation dates (reflecting the construction progress) to derive the "as-is" values of the subject properties.

The fair values of the investment properties and properties under development on the date of acquisition and investment properties at year-end have been determined by LCH (Asia-Pacific) Surveyors Limited.

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(All amounts expressed in RMB thousands unless otherwise stated)

36 FAIR VALUE ASSESSMENTS FOR INVESTMENT PROPERTIES AND PROPERTIES UNDER DEVELOPMENT ON THE DATE OF ACQUISITION AND INVESTMENT PROPERTIES AT YEAR END (CONTINUED)

(d) Information about fair value measurements using significant unobservable inputs (level 3)

(i)

Property category	Description	Fair value at 24 June 2016	Valuation techniques	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Completed investment properties	Ancillary Block	RMB29,130,000	Income approach	Market rent (RMB/ square metre/ month)	38	The higher the market rents, the higher the fair value, and vice versa
Completed investment properties	Industrial Land	RMB3,600,000	Market approach	Market price (RMB/ square metre)	251.4	The higher the market rates, the higher the fair value, and vice versa
Investment properties under construction	Hotel	RMB277,340,000	Cost approach	Market price (RMB/ square metre)	Land: 564	The higher the market rates, the higher the fair value, and vice versa
				Construction cost incurred	261,577,000	The higher the construction cost incurred, the higher the fair value and vice versa

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36 FAIR VALUE ASSESSMENTS FOR INVESTMENT PROPERTIES AND PROPERTIES UNDER DEVELOPMENT ON THE DATE OF ACQUISITION AND INVESTMENT PROPERTIES AT YEAR END (CONTINUED)

(d) Information about fair value measurements using significant unobservable inputs (level 3) (continued)

(ii)

Property category	Description	Fair value at 16 November 2016	Valuation techniques	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Properties under development	No. 1,3,6 buildings	RMB256,180,000	Residual approach	Market prices (RMB/ square metre)	Residential building: 5,100 Commercial units: 20,000	The higher the market rates, the higher the fair value, and vice versa
				Market price (RMB/unit)	Parking space: 170,000	The higher the market rates, the higher the fair value, and vice versa
				Budgeted cost to be incurred (RMB)	37,844,710	The higher the budget cost, the higher the fair value, and vice versa
Properties under development	Land	RMB113,220,000	Market approach	Market price (RMB/ square metre)	1,460	The higher the market rates, the higher the fair value, and vice versa

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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36 FAIR VALUE ASSESSMENTS FOR INVESTMENT PROPERTIES AND PROPERTIES UNDER DEVELOPMENT ON THE DATE OF ACQUISITION AND INVESTMENT PROPERTIES AT YEAR END (CONTINUED)

(d) Information about fair value measurements using significant unobservable inputs (level 3) (continued)

(iii)

Property category	Description	Fair value at 31 December 2016	Valuation techniques	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Completed investment properties	Hotel	RMB98,268,000	Income approach	Market rents (RMB/square metre/month)	First and Second Floor of Block A: 54~95 Ancillary Block: 62	The higher the market rents, the higher the fair value, and vice versa
Completed investment properties	Industrial land	RMB3,635,000	Market approach	Market price (RMB/square metre)	253.8	The higher the market rates, the higher the fair value, and vice versa
Investment properties under construction	Hotel	RMB327,752,000	Income approach	Market rents (RMB/square metre/month)	Third to Twenty-fourth Floor of Block A: 54~95 Block C: 41~69	The higher the market rents, the higher the fair value, and vice versa
Investment properties under construction	Shopping mall	RMB66,580,000	Income approach	Market rents (RMB/square metre/month)	Second Floor: 27 Third Floor: 27~35	The higher the market rents, the higher the fair value, and vice versa

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(All amounts expressed in RMB thousands unless otherwise stated)

36 FAIR VALUE ASSESSMENT FOR INVESTMENT PROPERTIES AND PROPERTIES UNDER DEVELOPMENT ON THE DATE OF ACQUISITION AND INVESTMENT PROPERTIES AT YEAR END (CONTINUED)

