Shirble Department Store Holdings (China) Limited
歲寶百貨控股(中國)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 00312)

ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2011

IMPROVEMENT IN THE INTERNAL CONTROL PROCEDURES

PROPOSED APPOINTMENTS OF
ADDITIONAL EXECUTIVE DIRECTOR AND
INDEPENDENT NON-EXECUTIVE DIRECTOR

PAST CONNECTED TRANSACTIONS

AND

CONTINUED SUSPENSION OF TRADING OF THE SHARES

Annual results and proposed cash dividends

The Directors refer to the announcements of the Company dated 30 March 2012, 30 April 2012, 31 May 2012, and 12 June 2012. The Company's delay in making the announcement of the audited results for the year ended 31 December 2011 was primarily due to (a) the time required for the Group to provide the Auditors with additional information on certain transactions engaged by the Group in 2011, (b) the time required by the Audit Committee to review and investigate the transactions expected to be qualified by the Auditors in the audited accounts of the Group, and (c) the time required for Moore Stephens to conduct an investigation on the above transactions and prepare the Moore Stephens Review Report. The views of the Audit Committee on those transactions, and an extract of the Moore Stephens Review Report, are set forth in this announcement.

The following sets forth a summary of the audited consolidated results of the Group for the year ended 31 December 2011:–

– Turnover of the Group was RMB1,433.6 million, representing an increase of 12.0% as compared with the turnover in 2010.

– Total gross sales proceeds[1] of the Group were RMB2,302.2 million, representing an increase of 12.3% as compared with the gross sales proceeds in 2010.

– Profit from operations of the Group was RMB95.0 million, representing a decrease of 63.6% as compared with the profit from operations in 2010.

– Profit attributable to the equity shareholders of the Company was RMB71.6 million, representing a decrease of 64.2% as compared with the profit attributable to the equity shareholders of the Company in 2010.

– Basic earnings per Share was RMB0.03.

– Net asset value per Share was RMB0.62.

Note:–

(1) Total gross sales proceeds represent the aggregate of the revenue from direct sales, the total sales proceeds from concessionaire sales at the Group's department stores and the reversal of deferred income in respect of long-aged unredeemed pre-paid cards.

The Directors propose a final cash dividend of RMB0.0062 per Share, or in the total amount of RMB15.5 million, and a cash special dividend of RMB0.0221 per Share, or in the total amount of RMB55.1 million. The proposed cash dividends represent the Board's appreciation of the continuous support from the Shareholders. The dividend proposals are subject to the Shareholders' approval at the AGM. Despite the fact that the profitability of the Group declined significantly in 2011, the Directors remain optimistic on the future business development of the Group and are committed to improve the internal control procedures of the Group.

Auditors' qualified opinion

The Auditors have informed the Company that they will issue a qualified opinion in the Auditors' report to the Shareholders. The Auditors consider that they have not received sufficient information and evidence on the nature of certain prepayments made by the Group and advances from the suppliers of the Group. The Directors (including the independent non-executive Directors who are the members of the Audit Committee) confirm the accuracy and the commercial basis for these transactions as these transactions were either entered into for the opening or operation of the department stores of the Group or under the procurement practice of the Group. The Directors (including the independent non-executive Directors who are the members of the Audit Committee) also confirm that these transactions were conducted as part of the ordinary course of business of the Group.

Nevertheless, for the reasons and bases set forth in this announcement, the Group terminated all the transactions (other than the Haifeng Sale and Purchase Agreement) being the subject matters of the Auditors' qualified opinion. The prepayments and the advances (except for the advances from suppliers with a remaining balance of RMB6 million, which is expected to be fully refunded to the suppliers by the end of March 2013) have been returned to the Group or the suppliers (as the case may be) in full as of the date of this announcement.

In addition, the Audit Committee has engaged Moore Stephens to perform the agreed-upon procedures for the purpose of assisting the Audit Committee to identify the factual issues leading to the transactions being the subject matters of the Auditors' qualified opinion and any matter that needs to be brought to the attention of the Audit Committee. The findings of Moore Stephens are set forth in the Moore Stephens Review Report which have been submitted to the Audit Committee.

Shareholders should read the Auditors' report which will be included in the 2011 Annual Report.

Improvement in the internal control procedures

Following its investigation and the review of the Moore Stephens Review Report, the Audit Committee is of the view that the Group had various internal control weaknesses. Moore Stephens have provided to the Audit Committee a list of internal control improvement measures. The Audit Committee has reviewed the list and the latest implementation status and confirms that all of the measures have been implemented by the Group in full except for the appointments of the chief executive officer, executive Director and an additional independent non-executive Director. Moore Stephens also confirm that the existence of the new internal control improvement measures as detailed in the Moore Stephens Review Report have been implemented by the Group after the year end.

The appointment of the additional independent non-executive Director will be effective on the Business Day following the date of resumption of trading of the Shares on the Stock Exchange. A new chief executive officer and executive Director will be appointed by the Company by the end of 2012. The Company will issue a further announcement pursuant to Rule 13.51(2) of the Listing Rules as soon as possible after the appointment of the new Directors.

The Audit Committee is of the view that the new internal control improvement measures are sufficient, reasonable and implemented for the best interest of the Group as a whole based on their review of the issues identified by the Auditors and the findings set forth in the Moore Stephens Review Report.

Moore Stephens (or other independent internal control advisers) will conduct periodic reviews of the implementation of the internal control improvement measures adopted by the Group. The results of the review will be included in the Company's interim and annual reports subsequent to the 2012 Interim Report.

Past connected transactions

Shirble Department Store (Shenzhen) had made 19 cash advances in the aggregate amount of RMB72.5 million to Tangming, Hengda Investment, and Shenzhen Guozhan. All of these cash advances were made following the receipt and deposit of current-dated cheques (except for four transactions of RMB150,000.0, RMB26,287.5, RMB182,139.6, and RMB6,000,000.0 which were made after the receipt but shortly before the deposit of the relevant cheques) drawn in favour of Shirble Department Store (Shenzhen). All of the cash advances have been collected by the Group. As of the date of this announcement, none of Tangming, Hengda Investment and Shenzhen Guozhan has any amount due to any member of the Group.

The Audit Committee has reviewed the bank remittance records of Shirble Department Store (Shenzhen) and notices that the payment and deposit records were consistent with the representations of the executive Director. On this basis, the Audit Committee concurs with the view of the executive Director that the credit risk involved in the cash advance transactions was minimal. The Audit Committee has also reviewed the calculation of the amount of the interest foregone and concurs with the view of the executive Director that the amount of interest foregone was minimal and as such, the fact that the cash advances was interest-free could be considered as transactions entered into by the Group upon normal commercial terms.

The cash advances to Tangming, Hengda Investment, and Shenzhen Guozhan constituted connected transactions for the Company, and they should have been disclosed pursuant to Chapter 14A of the Listing Rules. The Company did not enter into written agreement and did not disclose the cash advance transactions pursuant to the Listing Rules at the time of the transactions reaching the required thresholds under Rule 14A.32 of the Listing Rules. Hence, this failure constitutes a breach of Rule 14A.04, 14A.63 and Rule 14A.66 of the Listing Rules.

The Stock Exchange has indicated to the Company that it reserves the right to take further action against the Company and/or the Directors in respect of the breach of the Listing Rules. The Stock Exchange has also indicated to the Company that it reserves the right to require the cash advances to be subject to the approval of the independent Shareholders and hence, the failure of obtaining such approval at the time of the transactions would also constitute a breach of Rule 14A.48 of the Listing Rules.

The Directors (including the independent non-executive Directors who are the members of the Audit Committee) confirm that the Company will not make any cash advance in the future and that all connected transactions, if any, will be conducted in full compliance with the Listing Rules.

Continued suspension of trading of the Shares

Trading of the Shares will continue to be suspended pending the issue of the results announcement of the Group for the six months ended 30 June 2012. The Directors expect that the relevant announcement will be issued before 31 January 2013.

The Company's delay in making announcement of the audited results for the year ended 31 December 2011 was primarily due to (a) the time required for the Group to provide the Auditors with additional information on certain transactions engaged by the Group in 2011, (b) the time required by the Audit Committee to review and investigate the transactions expected to be qualified by the Auditors in the audited accounts of the Group, and (c) the time required for Moore Stephens to conduct an investigation on the above transactions and prepare the Moore Stephens Review Report. The views of the Audit Committee on those transactions, and an extract of the Moore Stephens Review Report, are set forth in this announcement.

I. FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2011

The audited consolidated results of the Group for the year ended 31 December 2011, together with the comparative figures for the year ended 31 December 2010, are set forth below:–

II. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
		2011	2010
	Note	***RMB'000***	*RMB'000*
Turnover	*3*	**1,433,586**	1,279,619
Other operating revenue	*4*	**111,232**	181,400
Other net (loss)/income	*4*	**(40,696)**	1,387
Purchases of and changes in inventories	*5 (c)*	**(998,197)**	(872,969)
Personnel costs	*5 (b)*	**(134,342)**	(98,482)
Depreciation and amortisation	*5 (c)*	**(39,620)**	(31,204)
Operating lease rental expense	*5 (c)*	**(135,663)**	(108,476)
Other expenses		**(101,257)**	(90,309)
Profit from operations		**95,043**	260,966
Finance income		**22,241**	8,204
Finance costs		**(2,285)**	(1,704)
Net finance income	*5(a)*	**19,956**	6,500
Profit before tax	*5*	**114,999**	267,466
Income tax expense	*6*	**(43,367)**	(67,384)
Profit for the year attributable to equity shareholders of the Company		**71,632**	200,082
Other comprehensive income for the year			
Exchange differences on translation of financial statements of overseas subsidiaries		**208**	93
Total comprehensive income for the year		**71,840**	200,175
Earnings per Share (expressed in RMB per Share)	*8*		
Basic and diluted		**0.03**	0.10

III. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December	
		2011	2010
	Note	***RMB'000***	*RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**311,494**	232,978
Intangible assets		**31,885**	–
Deferred tax assets		**42,756**	36,243
		386,135	269,221
CURRENT ASSETS			
Inventories		**252,291**	215,538
Trade and other receivables	*9*	**567,769**	151,587
Held-to-maturity investments		**–**	85,093
Pledged deposit		**430,152**	–
Cash and cash equivalents		**1,303,303**	1,735,974
		2,553,515	2,188,192
CURRENT LIABILITIES			
Trade and other payables	*10*	**1,104,581**	893,569
Interest-bearing borrowings		**243,210**	–
Income tax payable		**34,149**	30,757
		1,381,940	924,326
NET CURRENT ASSETS		**1,171,575**	1,263,866
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,557,710**	1,533,087
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**2,541**	2,043
		2,541	2,043
NET ASSETS		**1,555,169**	1,531,044
CAPITAL AND RESERVES			
Share capital		**213,908**	214,318
Reserves		**1,341,261**	1,316,726
Total equity		**1,555,169**	1,531,044

IV. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands with limited liability on 5 November 2008 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The Group is principally engaged in the operation of department stores in the People's Republic of China (the "**PRC**").

2. BASIS OF PREPARATION

The consolidated financial statements of the Company for the year ended 31 December 2011 has been prepared in accordance with International Financial Reporting Standards, which collective term includes International Accounting Standards and related interpretations, promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance.

The Directors consider that the Group operates in single business segment, i.e. operation and management of department stores in the PRC. Accordingly, no segmental analysis is presented.

3. TURNOVER

Turnover represents direct sales, commission from concessionaire sales, rental income and income from reversal of unused pre-paid cards. The amount of each significant category of revenue recognised is as follows:

		Year ended 31 December	
		2011	2010
	Note	***RMB'000***	*RMB'000*
Direct sales		**1,171,117**	1,014,400
Commission from concessionaire sales		**198,075**	219,886
Rental income	*(i)*	**43,143**	45,333
Income from reversal of long-aged pre-paid cards	*(ii)*	**21,251**	–
		1,433,586	1,279,619

(i) The rental income from the leasing of shop premises is analysed as follows:

	Year ended 31 December	
	2011	2010
	RMB'000	*RMB'000*
Sublease rental income	**33,076**	39,080
Contingent rental income	**10,067**	6,253
	43,143	45,333

(ii) The amount represented the reversal of long-aged pre-paid cards for which the Directors considered the likelihood of redemption was remote (2010: Nil).

4. OTHER OPERATING REVENUE AND OTHER NET (LOSS)/INCOME

	Year ended 31 December 2011 RMB'000	2010 RMB'000
Other operating revenue		
Promotion, administration and management income	**89,775**	167,284
Credit card handling income	**19,623**	13,488
Others	**1,834**	628
	111,232	181,400

	Year ended 31 December 2011 RMB'000	2010 RMB'000
Other net (loss)/income		
Net gain on disposal of property, plant and equipment	**78**	14
Impairment loss on prepayments for acquisition of a property in Haifeng *(see note 9(b)(iv))*	**(32,000)**	–
Provision for tendering deposit *(see note 9(c)(i))*	**(10,000)**	–
Others	**1,226**	1,373
	(40,696)	1,387

5. PROFIT BEFORE TAX

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

(a) Net finance income

	Year ended 31 December 2011 RMB'000	2010 RMB'000
Net gain on disposal of held-for-trading investments	**–**	(155)
Interest income	**(22,241)**	(8,049)
Finance income	**(22,241)**	(8,204)
Interest expenses	**2,285**	1,704
Finance costs	**2,285**	1,704
Net finance income	**(19,956)**	(6,500)

(b) Personnel costs

	Year ended 31 December 2011 RMB'000	2010 RMB'000
Wages, salaries, and other benefits	**128,628**	94,322
Contribution to defined contribution plans	**5,714**	4,160
	134,342	98,482

(c) **Other items**

	Year ended 31 December	
	2011	2010
	RMB'000	*RMB'000*
Purchase of and changes in inventories	**998,197**	872,969
Depreciation and amortisation	**39,620**	31,204
Operating lease rental expense	**135,663**	108,476
Net foreign exchange loss	**658**	5,954
Auditors' remuneration	**6,000**	1,533

6. INCOME TAX EXPENSE

	Year ended 31 December	
	2011	2010
	RMB'000	*RMB'000*
Current tax expense		
– current year	**48,920**	70,734
– over provision in respect of prior years	**(1,581)**	–
	47,339	70,734
Deferred tax expense		
Origination and reversal of temporary differences	**(3,972)**	(3,350)
	43,367	67,384

(i) Pursuant to the rules and regulations of the Cayman Islands, the Company is not subject to any income tax in the Cayman Islands.

(ii) No provision for Hong Kong Profits Tax was made for the subsidiaries located in Hong Kong as these subsidiaries did not have assessable profits subject to Hong Kong Profits Tax during the year. The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

(iii) Shirble Department Store (Shenzhen) and Shenzhen Shirble Chain Store were entitled to a preferential income tax rate of 15% according to Regulations on Special Economic Zones in Guangdong Province (Approved for implementation at the 15th Meeting of the Standing Committee of the Fifth National People's Congress on 26 August 1980). On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC (the "**New EIT Law**") which took effect on 1 January 2008. According to the New EIT Law and its relevant regulations issued in December 2007, the income tax rates applicable to Shirble Department Store (Shenzhen) and Shirble Chain Store are 24% for 2011 and 25% for 2012 onwards, respectively.

(iv) The applicable income tax rate for Changsha Shirble Department Store Limited Liability Company, Changsha Shirble Apparel Co., Ltd., Shenzhen Shirble Mingxing Trading Co., Ltd., Shenzhen Shirble Xiangzhixuan Trading Co., Ltd., Shenzhen Ruizhuo Trading Company Limited and Shenzhen Yuzhixiang Trading Company Limited, Dongguan Shirble Department Store Co., Ltd and Shanwei Shirble Department Store Company Limited is 25%.

7. DIVIDENDS

	Year ended 31 December	
	2011	2010
	RMB'000	*RMB'000*
Dividends declared and paid during the year	**–**	40,000
Interim dividend declared and paid of RMB0.0133 per Share (2010: Nil)	**33,250**	–
Final dividend proposed after the reporting period of RMB0.0062 per Share (2010: RMB0.0041)	**15,469**	10,250
Special dividend proposed after the reporting period of RMB0.0221 per Share (2010: Nil)	**55,139**	–
	103,858	50,250

The final and special dividends proposed after the reporting date has not been recognised as a liability at the reporting date.

8. EARNINGS PER SHARE ATTRIBUTABLE TO THE EQUITY SHAREHOLDERS OF THE COMPANY

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company for the year ended 31 December 2011 of RMB71,632,000 (2010: RMB200,082,000) and the weighted average of 2,498,560,504 (2010: 1,952,054,795) ordinary shares deemed to have been in issue during the year.

There were no potential dilutive ordinary shares throughout the years, accordingly, the basic and diluted earnings per share are the same.

9. TRADE AND OTHER RECEIVABLES

		As at 31 December	
		2011	2010
	Note	***RMB'000***	*RMB'000*
Trade receivables	*(a)*	**18,037**	4,107
Leased deposits		**34,626**	24,115
Interest receivables		**9,385**	819
Other receivables	*(c)*	**10,463**	17,971
Prepaid rental		**13,392**	7,980
Prepayments and deposits	*(b)*	**480,330**	96,595
Amounts due from related parties		**1,536**	–
		567,769	151,587

All of the trade and other receivables apart from deposits for lease of premises with a carrying amount of RMB34,626,000 at 31 December 2011 (2010: RMB24,115,000), are expected to be recovered or recognised as expenses within one year.

(a) Retail sales to individual consumers are usually settled in cash or by debit card or credit card. The Group has a policy of allowing a credit period ranging from 0 to 60 days to its corporate customers depending on the customers' relationship with the Group, their credit worthiness and settlement records.

An ageing analysis of trade receivables of the Group is as follows:

	As at 31 December	
	2011	2010
	RMB'000	*RMB'000*
Within three months	**17,562**	4,107
Over three months but within one year	**475**	–
	18,037	4,107

(b) Breakdown of prepayments and deposits of the Group is as follows:

		At 31 December	
		2011	2010
	Note	***RMB'000***	*RMB'000*
Prepayments for decoration	*(i)*	**88,896**	38,612
Prepayments for acquisition of a distribution centre	*(ii)*	**41,250**	41,250
Prepayments for acquisition of a property in Shenzhen	*(iii)*	**131,250**	–
Prepayments for acquisition of a property in Haifeng	*(iv)*	**84,000**	–
Prepayments to third parties/suppliers	*(v)*	**166,934**	16,733
		512,330	96,595
Provision of impairment loss on prepayments for acquisition of a property in Haifeng	*(iv)*	**(32,000)**	–
Total		**480,330**	96,595

(i) The balance includes payments of RMB55.3 million made to two decoration companies as prepayments for the decoration work of two department stores of the Group. The prepayments represent 70.0% of the contract amount of the decoration work. The contracts for the decoration work were terminated by mutual agreements between the parties and the prepayments of RMB55.3 million were refunded from the respective decoration companies subsequent to the year-end date because of the delay in delivery/acquisition of properties of two department stores and the new implementation of the contractors selection procedures. For further details, please refer to Section XII of this announcement.

