Hengdeli Holdings Limited
亨 得 利 控 股 有 限 公 司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 3389)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

FINANCIAL HIGHLIGHTS

	For the year ended 31 December		
	2016	2015 (Restated)	Change
	RMB'000	*RMB'000*	*(%)*
Continuing Operations:			
Turnover	**11,323,378**	11,792,861	-4.0
Gross profit margin	**21.4%**	22.4%	-100 bps
Profit for the year from continuing operations	**48,482**	231,993	-79.1
Discontinued Operations (see note 3):			
Loss for the year from discontinued operations	**(324,020)**	(41,829)	-674.6
(Loss)/profit attributable to equity shareholders	**(321,378)**	144,868	-321.8

The board of directors (the "Board") of Hengdeli Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to the "Group") for the year ended 31 December 2016 (hereinafter refer to as the "year" or "year under review"), which have been reviewed by the audit committee of the Company.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2016
(Expressed in Renminbi)

	Note	2016 RMB'000	2015 (Restated) RMB'000
Continuing operations			
Revenue	3	**11,323,378**	11,792,861
Cost of sales		**(8,904,648)**	(9,145,627)
Gross profit		**2,418,730**	2,647,234
Other revenue	4	**129,722**	98,329
Other net loss	4	**(71,830)**	(110,023)
Distribution costs		**(1,659,738)**	(1,710,414)
Administrative expenses		**(342,061)**	(319,677)
Other operating expenses		**(169)**	(13,970)
Profit from operations		**474,654**	591,479
Finance costs	5(a)	**(202,923)**	(205,765)
Share of profits of joint ventures		**1,617**	411
Profit before taxation	5	**273,348**	386,125
Income tax	6(a)	**(224,866)**	(154,132)
Profit for the year from continuing operations		**48,482**	231,993
Discontinued operations			
Loss for the year from discontinued operations	16	**(324,020)**	(41,829)
(Loss)/Profit for the year		**(275,538)**	190,164
Attributable to:			
Equity shareholders of the Company			
– continuing operations		**(10,134)**	184,255
– discontinued operations		**(311,244)**	(39,387)
		(321,378)	144,868
Non-controlling interests			
– continuing operations		**58,616**	47,738
– discontinued operations		**(12,776)**	(2,442)
		45,840	45,296
(Loss)/profit for the year		**(275,538)**	190,164
Basic and diluted (losses)/earnings per share	8		
– continuing operations		**RMB(0.002)**	RMB0.038
– discontinued operations		**RMB(0.065)**	RMB(0.008)
		RMB(0.067)	RMB0.030

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016
(Expressed in Renminbi)

	Note	**2016**	2015 (Restated)
		RMB'000	*RMB'000*
(Loss)/profit for the year		**(275,538)**	190,164
Other comprehensive income for the year			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale securities: net movement in the fair value reserve		**129,923**	(1,215)
Exchange differences on translation of overseas subsidiaries' financial statements			
– continuing operations		**(93,773)**	(127,967)
– discontinued operations		**17,322**	17,145
		53,472	(112,037)
Items that will not be reclassified subsequently to profit or loss:			
Exchange differences on translation of the Company's financial statements		**86,971**	100,350
Total comprehensive income for the year		**(135,095)**	178,477
Attributable to:			
Equity shareholders of the Company			
– continuing operations		**112,987**	155,423
– discontinued operations		**(301,604)**	(22,242)
		(188,617)	133,181
Non-controlling interests			
– continuing operations		**58,616**	47,738
– discontinued operations		**(5,094)**	(2,442)
		53,522	45,296
Total comprehensive income for the year		**(135,095)**	178,477

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

(Expressed in Renminbi)

		31 December 2016		31 December 2015	
	Note	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*
Non-current assets					
Investment properties			**37,311**		39,298
Other property, plant and equipment			**1,561,199**		1,465,261
			1,598,510		1,504,559
Intangible assets			**73,758**		79,756
Goodwill	*9*		**455,827**		770,222
Interest in joint ventures			**58,323**		58,200
Other investments			**200,903**		63,487
Prepayment and deposits			**17,291**		–
Deferred tax assets			**139,806**		106,638
			2,544,418		2,582,862
Current assets					
Inventories	*10*	**5,607,412**		6,376,350	
Trade and other receivables	*12*	**1,366,222**		1,329,175	
Cash and cash equivalents	*11*	**2,791,572**		1,910,351	
		9,765,206		9,615,876	
Assets classified as held for sale	*16*	**273,494**		–	
		10,038,700		9,615,876	
Current liabilities					
Trade and other payables	*13*	**1,623,890**		1,962,269	
Bank loans	*14*	**2,641,387**		704,374	
Senior notes	*15*	**709,083**		–	
Current taxation		**32,196**		20,778	
		5,006,556		2,687,421	
Liabilities classified as held for sale	*16*	**32,570**		–	
		5,039,126		2,687,421	
Net current assets			**4,999,574**		6,928,455
Total assets less current liabilities			**7,543,992**		9,511,317

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
At 31 December 2016
(Expressed in Renminbi)

		31 December 2016		31 December 2015	
	Note	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*
Non-current liabilities					
Bank loans	*14*	**243,949**		552,468	
Long-term payables		**–**		24,351	
Senior notes	*15*	**790,116**		2,288,436	
Deferred tax liabilities		**143,478**		105,705	
			1,177,543		2,970,960
NET ASSETS			**6,366,449**		6,540,357
CAPITAL AND RESERVES					
Share capital	*7(b)*		**22,841**		22,841
Reserves			**5,723,456**		5,907,946
Total equity attributable to equity shareholders of the Company			**5,746,297**		5,930,787
Non-controlling interests			**620,152**		609,570
TOTAL EQUITY			**6,366,449**		6,540,357

Notes:

1. **BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS**

The consolidated financial statements for the year ended 31 December 2016 comprise the Group and the Group's interest in joint ventures.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets are stated at their fair value as explained in the accounting policies set out below:

– financial instruments classified as available-for-sale

Non-current assets and disposal group held for sale are stated at the lowering of carrying amount and fair value less costs to sell.

The preparation of financial statements in conformity with Hong Kong Financial Reporting Standards ("HKFRSs") requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

2. **CHANGES IN ACCOUNTING POLICIES**

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued the following amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company.

- Amendments to HKAS 1, *Disclosure initiative*
- Amendments to HKFRS 10, HKFRS 12 and HKAS 28, *Investment entities: Applying the consolidation exception*
- Amendments to HKFRS 11, *Accounting for acquisitions of interests in joint operations*
- Amendments to HKAS 16 and HKAS 38, *Clarification of acceptable methods of depreciation and amortization*
- HKFRS 14, *Regulatory deferral accounts*
- Annual Improvements to HKFRSs 2012-2014 Cycle

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are retail and wholesale of watches and jewellery.

Turnover represents the sales value of goods sold to customers, net of value added tax and is after deduction of any sales discounts and returns.

The Group's customer base is diversified and includes no customer with whom transactions have exceeded 10% of the Group's revenues.

Further details regarding the Group's principal activities are below:

(b) Segment Reporting

The Group manages its businesses by divisions, which are organised by a mixture of both business lines (products and services) and geography (mainly in Mainland China, Hong Kong and Taiwan).

In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purpose of resource allocation and performance assessment, the Group has presented the following five reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Retail segments (includes three segments for watches retail in Mainland China, Taiwan and Hong Kong and one segment Harvest Max Holdings Limited ("Harvest Max") for jewellery and watches retail in Hong Kong): given the importance of the retail division to the Group, the Group's retail business is segregated further into four reportable segments on a geographical and products and services basis, as the divisional managers for each of these regions report directly to the senior executive team. All segments primarily derive their retail revenue through their own retail network. As disclosed in note 16, the segment Harvest Max is classified as a discontinued operation.

- Wholesale segment: this segment distributes numerous world renowned brand watches in Mainland China.

Discontinued operation – Harvest Max

The operation results of Harvest Max continued to deteriorate in 2016. During the fourth quarter of 2016, the Group's executive directors have approved a plan to dispose of Harvest Max. Subsequent to the approval of the disposal plan, management of the Group are actively seeking opportunities to sell either the equity interests or assets of Harvest Max and considered that the disposal of Harvest Max would be expected to qualify for recognition as a completed sale within one year from the date of classification. Hence, the assets and liabilities of Harvest Max were classified as held for sale and a single amount in the statements of profit or loss was presented in respect of Harvest Max's net loss for the year (with comparative figures re-presented).

As disclosed below, the Group is currently seeking a sale of Harvest Max together with a number of its PRC subsidiaries to its major shareholder and it is expected that, if the sale is not approved by its independent shareholders, the Group will continue to actively search for buyers and expect to dispose of Harvest Max within 2017.

Very substantial disposal – Harvest Max and a number of mainland PRC subsidiaries

In addition to the disposal plan of Harvest Max, pursuant to an announcement dated 30 December 2016, the Company is contemplating a sale of its equity interests in Shanghai Xinyu Fine Watch Services Co., Ltd. and its subsidiaries ("Xinyu Group") and Harvest Max (collectively, the "Disposal Group").

Xinyu Group comprises the Group's mainland China retail segment, wholesale segment and watch repair and maintenance business (collectively, the "Mainland China Watch Business"). As the scale of Mainland China Watch Business is substantial to the Group, the proposed sale of the equity interests in the Disposal Group constitutes a very substantial disposal ("VSD") transaction and is subject to independent shareholders' approval.

Currently, the VSD transaction is still pending for independent shareholders' approval. Given that the shareholdings of the Company are diversified, it is hard to predict with a high degree of certainty whether or not the shareholders will approve this transaction. Therefore, directors of the Group consider the VSD transaction does not meet the 'highly probable' criteria as set out in IFRS5, *Non-current Assets Held for Sale and Discontinued Operations* and accordingly, the assets and liabilities relating to the Mainland China Watch Business are not classified as held for sale in the consolidated statement of financial position as at 31 December 2016.