(d) Information about fair value measurements using significant unobservable inputs (level 3) (continued)

(iii) (continued)

Property category	Description	Fair value at 31 December 2015	Valuation techniques	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Investment properties under construction	Shopping mall	RMB58,840,000	Income approach	Market rents (RMB/square metre/month)	Second Floor: 26 Third Floor: 31~37	The higher the market rents, the higher the fair value, and vice versa
			Market approach	Market prices (RMB/square metre)	Second Floor: 5,521 Third Floor: 4,969	The higher the market rates, the higher the fair value, and vice versa

There are inter-relationships between unobservable inputs. For an investment property under construction, increases in construction costs that enhance the property's features may result in an increase of future rental values. An increase in future rental income may be linked with higher costs.

37 RELATED PARTIES AND SIGNIFICANT RELATED PARTY TRANSACTIONS

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

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

Name	Relationship with the Group
廣東益華集團投資有限公司 Yihua Investment	A company controlled by Mr. Chen Daren
廣東益華廣場管理有限公司 Guangdong Yihua Plaza Management Limited	A company controlled by Mr. Chen Daren
廣東逸豪酒店管理有限公司 Guangdong Yucca Hotel Management Limited	A company controlled by Mr. Chen Daren

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

37 RELATED PARTIES AND SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

Name	Relationship with the Group
中山市京華世紀酒店有限公司 Zhongshan King Century Hotel Company Limited	A company controlled by Mr. Chen Daren
中山市古鎮國貿大酒店有限公司 Zhongshan Guzhen International Hotel Limited	A company controlled by Mr. Chen Daren
江門市金匯世紀廣場物業管理有限公司 Jiangmen Jinhui Century Square Property Management Company Limited	A company controlled by Mr. Chen Daren
江門市逸豪酒店有限公司 Jiangmen Yucca Hotel Company Limited	A company controlled by Mr. Chen Daren
中山市東阜國貿逸豪酒店有限公司 (原名：中山市阜沙國貿逸豪酒店有限公司) Zhongshan Dongfu International Trade Yucca Hotel Company Limited (formerly known as Zhongshan Fusha International Trade Yucca Hotel Company Limited)	A company controlled by Mr. Chen Daren
泰安益華置業開發有限公司 Tai'an Yihua Property Development Company Limited	A company controlled by Mr. Chen Daren
鎮江華龍廣場置業有限公司 Zhenjiang Hualong Plaza Properties Company Limited	A company controlled by Mr. Chen Daren
肇慶市益華實業有限公司 Zhaoqing Yihua Industrial Company Limited	A company controlled by Mr. Chen Daren
中山市益通寶智能網絡科技有限公司 Zhongshan Yitongbao Intelligent Technology Company Limited	A company controlled by Mr. Chen Daren
陽江市宏圖物業管理有限公司 Yangjiang City Hongtu Property Management Limited Company	A company jointly controlled by Mr. Chen Daren and third parties
陽江宏高房地產發展有限公司 Yangjiang Honggao Real Estate Development Limited	A company jointly controlled by Mr. Chen Daren and third parties

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(All amounts expressed in RMB thousands unless otherwise stated)

37 RELATED PARTIES AND SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

Name	Relationship with the Group
中山市益華廣場實業有限公司 Zhongshan Yihua Plaza Industrial Corporation Limited	A company jointly controlled by Mr. Chen Daren and third parties
江蘇益華廣場管理有限公司 Jiangsu Yihua Plaza Management Limited	A company jointly controlled by Mr. Chen Daren and third parties
小霸王文化發展有限公司 (原名：中山市小霸王文化產業有限公司) Zhongshan Subor Cultural Development Company Limited (formerly known as Zhongshan Subor Cultural Industry Company Limited)	An associate of the Group

(a) Significant transactions with related parties

The following is a summary of significant related party transactions which, in the opinion of the directors, are entered into in the ordinary course of business between the Company and its related parties, and the balances arising from related party transactions in addition to the related party information shown elsewhere in these financial statements.