(ii) The balance represents a prepayment for purchase of a distribution centre from a developer. As the Directors have assessed the risk involved in the non-delivery of the distribution centre and a more suitable alternative had been provided to the Board, the Board decided to terminate the relevant non-binding letter of intent for purchase of the distribution centre and the prepayment of RMB41.25 million was refunded from the developer in March 2012. No construction work on the property has commenced. For further details, please refer to Section XII of this announcement.

(iii) The balance represents a prepayment for purchase from the developer of a three-storey commercial property located in Shenzhen. The prepayments represent 50.0% of the consideration under the sale and purchase agreement. The contract for purchasing the three-storey commercial property was terminated by mutual agreement between the parties due to increased costs for modifications of internal structural designs according to the Group's requirements, and the prepayment of RMB131.25 million was refunded by the developer in March 2012. For further details, please refer to Section XII of this announcement.

(iv) The balance represents a prepayment for purchase of a property located in Haifeng from a developer, Haifeng Wanye. In accordance with the sale and purchase agreement signed between Haifeng Wanye and the Company dated 28 December 2011, the consideration for the property is RMB168.0 million.

After signing the Haifeng Sale and Purchase Agreement, Shanwei Shirble and Haifeng Wanye negotiated and agreed to reduce the amount of the first instalment from RMB89.0 million to RMB84.0 million. The Haifeng Sale and Purchase Agreement does not provide for the specific terms for adjustments to the amount of the first instalment. In the circumstances, the payment of RMB84.0 million was settled by the Group, of which RMB16.0 million was paid to Haifeng Wanye in the PRC and the remaining balance of RMB68.0 million was paid by the Company in Hong Kong to three individuals and one company in their respective bank accounts in Hong Kong in accordance with the instructions of Haifeng Wanye. The payment arrangement was made in accordance with the Haifeng Sale and Purchase Agreement, the terms of which has been approved by the Board. The Directors confirm that the payments made to Haifeng Wanye's nominated persons were made in strict compliance with the Haifeng Sale and Purchase Agreement, and upon the request made by, Haifeng Wanye.

On 1 April 2012, the Group made a further payment of RMB79.0 million (which includes RMB11.0 million as partial settlement of 2nd installment and RMB68.0 million, being the same amount originally paid offshore) to Haifeng Wanye in the PRC, and Haifeng Wanye refunded RMB68.0 million to the Group through the three offshore individuals and one offshore company during the period from 11 April 2012 to 13 April 2012. In July 2012, the Group made a further payment of RMB68.0 million to Haifeng Wanye. Up to the date of this announcement, net payments of RMB163.0 million has been made by the Group to Haifeng Wanye for the acquisition of the property located in Haifeng. Pursuant to the Haifeng Sale and Purchase Agreement, the remaining balance of RMB5.0 million is expected to be made in around December 2012 when the building ownership certificate is issued.

The consideration for the property stated in the form submitted to the government authorities on 22 March 2012 was RMB100.0 million which is RMB68.0 million less than the consideration set forth in the Haifeng Sale and Purchase Agreement. The Directors were told by Haifeng Wanye that the arrangements were intended to be made for Haifeng Wanye's tax consideration purpose. Because the arrangement did not expose the Group to any additional payment obligation, the Group followed the requests made by Haifeng Wanye. At that time, the Group sought verbal legal advice from its PRC legal advisers and was advised that the consideration for the property registered with the government authorities should be the same as the consideration stipulated in the Haifeng Sale and Purchase Agreement. The PRC legal advisers also advised that there would be no legal or tax consequence for the Group if, upon full payment of the consideration of RMB168.0 million by the Group to Haifeng Wanye, all the subsequent documents to be submitted to local government authorities and the related certificates to be issued, would reflect the total amount of consideration of RMB168.0 million. Upon settlement of RMB163.0 million, the online registration documents which reflect a total consideration of RMB168.0 million was re-submitted on 1 August 2012. Pursuant to the Haifeng Sale and Purchase Agreement, the remaining balance of RMB5.0 million is expected to be made in around December 2012, which is the expected issuance date of the building ownership certificate.

Prior to entering into the transaction, the Board has appointed an independent property valuer, Property Valuer A, to conduct a valuation of the property in Haifeng County. According to the valuation report prepared by Property Valuer A, the valuation of the property in Haifeng County as of 30 November 2011 was RMB170.0 million. The Directors understand that the valuation method used in the report prepared by Property Valuer A is by comparing the market value or the estimated amount for which a property should exchange in an arm's length transaction of other properties in the surrounding area of the property in Haifeng County. Hence, the valuation is essentially based on a comparison of the comparable properties considered to be appropriate by Property Valuer A.

During the course of the audit of the consolidated financial statements for the year ended 31 December 2011, the Auditors requested the appointment of another property valuer for a second opinion on the value of the property in Haifeng County. In order to support and expedite the process, the Directors appointed Property Valuer B on 3 April 2012. Property Valuer B, among a few other independent property valuers, was introduced to the Company through the Auditors. The valuation report of Property Valuer B was provided on 25 May 2012 and stated that the valuation as of 31 December 2011 was RMB136.0 million. Based on the valuation report by Property Valuer B, the difference of RMB32.0 million was recognised as an impairment loss on prepayments for acquisition of the property in Haifeng County. The Directors understand that the valuation method used in the report prepared by Property Valuer B is by comparing the market value or the estimated amount for which a property should exchange in an arm's length transaction of other similar properties in Guangdong (including Haifeng County, Foshan City and Tianhe District) – an area which is much larger than the area selected by Property Valuer A.

The Company will continue to proceed with the Haifeng Sale and Purchase Agreement. For further details, please refer to Section XII of this announcement.

(v) The balance included payments of RMB152.5 million made to three entities as prepayments for purchase of goods as of 31 December 2011. Additional RMB110.0 million prepayments were made by the Group to two of these three entities in January 2012. All of these prepayments were refunded from these three entities in March 2012. For further details, please refer to Section XII of this announcement.

(c) Breakdown of other receivables is as follows:

		As at 31 December	
		2011	2010
	Note	***RMB'000***	*RMB'000*
Other receivables		**20,463**	17,971
Provision for tendering deposit	*(i)*	**(10,000)**	–
		10,463	17,971

(i) In December 2011, the Group paid RMB10.0 million as a deposit for the tendering of a project in Dongguan, PRC to the local government. The Group's tender has been accepted by the local government, but details of the terms of the agreement are still under negotiation and a formal agreement is yet to be entered into. In view of the uncertainty of the project, a provision has been made.

10. TRADE AND OTHER PAYABLES

	As at 31 December	
	2011	2010
	RMB'000	*RMB'000*
Amounts due to related parties	**2,959**	5,480
Advances received from customers	**413,903**	389,859
Trade payables	**347,448**	278,054
Rental payables	**102,553**	86,959
Other taxes payables	**53,668**	49,213
Deferred income	**31,665**	24,834
Accrued wages and salaries	**15,650**	12,888
Advances from third parties	**69,637**	–
Other payables and accruals	**67,098**	46,282
	1,104,581	893,569

An ageing analysis of trade payables of the Group is as follows:

	As at 31 December	
	2011	2010
	RMB'000	*RMB'000*
Within three months	**254,333**	220,866
Over three months but within one year	**63,356**	44,244
Over one year	**29,759**	12,944
	347,448	278,054

V. MANAGEMENT DISCUSSION AND ANALYSIS

The Directors refer to the announcements of the Company dated 30 March 2012, 30 April 2012, 31 May 2012, and 12 June 2012. The Company's delay in making announcement of the audited results for the year ended 31 December 2011 was primarily due to (a) the time required for the Group to provide the Auditors with additional information on certain transactions engaged by the Group in 2011, (b) the time required by the Audit Committee to review and investigate the transactions expected to be qualified by the Auditors in the audited accounts of the Group, and (c) the time required for Moore Stephens to conduct an investigation on the above transactions and prepare the Moore Stephens Review Report. The views of the Audit Committee on those transactions, and an extract of the Moore Stephens Review Report, are set forth in this announcement. The executive Director and the senior management of the Group have worked closely with the Auditors and provided such information for the purpose of facilitating completion of the relevant auditing procedures. However, the Auditors do not consider that sufficient information and evidence have been provided to them for the purpose of expressing an unqualified opinion in respect of those transactions. A qualified opinion will be issued by the Auditors in respect of those transactions. Further information on the transactions being the subject matters of the Auditors' qualified opinion is set forth in the section headed "XII. Extract of the Auditors' qualified opinion to be included in the Auditors' report, the Directors' response to the qualified transactions and the opinion of the Audit Committee" below.

Nevertheless, the Directors (including the independent non-executive Directors who are the members of the Audit Committee) consider that the fundamentals of the Group remained strong with the turnover and the total gross proceeds received from its customers increased in 2011.

Market analysis and business review

In 2011, the Group focused on the business expansion in the second- and third-tier cities in Guangdong Province and the establishment of an operational platform to support the growth. Despite a general slowdown in the growth of the PRC economy, the Group's total gross sales proceeds recorded a growth of 12.3% reaching RMB2,302.2 million in 2011 from RMB2,049.6 million in 2010. Turnover increased by 12.0% to RMB1,433.6 million in 2011 from RMB1,279.6 million in 2010. Due to (a) the increase in the administrative expenses and the operating costs (mainly rental expenses and personnel costs) incurred for the department stores opened in 2010 and 2011 at a faster pace than the increase in sales in 2011, (b) the decrease in other revenue, and (c) the increase in the personnel cost, provision for tendering deposit and the impairment loss on the prepayments for the acquisition of a property in Haifeng County, Guangdong Province, the PRC, the profit attributable to the equity shareholders of the Company declined to RMB71.6 million in 2011 from RMB200.1 million in 2010.

In May 2011, the Group entered into an agreement to acquire a property in Shajing, Bao'an District, Shenzhen for the purchase price of RMB262.5 million. The property is expected to have GFA of 35,000 sq. m. The Group's original plan was to open a new department store at the property in 2013. In March 2012, however, in view of the construction progress and based on further assessment of the latest status of the project by the executive Director and senior management of the Group, the Group decided to terminate the acquisition and the vendor agreed to, and has refunded the amount of the purchase price to the Group.

In June 2011, the Group expanded its department store network through the acquisition of the operating rights of two department stores in Dongguan City for the purchase price of RMB29.0 million. The two department stores have an aggregate GFA of 17,598 sq. m. The two department stores, namely the Changfu Store and the Liaobu Store, were open in December 2011. These department stores are very close to the road transportation hub of Dongguan City.

In September 2011, the Group opened the Liansheng Store in Dongguan City with GFA of 12,877 sq. m. Together with the Changfu Store and the Liaobu Store, the opening of three department stores in Dongguan City enables the Group to capture the business opportunity in one of the key cities in Guangdong Province.

In December 2011, the Group entered into an agreement to acquire a property in Shanwei City, Haifeng County for the purchase price of RMB168.0 million. The property consists of a three-storey commercial building with GFA of 18,933.38 sq. m. The business expansion into Dongguan City and Shanwei City is part of the Group's strategy to open new department stores in the second- and third-tier cities in Guangdong Province, the PRC.

In 2011, the Group completed its first-stage renovation plan for selected department stores, focusing mainly on the enhancement of their ancillary facilities. The second-stage renovation plan for other department stores of the Group is in progress. The renovation plan is important in enhancing the recognition of the brand of the Group and improving the shopping experience of the customers.

As of 31 December 2011, the Group owned and operated a total of 16 department stores. including 11 department stores in Shenzhen, one in Shanwei City, one in Changsha City and three in Dongguan City. The aggregate GFA of the 16 department stores is 239,159 sq. m.

In 2011, the Group continued to promote its VIP customer programme. The Directors believe that the implementation of a new computerised system could also provide a platform to enhance the communications with the Group's VIP customers, which would enhance the customers' loyalty. As of 31 December 2011, the Group had 614,000 VIP customers, representing an increase of 22.8% from 500,000 customers as of 31 December 2010. Sales from these VIP customers accounted for 63.2% of the Group's total gross sales proceeds.

In order to capture the new business opportunities from customers in the PRC looking for lifestyle products, in January 2012, the Group established SMART Lifestyle Specialty Store, a high-end supermarket with GFA of 2,600 sq. m. in Shenzhen.

Business outlook

Looking ahead, the Directors are cautiously positive on the continuous economic development in the PRC in 2013 and believe that the PRC government will continue the implementation of favourable economic policies to sustain the growth in the domestic consumption in the PRC, which could facilitate the continuous growth of the retail sector in the PRC amid the international economic uncertainties.

Continue expansion into second- to third-tier cities in Guangdong Province

The Group targets to open not less than four department stores by the end of 2012 to increase the Group's total GFA to approximately 365,000 sq. m. These department stores are planned to be located at Shanwei City, Dongguan City and Shenzhen. In view of the economic growth in the second- and third-tier cities in Guangdong Province and leveraging the brand recognition of the existing department stores of the Group in Shenzhen, the Group intends to establish a network of department stores in these regions. In December 2011, the Group acquired a property in Shanwei City, Haifeng County, and a new department store was opened within the property in November 2012. In the near future, the Group will continue to expand into the neighboring regions of Guangdong Province in order to increase its market share in these regions.

Upgrade of the information technology system

The Group has commenced the upgrade of its information technology system, with the first stage encompassing the basic infrastructure, enhancement of finance and business intelligence modules, logistics functions and the point-of-sale management functions. The trial operation of the system has begun in October 2012. The Directors expect that the overall operational procedures and management efficiency will be improved after completion of the upgrade.

Enhancement of the distribution network and logistics system

The Group has enhanced its distribution capability and services by leasing a new distribution centre in Shenzhen in April 2012. The distribution centre, together with the upgrade of the information technology logistics module, will help to improve the inventory management and control systems and increase the operational efficiency of the Group.

Strengthening of the internal control procedures and recruitment of new management teams

The Group recruited new experienced management teams at each operational level starting from December 2011. The Group will continue to recruit new management teams as part of the improvement measures of the internal control procedures. The Directors believe that the new management could bring expertise in the relevant areas to support the business development of the Group.

VI. FINANCIAL REVIEW

Total gross sales proceeds

The Group's total gross sales proceeds (representing the sum of revenue from direct sales, total sales proceeds from concessionaire sales within the department store and reversal of deferred income in respect of long-aged unredeemed pre-paid cards) grew to RMB2,302.2 million in 2011, representing an increase of 12.3% from RMB2,049.6 million in 2010. The increase was mainly attributable to the inclusion of the full-year performance of the Shajing Store and the Minzhi Store, the increasing sales of the three department stores in Dongguan City and the recognition of proceeds of RMB21.3 million from pre-paid cards which Directors consider the likelihood of redemption for such pre-paid cards was remote.

Revenue from direct sales amounted to RMB1,171.1 million in 2011, while total sales proceeds from concessionaire sales amounted to RMB1,109.8 million, accounting for 50.9% and 48.2%, respectively of the Group's total gross sales proceeds.

The following table sets forth the Group's total gross sales proceeds divided by the principal product categories:–

	Year ended 31 December			
	2011		2010	
	RMB' million	*%*	*RMB' million*	*%*
Electronics and home appliances	**243.6**	**10.6**	255.4	12.5
Clothes, apparel and bedding	**577.5**	**25.1**	500.7	24.4
Children's goods	**65.1**	**2.8**	65.3	3.2
Sporting and stationery goods	**65.2**	**2.8**	63.9	3.1
Food and beverages	**980.1**	**42.6**	854.5	41.7
Daily necessities and cosmetic goods	**349.4**	**15.2**	309.8	15.1
Others	**21.3**	**0.9**	–	–
Total	**2,302.2**	**100.0**	2,049.6	100.0

Turnover

The Group's turnover amounted to RMB1,433.6 million in 2011, representing an increase of 12.0% as compared to RMB1,279.6 million in 2010. The increase was principally due to the growth in turnover generated from direct sales and reversal of deferred income in respect of pre-paid cards for which Directors considered the likelihood of redemption was remote.

Direct sales increased by 15.4% to RMB1,171.1 million in 2011 from RMB1,014.4 million in 2010, principally due to the opening of the three department stores in Dongguan City in 2011 and the continuous increase in the sales of three department stores in Changsha, Longzhu and Huahaoyuan. Direct sales as a percentage of the Group's total turnover was 81.7% in 2011 as compared to 79.3% in 2010.

Commission from concessionaire sales decreased by 9.9% to RMB198.1 million in 2011 from RMB219.9 million in 2010. The decrease was principally due to reduction in commission rate as a result of additional promotional activities and the slight inclination to supermarket sections at the three new Dongguan stores during the year. The commission rate of concessionaire sales was 17.9% as compared to 21.2% in 2010. Commission from concessionaire sales as a percentage of the Group's total turnover was 13.8% in 2011 as compared to 17.2% in 2010.

Rental income decreased slightly by 4.8% to RMB43.1 million in 2011 from RMB45.3 million. Rental income as a percentage of the Group's total turnover was 3.0% as compared to 3.5% in 2010.

Income from reversal of long-aged pre-paid cards represented the reversal of deferred income in respect of long-aged pre-paid cards of RMB21.3 million for which Directors considered the likelihood of redemption was remote. No such income was recognised in 2010.

From the second half of 2012, the Group will conduct a review on the level of usage of the prepaid cards to ensure timely recognition of income twice a year. The prepaid card balances that have not been used for a prolonged period will be recognised as income after being approved by the chief executive officer. In general, the balances of pre-paid cards can be recognised as income when the pre-paid cards have not been used in an extensive period or when the management considers that the possibility of subsequent use of the pre-paid cards is reasonably low. The management of the Group will conduct analysis based on the historical records of the pre-paid card usage to determine the possibility of its subsequent use and then the balances may be recognised as income or other appropriate accounting treatment may be made accordingly. The Group has also standardised the management of value-added tax ("**VAT**") filing treatment for prepaid cards sold by the Group. The Group was advised that VAT obligation will be incurred at the time when pre-paid cards were sold or when the customers use the pre-paid cards for purchase at the Group's department stores. In practice, the Group issues invoices for bulk-purchase prepaid cards and upon payment of goods by retail customers using prepaid cards, and VAT filing will be made monthly in accordance to the invoices issued. In terms of the accounting treatment of the prepaid card purchases, the Group adopts a prudent approach by making provision for the VAT according to the accumulated balance of the pre-paid cards sold by the Group.

Other operating revenue

Other operating revenue decreased by 38.7% to RMB111.2 million in 2011 from RMB181.4 million in 2010. The decrease was mainly due to less revenue earned after more stringent internal control imposed as a result of the new government policies imposed during the year.

Other net (loss)/income

Other net loss amounted to RMB40.7 million in 2011 as compared to other net income of RMB1.4 million in 2010 which was mainly attributable to the impairment loss on prepayment for acquisition of a property in Haifeng and provision for tendering deposit. Additional information is set forth in notes 9(b)(iv) and 9(c)(i) above.

Purchases of and changes in inventories

Purchase of and changes in inventories amounted to RMB998.2 million in 2011, representing an increase of 14.3% as compared to RMB873.0 million in 2010, which was in line with the increase in turnover from direct sales. As a percentage of turnover from direct sales, purchases of and changes in inventories was 85.2% in 2011 as compared to 86.1% in 2010.