(i) Segment results and assets

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the profit or loss and assets attributable to each reportable segment on the following basis:

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments. However, other than reporting inter-segment sales, assistance provided by one segment to another, including sharing of assets, is not measured.

The measure used for reporting segment profit is "gross profit".

Segment assets represent inventories only, without eliminating the unrealised inter-segment profits.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below.

	Continuing operations												Discontinued operations			
	Retail						Wholesale		All others		Subtotal		Harvest Max		Total	
	Mainland China		Hong Kong		Taiwan											
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Revenue from external customers	**5,608,866**	5,786,672	**1,770,824**	1,898,540	**167,152**	178,279	**3,193,651**	3,389,379	**582,885**	539,991	**11,323,378**	11,792,861	**1,010,773**	1,509,863	**12,334,151**	13,302,724
Inter-segment revenue	**–**	–	**–**	–	**–**	–	**4,207,550**	3,826,708	**45,031**	32,398	**4,252,581**	3,859,106	**–**	–	**4,252,581**	3,859,106
Reportable segment revenue	**5,608,866**	5,786,672	**1,770,824**	1,898,540	**167,152**	178,279	**7,401,201**	7,216,087	**627,916**	572,389	**15,575,959**	15,651,967	**1,010,773**	1,509,863	**16,586,732**	17,161,830
Reportable segment gross profit	**1,606,349**	1,693,648	**256,707**	358,979	**44,131**	43,934	**352,613**	387,925	**158,930**	162,748	**2,418,730**	2,647,234	**872,873**	1,253,313	**3,291,603**	3,900,547
Reportable segment assets	**2,560,035**	2,897,438	**1,275,659**	1,451,378	**172,111**	180,223	**1,532,301**	1,646,956	**111,159**	136,912	**5,651,265**	6,312,907	**82,513**	103,720	**5,733,778**	6,416,627

Harvest Max is mainly engaged in jewellery and watches retail business in Hong Kong. During the year ended 31 December 2016, an impairment loss of RMB271,788,000 was recognised to fully provide against the goodwill allocated to this segment (note 9).

Results and assets of the segment below the quantitative thresholds ("All others") are mainly attributable to a watch accessories manufacture business and a watch repairing and maintenance business.

(ii) Reconciliations of reportable segment revenues, profit or loss and assets

	Continuing operations		Discontinued operations		Total	
	2016	2015	**2016**	2015	**2016**	2015
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Revenue						
Total revenues for reportable segments	**14,948,043**	15,079,578	**1,010,773**	1,509,863	**15,958,816**	16,589,441
Revenue for other segments	**627,916**	572,389	**–**	–	**627,916**	572,389
Elimination of inter-segment revenue	**(4,252,581)**	(3,859,106)	**–**	–	**(4,252,581)**	(3,859,106)
Consolidated revenue	**11,323,378**	11,792,861	**1,010,773**	1,509,863	**12,334,151**	13,302,724

	Continuing operations		Discontinued operations		Total	
	2016	2015	**2016**	2015	**2016**	2015
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Profit						
Total gross profit for reportable segments	**2,259,800**	2,484,486	**872,873**	1,253,313	**3,132,673**	3,737,799
Profit for other segments	**158,930**	162,748	**–**	–	**158,930**	162,748
	2,418,730	2,647,234	**872,873**	1,253,313	**3,291,603**	3,900,547
Other revenue	**129,722**	98,329	**994**	3,222	**130,716**	101,551
Other net loss	**(71,830)**	(110,023)	**(271,945)**	(31,931)	**(343,775)**	(141,954)
Distribution costs	**(1,659,738)**	(1,710,414)	**(872,292)**	(1,253,490)	**(2,532,030)**	(2,963,904)
Administrative expenses	**(342,061)**	(319,677)	**(11,323)**	(9,787)	**(353,384)**	(329,464)
Other operating expenses	**(169)**	(13,970)	**(42,151)**	–	**(42,320)**	(13,970)
Finance costs	**(202,923)**	(205,765)	**–**	–	**(202,923)**	(205,765)
Share of profits of joint ventures	**1,617**	411	**–**	–	**1,617**	411
Consolidated profit/(loss) before taxation	**273,348**	386,125	**(323,844)**	(38,673)	**(50,496)**	347,452

	2016	2015
Assets	***RMB'000***	*RMB'000*
Total assets for reportable segments (inventories)	**5,622,619**	6,279,715
Assets for All others (inventories)	**111,159**	136,912
Elimination of unrealised inter-segment profit	**(43,853)**	(40,277)
	5,689,925	6,376,350
Trade and other receivables	**1,414,773**	1,329,175
Cash and cash equivalents	**2,942,229**	1,910,351
Tax recoverable	**3,575**	–
Investment properties	**37,311**	39,298
Other property, plant and equipment	**1,564,100**	1,465,261
Intangible assets	**73,758**	79,756
Goodwill	**455,827**	770,222
Interest in joint ventures	**58,323**	58,200
Other investments	**200,903**	63,487
Deferred tax assets	**142,394**	106,638
Consolidated total assets	**12,583,118**	12,198,738

(iii) Geographic information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's investment properties, other property, plant and equipment, intangible assets, goodwill, interests in joint ventures and other investments ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, the location of the operation to which they are allocated, in the case of intangible assets and goodwill, and the location of operations, in the case of interests in joint ventures and other investments.

The Group's business is mainly managed in three principal economic environments, Mainland China, Hong Kong and Taiwan.

	2016	2015
		(Restated)
Revenue from external customers	***RMB'000***	*RMB'000*
Mainland China	**9,385,402**	9,583,577
Hong Kong and Macau	**1,770,824**	2,031,005
Hong Kong (discontinued operations)	**1,010,773**	1,509,863
Taiwan	**167,152**	178,279
Total	**12,334,151**	13,302,724

	2016	2015
Specified non-current assets	***RMB'000***	*RMB'000*
Mainland China	**1,713,812**	1,767,067
Hong Kong	**549,021**	668,774
Taiwan	**141,779**	40,383
Total	**2,404,612**	2,476,224

4. OTHER REVENUE AND NET LOSS

Other revenue	2016 *RMB'000*	2015 (Restated) *RMB'000*
Continuing operations		
Interest income	**15,960**	15,860
Government grants	**43,490**	30,644
Dividend income from unlisted investments	**25,554**	25,443
Rental income	**9,615**	7,242
Others	**35,103**	19,140
	129,722	98,329
Discontinued operations		
Others	**994**	3,222
	130,716	101,551

Other net loss	2016 *RMB'000*	2015 (Restated) *RMB'000*
Continuing operations		
Impairment of goodwill *(note 9)*	**(42,607)**	(13,111)
Impairment loss on available-for-sale securities	**–**	(63,284)
Net foreign exchange loss *(note 5(c))*	**(11,381)**	(33,632)
Net (loss)/gain on disposal of fixed assets	**(1,333)**	213
Net (loss)/gain on repurchase of senior notes *(note 15)*	**(16,509)**	833
Loss on disposal of subsidiaries	**–**	(1,042)
	(71,830)	(110,023)
Discontinued operations		
Impairment of goodwill *(note 9)*	**(271,788)**	(31,845)
Net foreign exchange loss *(note 5(c))*	**–**	(86)
Net loss on disposal of fixed assets	**(157)**	–
	(271,945)	(31,931)
	(343,775)	(141,954)

5. PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation is arrived at after (crediting)/charging:

(a) Finance costs

	2016	2015
		(Restated)
	RMB'000	*RMB'000*
Continuing operations		
Interest on bank loans wholly repayable within five years	**65,840**	41,004
Interest on loans over five years	**105**	118
Interest on convertible bonds	**–**	2,960
Interest on senior notes *(note 15)*	**122,476**	145,246
Bank charges	**14,502**	16,437
	202,923	205,765

(b) Staff costs

	2016	2015
		(Restated)
	RMB'000	*RMB'000*
Continuing operations		
Salaries, wages and other benefits	**627,068**	621,952
Contributions to defined contribution retirement plans	**95,164**	100,470
	722,232	722,422
Discontinued operations		
Salaries, wages and other benefits	**44,026**	78,448
Contributions to defined contribution retirement plans	**2,119**	3,618
	46,145	82,066

(c) Other items

	2016	2015 (Restated)
	RMB'000	*RMB'000*
Continuing operations		
Amortisation of intangible assets	**10,404**	11,829
Depreciation of fixed assets	**139,143**	149,527
Recognition of impairment losses		
– trade and other receivables	**169**	15,095
– available-for-sale securities	**–**	63,284
– goodwill *(note 9)*	**42,607**	13,111
	42,776	91,490
Net foreign exchange loss	**(11,381)**	(33,632)
Operating lease charges in respect of properties		
– minimum lease payments	**264,483**	282,661
– contingent rents	**438,261**	461,623
Auditors' remuneration	**3,510**	3,390
Rental income from investment properties	**4,286**	4,254
Cost of inventories[#]	**8,904,648**	9,145,627

[#] Cost of inventories includes RMB94,618,000 (2015: RMB69,173,000) relating to staff costs, depreciation and amortisation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in note 5(b) for each type of expenses.

	2016	2015
		(Restated)
	RMB'000	*RMB'000*
Discontinued operations		
Depreciation of fixed assets	**1,269**	7,996
Impairment losses		
– prepayments and deposits#	**42,151**	–
– goodwill *(note 9)*	**271,788**	31,845
	313,939	31,845
Net foreign exchange loss	**–**	(86)
Operating lease charges in respect of properties		
– minimum lease payments	**14,433**	18,589
	14,433	18,589
Auditors' remuneration	**590**	590
Cost of inventories	**137,900**	256,550

Harvest Max used to place deposits with a number of travel agency companies in Hong Kong. As disclosed in note 9, the number of mainland tourists visiting Hong Kong continued to decrease in 2016 and certain travel agency companies ceased cooperating with the Group. Whilst the Group has made various efforts, including taking legal action, to recover the deposits, it is estimated that certain deposits due from the travel agency companies may not be collectible. An impairment provision of RMB42,151,000 was made against the doubtful deposit balances as at 31 December 2016.

6. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Continuing operations

(i) Taxation in the consolidated statement of profit or loss represents:

	2016 *RMB'000*	2015 *RMB'000*
Current tax		
Provision for Hong Kong profits tax for the year	**10,560**	26,562
Provision for Mainland China income tax for the year	**179,212**	148,575
Provision for Taiwan and Macau income tax for the year	**176**	250
Under-provision in respect of prior years	**3,421**	2,183
Sub-total	**193,369**	177,570
Deferred tax		
Origination and reversal of temporary differences	**31,497**	(23,438)
Sub-total	**31,497**	(23,438)
Total	**224,866**	154,132

(ii) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2016 *RMB'000*	2015 *RMB'000*
Profit before taxation	**273,348**	386,125
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	**121,771**	142,359
Tax effect of non-deductible revenue	**(7,550)**	(6,357)
Tax effect of non-deductible expenses	**5,873**	3,459
Under-provision in respect of prior years	**3,421**	2,183
Withholding tax on profit distributions#	**80,000**	–
Effect of tax losses not recognised	**21,351**	12,488
Actual tax expense	**224,866**	154,132

During the year ended 31 December 2016, due to fluctuations of the foreign currency exchange rate in RMB against USD and HKD, the Group determined to require certain PRC subsidiaries of the Company to distribute cash dividend of RMB1.6 billion to overseas subsidiaries of the Group. On 1 November 2016, cash dividends of RMB478 million were declared and the corresponding withholding tax of RMB23.9 million were paid by the end of 2016. As at 31 December 2016, a deferred tax liability of RMB56.1 million has been recognised on the cash dividends of RMB1,122 million which is planned to be declared and paid in 2017.

(b) Discontinued operations

(i) Taxation in the consolidated statement of profit or loss represents:

	2016	2015
	RMB'000	*RMB'000*
Current tax		
Provision for Hong Kong profits tax for the year	**–**	4,254
Over-provision in respect of prior years	**(31)**	(156)
Sub-total	**(31)**	4,098
Deferred tax		
Origination and reversal of temporary differences	**207**	(942)
Sub-total	**207**	(942)
Total	**176**	3,156

(ii) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2016	2015
	RMB'000	*RMB'000*
Loss before taxation	**(323,844)**	(38,673)
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	**(8,589)**	(1,127)
Tax effect of non-taxable income	**(4)**	(4)
Tax effect of non-deductible expenses	**153**	7
Over-provision in respect of prior years	**(31)**	(156)
Effect of tax losses not recognised	**8,647**	4,436
Actual tax expense	**176**	3,156

Pursuant to the rules and regulations of the Cayman Islands, the Company is exempted from income tax in the Cayman Islands. In addition, subsidiaries located in jurisdictions other than Hong Kong, Mainland China, Taiwan and Macau, are not subject to any income tax in these jurisdictions.

The provision for Hong Kong profits tax for 2016 is calculated at 16.5% (2015: 16.5%) of the estimated assessable profits for the year.

The applicable income tax rate of the Group's Mainland China subsidiaries is 25% in 2016 (2015: 25%).

The provision for Taiwan income tax for 2016 is calculated at 17% (2015: 17%) of the estimated assessable profits for the year end.

The provision for Macau income tax is calculated based on progressive rates up to 12% and the assessable profits for the year ended 31 December 2016 (2015: 12%).

7. CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year

	2016	2015
	RMB'000	*RMB'000*
Final dividend proposed after the end of the reporting date of RMBNil per ordinary share (2015: RMBNil per ordinary share)	**–**	–

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2016	2015
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year of RMBNil per share (2015: RMB0.032 per share)	**–**	153,100

(b) Share capital

(i) Authorised and issued share capital

	2016		2015	
	Number of shares	***Amount HKD***	*Number of shares*	*Amount HKD*
Authorised:				
Ordinary shares of HKD0.005 each	**10,000,000,000**	**50,000,000**	10,000,000,000	50,000,000

	2016		2015	
	Number of shares	***Amount HKD***	*Number of shares*	*Amount HKD*
Issued and fully paid:				
At 1 January	**4,779,810,959**	**23,899,054**	4,799,130,959	23,995,654
Share repurchased	**–**	**–**	(19,320,000)	(96,600)
At 31 December	**4,779,810,959**	**23,899,054**	4,779,810,959	23,899,054
		equivalent		equivalent
		RMB'000		*RMB'000*
		22,841		22,841

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(ii) Terms of unexpired and unexercised share options at the end of the reporting period

Exercise period	Exercise price	2016 Number	2015 Number
30 September 2014 to 29 September 2016	HKD2.66	–	385,000

Each option entitles the holder to subscribe for one ordinary share in the Company.

8. (LOSSES)/EARNINGS PER SHARE

(a) Basic (losses)/earnings per share

The calculation of basic (losses)/earnings per share is based on the (loss)/profit attributable to equity shareholders of the Company of RMB(321,378,000) (2015: RMB144,868,000) and the weighted average of 4,776,144,537 ordinary shares (2015: 4,779,400,342 ordinary shares) in issue during the year, calculated as follows:

(i) Weighted average number of ordinary shares

	2016	2015
Issued ordinary shares at 1 January	**4,779,810,959**	4,799,130,959
Effect of shares repurchased	**–**	(16,676,373)
Effect of shares under share award scheme	**(3,666,422)**	(3,054,244)
Weighted average number of ordinary shares at 31 December	**4,776,144,537**	4,779,400,342

(ii) Consolidated (loss)/profit attributable to ordinary equity of the Company

	2016 *RMB'000*	2015 *RMB'000*
(Loss)/profit attributable to equity shareholders		
– continuing operations	**(10,134)**	184,255
– discontinued operations	**(311,244)**	(39,387)
	(321,378)	144,868

(iii) (Losses)/earnings per share

	2016	2015
Basic (losses)/earnings per share		
– continuing operations	**RMB(0.002)**	RMB0.038
– discontinued operations	**RMB(0.065)**	RMB(0.008)
	RMB(0.067)	RMB0.030

(b) Diluted (losses)/earnings per share

The calculation of diluted (losses)/earnings per share is based on the (loss)/profit attributable to equity shareholders of the Company (diluted) of RMB(321,378,000) (2015: RMB144,868,000) and the weighted average number of ordinary shares outstanding of 4,776,144,537 shares (2015: 4,779,400,342 shares).

The calculation of diluted (losses)/earnings per share amount for the year ended 31 December 2016 and 2015 did not include the potential effects of the deemed issue of shares under the Company's shares option scheme for nil consideration into ordinary shares as it has anti-dilutive effect on the basic (losses)/earnings per share amount during the year.

9. GOODWILL

	RMB'000
Cost:	
At 1 January 2015	840,521
Additions	12,657
At 31 December 2015 and 1 January 2016	853,178
Reclassification to assets classified as held for sale *(note 16)*	(303,633)
At 31 December 2016	549,545
Accumulated impairment losses:	
At 1 January 2015	(38,000)
Impairment charged during the year	(44,956)
At 31 December 2015 and 1 January 2016	(82,956)
Impairment charged during the year	(314,395)
Reclassification to assets classified as held for sale *(note 16)*	303,633
At 31 December 2016	(93,718)
Carrying amount:	
At 31 December 2016	455,827
At 31 December 2015	770,222

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash-generating units identified according to places of operations and reportable segments as follows:

	2016	2015
	RMB'000	*RMB'000*
Retail – Mainland China	**200,866**	243,473
Retail – Hong Kong	**171,163**	171,163
Retail – Taiwan	**22,654**	22,654
Retail – Harvest Max	**–**	271,788
All others	**61,144**	61,144
	455,827	770,222
Reclassification to assets classified as held for sale *(note 16)*	**–**	–
	455,827	770,222

Retail – Mainland China

The recoverable amounts of the cash-generating units are determined based on value-in-use calculations. The key assumptions for the value-in-use calculations are the discount rate and revenue/gross profit growth rate. The Group prepares cash flow forecasts derived from the two-year financial budgets and extrapolates cash flows for the following three to five years based on estimated annual average growth rates in sales ranging from 4.3% to 14.8% (2015: 2.6% to 14.8%), growth rates in gross profit ratio ranging from 0% to 3% (2015: 0% to 3%), and a discount rate ranging from 15% to 16.5% (2015: 15% to 16.5%). The growth rates are determined by management based on the performance of the relevant cash-generating units and their estimated future development.

As a result of the prolonged construction period of certain municipal infrastructure improvement projects, consumer traffic of certain stores in the PRC has been severely affected and the profitability of these stores for 2016 declined compared to 2015. Management estimated the recoverable amount of the cash-generating unit. As at 31 December 2016, the carrying amount of respective cash-generating unit has been reduced to its recoverable amount of approximately RMB410,817,000 and an impairment loss of RMB42,607,000 was recognised in respect of the cash-generating unit which has been allocated to reduce the carrying amount of the goodwill. Any adverse change in the assumptions used in the calculation of recoverable amount would result in further impairment losses.

Retail – Harvest Max

During the year ended 31 December 2015, as a result of the decrease in number of mainland tourists visiting Hong Kong, the business of Harvest Max segment was affected and an impairment loss of RMB32 million was recognised. To improve the deteriorating operating results, the Group initiated a number of activities, including i) increasing the sales mix of jewellery products, which have a higher profit margin, ii) enhancing the cooperation with certain major travel agency companies, and iii) seeking opportunities to reduce the commission fee level payable to the travel agency companies. However, during the year ended 31 December 2016, the decreasing trend of mainland tourists visiting Hong Kong continued and the depreciation of RMB against HKD further weakened the purchasing power of the mainland tourists. Harvest Max's revenue during 2016 decreased by RMB499 million or 33% as compared to 2015 and its operating results continued to deteriorate. During the fourth quarter of 2016, the Group determined to dispose of the Harvest Max business and since then, has commenced an active programme to locate a buyer. As disclosed in note 3(b), the Group is contemplating a VSD transaction and pursuant to the sales and purchase agreement dated 30 December 2016, the Group proposed the disposals of the Group's equity interests in Harvest Max and the Mainland China Watch Business at a consideration equal to their net book value at 31 December 2016, which excludes the carrying value of goodwill previously allocated to Harvest Max.