During the year ended 31 December 2016, the Group had the following significant transactions with related parties:

(i) Rental expenses and property management fee

	Year ended 31 December	
	2016	2015
Companies controlled by Mr. Chen Daren	**59,831**	56,365
Companies jointly controlled by Mr. Chen Daren and third parties	**5,243**	4,605
	65,074	60,970

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37 RELATED PARTIES AND SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Significant transactions with related parties (continued)

(ii) ***Purchase of services***

	Year ended 31 December	
	2016	2015
Companies controlled by Mr. Chen Daren	**923**	1,334

(iii) ***Sales of goods***

	Year ended 31 December	
	2016	2015
Companies controlled by Mr. Chen Daren	**1,809**	2,811

(iv) ***Provision of financial guarantees***

	Year ended 31 December	
	2016	2015
An associate of the Group (Note 33)	**69,370**	–

(v) ***Financial guarantees for a borrowing (Note 29)***

	Year ended 31 December	
	2016	2015
Mr. Chen Jianren	**14,223**	–

(vi) On 24 June 2016, the Group acquired 58.08% equity interests of Enping Hotel from Yihua Investment, which is a company controlled by Mr. Chen Daren (Note 35.1).

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(All amounts expressed in RMB thousands unless otherwise stated)

37 RELATED PARTIES AND SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Balances with related parties

(i) Amounts due from related parties

	As at 31 December	
	2016	2015
Companies controlled by Mr. Chen Daren	**47,707**	94,372
Companies jointly controlled by Mr. Chen Daren and third parties	**4,403**	4,174
An associate of the Group	**10,665**	–
	62,775	98,546

The amounts due from related parties as at 31 December 2016 included a refundable acquisition deposit of RMB8,950,000 (Note 41(c)), trade receivables, prepaid rental and prepaid deposits, which were all denominated in RMB.

As at 31 December 2016 and 2015, the aging of trade receivables due from related parties based on invoice date, amounting to RMB3,037,000 (2015: RMB1,200,000), are as follows:

	As at 31 December	
	2016	2015
Trade receivable due from related parties		
– Within 2 months	**1,870**	144
– Over 2 months	**1,437**	1,056
	3,307	1,200

The balance of trade receivables mainly represents sales of goods from related parties, the credit terms of which are generally within 30 to 60 days. As at 31 December 2016, trade receivables due from related parties of approximately RMB1,437,000 (31 December 2015: RMB1,056,000) were past due but not impaired since there is no recent history of default. The fair value of such trade receivables approximated to their fair value.

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37 RELATED PARTIES AND SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Balances with related parties (continued)

(ii) Amounts due to related parties

	As at 31 December	
	2016	2015
Companies controlled by Mr. Chen Daren	**7,311**	2,203
Companies jointly controlled by Mr. Chen Daren and third parties	**2,041**	301
An associate of the Group	**1,000**	–
	10,352	2,504

(c) Key management compensation

	Year ended 31 December	
	2016	2015
Basic salaries and allowances	**9,385**	9,072
Discretionary bonuses	**–**	173
Other benefits including retirement benefit contribution	**680**	511
	10,065	9,756

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(All amounts expressed in RMB thousands unless otherwise stated)

38 SUBSIDIARIES

The following is a list of the principal subsidiaries as at 31 December 2016:

Name of the company	Country/date of incorporation/ establishment and kind of legal entity	Issued/ registered and paid up capital	Principal activities and place of operations	Interest held
Subsidiaries – Incorporated in the British Virgin Islands (the "BVI") and directly owned				
萬利貿易有限公司 Billion Profit Trading Limited (Formerly named: Mentor Asia Limited)	BVI, 15 June 2000 limited liability company	US$10,000	Investment holding, BVI	100%
卓融環球有限公司 Ace Fusion Global Limited	BVI, 1 July 2015 limited liability company	US$1	Investment holding, BVI	100%
盛卓環球有限公司 Prime Vantage Global Limited	BVI, 5 January 2016 limited liability company	US$1	Investment holding, BVI	100%
Subsidiaries – Incorporated in the Hong Kong and indirectly owned				
智鏈設備有限公司 Intelligence Link Limited	Hong Kong, 3 May 1994 limited liability company	HK$10,000	Investment holding, Hong Kong	100%
益華投資發展（香港）有限公司 Yihua Investment Development (HK) Limited	Hong Kong, 30 October 2015 limited liability company	HK$1	Investment holding, Hong Kong	100%
益華萬果商業科技有限公司 Yihua Wanguo Commercial Technology Limited	Hong Kong, 30 October 2015 limited liability company	HK$10,000,000	Investment holding, Hong Kong	100%
香港益華新天地置業有限公司 Yihua Hong Kong New Sky Properties Limited	Hong Kong, 18 August 2015 limited liability company	HK$1	Investment holding, Hong Kong	100%
益華環球新果園有限公司 Yihua Worldwide Fruiterers Limited	Hong Kong, 18 February 2016 limited liability company	HK$10,000	Import and export of vegetables and fruits, Hong Kong	51%

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38 SUBSIDIARIES (CONTINUED)

Name of the company	Country/date of incorporation/ establishment and kind of legal entity	Issued/ registered and paid up capital	Principal activities and place of operations	Interest held
Subsidiaries – Incorporated in the PRC and indirectly owned				
中山市朗華模具塑料有限公司 Zhongshan Lonwalk Mould Plastic Co. Ltd.*	PRC, 16 October 2000 limited liability company	RMB40,000,000	Investment holding, PRC	100%
廣東益華百貨有限公司 Yihua Department Store Limited*	PRC, 24 October 1994 limited liability company	RMB80,000,000	Department store operations, PRC	100%
中山市古鎮益華百貨有限公司 Zhongshan Guzhen Yihua Department Store Limited*	PRC, 29 March 2006 limited liability company	RMB5,000,000	Department store operations, PRC	100%
江門市益華百貨有限公司 Jiangmen Yihua Department Store Limited*	PRC, 24 August 2004 limited liability company	RMB5,000,000	Department store operations, PRC	100%
江門市益華世家家居有限公司 Jiangmen Yihua Shijia Jiaju Limited*	PRC, 29 August 2013 limited liability company	RMB1,000,000	Furniture store operations, PRC	100%
清遠城市廣場益華百貨有限公司 Qingyuan City Plaza Yihua Department Store Limited*	PRC, 16 October 2003 limited liability company	RMB5,000,000	Department store operations, PRC	100%
韶關市益華百貨有限公司 Shaoguan Yihua Department Store Limited*	PRC, 3 August 2007 limited liability company	RMB5,000,000	Department store operations, PRC	59%

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38 SUBSIDIARIES (CONTINUED)

Name of the company	Country/date of incorporation/ establishment and kind of legal entity	Issued/ registered and paid up capital	Principal activities and place of operations	Interest held
Subsidiaries – Incorporated in the PRC and indirectly owned (continued)				
鎮江益華百貨有限公司 Zhengjiang Yihua Department Store Limited*	PRC, 5 June 2013 limited liability company	RMB5,000,000	Department store operations, PRC	100%
中山市益華世家家居有限公司 Zhongshan Yihua Shijia Jiaju Limited*	PRC, 11 September 2012 limited liability company	RMB5,000,000	Furniture store operations, PRC	100%
陽春市益華百貨有限公司 Yangchun Yihua Department Store Limited*	PRC, 28 September 2012 limited liability company	RMB1,000,000	Department store operations, PRC	100%
中山市太陽城益華有限公司 Zhongshan Taiyangcheng Yihua Department Store Limited*	PRC, 9 November 2012 limited liability company	RMB1,000,000	Department store operations, PRC	100%
泰安益華商業有限公司 Tai'an Yihua Commercial Limited*	PRC, 10 December 2012 limited liability company	RMB1,000,000	Department store operations, PRC	100%
英德市益華百貨有限公司 Yingde Yihua Department Store Limited*	PRC, 11 December 2012 limited liability company	RMB1,000,000	Department store operations, RPC	100%
陽江市益華百貨有限公司 Yangjiang Yihua Department Store Limited*	PRC, 28 January 2014 limited liability company	RMB5,000,000	Department store operations, PRC	100%
陽江市益華世家家居有限公司 Yangjiang Yihua Shijia Jiaju Limited*	PRC, 6 May 2013 limited liability company	RMB5,000,000	Furniture store operations, PRC	100%