Personnel costs

Personnel costs increased by 36.4% to RMB134.3 million in 2011 from RMB98.5 million in 2010, primarily due to the increase in headcounts for the three newly opened Dongguan stores, as well as the recognition of full year directors' remuneration of the Company and personnel costs of Shajing and Minzhi stores opened in second half of 2010.

Depreciation and amortisation

Depreciation increased by 27.0% to RMB39.6 million in 2011 from RMB31.2 million in 2010, primarily attributable to the increase in leasehold improvements and machinery for the new stores.

Operating lease rental expense

Operating lease rental expense increased by 25.1% to RMB135.7 million in 2011 from RMB108.5 million in 2010. This increase was mainly attributable to inclusion of whole-year rental expenses of Shajing and Minzhi stores which were opened in the second half of 2010, the rental expenses of the new Shenzhen headquarter and the Dongguan store which will be opened in 2012.

Other expenses

Other expenses, which mainly comprised utility expenses, advertising, marketing, promotion and related expenses, other tax expenses, bank charges and maintenance expenses, increased by 12.1% to RMB101.3 million in 2011 from RMB90.3 million in 2010. This was primarily due to the increase in number of stores in 2011.

Profit from operations

As a result of the reasons mentioned above, the Group's profit from operations decreased by 63.6% to RMB95.0 million in 2011 from RMB261.0 million in 2010, mainly as a result of the increase in operating costs for the stores opened in 2010 and 2011 which outpaced the increment in sales during the year as well as the impairment loss recognised for the acquisition of a property in Haifeng and provision for tendering deposit.

Finance income

Finance income increased significantly by 171.1% to RMB22.2 million in the year ended 31 December 2011 from RMB8.2 million in 2010 which was primarily attributable to the full year interest earned from bank deposit of net proceeds received from the initial public offering of the Shares in November 2010.

Finance costs

Finance costs increased by 34.1% to RMB2.3 million in 2011 from RMB1.7 million in 2010 was primarily attributable to the increase in interest paid for the outstanding bank borrowings.

Income tax expense

Income tax expense amounted to RMB43.4 million, representing a decrease of 35.6% from RMB67.4 million in 2010. The effective tax rate applicable to the Group was 24%. In addition, pursuant to the PRC Corporate Income Tax Law, the Group is liable to withholding taxes on dividends distributed by subsidiaries established in China. The applicable tax rate for the Group is 5%.

Profit attributable to equity shareholders of the Company

As a result of the aforementioned, profit attributable to equity shareholders of the Company decreased by 64.2% from RMB200.1 million in 2010 to RMB71.6 million in the year ended 31 December 2011.

VII. DIVIDENDS

The Directors proposed a final cash dividend of RMB0.0062 per Share (2010: RMB0.0041) and a special cash dividend of RMB0.0221 per Share (2010: Nil) for the year ended 31 December 2011 payable to the Shareholders whose names appear on the register of members of the Company on 7 February 2013 (Thursday).

Despite the fact that the profitability of the Group declined significantly in 2011, the Directors remain optimistic on the future business development of the Group and are committed to improve various operational aspects of the Group. The proposed cash dividends represent the Board's appreciation of the continuous supports from the Shareholders.

The proposed final and special dividends are subject to the approval by the Shareholders at the AGM. The proposed final and special dividends will be paid on or about 18 February 2013 (Monday) in Hong Kong dollars, and such amount is to be calculated by reference to the middle rate published by People's Bank of China for the conversion of Renminbi to Hong Kong dollars as of 30 January 2013 (Wednesday).

VIII. CLOSURE OF REGISTER OF MEMBERS AND RECORD DATES

For determining the entitlement to attend and vote at the AGM

The Company's register of members will be closed from 28 January 2013 (Monday) to 30 January 2013 (Wednesday) (both days inclusive), during which period no transfer of Shares will be registered. To ensure that Shareholders are entitled to attend and vote at the AGM, Shareholders must deliver their duly stamped instruments of transfer, accompanied by the relevant share certificates, to the Company's share registrar, Computershare Hong Kong Investor Services Limited, located at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m. on 25 January 2013 (Friday) for registration of the relevant transfer.

For determining the entitlement to the proposed final and special cash dividends

The proposed final and special cash dividends are subject to the approval of Shareholders at the AGM. For determining the entitlement to the proposed final and special dividends for the year ended 31 December 2011, the record date is fixed on 7 February 2013 (Thursday), and the Company's register of members will be closed from 5 February 2013 (Tuesday) to 7 February 2013 (Thursday) (both days inclusive), during which period no transfer of share will be registered. Shareholders must deliver their duly stamped instruments of transfer, accompanied by the relevant share certificates, to the Company's share registrar, Computershare Hong Kong Investor Services Limited, located at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m. on 4 February 2013 (Monday) for registration of the relevant transfer.

IX. TRADE AND OTHER RECEIVABLE

As of 31 December 2011, the Group's trade and other receivable was RMB567.8 million, representing an increase of RMB416.2 million from RMB151.6 million as of 31 December 2010. The amount mainly represented the prepayments for decoration works to be carried out for new stores of the Group in Dongguan, Haifeng and Meizhou and amounted to RMB88.9 million; the amount of RMB224.5 million paid for the acquisition of property, plant and equipment located in Shenzhen and Haifeng and the prepayments to a number of suppliers for procurement of supermarket goods which amounted to RMB152.5 million. Certain amounts of prepayment and deposits was refunded to the Group subsequent to the reporting period. Additional information is set forth in the paragraphs under "XI. Post balance sheet events" below.

X. LIQUIDITY AND FINANCIAL RESOURCES

As of 31 December 2011, the Group's cash and cash equivalents amounted to RMB1,303.3 million, decreased by RMB432.7 million from RMB1,736.0 million as of 31 December 2010. The cash and cash equivalents, which were in Hong Kong dollars and Renminbi, were deposited with banks in Hong Kong as short-term deposits for interest income and banks in the PRC.

As of 31 December 2011, the Group's outstanding bank borrowing amounted to RMB243.2 million (2010: Nil). The borrowings are denominated in Hong Kong dollars of fixed interest rate of 1.104% per annum. The gearing ratio of the Group expressed as a percentage of interest-bearing bank loans over the total assets was 8.3% as of 31 December 2011. The Group will continue to review its cashflow position and renew the bank borrowings when necessary.

Net current assets and net assets

The net current assets of the Group as of 31 December 2011 were RMB1,171.6 million, representing decrease of RMB92.3 million. The net assets of the Group as of 31 December 2011 increased to RMB1,555.2 million, representing an increase of 1.6%.

Pledge of assets

As of 31 December 2011, RMB430.2 million was pledged to bank.

Foreign exchange exposure

The Group mainly operates in PRC with most of its transactions settled in RMB. Certain of the Group's cash and bank balances are denominated in Hong Kong dollars and the Company pays dividends in Hong Kong dollars which expose the Group to foreign exchange risks arising from the translation of Hong Kong dollars against RMB. In 2011, the Group recorded a net foreign exchange loss of RMB0.7 million. The Group has not used any forward contracts, currency borrowings or other means to hedge its foreign currency exposure.

Employees

As of 31 December 2011, the total number of employees of the Group was 3,012. The Group's remuneration policy is determined with reference to market conditions and the performance, qualifications and experience of individual employees.

Contingent liabilities

As of 31 December 2011, the Group did not have any significant contingent liabilities.

XI. POST BALANCE SHEET EVENTS

After 31 December 2011, certain prepayments and deposits amounting to RMB380.3 million have been returned to the Group. Such prepayments and deposits were subject matter of the qualified opinion of the Auditors' report to the Shareholders. The details are as follows:–

(a) Prepayments in connection with decoration work under the decoration agreements in the amount of RMB55.3 million have been returned by two decoration companies upon the termination of the relevant decoration agreements. The parties have agreed to terminate the decoration agreements because of (a) the delay in the lease and the acquisition of the property in Meizhou as the vendor did not obtain the building ownership certificate for a certain area of the property; (b) the delay in the delivery of the property at Haifeng County due to additional structural modifications to be made by the property developer to fulfill the delivery standards and (c) the implementation of the new contractors selection procedures. No penalty was imposed for termination of the decoration agreements in view of the long-term business relationship between the Group and the relevant decoration companies.

(b) A deposit of RMB131.25 million for the acquisition of a three-storey commercial property to be constructed on a parcel of land located at Shajing, Bao'an District, Shenzhen has been returned to the Group as a result of the termination of the Shenzhen Sale and Purchase Agreement by the parties. After the property developer obtained the relevant land-use right certificate (土地證), construction land planning permit (建設用地規劃許可證), construction works planning permit (建設工程規劃許可證) and construction works commencement permit (建設工程施工許可證) for the construction of the property, the Group requested for modifications to the original structural design. However, such changes would increase the construction cost of the property developer and hence, the property developer requested for an increase in the purchase price. Following various negotiations, the Group and the property developer were not able to reach an agreement on the increased purchase price and subsequently. In March 2012, both parties agreed to terminate the agreement and the property developer returned the deposit of RMB131.25 million with no penalty payable by the Group.

(c) A deposit of RMB41.25 million for the acquisition of a distribution center in Shenzhen was returned to the Group. As the Directors have further assessed the risk involved in the non-delivery of the property and an alternative property was provided to the Board, the relevant non-binding letter of intent was terminated by the Group in writing on 25 March 2012.

(d) Prepayments to suppliers for procurement of goods in the amount of RMB152.5 million was returned to the Group after further negotiations with the suppliers. Shirble Department Store (Shenzhen) had entered into one-year contracts (as supplemented by the supplemental procurement contracts) with three suppliers (all of which are Independent Third Parties) for the purpose of securing sufficient supply (or at more competitive prices) of goods which have significant demand, such as wine and food, in the peak seasons. The procurement of goods from the three suppliers in 2011 was made in contemplation of the Group's then proposed expansion plans of the five new department stores in total in the fourth quarter of 2011 and the first quarter of 2012, in which one new department store commenced business in September 2011, two in December 2011, one in January 2012 and one in March 2012. Payments were made by the Group prior to the peak seasons, including the RMB110.0 million paid in January 2012 pursuant to the terms of the supplemental procurement contracts. Due to the market volatility and the fact that the supply and delivery time required by the suppliers did not satisfy the requirements of the Group, the suppliers agreed to refund the prepayments. No termination agreements were entered into with the three suppliers as the amount has been refunded to the Group. However, the Group has stopped procuring goods from these three suppliers since February 2012. No penalty was payable by the Group.

The Audit Committee has reviewed independently each of the above transactions and considers that there were commercial basis in entering into and subsequent termination of the relevant transactions (as the case may be). A detailed discussion of the considerations of the Audit Committee and its work done is set forth in the section headed "XII. Extract of the Auditors' qualified opinion to be included in the Auditors' report, the Directors' response to the qualified transactions and the opinion of the Audit Committee" below. The Audit Committee also considers that the Group's internal control procedures would need to be improved, and a summary of the improvement measures, all of which have been implemented by the Group except for the appointment of the additional independent non-executive Director, the chief executive officer and executive Director, is set forth in the section headed "XIII. Summary of improvement in the internal control procedures" below.

On 15 October 2012, Shanwei Shirble entered into a sale and purchase agreement with an Independent Third Party for the acquisition of a property (the "**Lufeng Property**") on a parcel of land located in Hongxing District, Donghai Town, Lufeng city, PRC at a consideration of RMB206,846,080 (equivalent to approximately HK$245,064,000). The consideration was determined on an arm's length basis following negotiations between the Group and the vendor with reference to the market value of the Lufeng Property as of 30 September 2012 appraised by an independent property valuer. The consideration will be settled out of the internal financial resources of the Group. The Lufeng Property will be used as a new department store. Details of the acquisition of the Lufeng Property were disclosed in the announcement (the "**Lufeng Acquisition Announcement**") dated 15 October 2012.

The Audit Committee has reviewed independently the acquisition transaction for the Lufeng Property and has reviewed the relevant internal control measures conducted by the Group. A detailed discussion of the internal control measures taken for the purpose of the acquisition, internal review and approval procedures completed for the Lufeng Property is disclosed in the Lufeng Acquisition Announcement. After reviewing the above, the Audit Committee is of the view that the relevant improvement internal control measures have been effectively implemented.

XII. EXTRACT OF THE AUDITORS' QUALIFIED OPINION TO BE INCLUDED IN THE AUDITORS' REPORT, THE DIRECTORS' RESPONSE TO THE QUALIFIED TRANSACTIONS AND THE OPINION OF THE AUDIT COMMITTEE

Auditors' qualified opinion

The following is an extract of the Auditors' report on the Group's annual audited consolidated financial statements for the year ended 31 December 2011:–

"Opinion

Basis for qualified opinion

(i) Prepayments and deposits

As described in note 17(b) to the consolidated financial statements, the Group recorded prepayments and deposits with a total balance of RMB512,330,000 as at 31 December 2011. The total balance includes payments of RMB55.3 million, RMB256.5 million and RMB152.5 million which are accounted for and disclosed as prepayments and deposits for the decoration work on two department stores of the Group, the purchases of three properties (a distribution centre and properties in Shenzhen and Haifeng) and goods respectively.

During the course of our audit, it came to our attention that the decoration work on two department stores and the construction work of the distribution centre and Shenzhen property had not commenced. It also came to our attention that a certain individual was either director or legal representative for three of the eight entities which were the counterparties to these transactions, that certain amount of these sums was paid in cash and that, in the case of the Haifeng property, the payments were being made to individuals and entities other than the developer and that the agreed purchase price of RMB168.0 million was RMB68.0 million in excess of the contract price registered with the relevant government bureaux and RMB32.0 million in excess of the valuation of the property carried out by a qualified valuer. In addition, we noted that during 2011, gross payments to the above-mentioned suppliers totalled RMB296.9 million compared to RMB33.4 million of goods received and that further payments totalling RMB110.0 million were made by the Group to the relevant suppliers in January 2012, increasing the balance of prepayments to these suppliers to RMB262.5 million.

As disclosed in note 17(b), subsequent to the year-end date, the contract for the decoration work on department stores, the letter of intent for purchase of the distribution centre, and the contract for purchase of Shenzhen property were terminated and refunds of the related prepayments and deposits were received from the respective entities. The Group also recovered the above-mentioned total amount of RMB262.5 million paid by the Group from the relevant suppliers in March 2012 and, as disclosed in note 5, the Group has recorded an impairment loss of RMB32.0 million on the purchase of the Haifeng property.

There is insufficient evidence available to us to ascertain the nature of the abovementioned payments made by the Group during the year. We are therefore unable to satisfy ourselves that these payments were properly accounted for and disclosed in the consolidated financial statements in accordance with the substance of their nature.

(ii) Advances from suppliers

Included in "Advances from suppliers" in note 21 to the consolidated financial statements are amounts received by the Group totalling RMB69.6 million. During the course of our audit, it came to our attention that these amounts were received close to the financial reporting date, and that subsequent to the year-end date RMB63.6 million of this amount was recorded as having been returned to the suppliers.

There is insufficient evidence available to us to ascertain the nature of the abovementioned receipts by the Group during the year. We are therefore unable to satisfy ourselves that these receipts were properly accounted for and disclosed in the consolidated financial statements in accordance with the substance of their nature.

Qualified opinion arising from limitation of audit scope

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the nature of the above-mentioned and any other similar transactions during the year ended 31 December 2011, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance."

Response from the Directors and the opinion of the Audit Committee following its independent review of the transactions

In response to the Auditors' qualified opinion on the transactions, the following sets forth the explanations from the executive Director and the senior management of the Group and the opinion of the Audit Committee on each of the transactions following its independent review.

All of the following transactions were engaged by the Group after Listing and in the course of business expansion of the Group applying the net proceeds raised from the initial public offering. The following transactions may also be classified as (1) prepayments under decoration agreements for the department stores planned to be opened by the Group (transactions (a) and (b) below), (2) payments of deposit or prepayments for the acquisition of properties for the department stores planned to be opened by the Group (transactions (c), (d) and (e) below), and (3) payments received from suppliers and payments made for the procurement of goods (transaction (f) below and the cash advances from certain suppliers). The executive Director and the senior management of the Group confirm that transaction under (1) and (3) were conducted as part of the ordinary course of business of the Group and transactions with similar nature were engaged by the Group before and after the Listing. The amount involved in those transactions following the Listing was significantly higher than the amount involved prior to the Listing, as the Group planned to expand its business rapidly in 2011 with the net proceeds raised from the initial public offering. Except for one property acquisition transaction conducted by the Group more than 10 years ago, no member of the Group entered into any property acquisition transactions as the Group usually leased properties for its department stores prior to the Listing.

Following the occurrence of the transactions below, the Directors (including the independent non-executive Directors who are the members of the Audit Committee) consider that the Group will need to improve its internal control procedures despite the fact that the sponsor to the Listing had confirmed, as part of the Listing in the sponsor's declaration, that "*the Company has established procedures, systems and controls (including accounting and management systems) which are adequate having regard to the obligations of the Company and its Directors to comply with the Listing Rules and other relevant legal and regulatory requirements*". The Audit Committee also considers that the internal control procedures are not adequate for the rapid business expansion of the Group, particularly following the retirement of the chief executive officer of the Group in November 2011. In this connection, the Group has implemented the improvement measures set forth in the section headed "XIII. Summary of the improvement in the internal control procedures" below. The Directors (including the independent non-executive Directors who are the members of the Audit Committee) confirm that the Group will continue to improve the internal control measures following the receipt of further recommendations from Moore Stephens (or other independent internal control advisers) upon their periodic reviews on the Group's internal control procedures in the future.

(i) Transactions involving prepayments and deposits

These transactions include (a) a prepayment of RMB21.0 million for the decoration of the property for the Meizhou Store, (b) a prepayment of RMB34.3 million for the decoration of the property for the Haifeng Store, (c) a payment of deposit of RMB41.25 million for the acquisition of a distribution centre in Shenzhen, (d) a prepayment of RMB131.25 million for the acquisition of a three-storey commercial property in Shenzhen, (e) a prepayment of RMB84.0 million for the acquisition of a property in Haifeng County for the Haifeng Store, and (f) a prepayment of RMB152.5 million made to the suppliers of the Group for the procurement of goods.

a. Prepayment of RMB21.0 million for the decoration of the property for the Meizhou Store

Background information

The Group commenced the discussions with the property developer in August 2011 on the proposed lease and acquisition of various properties for the Meizhou Store. The lease and the acquisition of the property for the Meizhou Store consisted of a proposed lease and a proposed acquisition of the phase two of the property (the "**Phase 2 Property**") and the phase three of the property (the "**Phase 3 Property**") at which the Meizhou Store was planned to be established. The Group conducted on-site inspections of the properties to ensure that both the building structure and the location of the properties are suitable for the proposed department stores of the Group. The inspections were accompanied by selected decoration companies to ensure that the building structure of the properties are suitable for the proposed fit-out of the department stores. The Directors confirm that there was no formal rental/acquisition agreement entered into for Meizhou Store.

Phase 2 Property

A framework sale and purchase agreement was entered into on 27 September 2011 for the acquisition of the shops on the street level. A framework rental agreement was also entered into on 27 September 2011 for the lease of the building. Pursuant to the framework sale and purchase agreement, the valuation of the property was completed in November 2011 and both parties reached an initial agreement on the purchase price for the street-level shops in early December 2011.