Management considered the above impairment indicators and estimated the recoverable amount of those related assets which generate cash inflows independently from other assets of the Group (the "cash-generating unit"), which is the higher of the fair value less costs of disposal and value in use. As at 31 December 2016, the carrying value of the cash-generating unit has been reduced to its recoverable amount of approximately RMB241 million and an impairment loss of RMB272 million was recognised to write down 100% of the allocated goodwill.

10. INVENTORIES

Inventories in the consolidated statement of financial position comprise:

	2016	2015
	RMB'000	*RMB'000*
Raw materials	**29,149**	45,675
Work in progress	**36,279**	36,483
Finished goods	**5,624,497**	6,294,192
	5,689,925	6,376,350
Reclassification to assets classified as held for sale *(note 16)*	**(82,513)**	–
	5,607,412	6,376,350

11. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	2016	2015
	RMB'000	*RMB'000*
Cash at bank and on hand	**2,942,229**	1,910,351
Reclassification to assets classified as held for sale *(note 16)*	**(150,657)**	–
	2,791,572	1,910,351

12. TRADE AND OTHER RECEIVABLES

		2016		2015
	Continuing Operations	**Discontinued Operations *(Note 16)***	**Total**	Total
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*
Current assets				
Trade receivables	**1,049,506**	**2,433**	**1,051,939**	977,642
Less: allowance for doubtful debts	**(18,266)**	**–**	**(18,266)**	(18,808)
	1,031,240	**2,433**	**1,033,673**	958,834
Prepayments and deposits	**138.296**	**28,827**	**167,123**	154,139
Other receivables	**195,106**	**–**	**195,106**	212,105
Amount due from joint ventures	**1,580**	**–**	**1,580**	4,097
	1,366,222	**31,260**	**1,397,482**	1,329,175
Non-current assets				
Prepayments and deposits	**17,291**	**–**	**17,291**	–
	1,383,513	**31,260**	**1,414,773**	1,329,175

All of the trade and other receivables in current assets are expected to be recovered within one year.

(a) Ageing analysis

An ageing analysis of trade receivables (net of allowance for doubtful debts) is as follows:

	2016			2015
	Continuing Operations	**Discontinued Operations** *(Note 16)*	**Total**	Total
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*
Current	**937,224**	**2,433**	**939,657**	843,761
Less than 1 month past due	**64,251**	**–**	**64,251**	95,863
1 to 3 months past due	**14,634**	**–**	**14,634**	12,763
More than 3 months but less than 12 months past due	**12,000**	**–**	**12,000**	4,367
More than 12 months past due	**3,131**	**–**	**3,131**	2,080
	94,016	**–**	**94,016**	115,073
	1,031,240	**2,433**	**1,033,673**	958,834

Trade receivables are due within 30 to 90 days from the date of billing.

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

Impairment losses on trade and other receivables are assessed and provided based on management's estimate of the specific element of the expected credit losses to be incurred, which is estimated by taking into account the credit history of the respective debtors, which include the landlords of certain in-store shops, and other current market and customer-specific conditions and a collective element of ageing and historical experience to determine whether there is objective evidence of impairment. If any such evidence exists, an impairment loss is recognised. Objective evidence of impairment includes observable data that comes to the attention of the Group about loss events such as a significant decline in the estimated future cash flow of an individual debtor or the portfolio of debtors, and significant changes in the financial condition that have an adverse effect on the debtor. If there is objective evidence of a recovery in the value of receivables which can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed.

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	2016	2015
	RMB'000	*RMB'000*
At 1 January	**18,808**	3,393
Impairment loss recognised	**5,526**	15,689
Reversal of impairment loss upon receipts	**(5,357)**	(159)
Uncollectible amounts written off	**(711)**	(115)
At 31 December	**18,266**	18,808

(c) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	2016			2015
	Continuing Operations *RMB'000*	**Discontinued Operations** *(Note 16)* *RMB'000*	**Total** *RMB'000*	Total *RMB'000*
Current	**937,224**	**2,433**	**939,657**	843,761
Less than 1 month past due	**56,571**	**–**	**56,571**	95,326
1 to 3 months past due	**13,761**	**–**	**13,761**	12,751
More than 3 months but less than 12 months past due	**7,893**	**–**	**7,893**	4,108
More than 12 months past due	**1,804**	**–**	**1,804**	1,617
	80,029	**–**	**80,029**	113,802
	1,017,253	**2,433**	**1,019,686**	957,563

Receivables that were neither past due nor impaired relating to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relating to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

13. TRADE AND OTHER PAYABLES

	2016			2015
	Continuing Operations	**Discontinued Operations** *(Note 16)*	**Total**	Total
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*
Trade payables	**1,222,392**	**11,938**	**1,234,330**	1,544,354
Other payables and accrued expenses	**354,740**	**20,543**	**375,283**	342,188
Advance receipts from customers	**46,758**	**–**	**46,758**	75,727
	1,623,890	**32,481**	**1,656,371**	1,962,269

As of the end of the reporting period, the ageing analysis of trade payables based on invoice date, is as follows:

	2016			2015
	Continuing Operations	**Discontinued Operations** *(Note 16)*	**Total**	Total
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*
Within 1 month	**888,878**	**6,904**	**895,782**	890,850
Over 1 month but less than 3 months	**309,278**	**5,034**	**314,312**	627,792
Over 3 months but less than 12 months	**12,148**	**–**	**12,148**	12,778
Over 1 year	**12,088**	**–**	**12,088**	12,934
	1,222,392	**11,938**	**1,234,330**	1,544,354

14. BANK LOANS

At 31 December 2016, the bank loans were secured as follows:

	2016	2015
	RMB'000	*RMB'000*
Bank loans within one year or on demand		
– Secured	**541**	487
– Unsecured	**2,640,846**	703,887
	2,641,387	704,374
Bank loans after one year		
– Secured	**90,095**	4,547
– Unsecured	**153,854**	547,921
	243,949	552,468
	2,885,336	1,256,842

At 31 December 2016, the secured bank loans are all drawn down under certain bank facilities secured by mortgages over certain land and buildings of the Group with an aggregate carrying value of RMB113,839,000 (2015: RMB10,253,000).

15. SENIOR NOTES

In January 2013, the Company issued 6.25% senior notes due in 2018 in the aggregate principal amount of United States Dollars("USD") 350,000,000 ("the Notes"), which are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Notes are interest-bearing at 6.25% per annum and payable semi-annually in arrears. The Notes will mature on 29 January 2018, unless redeemed earlier in accordance with the terms of the Notes. The net proceeds, after deducting the direct issuance costs, amounted to approximately USD343,969,622 (RMB equivalent: 2,158,949,000).

Pursuant to the terms of the Notes, the Notes are subject to the fulfilment of covenants relating to limitations on indebtedness and certain transactions of the Group. The Company regularly monitors its compliance with these covenants. The Group has complied with the imposed senior notes covenants for the year ended 31 December 2016.

The Company may redeem part or all of the Notes or, upon the occurrence of certain events, the Company should make an offer to purchase all outstanding portions of the Notes at a price specified in the terms of the Notes.

The movement of the Notes is set out below:

	RMB'000
As at 31 December 2014	2,173,905
Interest charged during the year	145,246
Derecognised due to repurchase by the Company during the year	(25,637)
Interest paid during the year	(134,007)
Foreign exchange loss	(1,554)
Foreign currency translation difference	130,483
As at 31 December 2015	2,288,436
Interest charged during the year	**122,476**
Derecognised due to repurchase by the Company during the year	**(47,108)**
Derecognised due to redemption by the Company during the year	**(863,166)**
Interest paid during the year	**(115,825)**
Foreign exchange loss	**1,096**
Foreign currency translation difference	**113,290**
As at 31 December 2016	**1,499,199**
Current	**709,083**
Non-current	**790,116**
	1,499,199

In January, March and April 2016, the Group repurchased, by way of market acquisition, notes with a principal amount of USD7,200,000, for a total consideration of USD7,065,000 (RMB equivalent: 46,337,000).

In June 2016, the Group redeemed notes with a principal amount of USD127,372,000, for a total consideration of USD132,619,000 (RMB equivalent: 869,775,000).

A loss of RMB16,509,000 was recognised on redemption of senior notes in the Group's consolidated statement of profit or loss, being the difference between the carrying amount of senior notes redeemed and the consideration paid, plus the transaction costs incurred.

As 31 December 2016, the Group planned to repurchase a portion of the outstanding senior notes in 2017, and reclassified senior notes of RMB709,083,000 as current liabilities. In March 2017, these senior notes had been repurchased as a price of RMB702,709,000.

16. ASSETS AND LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATION

As disclosed in note 3(b) and 9, the operation results of Harvest Max continued to deteriorate in 2016. During the fourth quarter of 2016, the Group determined to dispose the Harvest Max business. The Group commenced an active programme to locate the buyer afterwards and pursuant to an announcement dated 30 December 2016, the Company has entered into a sale and purchase agreement (the "Agreement") with its major shareholder in respect of the sale of Harvest Max and the Group's Mainland China Watch Business. While the VSD transaction is subject to shareholders' approval, the Group considered that even if the VSD transaction described in note 3(b) does not receive approval, the Group will continue to dispose of Harvest Max and/or its assets, which does not require the shareholders' approval. Directors expect the disposal will be completed within the year ending 31 December 2017.

When preparing the consolidated financial statements of the Group as at and for the year ended 31 December 2016, the Harvest Max segment was classified as held for sale and a single amount in the statements of profit or loss was presented (with the comparative figures re-presented).

The Harvest Max and its subsidiaries (the "Harvest Max Group") is principally engaged in the retail of jewellery and low-to-mid-end watch brands in Hong Kong.