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38 SUBSIDIARIES (CONTINUED)

Name of the company	Country/date of incorporation/ establishment and kind of legal entity	Issued/ registered and paid up capital	Principal activities and place of operations	Interest held
Subsidiaries – Incorporated in the PRC and indirectly owned (continued)				
恩平市益華百貨有限公司 Enping Yihua Department Store Limited*	PRC, 16 April 2014 limited liability company	RMB5,000,000	Department store operations, PRC	100%
肇慶市益華購物廣場有限公司 Zhaoqing Yihua Plaza Limited*	RRC, 3 August 2015 limited liability company	RMB1,000,000	Department store operations, PRC	100%
廣東益華跨電商業有限公司 Guangdong Yihua Cross-Border Commerce Limited*	PRC, 26 May 2015 limited liability company	RMB10,000,000	E-commerce, PRC	100%
廣東益華跨電商業中山有限公司 Guangdong Yihua Zhongshan Cross-Border Commerce Limited*	PRC, 10 June 2015 limited liability company	RMB10,000,000	E-commerce, PRC	100%
江門市益華跨電商業有限公司 Jiangmen Yihua Cross-Border Commerce Limited*	PRC, 17 July 2015 limited liability company	RMB10,000,000	E-commerce, PRC	100%
廣東益華商業發展有限公司 Guangdong Yihua Commerce Limited*	PRC, 15 December 2015 limited liability company	RMB10,000,000	Department store operations, PRC	100%
中山益華萬果商貿有限公司 Yihua Wanguo Commerce Limited*	PRC, 27 July 2015 limited liability company	RMB5,000,000	Department store operations, PRC	100%
中山市南朗益華購物廣場有限公司 Zhongshan Nanlang Yihua Plaza Limited*	PRC, 1 June 2015 limited liability company	RMB1,000,000	Department store operations, PRC	100%
中山益華購物廣場管理發展有限公司 Zhongshan Yihua Plaza Managment and Development Co., Ltd*	PRC, 19 January 2016 limited liability company	RMB5,000,000	Department store operations, PRC	100%

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38 SUBSIDIARIES (CONTINUED)

Name of the company	Country/date of incorporation/ establishment and kind of legal entity	Issued/ registered and paid up capital	Principal activities and place of operations	Interest held
Subsidiaries – Incorporated in the PRC and indirectly owned (continued)				
中山益華世家科技有限公司 Zhongshan Yihuashijia Technology Co., Ltd*	PRC, 19 January 2016 limited liability company	RMB5,000,000	Department store operations, PRC	70%
廣東益高蔬果食品進出口有限公司 Guangdong Yigao Vegetable & Fruit Import and Export Co., Ltd*	PRC, 14 April 2016 limited liability company	RMB10,000,000	Vegetables and fruits store operations, PRC	51%
廣東益華新果園商業有限公司 Guangdong Yihua Fruiterers Commerce Limited*	PRC, 9 March 2016 limited liability company	RMB10,000,000	Vegetables and fruits store operations, PRC	100%
恩平市康盛酒店管理有限公司 Enping Kangsheng Hotel Management Company Limited*	PRC, 11 July 2012 limited liability company	RMB153,000,000	Property investment, PRC	100%
肇慶市華萊置業發展有限公司 Zhaoqing Hualai Property Development Company Limited*	PRC, 29 June 2005 limited liability company	RMB30,000,000	Property development, PRC	100%
肇慶益華商業投資有限公司 Zhaoqing Yihua Commerce Investment Co., Ltd*	PRC, 25 June 2016 limited liability company	RMB5,000,000	Investment holding, PRC	100%