Phase 2 framework sale and purchase agreement

The principal terms of the framework sale and purchase agreement are set forth below:–

Location:	Street-level shops of Huang Jia Ming Dian Phase II Project, Zheng Xing Road, Meizhou
Purchase price and payment:	– The purchase price for the property, as determined by an independent third party valuation firm recognised in Hong Kong and the PRC, shall be set forth in the confirmation letter. – The confirmation letter shall be entered into and the purchase price shall be determined within 45 days of the effective date of the framework agreement. – The formal sale and purchase agreement shall be signed within 10 days of the receipt of notice from the vendor that it has obtained the property pre-purchase conditions. – Payment method and arrangement shall be set forth in the formal sale and purchase agreement. – The deposit of RMB1.0 million shall be paid by the purchaser within three business days from the signing of the framework agreement.

Condition of property: – The vendor undertakes that the property will fulfil the pre-purchase conditions on or before 31 December 2011. Upon any delay, the vendor agrees to return the deposit plus interest calculated based on the lending interest rate of the bank for fixed assets to the purchaser as settlement.

– The vendor shall lawfully obtain the pre-purchase certificate before entering into the formal sale and purchase agreement.

Termination: The framework agreement shall be automatically terminated if the purchase price cannot be agreed upon by the parties and the deposit of RMB1.0 million will be refunded without interest.

Phase 2 framework rental agreement

The principal terms of the framework rental agreement are set forth below:–

Location: Building of Huang Jia Ming Dian Phase II Project, Zheng Xing Road, Meizhou

Term: 20 years from the date of rent incurred

Rent: – RMB23 per square metres on a monthly basis (inclusive of property management fee except for cleaning, security services and other works).

– Beginning from the fourth year after the date of rent incurred, the rent shall be increased by 4% every three years.

– Rent-free period: 12 months after delivery of lease property to carry out renovation and additional three months during operation period for further renovation.

Deposit: The deposit of RMB100,000 shall be paid by the tenant within two business days from the signing of the framework agreement.

Formal rental agreement: The parties shall enter into a formal rental agreement within 45 days of the effective date of the framework agreement.

The Phase 2 Property was originally planned to be delivered to the Group in December 2011. However, after the signing of the framework agreements in September 2011 and completion of valuation of property in November 2011, the Group noticed from the valuation report that the building ownership certificate for a certain area of the property was not available. Such finding was also subsequently confirmed by the vendor. Since the vendor promised the Group that it would obtain the building ownership certificate within a short period of time, the Group then decided to continue to enter into the decoration agreement with the Contractor A on 18 December 2011 in order to expedite the store opening process.

No meeting of the Board was held for the approval of the decoration work as the transaction was part of the ordinary course of business of the Group, which was only subject to the approvals of the engineering director and the vice president of the Group. The Directors (including the independent non-executive Directors who are the members of the Audit Committee) confirm that neither the engineering director nor the vice president is a member of the Board and both of them are senior management of the Group. The Directors (including the independent non-executive Directors who are the members of the Audit Committee) consider that the engagement of the decoration contractor and the partial prepayment of the decoration cost were part of the normal practice in the PRC and were entered into on normal commercial terms and in the interest of the Group as a whole.

Phase 2 decoration agreement

A summary of the terms of the decoration agreement for Meizhou Store with GFA of 26,000 sq. m. is set forth below:–

Project costs:	Approximately RMB30.0 million
Prepayments:	In order to reduce the decoration cost and the time required with a better control of the total cost, Shenzhen Shirble Chain Store agreed to pay the Contractor A an amount of RMB21.0 million which is equivalent to 70.0% of the estimated total decoration cost for the project as prepayment within seven days after the signing of the agreement. The amount equivalent to 30.0% of the prepayment, i.e RMB6.3 million, may be paid in cash. The Contractor A would use the prepayment for the purchase and procurement of the materials and equipment required for the project.
Settlement of the remaining costs:	After completion of the construction design, Shenzhen Shirble Chain Store and the Contractor A may determine the construction price based on the design and the status of the on-site work progress. The parties will then enter into a separate contract. Shenzhen Shirble Chain Store shall further pay the construction company 20.0% of the consideration, i.e. RMB6.0 million, upon 90.0% completion of the construction works. After completion of the project, Shenzhen Shirble Chain Store and the Contractor A shall carry out settlement based on the construction design and the status of the on-site signing of certificate.
Materials used:	Contractor A shall ensure that the materials used will meet the requirements of Shenzhen Shirble Chain Store and the equipment purchased must comply with the specifications, models and technical parameters provided by Shenzhen Shirble Chain Store.
Further negotiations:	The decoration agreement also provides that any matters not covered therein should be resolved through discussions between the parties in good faith.

As the Group was able to obtain 5.0% discount to the estimated project cost by making the prepayment, the executive Director and the senior management of the Group considered that the prepayment terms in the decoration agreement was acceptable.

Termination of the decoration agreement for the Phase 2 Property for the Meizhou Store

After several months from the signing of the decoration agreement in December 2011, the building ownership certificate was still not available. The executive Director and the senior management of the Group decided, following various discussions with the vendor, not to proceed with the project and requested for the termination of the framework rental and sale and purchase agreements. The framework rental and sale and purchase agreements were terminated on 18 May 2012 and the Group has received full refund of the deposits paid pursuant thereto. Because of the anticipated termination and in order to avoid additional costs on decoration design and procurement plan of raw materials being incurred, the relevant decoration agreement was also terminated on 25 March 2012. The prepayments paid to the Contractor A was refunded to the Group in March and April 2012 because the Contractor A was able to use the purchased materials (cement, etc.) for other projects not related to the Group.

Phase 3 Property

A framework sale and purchase agreement was entered into on 27 September 2011 for the acquisition of the shops on the street level. A framework rental agreement was entered into on 27 September 2011 for the lease of the building. As the development of the Phase 3 Property had yet to commence and the Group would still proceed with the Phase 3 project, the Group and the vendor/landlord re-negotiated a change in the layout of the first/ground floor of the Phase 3 Property, which was initially planned to be sub-divided into individual street-level shops as reflected by the framework sale and purchase agreement dated 27 September 2011 above. Instead of acquiring the street-level shops, the Group would only lease the street-level shops, which will no longer be subdivided into individual units. Together with the second floor which is to be leased under the framework rental agreement dated 27 September 2011, the Group terminated all the framework agreements for Phase 3 Property and a letter of intent was entered into on 22 March 2012 for the lease of ground floor (which was initially planned as subdivided individual stores on the street level on the Phase 3 premises under the framework sale and purchase agreement dated 27 September 2011) and second floor of the building being part of the Phase 3 Property. No decoration contractors were appointed and no decoration agreement was entered into for the Phase 3 Property as of the date of this announcement.

Phase 3 framework sale and purchase agreement

The principal terms of the framework sale and purchase agreement are set forth below:–

Location: Street-level shops of Huang Jia Ming Dian Phase 3 project

Purchase price and payment:

- The purchase price for the property, as determined by an independent third party valuation firm recognised in Hong Kong and the PRC, shall be set forth in a confirmation letter.
- The confirmation letter shall be entered into and the purchase price shall be determined within 45 days of the effective date of the framework sale and purchase agreement.
- The formal sale and purchase agreement shall be signed within 10 days of the receipt of notice from the vendor that it has obtained the property pre-purchase conditions.
- Payment method and arrangement shall be set forth in the formal sale and purchase agreement.
- The deposit of RMB1.0 million shall be paid by the purchaser within three business days from the signing of the framework agreement.

Condition of property:

- The vendor undertakes that the property will fulfil the pre-purchase conditions on or before 31 December 2012. Upon any delay, the vendor agrees to return the deposit plus interest calculated based on the lending interest rate of the bank for fixed assets to the buyer as settlement.
- The vendor shall lawfully obtain the pre-purchase certificate before entering into the formal sale and purchase agreement.

Termination: The framework agreement shall be automatically terminated if the purchase price cannot be agreed upon by the parties and the deposit of RMB1.0 million will be refunded without interest.

Phase 3 framework rental agreement

The principal terms of the framework rental agreement are set forth below:–

Location: Building of Meizhou, Phase III Project, Zheng Xing Road, Huang Jia Ming Dian

Term: 20 years from the date of rent incurred

Rent:

- RMB28 per square metres on a monthly basis (inclusive of property management fee except for cleaning, security services and other works).
- Beginning from the fourth year after the date of rent incurred, the rent shall be increased by 4% every three years.
- Rent-free period: 12 months after delivery of lease property to carry out renovation and additional three months during operation period for additional renovation.

Deposit:	The deposit of RMB200,000 shall be paid by the tenant within two business days from the signing of the framework agreement.
Formal rental agreement:	The parties shall enter into a formal rental agreement within 45 days of the effective date of the framework agreement.

Nature of the transaction being the subject matter of the qualified opinion of the Auditors

The Auditors noted that the decoration agreement in relation to Phase 2 Property was entered into prior to the signing of the formal sale and purchase agreement and 70.0% of the contracted sum was paid as deposit. Further, the decoration work did not commence during the course of their audit.

As such, the Audit Committee has conducted an independent review of the documents available to it and has meetings with the executive Director and senior management of the Group. The principal factors and reasons the Audit Committee have taken into account in assessing the commercial basis for the decoration agreement are set forth below.

The Audit Committee's consideration of the commercial basis for entering into the decoration agreement prior to the signing of the formal sale and purchase agreement

As disclosed in the Prospectus, the Group planned to expand its retail chain in Shenzhen and the neighboring regions. As further set forth in the 2011 Interim Report, the Group targeted to open four to five department stores in 2012 and intended to establish a network of department stores in the second- to third-tier cities in Guangdong Province and Hunan Province. Since Meizhou is a third-tier city in Guangdong Province, the Audit Committee considers that opening a store in Meizhou is consistent with the business plan of the Group.

In order to execute the business plan, Shirble Department Store (Shenzhen) entered into the framework agreements on 27 September 2011 for the lease and acquisition of the Phase 2 Property. As discussed with the executive Director and the senior management of the Group, the Audit Committee noted that the framework sales and purchase agreement was entered into with the purchase price to be determined by an independent valuation firm. The formal rental agreement would only be entered into upon the signing of the formal sales and purchase agreement as they were complementary to each other.

Upon the signing of the framework agreements for the Phase 2 Property, the Group proceeded to engage an independent valuation firm to determine the valuation of the Phase 2 Property. During the course of valuation, the Group noticed in the valuation report, and was confirmed by the vendor, that the building ownership certificate for a certain area of the Phase 2 Property was not available. Hence, the pre-purchase conditions could not be fulfilled. Since the vendor/landlord promised to the Group that it would obtain the building ownership certificate within a short period of time, considering that it would take several months to undergo the decoration, in order to save time so that the original store opening scheduled in the first half of 2012 can be met, the Group entered into a decoration agreement with the Contractor A in order to save the preparation time for the opening of the department store. The Audit Committee considers that this decision was consistent with the practice of the Group and was justified in light of the then circumstances and the normal business practice of the Group.

The Audit Committee understands that the Contractor A was responsible for part of the decoration work of a department store of the Group located in Dongguan City and that the decoration work of the department store in Dongguan City completed by the Contractor A was satisfactory. In addition, the Audit Committee has confirmed that the Contractor A attended the initial inspection of the Phase 2 Property. Hence, the Contractor A was selected to undertake the decoration of the Phase 2 Property.

The Audit Committee's consideration of the commercial basis for the payment terms under the decoration agreement

The Audit Committee noted that the prepayment was paid to the Contractor A so that the Contractor A could arrange to purchase materials and equipment in advance in order to save the preparation time and fix the decoration cost and other material costs. In addition, the Group was able to obtain 5.0% discount to the estimated project cost. The Audit Committee also noted that prepayments under decoration agreements was a common term in other decoration agreements with other contractors of the Group and believed that it is the industry practice for prepayments to be paid to decoration companies in order to fix the decoration and other material costs. As the Group has made prepayments to other contractors in the past for the same purposes, the Audit Committee considers that the prepayment made to the Contractor A was reasonable.

The Audit Committee noted that 70.0% of the estimated project cost was paid by the Group as prepayment and 30.0% of the prepayment was settled in cash and the remaining balance of the prepayment was settled by telegraphic transfer in December 2011. The Audit Committee considers that the amount of the prepayment was insignificant based on the total assets of the Group as of 31 December 2011. Although the amount was insignificant to the Group, the Audit Committee noted that the prepayment was made when the Contractor A had not commenced any decoration work at the property and that the Phase 2 Property was not available several months after the signing of the relevant decoration agreement. Having considered all the relevant factors set forth above, the insignificant amount of the prepayment, the net cash position of the Group and the low gearing ratio of the Group, the Audit Committee considers that the prepayment does not result in any material adverse impact on the Group.

The Audit Committee further considered the reasonableness of the amount of the prepayment in light of the estimated project cost. The Audit Committee noted that the prepayment represented 70.0% of the estimated project cost. By making such prepayment, the Group was offered 5.0% discount to the estimated project cost. The Audit Committee also noted that Contractor A has been engaged by the Group in the past with satisfactory work quality. In light of these factors and the fact that the amount involved was insignificant, the Audit Committee considers that the amount of the prepayment was reasonable in the then circumstances.

The Audit Committee's consideration of the commercial basis for the subsequent termination of the decoration agreement

As the decoration agreement is ancillary to the acquisition of the Phase 2 Property, the Audit Committee concurs with the view of the executive Director and the senior management of the Group that it would be in the interest of the Group as a whole to terminate the decoration agreement as soon as possible as a result of termination of the acquisition of the Phase 2 Property.

Work done by the Audit Committee

To ascertain the representation made by the executive Director and the senior management of the Group, the Audit Committee has conducted the following:–

1. Reviewing the market feasibility report and concurring that Meizhou is one of the potential markets among third-tier cities in Guangdong Province suitable for the Group to develop the business.

2. Reviewing the framework acquisition agreement for Phase 2 Property and noted that the terms for determining the purchase price and the pre-sale conditions are consistent with management representations.

3. Reviewing the valuation report prepared by an independent valuation firm and noted that the building ownership certificate for certain area of the Phase 2 property was not available.

4. Reviewing the decoration agreement in relation to the decoration of the Phase 2 Property and confirmed that the payment to the Contractor A was made in accordance to the payment terms in the decoration agreement.

5. Reviewing the previous decoration agreements with other decoration companies in relation to the decoration of other department stores of the Group and noted that prepayment was a common term in these decoration agreements.

6. Discussing and reviewing the background information of the Contractor A and has obtained the independence confirmation signed by each Director that the Contractor A is an Independent Third Party.

7. Reviewing the approved contractors list maintained by the Group and noted that the Contractor A is one of the approved contractors of the Group.

8. Comparing the amount of the prepayment paid, i.e. RMB21.0 million, with the Group's cash balance, total assets balance and gearing ratio at the time of entering into the decoration agreement.

9. Reviewing the termination agreement signed with the Contractor A and noted that the full refund was made in accordance to the termination agreement.

10. Engaging Moore Stephens to perform the agreed-upon procedures to identify the factual issues leading to this transaction and any matter that needs to be brought to the attention of the Audit Committee.

The Audit Committee's conclusion

Having considered the above principal factors and reasons, the Audit Committee considers that the entering into, and subsequent termination of, the decoration agreement for the Phase 2 Property had commercial basis and was in the normal business practice of the Group. However, the Audit Committee considers that the internal control procedures for engaging contractors and cash payments by the Group could be improved.

The Audit Committee confirms that the internal control weaknesses identified are (a) selection bias (insufficient search was performed before making decision); (b) premature appointment of contractors; (c) cash payments and (d) insufficient monitoring on the outsourcing procedures.

The Audit Committee also noted and agreed with Moore Stephens on the additional internal control weaknesses identified by Moore Stephens as detailed below:

(a) Lack of written documentation such as site visit findings report.

(b) Failure to obtain legal advice before entering into agreements.

(c) Internal meeting minutes were not signed by all attendees.

(d) Absence of detailed terms (such as refund or cancellation clauses, expected delivery date, agreed design and required materials and equipment) in the decoration agreement.

(e) The date as stated in an official receipt (i.e. the date for fund receipt) was earlier than the date of written approval on the fund application forms (for the fund payment).

(f) Absence of detailed written internal control manual regarding the proper initiation, monitoring, authorisation and completion of the decoration agreement.

With the conclusion of the Audit Committee mentioned above and the issues identified by the Auditors and Moore Stephens, the Audit Committee considers that the following measures are effective to address the internal control weakness:–

Internal control improvement measures

(1) Appointment of new engineering director and chief development officer

In order to standardise the procedures for the engagement of decoration contractors, a new engineering director, who has over 26 years of experience in the engineering field, has been employed by the Group since April 2012. In addition, the development and decoration progress of department stores has been supervised by the newly employed engineering director and chief development officer who is required to report to the chief executive officer and senior management of the Company on a weekly basis to ensure that the projects are proceeding as scheduled. The newly appointed chief development officer has experience in management of projects including projects involving property acquisitions.

(2) Formal tendering procedures

The Group has implemented a new set of selection procedures for all contractors, including decoration constructors, by way of tender since July 2012. The new procedures introduced general contractor and specialist contractor prequalification assessment procedures. The Group would invite contractors for review which would be conducted according to the generally accepted industry guidelines. The contractors would be classified into two to three levels in accordance to the project size, requirements of specialised contractors, and financial standing. The Group would issue an invitation to tender to no less than three selected contractors but the number of contractors shall not exceed eight for each project. The invitation for tender would set forth the detailed product and service requirements including specific materials to be used and completion time. The launched bids would be reviewed by at least three staff of the Group, including staff from the engineering department, supervision department and assistant to vice president. The bids would be reviewed and analysed in terms of the tender price, specifications for the project, requirements for specialised projects and whether there are serious errors or omissions. The Group would select the contractor based on the established and objective principles. The tendering process is supervised by a registered professional engaged by the Group. In addition, the assessment procedures would be properly documented (including the basis on selection of each contractor, copies of the qualification of the contractors, etc.) to support the decision of the Group as suggested by Moore Stephens.

(3) Cash payments

The Group established a cash management policy in June 2012. As part of the new cash management policy, no cash payments would be made for amounts over RMB500,000. Cash payments under or equivalent to the amount of RMB500,000 would require the approvals from the chief executive officer, the chief operating officer and the procurement director or the engineering director or any other departmental senior personnel (depending on the nature of the relevant transaction).

(4) Engagement of contractors

The Group will only enter into formal contracts with contractors after the bidding process when the formal lease agreement or sale and purchase agreement has been entered into for future projects. Moore Stephens concur with view of the Audit Committee that such measure would be effective to address the internal control weakness.

The Audit Committee's opinion on the internal control measures

The Audit Committee confirms that the internal control measures set forth above, together with the internal control improvement measures proposed by Moore Stephens, which have already been implemented, are sufficient based on their review of the issues identified by the Auditors, the documents reviewed, the discussions with the executive Director and senior management of the Group and the Moore Stephens Review Report.

b. Prepayment of RMB34.3 million for the decoration of the property for the Haifeng Store

Background information

The Group discussed with the property developer in late 2010 on the proposed acquisition of property for the Haifeng Store. The acquisition of the property for the Haifeng Store was approved by all Directors (including the independent non-executive Directors who are the members of the Audit Committee) prior to signing of the sale and purchase agreement. The sale and purchase agreement was entered into on 28 December 2011, and the Company issued an announcement on 28 December 2011. In anticipation of the new department store, a decoration agreement for the Haifeng Store was entered into with the Contractor B on 8 December 2011.