Assets classified as held for sale as at 31 December 2016:

	RMB'000
Other property, plant and equipment	2,901
Deferred tax assets	2,588
Tax recoverable	3,575
Inventories *(note 10)*	82,513
Trade and other receivables *(note 12)*	31,260
Cash and cash equivalents *(note 11)*	150,657
	273,494

Liabilities classified as held for sale as at 31 December 2016:

	RMB'000
Trade and other payables *(note 13)*	32,481
Current taxation	89
	32,570

As at 31 December 2016, the equity interest attributable to non-controlling interest relating to Harvest Max Group is RMB58,936,000.

Analysis of the result of discontinued operations in relation to Harvest Max Group is as follows:

	Note	**2016** *RMB'000*	2015 *RMB'000*
Revenue	*3*	**1,010,773**	1,509,863
Cost of sales		**(137,900)**	(256,550)
Gross profit		**872,873**	1,253,313
Other revenue	*4*	**994**	3,222
Other net loss	*4*	**(271,945)**	(31,931)
Distribution costs		**(872,292)**	(1,253,490)
Administrative expenses		**(11,323)**	(9,787)
Other operating expenses		**(42,151)**	–
Loss from operations		**(323,844)**	(38,673)
Loss before taxation	*5*	**(323,844)**	(38,673)
Income tax	*6(b)*	**(176)**	(3,156)
Loss for the year		**(324,020)**	(41,829)

Analysis of the cash flows of discontinued operations in relation to Harvest Max Group is as follows:

	2016 *RMB'000*	2015 *RMB'000*
Net cash generated from/(used in) operating activities	**9,940**	(4,511)
Net cash used in investing activities	**(654)**	(446)
Net cash used in financing activities	**–**	–
Net cash generated from/(used in) discontinued operations	**9,286**	(4,957)

17. NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

As disclosed in note 3(b), the Company and its subsidiaries are contemplating a VSD transaction in respect of Harvest Max and the Mainland China Watch Business. As at 31 December 2016, Harvest Max met the definition of a discontinued operation. Should the transaction be completed in 2017, the Mainland China Watch Business will also meet the definition of a discontinued operation and the results relating to the Mainland China Watch Business will be separately disclosed in the Company's consolidated financial statements for the year ending 31 December 2017 with comparative figures being re-presented.

The VSD is structured to sell the equity interests of Harvest Max and the Mainland China Watch Business at a consideration equal to their net book value at 31 December 2016. Upon the completion of the transaction, it is estimated that, the financial impact that will be recorded into the Company's 2017 annual financial statements include: (i) withholding tax in relation to the disposal, to be calculated based on the surplus of the consideration for acquiring the Mainland China Watch Business over the respective PRC subsidiaries' paid-in capital; (ii) the cumulative amount of exchange differences relating to the Mainland China Watch Business, (iii) any transaction costs that will be incurred during 2017, and (iv) any difference between the cash consideration and the carrying value of the Disposal Group's net asset value on the date when the Disposal Group is deconsolidated from the Company's consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

I. FINANCIAL REVIEW

The Group maintained a sound and stable financial position.

Revenue

As at 31 December 2016, the Group recorded revenue of RMB12,334,151,000 (2015: RMB13,302,724,000), representing a year-on-year decrease of 7.3%. Retail sales amounted to RMB8,557,615,000 (2015: RMB9,373,354,000), representing a year-on-year decrease of 8.7%. Revenue from industrial sector and others amounted to RMB582,885,000 (2015: RMB539,991,000), representing a year-on-year increase of 7.9%.

In 2016, amidst volatile political situation, the global economy has plunged into deep adjustment. China's economy also faced some development resistance with persistent downward pressure. Meanwhile, consumption patterns and concepts of consumers were undergoing constant evolvement. Coupled with the foreign exchange fluctuations, the Group's operating environment was rigorous, full of risks and challenges. Despite the weak sales in the watch market, the industrial sector which is engaged in the manufacture of watch accessories achieved relatively good results due to a series of reform and innovation.

Sales breakdown (for the year ended 31 December 2016):

	2016		2015	
	RMB'000	*%*	*RMB'000*	*%*
Retail Business				
Mainland China	**5,608,866**	**45.5**	5,786,672	43.5
Hong Kong	**1,770,824**	**14.4**	1,898,540	14.3
Taiwan	**167,152**	**1.3**	178,279	1.3
Harvest Max	**1,010,773**	**8.2**	1,509,863	11.4
Wholesale Business	**3,193,651**	**25.9**	3,389,379	25.5
Industrial Sector and Others	**582,885**	**4.7**	539,991	4.0
Total	**12,334,151**	**100**	13,302,724	100

Gross Profit and Gross Profit Margin

As at 31 December 2016, the Group's gross profit showed a 15.6% year-on-year decrease and reached approximately RMB3,291,603,000 (2015: RMB3,900,547,000). Gross profit margin was approximately 26.7% (2015: 29.3%), representing a year-on-year decrease of 2.6 percentage points. This was mainly due to the impact of macroeconomic environment.

Profit for the Year

The Group recorded loss of approximately RMB275,538,000 (2015: net profit of RMB190,164,000). Loss attributable to equity shareholders amounted to approximately RMB321,378,000 (2015: net profit of approximately RMB144,868,000). Decrease in the profit was mainly due to the allowance made for impairment of goodwill in which the Group has interests, withholding tax in respect of cash dividends of RMB1.6 billion to be paid by the subsidiaries of the Company in Mainland China, and drop in sales of the Group amidst the adverse economic environment.

Financial Status and Net Debt to Equity Ratio

As at 31 December 2016, the Group had total equity of RMB6,366,449,000 (2015: RMB6,540,357,000) and net current assets of RMB4,999,574,000 (2015: RMB6,928,455,000), with cash and cash equivalents of RMB2,942,229,000 (2015: RMB1,910,351,000) and total bank loans of RMB2,885,336,000 (2015: RMB1,256,842,000).

As at 31 December 2016, bank loans amounted to RMB1,251,000,000 (2015: RMB140,607,000) bore interests at fixed rates ranging from 3.90% to 5.00% (2015: 2.10% to 6.44%), and the remaining bank loans bore interests at floating rates ranging from 1.66% to 2.56% (2015: HIBOR+1.25% to 2.52%). As at 31 December 2016, approximately 43% (2015: 8%), 20% (2015: 86%), 32% (2015: 2%) and 5% (2015: 4%) of bank loans were denominated in RMB, HKD, USD and NTD, respectively. The maturity profile of bank loans is set out in note 14 to the financial statements.

As at 31 December 2016, the aggregate principal amount of the USD-settled senior notes due in 2018 was USD211,428,000 (2015: USD350 million).

Combining the net amount of these senior notes with bank loans, the Group's total debt amounted to RMB4,384,535,000 (2015: RMB3,545,278,000). The net debt to equity ratio of the Group was approximately 22.7% (2015: 25.0%).

The Group adopts prudent treasury policies in financial and cash management, manages bank credit availability and monitors risks of credit cost centrally in various ways, and also reviews the funding liquidity and financing requirements regularly.

Foreign Exchange Risk

The Group's transactions are mainly denominated in RMB, HKD and USD. During the year under review, given the large fluctuations of exchange rates, the Company, with an aim to ensure financial safety, properly managed the currency risk by arranging a disposal of one of its business. The Group has not entered into foreign exchange hedging arrangements to manage foreign exchange risk but has been actively monitoring its foreign exchange risk.

Pledge of Assets

As at 31 December 2016, the Group had land and buildings equivalent to RMB113,839,000 (2015: RMB10,253,000) pledged as securities for mortgage.

Contingent Liabilities

As at 31 December 2016, the Group had no material contingent liabilities (2015: nil).

Current Assets

During the year under review, the current assets of the Group amounted to approximately RMB10,038,700,000 (2015: RMB9,615,876,000), comprising inventories of approximately RMB5,689,925,000 (2015: RMB6,376,350,000), trade and other receivables of approximately RMB1,397,482,000 (2015: RMB1,329,175,000), cash and cash equivalents of approximately RMB2,942,229,000 (2015: RMB1,910,351,000). Included in the current assets, RMB273,494,000 was assets classified as held for sale.

As at 31 December 2016, cash and cash equivalents of approximately 51% (2015: 80%), 48% (2015: 19%) and 1% (2015: 1%) were denominated in RMB, HKD and other currencies, respectively.

Current Liabilities

During the year under review, the current liabilities of the Group amounted to approximately RMB5,039,126,000 (2015: RMB2,687,421,000), comprising bank loans of approximately RMB2,641,387,000 (2015: RMB704,374,000), senior notes of approximately RMB709,083,000 (2015: Nil), trade and other payables of approximately RMB1,656,371,000 (2015: RMB1,962,269,000), and current tax payable of approximately RMB28,710,000 (2015: RMB20,778,000). Included in the current liabilities, RMB32,570,000 was liabilities classified as held for sale.

Capital Structure

The Company's capital structure is composed of issued share capital, reserves and accumulated profits. As at 31 December 2016, the number of issued share of the Company was 4,779,810,959 (2015: 4,779,810,959) shares, with reserves and accumulated profits of RMB5,723,456,000 (2015: RMB5,907,946,000) in total.

Material Investment, Acquisition and Disposal

There was no material acquisition or investment of subsidiaries, associates and joint ventures during the year under review.

During the year under review, the Group arranged a substantial disposal, details of which are set out in note 16 to the consolidated financial statements and as follows:

As stated in the announcement of the Company dated 30 December 2016, Xinyu Hengdeli China Limited and Hengdeli Giant Dragon Limited (both are direct wholly-owned subsidiaries of the Company, as vendors) and Mr. Zhang Yuping, the chairman and executive Director of the Company, entered into a sale and purchase agreement at an aggregate cash consideration of approximately RMB3.5 billion (subject to adjustment) in respect of sale and purchase of 100% shares of 上海新宇鐘表服務有限公司 (translated as Xinyu Fine Watch Service Co., Ltd. for illustration only), an indirect wholly-owned subsidiary of the Company, and 75.54% shares of Harvest Max, a 75.54%-owned subsidiary of the Company.