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

39 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

	Note	As at 31 December 2016	2015
Non-current assets			
Investment in subsidiaries		**28,276**	28,000
Amounts due from subsidiaries		**89,124**	97,511
		117,400	125,511
Current assets			
Prepayments and other receivables		**1,896**	3,471
Amounts due from an associate		**10,665**	–
Amounts due from subsidiaries		**63,000**	42,346
Cash and cash equivalents		**21,839**	22,082
		97,400	67,899
Total assets		**214,800**	193,410
Equity attributable to equity holders of the Company			
Share capital		**3,925**	3,840
Other reserves	(a)	**152,034**	166,520
Accumulated losses	(b)	**(20,000)**	(10,355)
Total equity		**135,959**	160,005
Current liabilities			
Other payables		**15,313**	251
Borrowings		**35,655**	–
		50,968	251
Non-current liabilities			
Borrowings		**27,873**	33,154
Total liabilities		**78,841**	33,405
Total equity and liabilities		**214,800**	193,410

The balance sheet of the Company was approved by the Board of Directors on 30 March 2017 and was signed on its behalf.

Fan Xinpei — *Executive Director*

Su Weibing — *Executive Director*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

39 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

(a) Movement of other reserves

	Share premium	Capital reserve	Total
At 1 January 2015	85,499	28,000	113,499
Issue of 2015 Bonus Shares	(710)	–	(710)
Issue of new shares	82,142	–	82,142
Dividend distributed	(28,411)	–	(28,411)
At 31 December 2015	138,520	28,000	166,520
At 1 January 2016	138,520	28,000	166,520
Issue of shares upon 2015 Scrip Dividend Scheme	(85)	–	(85)
Dividend distributed	(14,401)	–	(14,401)
At 31 December 2016	124,034	28,000	152,034

(b) Movement of accumulated losses

	Year ended 31 December	
	2016	2015
At the beginning of the year	**(10,355)**	(5,530)
Loss for the year	**(9,645)**	(4,825)
At the end of the year	**(20,000)**	(10,355)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

40 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

The remuneration of every director and the chief executive is set out below:

For the year ended 31 December 2016:

Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking:

	Fees	Basic salaries	Housing funds	Discretionary bonuses	Employer's contribution to social insurance and other benefits	Total
Executive directors						
Mr. Fan Xinpei (Note (i))	–	1,481	–	–	–	1,481
Mr. Lin Guangzheng	–	803	13	–	66	882
Mr. Su Weibing	–	822	13	–	96	931
Mr. Chen Jianren (Note (i))	–	1,300	–	–	30	1,330
Mr. Chen Zhengtao (Note (ii)))	–	795	12	–	–	807
Mr. Leung Wai Kwan (Note (iii))	–	411	–	–	–	411
Non-executive director						
Mr. Chen Daren	–	61	–	–	–	61
Independent non-executive directors						
Mr. Sun Hong	81	–	–	–	–	81
Mr. Xu Yinzhou	81	–	–	–	–	81
Ms. Hung Wan Fong, Joanne (Note (iv))	54	–	–	–	–	54
Ms. Lai Pou Lam, Mina (Note (v))	30	–	–	–	–	30
	246	5,673	38	–	192	6,149

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

40 BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(a) Directors' emoluments (continued)

For the year ended 31 December 2015:

Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking:

	Fees	Basic salaries	Housing funds	Discretionary bonuses	Employer's contribution to social insurance and other benefits	Total
Executive directors						
Mr. Fan Xinpei (Note (i))	–	1,417	3	55	5	1,480
Mr. Lin Guangzheng	–	788	12	25	61	886
Mr. Su Weibing	–	1,050	12	25	61	1,148
Mr. Chen Jianren (Note (i))	–	1,300	–	–	–	1,300
Mr. Chen Zhengtao (Note (ii))	–	516	–	–	–	516
Non-executive directors						
Mr. Chen Daren	–	60	–	–	–	60
Mr. Lu Hanxing (Note (vi))	–	20	–	–	–	20
Independent non-executive directors						
Mr. Sun Hong	81	–	–	–	–	81
Mr. Xu Yinzhou	81	–	–	–	–	81
Mr. Leung Wai Kwan (Note (iii))	96	–	–	–	–	96
	258	5,151	27	105	127	5,668