A summary of the principal terms of the decoration agreement for Haifeng Store with GFA of 19,000 sq. m. is set forth below:–

Project costs:	Approximately RMB49.0 million
Prepayments:	In order to reduce the decoration cost and time required and with a better control of the total cost, Shenzhen Shirble Chain Store agreed to pay the Contractor B an amount of RMB34.3 million which is equivalent to 70.0% of the estimated contract sum for the project as prepayment within seven days after the signing of the agreement. The amount equivalent to 30.0% of the prepayment, i.e RMB10.29 million, may be paid in cash. The Contractor B would use the prepayment for the purchase and procurement of the materials and equipment required for the project.

Settlement of the remaining costs: After completion of the construction design, Shenzhen Shirble Chain Store and the Contractor B may determine the construction price based on the design and the status of the on-site work progress. The parties will then enter into a separate contract. Shenzhen Shirble Chain Store shall further pay the construction company 20.0% of the consideration, i.e. RMB9.8 million, upon 90.0% completion of the construction works. After completion of the project, Shenzhen Shirble Chain Store and the Contractor B shall carry out settlement based on the construction design and the status of the on-site signing of certificate.

Materials used: The Contractor B shall ensure that the materials used will meet the requirements of Shenzhen Shirble Chain Store and the equipment purchased must comply with the specifications, models and technical parameters provided by Shenzhen Shirble Chain Store.

Further negotiations: The decoration agreement also provides that any matters not covered therein should be resolved through discussions between the parties in good faith.

Termination of the decoration agreement for the property for the Haifeng Store

The property for the Haifeng Store was originally planned to be delivered to the Group in January 2012. However, additional structural modifications to the property would be required according to the delivery standards. The delivery schedule has been postponed to 21 June 2012. Due to the delayed delivery of the property and the new implementation of the contractor selection procedures of the Group, the decoration agreement was terminated by the Group on 26 March 2012. The prepayment paid to the Contractor B was used by it to purchase the materials and equipment. However, the Group was able to receive a full refund of the prepayments because the Contractor B was able to use the materials purchased (cement, etc.) for other projects not related to the Group. The refund of the prepayment made under the decoration agreement was made in March and April 2012.

No meeting of the Board was held for the approval of the decoration work as the transaction was considered to be part of the ordinary course of business of the Group, which was only subject to the approvals of the engineering director and the vice president of the Group. The Directors (including the independent non-executive Directors who are the members of the Audit Committee) confirm that neither the engineering director nor the vice president is a member of the Board and both of them are senior management of the Group. The Directors (including the independent non-executive Directors who are the members of the Audit Committee) consider that the engagement of decoration companies and the prepayment were industry practice in the PRC and were entered into on normal commercial terms and in the interest of the Group as a whole.

In order to standardise the procedures for engagement of decoration contractors, the Group has already implemented the new selection process and selected a new decoration company, which is an Independent Third Party, the new decoration agreement of which has been entered into in July 2012. The Audit Committee has reviewed the relevant agreement with the new decoration company and the tendering process and is satisfied that the entire process was conducted in accordance with the new selection process. The Haifeng Store has commenced its business in November 2012.

Nature of the transaction being the subject matter of the qualified opinion of the Auditors

The Auditors noted that the decoration agreement was entered into before the signing of the sale and purchase agreement for the property for the Haifeng Store and that 70.0% of the contracted sum was paid as deposit. Further, the decoration work did not commence during the course of their audit.

As such, the Audit Committee has conducted an independent review of the documents available to it and has meetings with the executive Director and senior management of the Group. The principal factors and reasons the Audit Committee have taken into account in assessing the commercial basis for the decoration agreement are set forth below.

The Audit Committee's consideration of the commercial basis for entering into the decoration agreement prior to the signing of the formal sale and purchase agreement

The Group has planned to open a new department store in Haifeng County and has been negotiating with the property developer of the Haifeng Store since late 2010 for acquisition of properties for the Haifeng Store. In early December 2011, the negotiation on the terms of the sale and purchase agreement for the Haifeng Store reached the final stage. In anticipation of the acquisition of the new department store, a decoration agreement for the Haifeng Store was entered into on 8 December 2011. After the approval of the Board, the sale and purchase agreement for property to be used as the Haifeng Store was subsequently entered into on 28 December 2011. The Audit Committee considers that the decoration agreement was entered into in anticipation of the signing of the relevant sale and purchase agreement for the property. Hence, the Audit Committee is of the view that such short time difference would not result in any material internal control issue or any additional liability to the Group.

In considering whether the decoration agreement of Haifeng Store was entered into with commercial basis, the Audit Committee has taken into consideration (a) the Group's past and current business relationship with the Contractor B; (b) the payment terms with other decoration companies engaged by the Group and (c) the payment terms in other decoration agreements with the Contractor B.

The Audit Committee noted that the Constructor B was responsible for the decoration works of two department stores of the Group in Shenzhen which were opened in August 2010 and December 2010, respectively. Contractor B was also responsible for part of the decoration work of a department store of the Group located in Dongguan City, which was opened in March 2012. The Audit Committee has also been informed by the executive Director and the senior management of the Group that the decoration work of the two department stores in Shenzhen and the decoration work of the department store in Dongguan City completed by the Contractor B were satisfactory. Based on the above, the Audit Committee considers that the engagement of the Contractor B for the decoration work of the Haifeng Store were made under normal business practice.

The Audit Committee's consideration of the commercial basis for the payment terms under the decoration agreement

The Audit Committee noted that the prepayment was paid to the Contractor B so that the Contractor B could arrange to purchase materials and equipment in advance in order to save the preparation time and to fix the decoration cost and other material costs. In addition, the Group was able to obtain 5.0% discount to the estimated project cost. The Audit Committee also noted that prepayments under decoration agreements was a common term in other decoration agreements with other contractors of the Group and believed that it is the industry practice for prepayments to be paid to decoration companies in order to fix the decoration and other material costs. As the Group has made prepayments to other contractors in the past for the same purposes, the Audit Committee considers that the prepayment made to the Contractor B was reasonable.

The Audit Committee noted that 70.0% of the estimated project cost was paid by the Group as prepayment and 30.0% of such amount was settled in cash and the remaining balance of the prepayment was settled by telegraphic transfer in December 2011. The Audit Committee considers that the amount of the prepayment was insignificant based on the total assets of the Group as of 31 December 2011. Although the amount was insignificant to the Group, the Audit Committee noted that the prepayment was made when the Contractor B had not commenced any decoration work at the property and that the Group had not entered into any legally binding agreement for the purchase of the property at the time of entering into the decoration agreement. Having considered all the relevant factors set forth above, the insignificant amount of the prepayment, the net cash position of the Group and the low gearing ratio of the Group, the Audit Committee considers that the prepayment does not result in any material adverse impact on the Group.

The Audit Committee further considered the reasonableness of the amount of the prepayment in light of the estimated project cost. The Audit Committee noted that the prepayment represented 70.0% of the estimated project cost. By making such prepayment, the Group was offered 5.0% discount to the estimated project cost. The Audit Committee also noted that Contractor B had completed various decoration projects for the Group with satisfactory work quality. In light of these factors and the fact that the amount involved was insignificant, the Audit Committee considers that amount of the prepayment was reasonable in the then circumstances.

The Audit Committee's consideration of the commercial basis for the subsequent termination of the decoration agreement

The Audit Committee noted the proposed design of the Haifeng Store and noted that additional structural modifications to the property would be necessary according to the delivery standards so that the property can be used as department stores of the Group. Hence, the delivery schedule had been postponed to 21 June 2012. The decoration agreement with the Contractor B was terminated because of the delayed delivery of the property and the implementation of the new contractors selection procedures of the Group. The Audit Committee also noted that even though the prepayments paid to the Contractor B were used by the Contractor B to purchase the materials and equipment for the decoration work, the Group was able to obtain a full refund of the prepayments because the Contractor B was able to use the materials purchased for other projects not related to the Group. In view of the above, the Audit Committee considers that the termination of the decoration agreement was reasonable and was consistent with the normal business practice of the Group.

Work done by the Audit Committee

To ascertain the representation made by the executive Director and senior management, the Audit Committee has conducted the following:–

1. Reviewing the proposed design of the property and updating subsequent progress of the project and confirmed that the delayed store delivery time and the estimated store opening schedule is reasonable.

2. Reviewing the decoration agreement in relation to the decoration of Haifeng Store and confirmed that the payment to the Contractor B was made in accordance to the payment terms in the decoration agreement.

3. Reviewed the previous decoration agreements with Contractor B and other decoration companies in relation to the decoration of other department stores of the Group and noted that prepayment is a common term in those decoration agreements.

4. Discussing and reviewing the background information of the Contractor B and has obtained independence confirmation signed by each of the Directors of the Company confirming that Contractor B is an Independent Third Party.

5. Reviewing the approved contractors list maintained by the Group and noted that the Contractor B is one of the approved contractors of the Group.

6. Comparing the amount of prepayment paid, i.e. RMB34.3 million, with the Group's cash balance, total assets balance and gearing ratio at the time of entering into the decoration agreement.

7. Reviewing the termination agreement signed with the Contractor B and noted that the full refund is made in accordance to the termination agreement.

8. Engaging Moore Stephens to perform the agreed-upon procedures to identify the factual issues leading to this qualified transaction and any matter that needs to be brought to the attention of the Audit Committee.

The Audit Committee's conclusion

Having considered the above factors, the Audit Committee considers that there were justified reasons for the Group to enter into the decoration agreement even though the date of the decoration agreement was shortly before the signing of the formal sale and purchase agreement. The Audit Committee considers that the internal control procedures for engaging contractors and cash payments by the Group could be improved.

The Audit Committee also noted and agreed with Moore Stephens on the additional internal control weaknesses identified by Moore Stephens as detailed below:

(a) Lack of written documentation such as site visit findings report and written feasibility reports.

(b) Failure to obtain legal advice before entering into agreements.

(c) Absence of detailed terms (such as refund or cancellation clauses, expected delivery date, agreed design and required materials and equipment) in the decoration agreement.

(d) Absence of detailed written internal control manual regarding the proper initiation, monitoring, authorisation and completion of the decoration agreement.

The internal control weakness and the improvement measures adopted by the Group in response to this conclusion of the Audit Committee and Moore Stephens are set forth in the paragraphs under "(i) Transactions involving prepayments and deposits – a. Prepayment of RMB21.0 million for the decoration of the property for the Meizhou Store – Internal control weakness and improvement measures" above.

The Audit Committee's opinion on the internal control measures

The Audit Committee confirms that the internal control measures set forth above, together with the internal control improvement measures set forth in the Moore Stephens Review Report, which have already been implemented, are sufficient based on their review of the issues identified by the Auditors, the documents reviewed, the discussions with the executive Director and senior management of the Group and the Moore Stephens Review Report.

c. ***Payment of deposit of RMB41.25 million for the acquisition of a distribution centre in Shenzhen***

Background information

In November 2010, Shirble Department Store (Shenzhen) entered into a letter of intent with an Independent Third Party to acquire a distribution centre to be constructed in Shenzhen. The proposed acquisition of the distribution centre was approved by all the Directors prior to the signing of the letter of intent. Subsequently, Shirble Department Store (Shenzhen) was informed by the local government that the land where the distribution centre was intended to be constructed was categorised as "returned land for requisitioned land" (徵地返還用地) and hence, additional time would be required for the application of licences required for the development of the parcel of land. In view of the risk of non-delivery of the distribution centre, the Group started to explore other alternatives and entered into supplementary agreements with the vendor to (a) postpone the time for entering into formal sales and purchase agreement and (b) allow Shirble Department Store (Shenzhen) to terminate the letter of intent before 30 May 2012 by written notice. In contemplation of entering into a lease of another distribution centre in Shenzhen, the Group terminated the relevant non-binding letter of intent on 25 March 2012. On 9 April, 2012, the Group has leased another distribution centre in Shenzhen (lease term is five years starting from 16 June 2012), with approximately RMB26 per sq. m. (monthly rental: RMB0.9 million, 34,146.38 sq. m.) with lower cost of transportation and a larger car park available to the Group.

The executive Director and the senior management of the Group considered the acquisition of a distribution centre enables the Group to increase its storage capacity and to upgrade its logistics system in light of the Group's expansion plans. The letter of intent was therefore entered into in the ordinary course of business of the Group.

Nature of the transaction being the subject matter of the qualified opinion of the Auditors

The Auditors noted that even though a letter of intent was entered into between the parties in November 2010, no construction work of the distribution center had commenced.

As such, the Audit Committee has conducted an independent review of the documents available to it and has meetings with the executive Director and senior management of the Group. The principal factors and reasons the Audit Committee have taken into account in assessing the commercial basis for the acquisition of the distribution centre are set forth below.

The Audit Committee's consideration of the commercial basis for entering into a letter of intent for the acquisition of the distribution centre

The Audit Committee has taken into consideration the approval of the Board prior to the acquisition and the specific terms of the letter of intent as supplemented by the supplemental agreements. The Audit Committee noted that all the Directors had approved the acquisition of the distribution centre prior to the signing of the letter of intent. The Audit Committee further noted the specific terms of the letter of intent as supplemented by the supplemental agreements, in particular, the terms in relation to the option for Shirble Department Store (Shenzhen) to terminate the letter of intent and the fully refundable deposit made pursuant to the letter of intent. As such, the Audit Committee was of the view that the transaction in respect of the acquisition of a distribution centre and the letter of intent (and the relevant supplemental agreements) were entered in the interest of the Group as a whole.

The Audit Committee's consideration for the commercial basis for termination of the acquisition of the distribution centre

In 2011, Shirble Department Store (Shenzhen) was informed by the local government that the land for the construction of the distribution centre was categorised as "returned land for requisitioned land" (徵地返還用地) and hence, additional time would be required for the application of licenses required for the development of the parcel of land. In view of the risk of non-delivery of the distribution centre, the Group started to explore other alternatives and also entered into supplementary agreements with the vendor to postpone the time for entering into the formal sales and purchase agreement, as well as to allow Shirble Department Store (Shenzhen) to explore other alternatives. Pursuant to the non-binding letter of intent, the deposit was refundable and was fully repaid to Shirble Department Store (Shenzhen) in March 2012.

As Shirble Department Store (Shenzhen) was able to obtain full refund of the deposit made pursuant to the letter of intent and that the Group had entered into a lease agreement on 9 April 2012 for another new distribution centre, the Audit Committee is of the view that the termination of the acquisition of the distribution centre was reasonable. It would give the Group additional flexibility in planning the establishment of the distribution centre without any significant liability.

Work done by the Audit Committee

To ascertain the representation made by the executive Director and senior management, the Audit Committee has conducted the following:–

1. Reviewing the board minutes and confirmed that the letter of intent entered into in November 2010 contains the term providing that the deposit would be fully refundable should no formal sales and purchase agreement be entered into before the agreed period.

2. Reviewing the letter issued by the Planning and Land Resources Committee Bao'an Sub-bureau (規劃和國土資源委員會寶安管理局) and noted that the land where the distribution centre intend to be constructed was categorised as "returned land for requisition land" (徵地返還用地) and hence, additional time would be required for the application of required licences, which is consistent with management representation.

3. Reviewing the supplemental agreements with the vendor entered into in June 2011 and August 2011 and noted that the representations made by the executive Director and the senior management of the Group are correct. The Audit Committee concurred with the view of the executive Director and the senior management of the Group that the financial position of the Group will not be adversely affected as the deposit could be fully refundable under the supplemental agreements and that the supplemental agreements which provide the option to terminate the letter of intent were entered into in the interest of the Group as a whole.

4. Reviewing the lease agreement dated 9 April 2012 in respect of another new distribution center and concurred that it is a better alternative for the Group. The Audit Committee also noted the fact that the new distribution centre is in operation as of the date of this announcement.

5. Engaging Moore Stephens to perform the agreed-upon procedures to identify the factual issues leading to this qualified transaction and any matter that needs to be brought to the attention of the Audit Committee.

The Audit Committee's conclusion

Having considered the above documents and the then prevailing circumstances, the Audit Committee considers that it was reasonable for the Group to terminate the proposed acquisition of the distribution centre.

During the process involving acquisitions of properties by the Group, the Audit Committee identified certain internal control weaknesses which the Group would need to implement as improvement measures. The Audit Committee confirms that the internal control weaknesses identified include insufficient information obtained before making decision.

The Audit Committee also noted and agreed with Moore Stephens on the additional internal control weaknesses identified by Moore Stephens as detailed below:

(a) Lack of written documentation such as site visit findings report and minutes, as well as internal records in relation to the decision making process and the negotiation of the consideration and the approval of agreements.

(b) Lack of proper review procedures before finalisation and signing of agreements.

(c) Lack of experienced staff in property acquisition to oversee the whole property acquisition process.

(d) Absence of detailed written internal control manual and checklists regarding the proper initiation, monitoring, authorisation and completion of the property acquisition agreement, with some inconsistencies and deviation from the internal control procedures.

In order to avoid similar situations in the future, the Group has established a legal department since February 2012. The responsibility of the legal department includes the review of the draft agreements and contracts proposed to be entered into by the Group, and to keep records of all documents in relation to the major transactions entered into by the Group. Together with the Group's existing development department, which is mainly responsible for market studies and search for potential stores and acquisition opportunities, as well as the external legal advisers retained by the Group, proper due diligence will be done on the land that the Group proposed to lease/acquire. In particular, any regulations/usage that would hinder the expansion plans/operations after agreements have been entered into and transactions completed, as well as other relevant information, such as valuation report and legal opinion, will be presented to management for decision-making to assess the associated risks and contingent costs.

The Audit Committee is satisfied with the above measures and considers that it would be able to identify any legal issue or other risks arising from future transactions at the initial stage.

The Audit Committee's opinion on the internal control measures

The Audit Committee confirms that the internal control measures set forth above, together with the internal control improvement measures set forth in the Moore Stephens Review Report, which have already been implemented, are sufficient based on their review of the issues identified by the Auditors, the documents reviewed, the discussions with the executive Director and senior management of the Group and the Moore Stephens Review Report.

d. Prepayment of RMB131.25 million for the acquisition of a three-storey commercial property in Shenzhen

Background information

The commercial property was expected to be used by the Group as a new department store. Pursuant to the Shenzhen Sale and Purchase Agreement, the Group may request changes in the property design if the original design does not comply with the major decoration standards. The vendor, Shenzhen Hexinglong, which is also the developer of the property, must obtain the Group's written approval for certain modifications to the construction and floor plan of the property. If the Group does not agree to such modification, the Group has the right to terminate the agreement and Shenzhen Hexinglong shall pay a penalty to the Group. If any subsequent changes are agreed between the parties, Shenzhen Hexinglong will notify the relevant government departments and apply for the required approvals.