An extraordinary general meeting of the Company will be held on 25 April 2017 for independent shareholders of the Company to consider approving the said disposal.

As disclosed in note 3(b) to the consolidated financial statement as at and for the year ended 31 December 2016, the Group has determined, in the fourth quarter of 2016, to dispose of the Harvest Max segment. Hence, the assets and liabilities of Harvest Max were classified as held for sale as at 31 December 2016 and a single amount in the statements of profit or loss was presented in respect of Harvest Max's net loss for the year ended 31 December 2016 with the comparative figures re-presented. In addition to what disclosed above, the Group is currently seeking a sale of Harvest Max together with a number of its PRC subsidiaries to its major shareholder and it is expected that, if the sale is not approved by shareholders, the Group will continue to actively search for buyers and expect to dispose of Harvest Max within 2017.

II. BUSINESS REVIEW

For the year under review, the Group's business was primarily focused on the retail and distribution of internationally renowned branded watches, comprehensive related customer services and maintenance, watch accessories manufacturing and e-commerce in the Greater China region with a major presence in Mainland China and Hong Kong.

Retail Network

The Group's retail network spanned across the Greater China region where retail stores mainly included "Prime Time"/"Hengdeli", "Elegant", and certain single-brand boutiques. "Prime Time"/"Hengdeli" stores are mainly located in Mainland China and Taiwan, selling mid-end and mid-to-high-end internationally renowned branded watches, while "Elegant" stores are mainly located in Hong Kong, selling high-end internationally renowned branded watches. Following adjustments and optimization, the Group operated a total of 446 retail outlets in Mainland China, Hong Kong, Macau and Taiwan as at 31 December 2016, details of which are set out below:

	As at 31 December 2016			
	Mainland China	**Hong Kong and Macau**	**Taiwan**	**Total**
Prime Time/Hengdeli	334	4	33	371
Elegant	13	5	1	19
Brand boutiques	28	7	21	56
Total	375	16	55	446

The Group has maintained sound business relationships with many world-renowned brand watch suppliers over the years, including SWATCH Group, LVMH Group, RICHEMONT Group, ROLEX Group and KERING Group, etc. As at 31 December 2016, the Group was engaged in the distribution of over 50 international brands from the above five major brand suppliers and other independent watchmakers, including Breguet, Bulgari, Cartier, Girard-Perregaux, Harry Winston, IWC, Jaeger-LeCoultre, Longines, Mido, Omega, Rolex, Vacheron-Constantin, Zenith, Tissot, and Van Cleef & Arpels, etc. During the year under review, the Group continued to step up its efforts in aligning mid-end and mid-to-high-end brands in both Mainland China and Hong Kong to enhance its brand portfolio, paving the way for long-term business development and stabilizing overall sales performance.

In 2016, amidst volatile political situation, the global economy has plunged into deep adjustment. China's economy also encountered some development resistance with persistent downward pressure. Meanwhile, as consumption patterns and concepts of consumers were evolving, coupled with the foreign exchange fluctuations, the Group faces a tougher operating environment full of risks and challenges. Aiming to develop healthily and steadily, and adhering to market-oriented principle, the Group has actively adopted various marketing strategies, tried new sales methods, accelerated the integration of retail outlets, and optimised the management system. However, these efforts could not stem the decline in sales as affected by the adverse macro condition and subdued consumer demand. Overall retail sales decreased by 8.7% as compared to the same period last year.

Mainland China

The Group has developed a network of retail outlets in Mainland China, with a presence in key regions including Beijing, Shanghai, Zhejiang, Jiangsu, Henan, Shanxi, Hubei, Northeastern and Southwestern China where its market share has been concentrated and stable.

The retail outlet "Prime Time" has been positioned to sell mid-end and mid-to-high-end internationally renowned branded watches in Mainland China. This marketing strategy is mainly designed to cater for the actual demand of Mainland consumption level. In recent years, affected by the adverse macro condition and evolution of consumption patterns and habits, the shops are undergoing a state of adjustment, without any net increase. As at 31 December 2016, the Group had 375 retail outlets in Mainland China, of which 334 were "Prime Time" shops. The Group's "Elegant" shops, which are mainly image stores in Mainland China and sell high-end watches, have a relatively small geographic coverage. Most of "Elegant" shops are located in first-tier developed cities such as Shanghai, Beijing, Hangzhou, Nanjing, Shenyang and Chengdu, with one shop being closed during the year, reducing the number of "Elegant" shops to 13.

During the year under review, the Group's operating strategy for retail in Mainland China did not have much change from that of the previous year. The focus was on mid-end watches in second-third and fourth-tier cities and enhancing the realignment and network layout of mid-end stores within each region and major city. The strategy involved a core operational principle of "maintaining steady sales, and promoting inventory structure enhancement", and the retail region management structure adjustment was expedited. The Group kept pace with the market adjustment opportunities to integrate retail outlets and furthered its refined management for better performance of individual outlets; continued to step up its efforts in streamlining outlets in the first-tier market and high-end watch retail market, and reasonably adjusted its brand portfolio in response to the changing market conditions in a timely manner. The Group also enhanced the sales skills of frontline staff and improved customer relationship management at retail outlets.

As the shopping locations and consumption patterns of consumers have been constantly changing, consumption motivation has shifted from business related purpose to personal use and consumers have become more price sensitive than ever. The pressure on prices due to the availability of overseas surrogate shopping, electronic platform and other channels has led to exceptionally fierce market competition. Hence, the overall consumption situation of Mainland China remained lackluster for the year. Despite the Group's various efforts, we were unable to stem the decline in sales as affected by the adverse macro condition and subdued consumer demand. Retail sales from Mainland China decreased by 3.1% as compared to the same period last year. However, the Group's inventory turnover and account receivables in Mainland China were better than the industry average as a result of effective operation strategies and optimised management system.

The network platform of "censh.com" inherits the values of "passion, innovation, mutual trust, self-actualization". Unlike traditional e-commerce operators who chase after "speed" and "low price", "censh.com" is not only a website for interactive online and offline sales of watches, but also a personal assistant for consumers to buy watches. Meanwhile, it is a platform for communication among customers and a culture carrier for the dissemination of the watch culture. It emphasizes on "experience" and "authenticity" and its missions are to provide the most accurate and most thoughtful services to consumers and to exhort the ideas of buying watches as gifts, tokens, and a symbol of stylish life. During the year under review, "censh.com" continued to guide the flows of consumers in real stores to shop online, promote booking for try-on service and improve the interaction between sales and customer services segments.

In 2017, China is expected to remain in a digestive period of transformation of development model and economic structure adjustment. Although there is slight trend of stabilization, we still face challenges with the uncertainty over the development of economy and consumer market in Mainland China under the background of globalization. The sales strategy of targeting at mid-end and mid-to-high-end internationally renowned branded watches will still be the major direction of the Group in Mainland China in the short and mid-run in the year ahead.

Hong Kong and Macau

The Group's retail business in Hong Kong mainly focuses on high-end brands, including Blancpain, Breguet, Cartier, Chopard, Dewitt, Franck Muller, Girard-Perregaux, IWC, Jaeger-LeCoultre, Omega, Panerai, Piaget, Vacheron-Constantin, Zenith, Bulgari, Harry Winston as well as independent watchmakers namely Christophe Claret, MB&F, HYT, Greubel Forsey, etc. To adapt to the change in the mix and consumption patterns of visitors to Hong Kong in recent years, the Group also started to deploy multi-layer brand positioning in Hong Kong, introducing certain mid-end brands in order to expand market share and maintain its leading position in the region.

As at 31 December 2016, Elegant operated a total of 12 retail outlets in Hong Kong, of which 5 were multi-brand "Elegant" shops and 7 were single-brand boutiques or image stores, mainly located in prime commercial districts such as Tsim Sha Tsui, Central and Causeway Bay.

Amidst the macro economic constraints, Hong Kong's retail sector as a whole was still lackluster during the year and Elegant was also affected. However, the last month of the year saw the first growth of sales in the past 26 months since October 2014 in Hong Kong's jewelry and timepieces market, with signs of stabilization in sales. Elegant also recorded a double-digit increase in sales.

Elegant strengthened operation management while spending efforts on sales during the year under review, including the merge of single-brand boutiques to lower cost on one hand and strengthening the staff training at different levels and enhancing the knowledge in watches and the service standards of the frontline staff on the other hand. Efforts were also made to upgrade the management model and build up a talent pool to foster a world-class professional sales force for expanding market share.

Elegant continued to strengthen its marketing campaigns. Resources were committed to collaborate more closely with a broadened portfolio of international brands in advertising, VIP events and other promotional activities. Social networking platforms such as Facebook, Weibo and WeChat were developed to establish and maintain sound interaction with consumers, aiming to enhance their awareness and loyalty to Elegant and hence uplift the international reputation of the "Elegant" brand.

While enhancing the ability to sell renowned watches, Elegant kept improving the level of VIP services, and enhanced the after-sales service for timepieces in an effort to maintain and expand the high-end customer base. During the year, Elegant engaged top international watch technicians to provide international standard services so as to meet the increasingly diverse needs of customers.

According to the retail statistics released by the Census and Statistics Department of Hong Kong in February 2017, the retail market in Hong Kong has bottomed out currently. After nearly two years of adjustment, Hong Kong is expected to adapt to changes in consumption patterns, with an increasing flow of people to shopping malls and improved consumer sentiments. An "Elegant" multi-brand shop at Yun Ping Road, Causeway Bay will open soon. The shop will greatly improve the Group's sales in Causeway Bay area.

In the year ahead, the Group will work closely with brand suppliers to open more "Elegant" multi-brand retail shops. With years of credibility and experience and leveraging on the extensive and profound loyal customer base in Hong Kong, our sound business relationships with brand suppliers, comprehensive after-sales service and other advantages, Elegant will keep pace with and lead the market, seize opportunities in the macro environment and the new start of the Company to explore for more market share and profits.