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

40 BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(a) Directors' emoluments (continued)

Note i: Mr. Fan Xinpei is the chief executive officer of the Group and Mr. Chen Jianren is the chairman of the Group.

Note ii: Mr. Chen Zhengtao was appointed as executive director on 4 May 2015.

Note iii: Mr. Leung Wai Kwan was re-designated as executive director on 20 June 2016.

Note iv: Ms. Hung Wan Fong, Joanne was appointed as independent non-executive director on 20 June 2016.

Note v: Ms. Lai Pou Lam, Mina was appointed as independent non-executive Director on 19 September 2016.

Note vi: Mr. Lu Hanxing retired from non-executive director from 4 May 2015.

(b) Director's retirement benefits and termination benefits

None of the directors received or will receive any retirement benefits or termination benefits during the year (2015: Nil).

(c) Consideration provided to third parties for making available directors' services

During the year, the Company did not pay consideration to any third parties for making available directors' services (2015: Nil).

(d) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

As at 31 December 2016, there is no loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors.

(e) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Company's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2015: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in RMB thousands unless otherwise stated)

41 EVENTS AFTER THE BALANCE SHEET DATE

Save as disclosed elsewhere in this report, the following significant events took place subsequent to 31 December 2016:

(a) On 10 March 2017, the Group entered into a memorandum of cooperation ("**MOC**") with a financial institution which has agreed in principle to provide uncommitted five-year borrowing facilities to the extent of RMB600,000,000 to the Group to finance the aforementioned Development Projects of which RMB350,000,000 could be drawn in year 2017. Such banking facilities will be made available provided that certain conditions are met which include pledging of the shares of the Company held by Mr. Chen Daren, a director of the Company; pledging of certain properties of the Group, provision of corporate guarantees by certain subsidiaries of the associate of the Group, and provision of personal guarantees by certain directors of the Company and certain key management of the associated company together with their spouses.

(b) On 29 March 2017, the Group obtained uncommitted revolving bank loan facilities of HK$35,000,000 (equivalent to RMB31,150,000) from a bank. Such facilities are secured by the corporate guarantees provided by certain companies within the Group and are pledged by certain properties of the Group.

(c) On 23 December 2016, a wholly-owned subsidiary of the Company sgined a memorandum of understanding (the "**MOU**") with one of the existing shareholders (the "**Seller**") of Zhongshan Fusha International Trade Plaza Company Limited (the "**Target Company**") to acquire 75% of equity interests in the Target Company (the "**Transaction**"). An amount of RMB8,950,000 was paid by the Group to the Seller as refundable acquisition deposit as at 31 December 2016. Pursuant to the terms of the MOU, certain conditions and procedures have to be fulfilled before the completion of the Transaction. These include, amongst other things, obtaining approval by the shareholders of the Company in the extraordinary general meeting. The MOU will expire if the equity transfer agreement (the "**Equity Transfer Agreement**") has not been entered into before 31 March 2017 or at a later day agreed by both parties. On 29 March 2017, both parties agreed to delay the Transaction until 30 June 2017.

(d) The Group leased certain properties from companies controlled by Mr. Chen Daren, a director of the Company or companies jointly controlled by Mr. Chen Daren (the "**Landlords**") under certain non-cancellable operating lease agreements with future lease payments payable in the coming twelve months amounting to approximately RMB66,220,000. On 24 March 2017, the Landlords provided undertakings to the Group and agreed that the Group can delay the payments of the rental expenses and property management fees for the year 2017 until the Group has adequate financial resources to repay.