After the entering into the Shenzhen Sale and Purchase Agreement, the Group requested for modifications to the original structural design by separating the department store from the hotel building. Shenzhen Hexinglong agreed to change the design according to the Group's requirements. The modified design was then submitted to the Group for review. The Group subsequently requested for further changes to the design. However, such changes would increase the construction cost of Shenzhen Hexinglong and hence, Shenzhen Hexinglong requested to increase the purchase price of the property. Following various negotiations, the Group and Shenzhen Hexinglong were not able to reach an agreement on the increased purchase price. In March 2012, both parties agreed on the conditions of the termination and Shenzhen Hexinglong returned the deposit with no penalty payable by the Group.

The proposed acquisition of the property in Shenzhen was approved by all the Directors prior to the signing of the Shenzhen Sale and Purchase Agreement.

Nature of the transaction being the subject matter of the qualified opinion of the Auditors

The Auditors noted that even though the three-storey commercial property in Shenzhen was required to be delivered by August 2013, no construction works of the three-storey commercial property had commenced.

As such, the Audit Committee has conducted an independent review of the documents available to it and has meetings with the executive Director and senior management of the Group. The principal factors and reasons the Audit Committee have taken into account in assessing the commercial basis for the Shenzhen Sale and Purchase Agreement are set forth below.

The Audit Committee's consideration of the commercial basis for entering into the Shenzhen Sale and Purchase Agreement

The Audit Committee noted that the Company issued an announcement on 9 May 2011 and agrees that the Group would require such property in Shenzhen for the expansion of the department store network. The Audit Committee also noted that the purchase price under the Shenzhen Sale and Purchase Agreement was lower than the appraised value of the commercial building proposed to be erected. Also, if there were any non-delivery on the part of the property developer, the Group would have obtained refund or the relevant parcel of land of which the commercial building would be erected. Given that the commercial building was proposed to be used as one of the department stores of the Group, the Audit Committee agrees that the proposed acquisition was part of the ordinary course of business of the Group.

The Audit Committee further noted that all the Directors approved the acquisition of a three-storey commercial property located in Shenzhen prior to the Shenzhen Sale and Purchase Agreement. Before entering into the Shenzhen Sale and Purchase Agreement, the Directors had considered the risk due to the preliminary development stage of the property. The terms of the Shenzhen Sale and Purchase Agreement provided that if Shenzhen Heixinglong does not refund the prepayment paid by the Group upon non-delivery of the property, the Group has the right to take possession of the land where the property proposed to be erected. The Audit Committee considers that this term provides sufficient protection to the Group.

The Audit Committee noted that Mr. JIANG Hongkai, an independent non-executive Director, who has PRC legal background and is able to provide an initial assessment on the legal risks involved in the acquisition of pre-constructed buildings, was involved in the process in respect of the acquisition for the commercial property in Shenzhen, in particular, had attended a site visit prior to entering into the Shenzhen Sale and Purchase Agreement.

An independent property valuer was also appointed by the Group to conduct valuation on the three-storey commercial property located in Shenzhen by comparing the market value of other comparable properties. The value stated in the valuation report was higher than the purchase price under the Shenzhen Sale and Purchase Agreement.

In light of the above factors and following the review of the documents, the Audit Committee considers that the Group has fully assessed the relevant risks involved before entering into the Shenzhen Sale and Purchase Agreement. In addition, the relevant provisions in the Shenzhen Sale and Purchase Agreement also gives sufficient protection to the Group in the event that the transactions contemplated thereunder could not be proceeded with.

The Audit Committee's consideration of the commercial basis for subsequent termination of the Shenzhen Sale and Purchase Agreement

After entering into the Shenzhen Sale and Purchase Agreement, the Group requested for modifications to the design of the property, and such modifications would result in proposed increase in the purchase price. When the Group and Shenzhen Hexinglong were unable to agree on the increased purchase price under the Shenzhen Sale and Purchase Agreement, the prepayment of RMB131.25 million was refunded to the Group without penalty. The Directors also learnt that Shenzhen Hexinglong may sell the property at a higher price to third parties after the termination of the Shenzhen Sale and Purchase Agreement. Hence, Shenzhen Hexinglong refunded the prepayment without requesting for any penalty.

The Audit Committee agrees with the executive Director and senior management of the Group that the Group should not pay a higher price for the commercial property. This is particularly relevant considering that the Group is engaged in department store business, and not investments in real property. Hence, the Audit Committee considers that the termination of the Shenzhen Sale and Purchase Agreement was reasonable and in the interest of the Group as a whole.

Work done by the Audit Committee

To ascertain the representation made by the executive Director and senior management, the Audit Committee has conducted the following:–

1. An independent non-executive Director has attended a site visit prior to entering into the Shenzhen Sale and Purchase Agreement, thus confirming the existence of the land and can provide an initial assessment on the land condition.

2. Reviewing the PRC legal opinion in respect of the acquisition, the land-use right certificate (土地證), construction land planning permit (建設用地規劃許可證), construction works planning permit (建設工程規劃許可證) and construction works commencement permit (建設工程施工許可證) to ensure that the vendor/developer has the proper right to the title of the land and the right to construct a three-storey commercial property on the land.

3. Reviewing the valuation report conducted by an independent property valuer, the value of which as stated in the valuation report appraised by an independent property valuer was higher than the consideration under the Shenzhen Sale and Purchase Agreement. The Audit Committee agreed that the original purchase price under the Shenzhen Sale and Purchase Agreement was in favour to the Group.

4. Reviewing the Shenzhen Sale and Purchase Agreement and noted that the modifications terms were consistent with management representations, and considers that the right for the Group to take possession of the land in case of non-delivery provides sufficient protection to the Group.

5. Engaging Moore Stephens to perform the agreed-upon procedures to identify the factual issues leading to this qualified transaction and any matter that needs to be brought to the attention of the Audit Committee.

The Audit Committee's conclusion

During the process involving acquisitions of properties by the Group, the Audit Committee identified certain internal control issues which the Group needed to implement improvement measures.

In light of the above, the Directors noted the risks relating to (a) unreasonable delay in completion of project; (b) inefficient management of resources caused by modification of design and/or termination of contracts; (c) initial research on design plan and approval procedures for significant modification changes and (d) recoverability due to preliminary development stage of the property would need to be managed. The Audit Committee also noted and agreed with Moore Stephens on the additional internal control weaknesses identified by Moore Stephens including the (a) lack of written documentation such as site visit findings report and written feasibility report; (b) lack of experienced staff in property acquisition to oversee the whole property acquisition process and (c) absence of detailed written internal control manual and checklist regarding the proper initiation, monitoring, authorisation and completion of the property acquisition agreement, with some inconsistencies and deviation from the internal control procedures. In addition, details in some appendices to the formal sale and purchase agreement were also yet to be agreed with the vendor before signing the formal sale and purchase agreement. The Audit Committee agrees that such risks should have been fully addressed with stringent internal control measures, particularly before the signing of the Shenzhen Sale and Purchase Agreement.

Starting from July 2012, the Group has implemented new procedures for entering into formal property acquisition agreement. The Group would conduct thorough due diligence (including obtaining legal advice and performing background searches on counterparties) on the properties before entering into any formal agreement for future acquisitions. The due diligence work would include the review of construction plan of the properties and on-site inspection to ensure that the designs in the detail construction plans and the floor plans will be suitable for the requirement of the Group. Capital expenditure budget would be prepared for each property transaction and approved before entering into of any formal agreements. Written documentations will be prepared throughout the transaction process and any decision-making (including board meetings) and approvals process will also be documented. The structural design plan will be submitted to the Board for approval. The approved structural design plan will then be submitted to the vendor. The final agreement will be signed only when the approved structural plan has been accepted by the vendor and approved by the relevant government authorities. The final agreement would be approved by the Group's legal department to ensure that the terms are reasonable and in the interests of the Group, in particular, terms relating to recoverability risks for non-delivery. Development stages and milestones would be stated in the agreement and the progress of the projects will be monitored by the Group's newly employed chief development officer, who is required to report to the chief executive officer on a weekly basis to ensure that the projects proceed as scheduled, to prevent unreasonable delay in completion of projects. The chief development officer will comply with the procedures set out in the internal control manual, which would include procedures of the proper initiation, monitoring, authorisation and completion of transactions. The Audit Committee considers that the above measures are sufficient to reduce the risks faced by the Group in entering into acquisition of property transactions in the future.

The Audit Committee's opinion on the internal control measures

The Audit Committee confirms that the internal control measures set forth above, together with the internal control improvement measures proposed by Moore Stephens, which have already been implemented, are sufficient based on their review of the issues identified by the Auditors, the documents reviewed, the discussions with the executive Director and senior management of the Group and the Moore Stephens Review Report.

e. ***Prepayment of RMB84.0 million for the acquisition of a property in Haifeng County for the Haifeng Store***

Background information

Shanwei Shirble and Haifeng Wanye entered into the Haifeng Sale and Purchase Agreement on 28 December 2011 for the acquisition of a property in Haifeng County at RMB168.0 million. Subsequently, Shanwei Shirble and Haifeng Wanye commenced the online signing procedures with the local government authorities in the PRC (for the purpose of applying for the building ownership certificate). The consideration for the property was stated as RMB100.0 million in the form submitted to the local government on 22 March 2012. The lower amount was stated upon the request of Haifeng Wanye, which was one of the signing parties of the registration form. Haifeng Wanye confirmed to Shanwei Shirble that upon full payment of the consideration of RMB168.0 million by Shanwei Shirble to Haifeng Wanye, all the documents to be submitted to local government authorities and the licences to be issued will reflect that the consideration paid by the Group was RMB168.0 million. In order to ensure that Shanwei Shirble will obtain the building ownership certificate in its name, the Group settled RMB163.0 million and Haifeng Wanye agreed to process with the re-submission of online signing procedures with consideration of RMB168.0 million. The remaining balance of RMB5.0 million will be paid after issuance of the building ownership certificate.

The executive Director and the senior management of the Group were informed by Haifeng Wanye that the above arrangements were intended to be made for Haifeng Wanye's tax planning purpose. At that time, the Group sought verbal legal advice from its PRC legal advisers and was advised that the consideration for the property registered with the government authorities should be the same as the consideration stipulated in the Haifeng Sale and Purchase Agreement. The PRC legal advisers also advised that there would be no legal or tax consequence for the Group if, upon full payment of the consideration of RMB168.0 million by the Group to Haifeng Wanye, all the documents to be submitted to local government authorities and the related certificates, would reflect the total amount of consideration of RMB168.0 million. Because the arrangement did not expose the Group to any additional payment obligation, the Group accepted the requests made by Haifeng Wanye.

As certain conditions under the Haifeng Sale and Purchase Agreement were not satisfied according to the delivery standards and additional structural modifications to the property, the consideration of RMB163.0 million (being the amount to be paid for the processing of re-submission of online registration documents) was not paid by the Group at the time. Accordingly, the online registration documents which reflect the total amount of consideration of RMB168.0 million were not re-submitted promptly. The Directors confirm that the Group has settled the consideration of RMB163.0 million in July 2012 and the online registration documents with the updated consideration of RMB168.0 million was re-submitted on 1 August 2012. Pursuant to the Haifeng Sale and Purchase Agreement, the remaining balance of RMB5.0 million is expected to be made in around December 2012 when the building ownership certificate is expected to be available.

After the signing of the Haifeng Sale and Purchase Agreement, Shanwei Shirble and Haifeng Wanye agreed to reduce the amount of the first instalment from RMB89.0 million to RMB84.0 million. The Haifeng Sale and Purchase Agreement does not provide details of the adjustments to the amount of the first instalment. The Directors (including the independent non-executive Directors who are the members of the Audit Committee) confirm that the reduction of the amount of the first instalment does not constitute a material change as it is a change in the payment schedule. The Directors (including the independent non-executive Directors who are the members of the Audit Committee) confirm that the Company has complied with Rule 14.36 of the Listing Rules in this regard.

The payment of RMB84.0 million was settled by the Group in two tranches: an amount of RMB16.0 million was paid by the Group to Haifeng Wanye in the PRC and the remaining balance of RMB68.0 million was paid by the Company in Hong Kong to three individuals and one company in their respective bank accounts in Hong Kong in accordance with the instructions given by Haifeng Wanye. These payments were made by the Group in November 2011 and were consistent with the terms of the payment method under the Haifeng Sale and Purchase Agreement which stated that the consideration would be paid to bank accounts as designated by Haifeng Wanye and approved by the Board. The executive Director and the senior management of the Group confirm that the payments made to Haifeng Wanye and its nominated persons were made upon the request of Haifeng Wanye. The Group was only provided with the written instructions but was not informed as to the relationships between the three offshore individuals, the offshore company and Haifeng Wanye.

In January 2012, the Group obtained the approval for fund transfer onshore after capital injection into the PRC to Shanwei Shirble. The Group, upon further discussions with Haifeng Wanye, made a further payment of RMB79.0 million (which included RMB11.0 million as partial settlement of second installment and RMB68.0 million, being the same amount originally paid offshore) to Haifeng Wanye in the PRC on 1 April 2012, and Haifeng Wanye refunded an amount of RMB68.0 million to the Group outside the PRC through the three offshore individuals and the offshore company during the period from 11 April 2012 to 13 April 2012. In July 2012, the Group made a further payment of RMB68.0 million to Haifeng Wanye, so that a total of RMB163.0 million has been settled. The remaining balance of RMB5.0 million is expected to be made in around December 2012, which is the expected issuance date of the building ownership certificate pursuant to the Haifeng Sale and Purchase Agreement.

The Directors (including the independent non-executive Directors who are the members of the Audit Committee), to their best knowledge and having made reasonable enquiry, confirm that other than the acquisition of the property in Haifeng County, there was no prior business dealing or other relationship between each of the designated accounts holders (and their respective ultimate beneficial owners) and the Company, its subsidiaries and connected persons. The Directors (including the independent non-executive Directors who are the members of the Audit Committee), however, consider that the Group may have business dealings with the holders of the designated bank accounts in the future if it is in the interest of the Group and Shareholders and such transaction(s) will be conducted in accordance with the PRC law and regulations and the Listing Rules.

The Group will continue to complete the acquisition under the Haifeng Sale and Purchase Agreement.

Nature of the transaction being the subject matter of the qualified opinion of the Auditors

The Auditors noted that part of the payment for the acquisition of property under the Haifeng Sale and Purchase Agreement was made to individuals and entities other than the developer and that the agreed consideration of RMB168.0 million was RMB68.0 million more than the consideration registered with the relevant government authorities and RMB32.0 million more than the valuation of the property carried out by one of the qualified valuers engaged by the Group for valuation of the Haifeng Property.

As such, the Audit Committee has conducted an independent review of the documents available to it and has meetings with the executive Director and senior management of the Group. The principal factors and reasons the Audit Committee have taken into account in assessing the commercial basis for the Haifeng Sale and Purchase Agreement are set forth below:–

The Audit Committee's consideration of the commercial basis for entering into the Haifeng Sale and Purchase Agreement

The Audit Committee noted that the property would be used by the Group for the opening of a new department store. The Group is engaged in the business of operating and managing department stores in the PRC. The acquisition of a property in Haifeng County was to enable the Group to establish its business presence in second- and third-tier cities in Guangdong Province. The Audit Committee therefore considers that the transaction was entered into in the interest of the Group within its ordinary course of business.

In considering whether the acquisition of a property located in Haifeng County was entered into under normal business practice, the Audit Committee has taken into consideration (a) the expansion plans of the Group as disclosed in the Prospectus and announcement in relation to the acquisition of the property in Haifeng County dated 28 December 2011 (the "**Haifeng Announcement**"); (b) the payment terms under the Haifeng Sale and Purchase Agreement and (c) the PRC legal opinion in respect of the acquisition.

The Audit Committee noted that the expansion plans of the Group as disclosed in the Prospectus and the 2011 Interim Report included plans to establish four to five new department stores in 2012 and intended to establish a network of department stores in the second- to third-tier cities in Guangdong Province and Hunan Province. It was further noted that after detailed feasibility study of the construction project for the property in Haifeng County and review of the Group's financial condition, the Directors considered that it would be in the interest of the Group to acquire the property as disclosed in the Haifeng Announcement under section headed "*Reasons for entering into the property transfer agreement*". The Audit Committee was further updated on the progress of the development of the Haifeng Store in Haifeng Country and it was noted that the Haifeng Store was opened in November 2012. The Audit Committee considers that there was commercial basis for the Group to enter into the Haifeng Sale and Purchase Agreement. The consideration under the Haifeng Sale and Purchase Agreement was negotiated on an arm's length basis and hence, the Audit Committee, after reviewing two valuation reports of the relevant property conducted by Property Valuer A and Property Valuer B (one of which has a higher valuation than the consideration and one lower than the consideration), considers that the discrepancy of the two valuation reports of the relevant property should be considered as a discrepancy in the market comparables used, but not an indication that the consideration was substantially higher than the market value of the comparable properties.

The Audit Committee's consideration of the commercial basis for the filing discrepancy and the payment arrangement under the Haifeng Sale and Purchase Agreement

The Audit Committee noted the discrepancy between the agreed amount of the consideration under the Haifeng Sale and Purchase Agreement and the amount stated in the online filing. The Audit Committee, following discussions with the executive Director and the senior management of the Group, noted that such discrepancy was insisted upon by Haifeng Wanye as one of the signing parties. The Audit Committee agrees that such arrangement was not satisfactory, but it would not result in any benefit to the Group and hence, there would be no incentive for the Group to be engaged in such practice. With the advice from the PRC Legal Advisers, there would be no legal or tax consequence on the Group if the correct amount of the consideration would be updated in the final online filings. The Audit Committee is of the view that there was internal control weakness in this regard, and the Group should have rejected the request of Haifeng Wanye.

The Audit Committee noted that the payment terms specified in the Haifeng Sale and Purchase Agreement, in particular, the payment arrangement which stated that the consideration shall be paid to bank accounts as designated by Haifeng Wanye. Hence, the Audit Committee considers that the payments made to Haifeng Wanye and its nominated persons were in strict compliance with the Haifeng Sale and Purchase Agreement and upon the request made by Haifeng Wanye, which is not inconsistent with the terms of the Haifeng Sale and Purchase Agreement.

Recent development of the acquisition

In July 2012, the Group made a further payment to Haifeng Wanye of RMB68.0 million and as a result, the Group has settled an amount of RMB163.0 million. The remaining balance of RMB5.0 million would be payable by the Group upon the issuance of the building ownership certificate of the property in the name of Shanwei Shirble, pursuant to the Haifeng Sale and Purchase Agreement, in around December 2012. The online registration documents reflecting the purchase price of RMB168.0 million were also re-submitted on 1 August 2012. The Haifeng Store was opened on 13 November 2012. The PRC legal advisers of the Group has confirmed that the commencement of business of the Haifeng Store is in compliance with the relevant PRC laws and regulations, and the opening and operation of the Haifeng Store is not contingent on obtaining the building ownership certificate.

Work done by the Audit Committee

To ascertain the representation made by the executive Director and senior management, the Audit Committee has conducted the following:–

1. Reviewing the Haifeng Sale and Purchase Agreement and confirming that the payment arrangement were made in accordance with the agreement and upon the request made by Haifeng Wanye.