The Company is actively engaged in the opening of multi-brand retail shops in Macau. With the positive changes in business environment, we believe that sales in Macau will grow with the expansion of Elegant.

Taiwan

During the year under review, the Group's retail business in Taiwan was in the process of network building and nurturing. Sharing a similar sales strategy as in Mainland China, the Group focused on the sales of mid-end and mid-to-high-end watches in Taiwan. The Group operated a total of 55 retail outlets in Taiwan as at 31 December 2016, mainly located in prime districts including Taipei, Taichung, Kaohsiung, Hsinchu and Chiayi. Except for one "Elegant" shop which sells top-end watches and certain single-brand boutiques, all other retail outlets are "Hengdeli" shops which sell mid-end and mid-to-high-end watch brands like Certina, Hamilton, Longines, Rado, TAG Heuer and Tissot, etc.

Sales in Taiwan have been stable for the year and have not deviated much from that of previous year. Currently, the target consumers in Taiwan are mainly local customers. During the year, the Group purchased a property in the downtown area of Taipei for the purpose of opening an "Elegant" flagship store in Taiwan, which is expected to open in 2017. As the cross-strait business relations and the economic ties between Mainland China and Taiwan become closer, it is expected that an increasing number of Mainland tourists will travel to Taiwan, creating new opportunities for Taiwan's retail industry.

Industrial Sector

The Group is devoted to the development of the watch accessories industrial chain. After integration and overall arrangement for about two years, the Group has currently established a new business model comprising upstream and downstream operations of the watch accessories industrial chain mainly spanning from manufacturing of furniture and items used for watch sales and watch packaging products, to commercial space design, production and decoration. A number of our branches and subsidiaries have earned goodwill in their respective fields. A wide customer base covering China, Switzerland, the U.S. and other nations in the Asia Pacific region has been established. Co-operation with brand suppliers was very close and a good collaborative relationship with mutual trust and interest sharing has been formed.

During the year under review, the Group has increased its investment in the watch accessories business to expand its production bases of watch packaging products and furniture and items used for watch sales. At the same time, a breakthrough was made in the Group's export business which involved completion of sample manufacturing of the items used for watch sales for several world-famous watch brands and the exportation of such items has commenced. The construction of information management system was further enhanced. Modernized office automation systems have been launched in branches and subsidiaries. Production automation has been updated timely and a corporate management system developed jointly with an ERP management company has been adopted gradually by branches and subsidiaries. During the year under review, although the sales of renowned watches were stagnant, the sales of the Group's watch accessories business increased as compared with the corresponding period last year thanks to its tireless efforts, which further improved the overall market competitiveness of the Group.

In the coming year, the Group will further strengthen its industrial management, technical research and innovation capabilities. In particular, opportunities in technological advancement concerning Industry 4.0 will be sought in order to promote the use of production automation and semi automation to raise labor productivity. The Group will seek to develop new technique and new products to satisfy market demand; on the other hand, it will deepen co-operation with brand suppliers. The Group's production base for furniture and items used in watch sales, located in Suzhou China, is about to be put into operation, which will greatly increase the production and sales of the Group as compared with current level. The Group is confident that the watch accessories industrial chain will turn into an important business part of the Company and bring increasingly strong driving forces to the development of the Company.

Customer Service and Maintenance

"Cutting-edge technology, joint warranty network, efficient management, and considerate services" have always been the aspirations of the customer services of the Group. The customer service network of the Group has been integrated and is comprehensive. Coupled with the continuing training provided by brand suppliers to the Group's technical personnel, the human resources policy of recruiting talents worldwide has ensured the Group to stay at the cutting edge of maintenance expertise internationally. The warranty covering the Greater China region including Mainland China, Hong Kong, Macau and Taiwan, as well as the interactive customer service network consisting of "repairs and maintenance service centres", "repair service stations" and "repair service points", ensure the delivery of a wide range and all-round services to customers. The service hotline 4008 acts as the Group's centralised service channel for the general public, offering timely advice and providing customers with assurance and confidence.

During the year under review, the integration of customer services of the Group was further deepened. The focus of management was gradually transferred from headquarters management to regional management, which linked retail sales to customer service more closely so as to maximise the profit margins. During the customer services integration period, the regional improvement and expansion of our service network has been speeded up and become more efficient. As a result, regional sales increased soundly as compared with last year.

High-calibre maintenance technicians have been the foundation of the Group's customer services. During the year under review, the Group designated maintenance technicians to attend overseas training courses for a number of times, and maintained good partnerships with brand suppliers in Switzerland and watch maintenance technical schools in foreign countries like Sweden and Japan, so as to secure consistent supply of high-calibre maintenance technicians. Meanwhile, overseas senior technicians took charge of course planning and teaching, so as to provide stringent training for the front-line maintenance technicians from different regions in a timely and phased manner. As a result, the Group's high level customer services on par with the international standards are guaranteed.

For both brand suppliers and consumers, more emphasis is being put on the integration of the global services of internationally renowned watch brands. As the linking bridge between brand suppliers and consumers, the Group has continued to win their confidence with comprehensive service coverage. Capitalising on its sound services and high-tech service quality, the Group continues to broaden and deepen the cooperation with these brands. During the year under review, the Group also entered into watch maintenance agent agreements with six brands of MGI, namely Coach, Hugo Boss, Juicy Couture, Lacoste, Scuderia Ferrari and Tommy Hilfiger. As at 31 December 2016, the Group has become the maintenance agent for 73 international brands, of which the Group is the exclusive maintenance agent for 52 brands.

Brand Distribution

The Group has about 400 wholesale customers in over one hundred cities across China, distributing and exclusively distributing world-famous branded watches including Hamilton, Certina, Tissot, Mido, and CK.

In the brand distribution business, the Group has always adjusted the brands distributed timely and sought cooperation with brand suppliers and retailers by adopting the most market-oriented approach, leveraging each other's strengths to strive for a coordinated division of labour in the integration of sales and supply. During the year under review, the total value of brand distribution by the Group continued to slow down in light of the difficult market environment. Nonetheless, the Group worked closely with brand suppliers to respond to the changing market by actively adjusting brand distribution strategies and streamlining and improving inventory mix for a healthy and sustainable development of the brands. At the same time, based on joint market research, a number of incentive policies more closely aligned with market needs and sales plans tailor-made based on regional characteristics were developed, to provide retailers with more comprehensive and caring services to stimulate their enthusiasm in the retail end.

The Group has maintained strong partnerships with brand suppliers as well as numerous retailers. Backed by their extensive and tremendous support, the Group has achieved harmonious and mutually beneficial development.

III. OUTLOOK

Looking forward to 2017, the global economy will remain complicated and fluctuated, and China's economy will also face many problems during structural adjustment period. In addition to insufficient internal impetus to drive economic growth, financial risks are building. Considering the situation, the Group believes that to stay stable and healthy is the foundation to develop, and innovation is the key to sustainability. Given the uncertainty over macro environment, the only way to ensure long-term stability of the Group is to make decisions in line with market conditions. The Group published an announcement on 30 December 2016 for a proposed substantial business disposal. As stated in the announcement, the disposal will effectively reduce the Group's financial burden and currency risk and achieve a healthier financed business model with a purpose to ensure the safety and stability of the Company and lay a new foundation for future development. If the disposal is approved at the extraordinary general meeting, the Group will start a new journey.

In the coming year, standing on a new historical starting point, the Group will adhere to the operating principle of "moving forward steadily for sustainable growth with solid foundation and continuous innovation", focusing on the long-term stability and sustainable development of the overall business. With an open mind, innovative thinking and spirit of craftsman, the Group will explore and implement a new development model, making structural adjustment, keeping healthy growth and seeking sustainability. Specifically, on the one hand, the Group will continue to strengthen the network of watch retail outlets and watch accessories manufacturing, and on the other hand, we will strive to expand other markets in a variety of innovative ways so as to make breakthroughs in the development of the Group and create greater value for both our shareholders and society at large.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Monday, 15 May 2017 to Friday, 19 May 2017 (both days inclusive) to confirm the members on the register of members who are eligible to attend and vote at the annual general meeting. In order to establish entitlements to attending and voting at the annual general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 12 May 2017.

PURCHASE, SALE OR REPURCHASE OF SECURITIES

During the year under review, the Company repurchased senior notes with an aggregate principal amount of USD127,372,000 by way of offer at a purchase price of USD1,012.50 per USD1,000 principal amount of the notes, for a total consideration of USD132,619,000. The repurchased notes had been cancelled in full. Senior notes with an aggregate principal amount of USD7,200,000 were repurchased by the Company on the Stock Exchange and cancelled during the year under review. In addition, senior notes of USD4,000,000 which were repurchased but had not been cancelled in 2015 were cancelled during the year.

The senior notes, settled in USD, were issued in 2013 and shall become due in 2018 with an interest rate of 6.25% per annum. As at 31 December 2016, the Company still held the senior notes with a principal amount of USD211,428,000 and was subject to the terms of the indenture governing these notes.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2016.

As at 31 December 2016, the number of issued shares of the Company was 4,779,810,959 (2015: 4,779,810,959) shares. The Company held USD-settled USD211,428,000 (2015: USD350 million) 6.25% senior notes due in 2018, which were listed on the Stock Exchange on 30 January 2013.

AUDIT COMMITTEE

The Company has established an audit committee in compliance with the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange. The audit committee comprises three independent non-executive Directors, namely, Messrs. Cai Jianmin (Chairman), Wong Kam Fai, William and Liu Xueling, with the primary duties of reviewing the accounting principles and practices adopted by the Company as well as material extraordinary items, internal controls, financial reporting, risk management and control matters, which included a review on the audited annual results for the year ended 31 December 2015 and the 2016 interim report. According to the terms of reference of the audit committee adopted and implemented by the Company, the audit committee is responsible for reviewing the accounting principles and practices adopted by the Company as well as material extraordinary items, internal controls and financial reporting matters, and the duties of risk management and control.