2. Reviewing both valuation reports conducted by Property Valuer A and Property Valuer B (one of which has a valuation higher than the purchase price, and one lower than the purchase price) and the bases of their preparation and understand that the discrepancies were mainly due to the difference in mark et comparables.

3. Reviewing the PRC legal opinion in respect of the acquisition of Haifeng Store, and assess on the legal or tax consequence for the Group.

4. Reviewing the re-submitted online registration documents which reflect a total consideration of RMB168.0 million, and noted that all payments were made in accordance to the Haifeng Sale and Purchase Agreement.

5. Engaging Moore Stephens to perform the agreed-upon procedures to identify the factual issues leading to this qualified transaction and any matter that needs to be brought to the attention of the Audit Committee.

The Audit Committee's conclusion

The Audit Committee identified certain internal control issues which the Group needed to implement improvement measures. The Audit Committee also noted and agreed with Moore Stephens on the additional internal control weaknesses identified by Moore Stephens including the (a) lack of written documentation such as site visit findings report and written feasibility report; (b) lack of comprehensive consultation when a lower consideration of RMB100.0 million was submitted to the local government when the actual consideration was RMB168.0 million; (c) insufficient monitoring on the acquisition process which may have resulted in the delay in the project and pre-mature engagement of decoration contractor for the project; (d) lack of inexperienced staff in property acquisition to oversee the whole property acquisition process and (e) absence of detailed written internal control manual and checklists regarding the proper initiation, monitoring, authorisation and completion of the property acquisition agreement.

The Group sought legal and tax advices on issues related to its performance of agreements that may have legal or tax consequences on the Group from July 2012 onwards. The executive Director and senior management of the Group confirm that all future payments made by the Group pursuant to agreements will be made according to the terms of the agreements and directly to counterparties of the agreement. In addition, any required registration or reporting of the terms of agreements (including purchase price, etc.) to government authorities will be made strictly according to the terms of the agreements.

The Audit Committee's opinion on the internal control measures

The Audit Committee confirms that the internal control measures set forth above, together with the internal control improvement measures proposed by Moore Stephens, which have already been implemented since July 2012, are sufficient based on their review of the issues identified by the Auditors, the documents reviewed, the discussions with the executive Director and senior management of the Group and the Moore Stephens Review Report.

f. Prepayment of RMB152.5 million made to the suppliers of the Group for the procurement of goods

Background information

Payments were made prior to the peak seasons, including the RMB110.0 million paid in January 2012, under three one-year agreements entered into by Shirble Department Store (Shenzhen) with three suppliers for procurement of goods, such as wine and food, before the peak seasons. The executive Director and the senior management of the Group confirmed that the purpose of entering into procurement agreements was to secure the supply of goods of high demand at competitive prices. The procurement of goods from the three suppliers in 2011 was made in contemplation of the Group's then proposed expansion plans of the five new department stores in total in the fourth quarter of 2011 and the first quarter of 2012, in which one new department store commenced business in September 2011, two in December 2011, one in January 2012 and one in March 2012. Hence, the Group made the prepayment to the three suppliers for the purpose of securing sufficient supply (or at more competitive prices) of the goods which have high demand.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiry, all three suppliers and their respective ultimate beneficial owners are Independent Third Parties. The prepayments to these three suppliers were made pursuant to the payment terms of the supplemental procurement agreements which required prepayment to be made before 31 December 2011 or 30 June 2012 (as the case may be). All prepayments were made in accordance with the payment terms of the relevant supplemental procurement agreements except for one late prepayment of RMB10.0 million which was settled in January 2012.

Procurement agreements

The procurement agreements (as supplemented by the supplemental procurement agreements) were entered into between Shirble Department Store (Shenzhen) and the three suppliers on 26 August 2011, 31 August 2011, and 16 September 2011, respectively. A summary of the terms of the procurement agreements (as supplemented by the supplemental procurement agreements) entered into with these three suppliers is set forth below:–

Prices and type of goods:	The prices of the goods will be determined by the price list provided by the suppliers and accepted by Shirble Department Store (Shenzhen). The sample, specifications, model numbers, the place of manufacturer, grade, and price etc. of the goods shall be determined and accepted by Shirble Department Store (Shenzhen). The suppliers will provide the variety and type of goods that it has previously provided and a list of the latest offered goods to Shirble Department Store (Shenzhen) in order to determine the details and the purchase volume of the goods before signing the formal agreement.
Term:	One year from the respective date of the procurement agreements.
Payment:	Prepayment may be made to the suppliers to secure specified order or discounted prices for particular goods. Otherwise, payment shall be made by cheque transfer upon delivery of goods.

The Group received some goods sourced from the three suppliers at more competitive prices. However, due to the market volatility and the fact that the supply and delivery time required by the suppliers did not satisfy the requirements of the Group, the suppliers agreed to refund the prepayments following various discussions with the Group. No termination agreements were entered into with the three suppliers. However, the executive Director and the senior management of the Group confirm that the Group has stopped procuring goods from the three suppliers since February 2012. The refund of the prepayments from the three suppliers were made on 31 December 2011, in March 2012 and April 2012.

Following the termination of sourcing goods from the three suppliers, the Group sought alternative suppliers in order to secure sufficient supply of goods to customers at the peak season. The impact of the unfulfilled supplies on the operation of the Group was mitigated by the additional time required for the five new department stores to fully penetrate into the relevant local market. As three out of the five new department stores were opened in the fourth quarter of 2011, the business of the five new stores were not fully developed by the end of 2011. The level of demand was not as strong as the Group expected when the procurement agreements were signed and the cancellation of the sourcing arrangement only resulted in the loss of insignificant amount of potential sales. Hence, the executive Director and the senior management of the Group do not consider that the termination of the procurement agreements would have any material adverse impact on the Group.

No meeting of the Board was held for the approval of the procurement of goods as the transactions were part of the ordinary course of business of the Group, which were only subject to the approvals of the procurement director and the vice president. The Directors confirm that neither the procurement director nor the vice president is a member of the Board and both of them are senior management of the Group. No penalty was imposed as a result of early termination of the procurement agreements as there was no such provision in the agreements.

Nature of the transaction being the subject matter of the qualified opinion of the Auditors

The Auditors noted that during 2011, gross payments totalled RMB296.9 million were made to the three suppliers compared to RMB33.4 millions of goods received and that further payments totalling RMB110.0 million were made by the Group to the relevant suppliers in January 2012, increasing the balance of prepayments to the three suppliers to RMB262.5 million.

As such, the Audit Committee has conducted an independent review of the documents available to it and has meetings with the executive Director and senior management of the Group. The principal factors and reasons the Audit Committee have taken into account in assessing the commercial basis for the prepayments under the procurement contracts are set forth below.

The Audit Committee's consideration of the commercial basis for making the prepayments under the procurement contracts

The Audit Committee considers that prepayments for procurement of goods is part of the ordinary course of business of the Group. Those goods, such as wine and food, are of high demand and the prepayments by Shirble Department Store (Shenzhen) were considered by the Audit Committee to be necessary for securing the supply of these goods at competitive prices. The Audit Committee also noted that the practice of making prepayment is not uncommon in the PRC, particularly for seasonal merchandises and gifts. Hence, the Audit Committee is of the view that the practice of prepayment for securing supply of goods would not create any concern on the commercial basis of such transactions.

The Audit Committee further noted that the Group had policy in place for selecting suppliers. The Group will consider various factors, such as the reliability in terms of product quality, pricing, after-sales service and promotional back-up services. Suppliers are required by the Group to comply with the standard purchase terms and conditions of the Group. The Audit Committee noted that the three suppliers have been selected in accordance with the Group's formal procedures for selection of suppliers, and consider that it is reasonable to explore new suppliers instead of the existing suppliers to increase the possibility of the procurement of goods at more competitive prices, and to procure for new stores situating in new markets.

The Audit Committee also compared the prices of goods procured from the three suppliers and the prices of goods offered by other suppliers. The Audit Committee confirms that the prices of goods offered by the three suppliers were generally lower than those offered by other suppliers.

Based on the above, the Audit Committee is of the view that the transactions in respect of the procurement of goods from the three suppliers have commercial basis and were conducted as part of the ordinary course of business of the Group.

Work done by the Audit Committee

To ascertain the representation made by the executive Director and senior management, the Audit Committee has conducted the following:–

1. Discussing and reviewing the background information of the three suppliers and has obtained the independence confirmation signed by each of the Directors of the Company confirming that the three suppliers are Independent Third Parties.

2. Reviewing the company search results which include information such as paid-up capital and shareholders of the three suppliers, and confirmed the existence of the three entities.

3. Reviewing the price and inventory list provided by the three suppliers and noted that they are able to provide goods at more competitive prices, or goods with tight supply but significant demand, though the supply level did not satisfy the requirement of the Group.

4. Reviewing the procurement contracts with the three suppliers and noted that the contracts are standard procurement contracts signed with all the suppliers of the Group.

5. Reviewing the supplemental procurement agreements with each of the three suppliers and noted that the refund from the suppliers were made in accordance to the supplemental agreements in the case of unsatisfied supply of goods.

6. Engaging Moore Stephens to perform the agreed-upon procedures to identify the factual issues leading to this qualified transaction and any matter that needs to be brought to the attention of the Audit Committee.

The Audit Committee's conclusion

Although the Audit Committee agrees that the transactions had their commercial basis, it is of the view that the entering into of the procurement agreements with the three suppliers involved a number of risks. These risks include the risks on (a) the prepayment made to the Group's suppliers without any assurance or security; (b) the lack of detailed research on the suppliers in advance; (c) the lack of prepayment approval procedures; (d) the lack of the formal termination of procurement agreements and (e) the lack of periodic updates to the approved list of suppliers. The Audit Committee also noted and agreed with Moore Stephens on the additional internal control weaknesses identified by Moore Stephens including the (a) lack of indication for the reviewed information in the supplier management system such that the reviewed and approved information cannot be distinguished from unapproved information; (b) loose supplier selection procedure where some information was omitted on the supplier assessment forms which may lead to poor procurement decisions and (c) absence of detailed written internal control manual and checklist regarding the proper initiation, monitoring, authorisation and completion of the whole procurement process, with some inconsistencies and deviation from the then internal control procedures. The following sets forth the new or enhanced internal control measures adopted by the Group in response to the risks.

(1) Prepayment approval procedures

The Group has implemented the following approval procedures for similar future transactions since June 2012. For prepayments under RMB3.0 million, approvals from the procurement director, financial director and the chief operating officer would be required prior to execution of relevant agreements. All prepayments between RMB3.0 million and RMB5.0 million would require additional approval from the chief financial officer. For prepayments over RMB5.0 million, additional approvals must be sought from the chief executive officer and a majority of the Directors before the signing of the agreements. The approval procedures will be subject to annual review by the Board to ensure that appropriate levels of approvals have been obtained for each transaction.

(2) Appointment of logistic director and procurement director

The Group also has employed a new logistic director in May 2012 to review and make appropriate improvement on the inventory and supply chain management of the Group with a view to reduce risks relating to returns and stagnant goods. A new procurement director was appointed in February 2012 to improve the procurement process and implement related internal control improvement measures.

(3) Selection and updates of approved suppliers

The Group has enhanced the updating and control procedures on the information on suppliers and vendors. Although such information has been maintained by the Group since its establishment, there were no formal procedures adopted by the Group to ensure that the information was updated and correct. The Group has assigned the procurement department to monitor and perform regular checks and updates on the database since June 2012. The Group has also enhanced the assessment procedures of the suppliers which will be recorded in a standard formal assessment form and be submitted by procurement managers and reviewed and approved by the procurement director. All reviews and approvals will be clearly documented, including assessments on past transactions, so as to facilitate future decisions of the Group. The Group is in the process of updating its enterprise resources management system and conducting training for various departments on the new enterprise resources management system. The trial operation of the enterprise resources management system has begun in October 2012. The updated system includes modules on supplier management which provide efficient update to the supplier information and standing and detect vendors of same name in the supplier database. The system would also allow a signatory function to distinguish reviewed information. Procurement procedures are included in a control manual which would include initiation, monitoring and completion of the procurement process.

(4) Establishment of legal department

The Group has established a legal department to ensure that all agreements to be entered into by the Group would be reviewed by qualified lawyers.

The Audit Committee's opinion on the internal control measures

The Audit Committee confirms that the internal control measures set forth above, together with the internal control improvement measures proposed by Moore Stephens, which have already been implemented, are sufficient based on their review of the issues identified by the Auditors, the documents reviewed, the discussions with the executive Director and senior management of the Group and the Moore Stephens Review Report.

(ii) Details on an individual who was either director or legal representative for three entities which were counterparties to transactions entered into by the Group

Background information

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiry, Mr. A is an Independent Third Party. Mr. A acted on behalf of the counterparties under certain transactions set forth above, namely the transactions for (i)(c) the acquisition of land for the construction of the distribution centre in Shenzhen; (i)(d) the acquisition of the three-storey commercial property in Shenzhen from Shenzhen Hexinglong and (i)(f) the procurement of goods from one of the Group's suppliers.

The executive Director confirms that Mr. A is a businessman in China and is one of his business acquaintance. The executive Director also confirms that Mr. A approached him in around 2010 for potential business cooperation. Mr. A is the director, legal representative or supervisor of a number of companies in the PRC engaging in different types of business activities.

Based on the public information obtained independently, Mr. A owns 87.5% of the equity interest in one of the Group's suppliers. Shenzhen Hexinglong is owned by a company in which Mr. A holds 50% of the equity interest. Neither Mr. A nor any of his associates (as defined in the Listing Rules) is a shareholder of the vendor of the land for the construction of the distribution centre, but he is the supervisor of the vendor. The terms of the respective contracts in respect of the acquisition of the land for the construction of the distribution centre and the acquisition of a three-storey commercial property located in Shenzhen, including the payment terms set forth therein were approved by the Board. The payments to the three suppliers were not approved by the Directors as those transactions were considered to be part of the ordinary course of business of the Group.

Other than the business relationships set forth above, the executive Director confirms that the Group does not have any other business with the companies with which Mr. A is related to.

Nature of the transaction being the subject matter of the qualified opinion of the Auditors

The Auditors noted that Mr. A was either a director or legal representatives of those entities listed above.

As such, the Audit Committee has conducted an independent review of the documents available to it and has meetings with the executive Director and the senior management of the Group.

The Audit Committee's consideration of the nature of the transactions and the background of Mr. A

The Audit Committee's review focused on whether those transactions were genuine transactions given the common control of the counterparties and whether Mr. A is an Independent Third Party.

The Audit Committee noted that, from the public information obtained independently, Mr. A is engaged in a wide range of businesses from property development to trading of goods and that to the best knowledge, information and belief of each of the Directors, having made all reasonable enquiry, Mr. A is an Independent Third Party. Based on the previous work done by the Audit Committee, the transactions involving Mr. A engaged by the Group were all supported by different commercial bases even though they were not completed as originally anticipated by the executive Director and the senior management of the Group.

Work done by the Audit Committee

In addition to meetings with the executive Director and the senior management of the Group, the Audit Committee has reviewed the relevant documents relating to the transactions involving Mr. A, directly and indirectly, namely the documents relating to the proposed acquisition of a distribution centre in Shenzhen and a commercial property in Shenzhen and the relevant procurement agreement. The Audit Committee has also reviewed information on the ownership of Shenzhen Hexinglong, the said supplier controlled by Mr. A and the vendor of the land for the construction of the distribution centre obtained from independent sources and the independence confirmations signed by each of the Directors.

In addition, Moore Stephens were engaged by the Audit Committee to perform agreed-upon procedures to identify the factual issues of the background of Mr. A and any other matter that needs to be brought to the attention of the Audit Committee. The review indicates that the representations made by the executive Director and the senior management of the Group are correct. Moore Stephens are not aware of any connection between Mr. A and any Director or senior management of the Group, or is otherwise involved in other qualified transactions.

The Audit Committee's conclusion

The review by the Audit Committee indicates that there was no particular risk involved in those transactions except as disclosed above, albeit that those transactions were engaged with Mr. A, directly or indirectly. The Audit Committee is of the view that business relationships in the PRC are important, but at the same time, the Group should strictly follow the established internal control procedures so that all transactions engaged by the Group will be conducted on an arm's length basis upon normal commercial terms. Moore Stephens concur with the views adopted by the Audit Committee that the Group should strictly follow the internal control procedures so that all transactions engaged by the Group will be conducted on normal commercial terms when selecting the suppliers and vendors. The Audit Committee understands that the Group has implemented the following procedures.

The executive Director and the senior management of the Group confirm that the Group selects suppliers and vendors in accordance with its formal procedures. Suppliers must be reviewed under the selection process which includes due diligence checks and analysis based on suppliers' asking price, reputation, adequacy of stock and business history with the Group (if any). Assessments of the suppliers have been recorded on a standard formal assessment form which would be reviewed and approved by procurement director. The Directors confirm that the Group is in the process of upgrading its supplier and vendor management system which is expected to be able to provide comprehensive information on the background of the suppliers, including the detection and indication of same name in the vendor and supplier database.

The Audit Committee's opinion on the internal control measures

In reply to the concern raised by the Auditors, the Audit Committee reviewed the related agreements for the transactions that involved Mr. A directly or indirectly. The Audit Committee did not identify any irregularity in those agreements or any unusual favourable terms provided to the companies involving Mr. A. The termination of those transactions was also made with sound commercial basis according to the review of the relevant documents and meetings with the executive Director and the senior management of the Group. In the absence of any specific issue raised by the Auditors and Moore Stephens, the Audit Committee is of the opinion that the internal control issues set forth above are sufficient. The mere fact that there were various transactions engaged by the Group with companies involving Mr. A is not a significant issue of concern from the Audit Committee.

(iii) Qualified transaction involving advances from suppliers to the Group

The balance represented the receipts from suppliers for provision of promotion and advertising services. Due to the implementation of more stringent policy by the PRC government in December 2011 – 商秩發[2011]485號《清理整頓大型零售企業向供應商違規收費工作方案》(the "**Notice**"), Shirble Department Store (Shenzhen) will soon be subject to more stringent measures in the receipt of payments for certain promotion and advertising services as it has satisfied the two out of three conditions of being a large retailer as defined in the policy. Hence, Shirble Department Store (Shenzhen) refunded certain receipts to the suppliers in order to comply with the relevant regulation. The Directors consider that the Group can avoid the risk exposure to this regulation by returning these receipts to the suppliers subsequently. As of the date of this announcement, an amount of RMB63.6 million out of the RMB69.6 million has been refunded to the suppliers. The total amount of RMB63.6 million were refunded to the suppliers during the period between March and September 2012. The Group is currently in the process of negotiating with the suppliers on the refund schedule of the remaining balance, which is expected to be fully refunded to the suppliers by the end of March 2013.

No meeting of the Board was held for the approval of receipt of such amount as such fees are within the standard terms in all suppliers' agreements as part of the ordinary course of business of the Group. Such transactions were only subject to procurement managers' and vice presidents' approval according to the Group's internal operation manual.

Nature of the transaction being the subject matter of the qualified opinion of the Auditors

The Auditors noted that the advances from suppliers were received close to the financial reporting date, and that subsequent to 31 December 2011, an amount of RMB63.6 million out of the amount received was recorded as having been returned to the suppliers.