During the year, the audit committee of the Company held meetings on 17 March 2016 and 18 August 2016 to review the annual and interim financial reports of the Group respectively. All members of the committee namely, Messrs. Cai Jianmin, Wong Kam Fai, William and Liu Xueling, attended the meetings.

REMUNERATION COMMITTEE

The Company has established a remuneration committee in compliance with the Listing Rules. During the year under review, the remuneration committee comprises three Directors including Messrs. Liu Xueling (Chairman) and Cai Jianmin, both of whom are independent non-executive Directors, and Mr. Zhang Yuping, the Chairman and an executive Director of the Group. The primary duties of the remuneration committee are to review and determine the terms of remuneration packages, bonuses and other compensation payable to Directors and senior management.

Three meetings were held during the year to review matters related to the remuneration structure of the Directors and senior management of the Company, implementation of share award scheme and remuneration of new Director. All members, namely Messrs. Liu Xueling, Cai Jianmin and Zhang Yuping, attended the meetings.

According to the terms of reference of the remuneration committee adopted by the Company, the remuneration committee acts as a consultant regarding the remuneration matters of the Directors and senior management of the Company, while the Board retains the ultimate power to approve the remuneration of the Directors and senior management.

NOMINATION COMMITTEE

The Company has established a nomination committee in compliance with the Listing Rules. During the year under review, the nomination committee comprises Mr. Zhang Yuping (Chairman), the Chairman and an executive Director of the Group, and independent non-executive Directors Messrs. Cai Jianmin and Liu Xueling. The Company has adopted and implemented the terms of reference of the nomination committee. The nomination committee is mainly responsible for making recommendations to the Board on the appointment of Directors and succession planning for the Board.

Two meetings were held during the year to review the structure, size and composition of the Board of the Company as well as retirement by rotation and re-election of Directors, formulate board diversity policy and related measurable objectives, review procedures for achieving such objectives, and nominate new Director. All members, namely Messrs. Zhang Yuping, Cai Jianmin and Liu Xueling, attended the meetings.

CORPORATE GOVERNANCE

Since its establishment, the Company has been committed to maintaining a high standard of corporate governance practice to ensure transparency of the Group's management, so that the interests of our shareholders, customers, employees as well as the long term development of the Group can be safeguarded. The Group has established the Board, an audit committee, a remuneration committee and a nomination committee that are up to the requirements as being diligent, accountable and professional. KPMG has been appointed as the Group's external auditors.

Compliance with the Corporate Governance Code

The Company has adopted the Corporate Governance Code as set out in Appendix 14 of the Listing Rules. The Directors are of the opinion that the Company complied with the Corporate Governance Code except for a deviation from provision A.2.1 during the period under review. Given the existing corporate structure, the roles of the chairman and chief executive officer have not been separated, and both are performed by Mr. Zhang Yuping. Although the roles and duties of the chairman and chief executive officer have been performed by the same individual, all major decisions would only be made (where applicable) after consultation with the Board. There are three independent non-executive Directors in the Board. All of them possess adequate independence and therefore the Board considers that the Company has achieved balance of power and provided sufficient assurance for scientific decision-making.

Composition of the Board

To maintain a high level of independence and objectivity in decision making, and to exercise its power of supervising the management of the Group in a comprehensive and equitable manner, the Board comprises three executive Directors (Messrs. Zhang Yuping (Chairman of the Group), Huang Yonghua and Lee Shu Chung, Stan), two non-executive Directors (Mr. Shi Zhongyang and Ms. Chen Jun) and three independent non-executive Directors (Messrs. Cai Jianmin, Wong Kam Fai, William and Liu Xueling).

To ensure the Board operates in an independent and accountable manner, the three executive Directors have been assigned with different responsibilities within our operation. Mr. Zhang Yuping, the Chairman, is in charge of the Group's overall management and strategic development, while Mr. Lee Shu Chung, Stan is in charge of the overall business operation of the Group, and Mr. Huang Yonghua is responsible for coordination and supervision.

Each of the three independent non-executive Directors has professional expertise and extensive experience in the areas of accounting, economics, law, computing control and management, and business administration respectively. We believe the independent non-executive Directors can adequately act for the benefits of our shareholders. Their respective terms of office are as follows:

Cai Jianmin: 26/9/2014-25/9/2017;
Wong Kam Fai, William: 26/9/2014-25/9/2017; and
Liu Xueling: 1/6/2016-31/5/2019.

Two non-executive Directors have professional expertise and extensive experience in the areas of law, business administration and asset management, respectively; they can offer supervision to the daily operation, and provide corresponding opinions and recommendations in a timely manner, which is beneficial to the standardised operation of the Company and the safeguarding of the interests of our shareholders. Their terms of office are as follows:

Shi Zhongyang:15/2/2015-14/2/2018; and
Chen Jun: 30/6/2016-31/5/2019.

Duties of the Board

The Board is responsible to the general meetings and performs the following major duties: report duties to the general meetings; execute the resolutions of the general meetings; determine investment solutions and profit distribution solutions of the Company; formulate solutions as to increase or decrease of the registered capital of the Company; draft solutions in respect of the split-up, consolidation, alteration and dissolution of the Company; appoint, dismiss and determine the remunerations of the general manager of the Company.

In respect of the corporate governance functions, during the year under review, the Board performed corporate governance duties in accordance with the terms of reference. To be specific, the Board mainly performed the following corporate governance duties during the year under review:

- To review the Company's policies and practices on corporate governance;
- To review and monitor the training and continuous professional development of Directors and senior management;
- To review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- To review and monitor the code of conduct applicable to Directors and employees; and
- To review the Company's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report.

Members of the Board are provided with appropriate and sufficient information in a timely manner for their understanding of the latest developments of the Group, which in turn supports the discharge of their duties.

The management of the Company is responsible to the Board and performs the following major duties: report duties to the Board; execute the resolutions of the Board; and complete all the tasks assigned by the Board.

Risk Management and Internal Control

The Group has established effective risk management and internal control systems to provide reasonable (though not absolute) assurance against material misstatement or loss and to manage (rather than eliminate) risks of failing to achieve business objectives. The Board shall be responsible for the risk management and internal control systems and reviewing their effectiveness.

In order to ensure the interests of our shareholders, the Group established departments dedicated to the supervision and risk control of finance and business operation including an internal audit department. Such departments conduct audits and examination of all aspects and at all departments once or twice a year, so as to enhance internal control and ensure the sound development of the enterprise. The audit committee and the Board has reviewed the effectiveness of our risk management and internal control systems and completed its annual review on the risk management and internal control systems (including their effectiveness). Based on the reviews made by independent review organisations of the risk management and internal control systems of the Group, the Group considers that these systems are effective and adequate, and will continue to review the effectiveness of these systems as well as improve the internal administration and control systems of the Company if required.

ATTENDANCE OF THE DIRECTORS AT THE MEETINGS

In 2016, a total of nine meetings were held by the Board. Further, an annual general meeting was held. The attendance of the Directors at the meetings was as follows:

Name	Frequency of attendance at the Board meetings	Rate of Attendance	Remarks	Frequency of attendance at the general meeting	Rate of Attendance	Remarks
Zhang Yuping	9	100%		1	100%	
Huang Yonghua	9	100%		1	100%	
Lee Shu Chung, Stan	9	100%		1	100%	
Shi Zhongyang	9	100%		1	100%	
Chen Jun	4	100%	Appointed on 30 June 2016	–	–	
Cai Jianmin	9	100%		1	100%	
Wong Kam Fai, William	9	100%		1	100%	
Liu Xueling	9	100%		1	100%	

Members of the Board will be provided with appropriate and sufficient information in a timely manner for their understanding in the latest developments of the Group, which in turn supports the discharge of their duties.

CONTINUOUS PROFESSIONAL DEVELOPMENT

Every newly appointed Director will be given an introductory session so as to ensure that he/she will gain appropriate understanding of the Group's business and of his/her duties and responsibilities under the Listing Rules and the relevant statutory and regulatory requirements. The Company provides regular updates on the business development of the Group. The Directors are continually updated on the latest development regarding the Listing Rules and other applicable statutory requirements to ensure compliance with and upkeep of good corporate governance practices.

The Directors are committed to complying with provision A.6.5 of the Corporate Governance Code on Directors' training so as to ensure that their contribution to the Board remains informed and relevant. During the year under review, the Directors attended relevant training in accordance with the Listing Rules and had provided the relevant records of training to the Company. According to the records, details of directors' attendance at the training sessions during the year under review are as follows:

	Updates on corporate governance, laws and regulations		**Accounting/financial/ management and other professional expertise**	
Name	**Material reading**	**Seminar/ training attending**	**Material reading**	**Seminar/ training attending**
Zhang Yuping	✓	✓	✓	✓
Huang Yonghua	✓	✓	✓	✓
Lee Shu Chung, Stan	✓	✓	✓	✓
Shi Zhongyang	✓	✓	✓	✓
Cai Jianmin	✓	✓	✓	✓
Wong Kam Fai, William	✓	✓	✓	✓
Liu Xueling	✓	✓	✓	✓
Chen Jun	✓	✓	✓	✓

INDEPENDENCE OF THE BOARD

The Board has received confirmation from all independent Directors regarding their independence made in accordance with Rule 3.13 of the Listing Rules. The Board considers that all current independent Directors have met the requirements of the guidelines set out in Rule 3.13 of the Listing Rules and remain independent.

SECURITIES TRANSACTIONS BY DIRECTORS

The Board of the Company had adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules as the Company's own code for securities transactions by its Directors. Following specific enquiry made by the Company with all Directors, the Company has confirmed that during the year under review, all Directors had complied with the standard as required by the above code.

By Order of the Board
Zhang Yuping
Chairman

Hong Kong, 29 March 2017

As at the date of this announcement, the executive Directors are Mr. Zhang Yuping (chairman), Mr. Huang Yonghua and Mr. Lee Shu Chung, Stan, the non-executive Directors are Mr. Shi Zhongyang and Ms. Chen Jun, the independent non-executive Directors are Mr. Cai Jianmin, Mr. Wong Kam Fai, William and Mr. Liu Xueling.