As such, the Audit Committee has conducted an independent review of the documents available to it and has meetings with the executive Director and the senior management of the Group.

Work done by the Audit Committee

To ascertain the representation made by the executive Director and the senior management of the Group, the Audit Committee has conducted the following:

1. Reviewing the lists of suppliers with the amount paid to the Group and the independence confirmation signed by each of the Directors of the Company, and noted that the Group has had continuous business relationships with 42 suppliers out of the 57 suppliers under the qualified transaction, and all of the 57 suppliers and their respective ultimate beneficial owners are Independent Third Parties.

2. Reviewing the standard supplier's agreements, and note that all the suppliers have entered into the standard supplier's agreement with the Group and the advances from suppliers were received in accordance with the respective supplier's agreements and are under ordinary course of business.

3. Reviewing the Notice, and note that the transaction involving advances from suppliers received by the Group in late 2011 represented receipts from suppliers for provision of promotion and advertising services by the Group. The Audit Committee further noted that receipt of fees for such services are considered accepted and usual practices of department stores and hypermarkets in the PRC.

4. Engaging Moore Stephens to perform the agreed-upon procedures to identify the factual issues leading to this qualified transaction and any matter that needs to be brought to the attention of the Audit Committee.

The Audit Committee's conclusion

The Audit Committee has taken into consideration (a) the Notice and (b) the list of suppliers with the advances received.

The Audit Committee noted that the transaction involving advances from suppliers received by the Group in late 2011 represented receipts from suppliers for provision of promotion and advertising services by the Group. The Audit Committee noted that receipt of fees for such services are considered accepted and usual practices of department stores and hypermarkets in the PRC. The Audit Committee further noted that the suppliers have entered into the standard supplier's agreement with the Group respectively and the advances from suppliers were received in accordance with the supplier's agreements and are under ordinary course of business.

It was also noted by the Audit Committee that the Group has had continuous business relationships with 42 suppliers out of the 57 suppliers under the transaction. To the best of each Directors' knowledge, information and belief, having made all reasonable enquiry, the Directors confirm that all of the 57 suppliers and their respective ultimate beneficial owners are Independent Third Parties.

The Audit Committee noted that the advances from the suppliers were received close to the financial reporting date and were returned subsequently from December 2011 to June 2012 due to the implementation of the more stringent policy imposed by the PRC government in December 2011.

Based on the above and the published timetable for the implementation of the Notice, the Audit Committee considers that it is reasonable for the Group to discuss with the suppliers to resolve the issues relating to the payment of fees. The fact that most of the transactions were completed around the year-end is a matter of coincidence in light of the published timetable for the implementation of the Notice. Hence, the Audit Committee considers that the transactions have their commercial basis and are part of the ordinary course of business of the Group. Nevertheless, the Audit Committee notes that certain internal control weakness and corresponding improvement measures identified by Moore Stephens could be implemented. Moore Stephens noted that there was an absence of a detailed written internal control manual regarding the proper initiation, monitoring, authorisation and completion of the payment cycle, with some inconsistencies and deviation from the internal control procedures being noted.

XIII. SUMMARY OF THE IMPROVEMENT IN THE INTERNAL CONTROL PROCEDURES

In view of the qualified opinion of the Auditors set forth above and the internal control weaknesses identified, the Audit Committee agrees that improvement in the internal control procedures would need to be implemented as soon as possible.

The Group has appointed Moore Stephens to advise on the Group's internal control procedures. Moore Stephens have provided to the Group and the Audit Committee a list of internal control improvement measures in response to the internal control weaknesses identified.

The Audit Committee has reviewed the list and the latest implementation status and confirms that all of the measures have been implemented by the Group in full except for the appointments of the chief executive officer, executive Director and an additional independent non-executive Director. Moore Stephens also confirm that the existence of the new internal control improvement measures as detailed in the Moore Stephens Review Report have been implemented by the Group after the year end.

In light of the above and taking into consideration the recommendations of Moore Stephens, the Board has implemented, and the Audit Committee supports such implementation decision, the following improvement measures:–

Establishment of internal audit department and legal department

An internal audit department was established by the Group in July 2012 to conduct independent and objective review and assessment in order to bring a systematic approach to evaluate and improve the effectiveness of risk management, control and governance processes. The internal audit department will report directly to the Audit Committee of the Board.

The Group established a legal department in February 2012. The responsibilities of the legal department include reviewing terms of agreements and contracts to ensure that all rights and obligations, including terms of prepayments and termination, of the Group are clearly set forth therein. The legal department will ensure that agreements are dated accordingly and that all attachments and appendices to agreements are properly annexed. The legal department will also be responsible for maintaining the documentation record in relation to major transactions entered into by the Group. The Group would obtain legal advice during the process of contracts drafting, if necessary, in order to safeguard the interests of the Group.

Appointment of additional independent non-executive Director

The Company will appoint an additional independent non-executive Director who is experienced in assisting companies to protect and enhance enterprise value to enhance the composition of the Board. The candidate is currently an independent non-executive director of a Hong Kong listed company and is a member of the Hong Kong Institute of Certified Public Accountants, Australia Institute of Public Accountants and Hong Kong Institute of Directors. The Company will issue a further announcement pursuant to Rule 13.51(2) of the Listing Rules as soon as possible after the appointment which will be effective on the Business Day following the date of resumption of trading of the Shares on the Stock Exchange. Immediately after the appointment, the Board will have five Directors, four of them will be independent non-executive Directors.

Recruitment of new management teams and chief executive officer and executive Director

The Group has employed new senior management team in the areas of shop opening, logistics and overall business planning for the purpose of strengthening the internal control in these areas. The Group will recruit a chief executive officer who will also be appointed as an executive Director and will oversee all operations of the Group. The candidate has extensive experience in retail business in the PRC. The recruitment is in the final stage. An offer letter has been issued to the candidate in July 2012 and the candidate is expected to join the Group by the end of 2012.

Standardisation of transaction approval procedures

The Group has also enhanced its internal control procedures for potential transactions to ensure that each transaction is approved by relevant departments and to minimize any potential risks. The Group has prepared a detailed written internal control manual that includes procedures for proper initiation, monitoring, authorisation and completion of transactions. The internal control manual has been circulated to all relevant staff. The procedures were implemented in July 2012. The agreements or contracts in respect of any potential transaction will be drafted and negotiated by the responsible department of the Company. Capital expenditure budget would be prepared for each transaction and approved before entering into any formal agreements. The draft agreements will then be reviewed and approved by the Company's legal department and the relevant departmental directors at various levels depending on the amount of consideration in the agreement before the agreement is signed by the Company. The finance department will conduct assessments on the transactions and will make appropriate accounting treatment and disclosures. The records of the signed agreements will be kept by the legal department, the finance department and the responsible department. Approval documents, such as meeting minutes, would be properly documented and maintained. The sponsorship or service fees made pursuant to supplier service agreements will be clearly stipulated in the provisions of the agreements in accordance with the relevant policies and regulations relating to fees payable by suppliers to large-scale retailers issued by the PRC government.

Establishment of formal tendering procedures

The Group has implemented a new set of selection procedures for all contractors, including decoration constructors, by way of tender since July 2012. The new procedures introduced general contractor and specialist contractor prequalification assessment procedures. The Group would invite contractors for review which would be conducted according to the generally accepted industry guidelines. The contractors would be classified into two to three levels in accordance to the project size, requirements of specialised contractors, and financial standing. The Group would issue an invitation to tender to no less than three selected contractor but the number of contractors shall not exceed eight for each project. The invitation for tender would set forth the detailed product and service requirements including specific materials to be used and completion time. The launched bids would be reviewed by at least three staff of the Group, including staff from the engineering department, supervision department and assistant to vice president. The bids would be reviewed and analysed in terms of the tender price, specifications for the project, requirements for specialised projects and whether there are serious errors or omissions. The Group would select the contractor based on the established and objective principles. The tender process is supervised by a registered professional engaged by the Group. The Group will only enter into formal contracts with contractors after the bidding process when the formal lease agreement or sale and purchase agreement has been entered into for future projects. In addition, the assessment procedures would be properly documented (including the basis on selection of each contractor, copies of the qualification of the contractors, etc.) to support the decision of the Group as suggested by Moore Stephens.

Standardisation of property transactions procedures

The Group has implemented new procedures for entering into formal property acquisition agreement in July 2012. The Group would conduct thorough due diligence (including obtaining legal advice and performing background searches on counterparties) on the properties before entering into any formal agreement for future acquisitions. The due diligence work would include the review of construction plan of the properties and on-site inspection to ensure that the designs in the detail construction plans and the floor plans will be suitable for the requirement of the Group. Capital expenditure budget would be prepared for each property transaction and approved before entering into any formal agreements. Written documentations will be prepared throughout the transaction process and any decision-making (including board meetings) and approvals process will also be documented. The structural design plan will be submitted to the Board for approval. The approved structural design plan will then be submitted to the vendor. The final agreement will be signed only when the approved structural plan has been accepted by the vendor and approved by the relevant government authorities. The final agreement would be approved by the Group's legal department to ensure that the terms are reasonable and in the interests of the Group, in particular terms relating to recoverability risks for non-delivery. Development stages and milestones would be stated in the agreement and progress will be monitored by the Group's newly employed chief development officer, who is required to report to the chief executive officer and senior management of the Company on a weekly basis to ensure that the projects proceed as scheduled, to prevent unreasonable delay in completion of project. The chief development officer will comply with the procedures set out in the internal control manual, which would include procedures of the proper initiation, monitoring, authorisation and completion of transactions.

Establishment of cash management policy

The Company has established a cash management policy since June 2012, pursuant to which all cash payment over RMB500,000 will be prohibited. For cash payments under or equivalent to the amount of RMB500,000, the approvals from the chief executive director, the chief operating officer and the procurement director or the engineering director or any other departmental director (depending on the nature of the relevant transaction) would be required. The Company will ensure that the current policy on cash management will be properly executed by all department stores. In addition, expenses of the Company will be separately settled through its bank accounts so that all transactions can be recorded and tracked.

Establishment of prepayment approval procedures and enhancement of payment approval procedures

The Group has implemented the following approval procedures for transactions with prepayments and enhanced its payment approval procedures since June 2012. Payment (including prepayments) requests would be prepared in formal requisition and approval forms and the forms together with supporting documents will be submitted to relevant personnel for approval. All payments (excluding prepayments) will be approved by finance department and vice presidents and/or chief executive director according to the amount and nature of the the transaction. For prepayments under RMB3.0 million, approvals from the procurement director, financial director and the chief operating officer would be required prior to execution of relevant agreements. All prepayments between RMB3.0 million and RMB5.0 million would require additional approval from the chief financial officer. For prepayments over RMB5.0 million, additional approvals must be sought from the chief executive officer and a majority of the Directors before the signing of the agreements. The approval procedures will be subject to annual review by the Board to ensure that appropriate levels of approvals have been obtained for each transaction.

Update of enterprise resources management system

The Group is in the process of updating its enterprise resources management system and conducting trainings for various departments on the new enterprise resources management system. The trial operation of the enterprise resources management system has begun in October 2012. The updated system includes modules on supplier management which provide efficient update to the supplier information and standing and detect vendors of same name in the supplier database. The system would also allow a signatory function to distinguish reviewed information. The procurement department will monitor the updated enterprise resources management system regularly.

Possible notifiable transactions approval procedures

In May 2012, the Group has implemented various procedures so that prior approvals from the chief financial officer and the company secretary of the Company would be required before conducting any related party transactions, transactions of more than RMB3.0 million and any other possible transactions which may constitute notifiable transactions (as defined under the Listing Rules) and connected transactions (as defined under the Listing Rules).

Appointment of retainer financial advisers

Quam Capital Limited is and will remain as the compliance adviser of the Company until the publication of the annual report for the year ended 31 December 2011. The Company has engaged Quam Capital Limited as retainer financial adviser for one year upon the expiry of the compliance adviser engagement. The Company undertakes to consult Quam Capital Limited and/or appropriate advisers from time to time in respect of compliance issues including but not limited to the requirements under Chapter 14 and Chapter 14A of the Listing Rules and the continuing obligations of the Company under Chapter 13 of the Listing Rules.

Continuous training provided to Directors

The Directors have received updated training materials on directors' duties from the Company's legal advisers in August 2012, and will attend additional training on directors' duties conducted by the Company's legal advisers so that the Directors will be updated on their duties and the requirements under the Listing Rules before the end of December 2012. In addition, the Directors will attend 20 hours of training per year. The Company will disclose the training attended and the number of hours involved in its annual report as required by the Listing Rules.

Further recommendations of Moore Stephens

The implementation of the internal control measures will be monitored by the internal audit department and the new chief executive officer of the Group. The Group has engaged Moore Stephens to conduct a two-week review. Moore Stephens will submit a written report in March 2013 on the Group's internal control measures. The review by Moore Stephens will include an assessment on the overall sufficiency of the Group's internal control procedures. The internal audit department and the new independent non-executive Director will periodically report their review and findings on the Group's internal controls to the Audit Committee of the Board.

The Company will announce the results of the internal control review conducted by Moore Stephens in March 2013. In the future, Moore Stephens (or other independent internal control advisers) will continue to conduct periodic reviews, the results of which will be published in the Company's interim and annual reports accordingly.

The Audit Committee is of the view that the above new measures are sufficient, reasonable and are implemented in the interest of the Group as a whole based on their review of the issues identified by the Auditors and the findings on the Group's internal control weaknesses conducted by Moore Stephens.

XIV. EXTRACT OF THE MOORE STEPHENS REVIEW REPORT

The Audit Committee has engaged Moore Stephens, a firm of independent accountants, to review the circumstances leading to and the reasons for the transactions in the Auditors' qualified opinion and the internal control improvement measures recommended to be taken by the Group. Moore Stephens have issued the Moore Stephens Review Report to the Audit Committee and the Audit Committee has reviewed the Moore Stephens Review Report. The following sets forth a summary of the procedures conducted by Moore Stephens in the preparation of the Moore Stephens Review Report and the recommendations from Moore Stephens to the Group.

Procedures conducted by Moore Stephens

The purpose of the Moore Stephens Review Report is to assist the Audit Committee to identify (a) the factual issues leading to the qualified transactions, (b) any matter that needs to be brought to the attention of the Audit Committee, and (c) internal control weaknesses in respect of the qualified transactions. Moore Stephens have confirmed in writing that they are satisfied on the scope of the procedures and the information received, so as to allow them to issue the Moore Stephens Review Report with the internal control improvement measures contained therein. Moore Stephens have performed the following:–

1. obtained from the management of the Group a list of the qualified transactions, all the relevant supporting documents for the transactions and the explanations for each of the qualified transactions;

2. reviewed the contents of this announcement;

3. visited the offices of the Group in Hong Kong and China and obtained such information and explanations from the management of the Group for the purpose of identifying the reasons for the qualified transactions and the termination of such transactions;

4. reviewed the relevant information provided relating to each of the qualified transactions, such as, inspection of the original documents, where applicable;

5. performed detailed walk-through procedures to understand/identify the flows for each of the qualified transactions and the factual consequences leading to the subsequent termination of the transactions;

6. discussed with the management of the Group their explanations for the events surrounding the qualified transactions and obtained further supporting information from the management of the Group so as to obtain a preliminary understanding of the factual circumstances on the qualified transactions;

7. reviewed the documents received in relation to the qualified transactions in order to identify any inconsistencies between these documents and the representations made by the management of the Group (including all the factual information set forth in this announcement);

8. provided their views on each of the qualified transactions and the factors taken into account in formulating their views;

9. checked whether the factual circumstances identified are consistent with the understanding of those qualified transactions amongst members of the Audit Committee and set forth in this announcement;

10. checked whether there are other material facts or documents leading to any of the qualified transactions and the subsequent termination thereof that the members of the Audit Committee were not aware of as set forth in this announcement;

11. determined whether the qualified transactions were primarily caused by internal control weaknesses of the Group and/or other reasons, such as inexperience in handling all required legal procedures and legal due diligence in acquiring properties for business purposes;

12. identified the internal control weaknesses of the Group;

13. assessed the adequacy of the new internal control improvement measures as set forth in this announcement;

14. commented on the remedial measures in the circumstances where the reasons for the qualified transactions are not related to internal control weaknesses;

15. obtained from the management of the Group and the Directors a list of their related parties as defined under Hong Kong Accounting Standard 24 (Revised) "Related Party Disclosures" issued by the HKICPA and connected persons as defined under Listing Rule 14A.11 in order to identify any related parties or connected persons involved in the qualified transactions;

16. performed litigation search and engaged independent search consultants to carry out background searches on each of the counterparties of the qualified transactions and the key management personnel, including the Directors, on a sampling basis;

17. compared the lists of related parties and connected persons of key management personnel, including the Directors, obtained from the management of the Group with the list of counterparties to the qualified transactions in order to identify whether the counterparties to the qualified transactions and the lists obtained have common parties;

18. sent confirmation letters to the key management personnel and the Directors to confirm their relationship with the counterparties to the qualified transactions; and

19. discussed with the management of the Group and obtained relevant documents, such as written control manuals, for the new internal control improvement measures and conducted a review of the implementation of the new measures by selecting transactions and the new internal control improvement measures.

Summary of findings

Moore Stephens have confirmed to the Audit Committee that, with the above scope of work and the information received, they have obtained sufficient information for the issue of the Moore Stephens Review Report. The following sets forth a summary of the findings of each of the qualified transactions:

(a) Prepayment of RMB21.0 million for the decoration of the property for the Meizhou Store

Moore Stephens consider that the early engagement of the decoration company for the property and the prepayment of the RMB21.0 million was not exceptional as the Group has made prepayments for other decoration contractors previously. Moore Stephens also consider that the engagement of the decoration company, which is one of the approved contractors of the Group and has been engaged by the Group for other project in the past, by the Group at that time was clearly supported by a reasonable anticipation that the Group would be able to purchase the property for the Meizhou Store. In addition, Moore Stephens understand that prior to 2012, the Group's decision for making prepayments to decoration contractors was mainly based on the Group's business considerations with no standard policy in place. Hence Moore Stephens consider that the Group's prepayment of 70% of the contract sum was not exceptional and under normal business practice of the Group. Notwithstanding the above, Moore Stephens consider that the prepayment was made, in the context of internal control procedures implemented by the Group on the engagement of decoration contractors and the purchase of property for the department stores of the Group at the time of qualified transactions, were not adequate. For details of the additional internal control weaknesses identified by Moore Stephens, please refer to the paragraph headed "The Audit Committee's Conclusion" under this qualified transaction in Section XII of this announcement.

(b) Prepayment of RMB34.3 million for the decoration of the property for the Haifeng Store

Moore Stephens consider that the internal control weakness in this regard was identical to the weakness set forth in (a) above. There was reasonable anticipation that the Group would be able to acquire the property for the Haifeng Store. Hence, it would be reasonable for the Group to engage a decoration company, which is one of the approved contractors of the Group and has been engaged by the Group for other projects in the past, in order to shorten the time required for interior decoration of the property. The prepayment of 70% of the contract sum was also not exceptional and under normal business practice of the Group. Notwithstanding the above, Moore Stephens consider that the prepayment was made, in the context of internal control procedures implemented by the Group on the engagement of decoration contractors and the purchase of property for the department stores of the Group at the time of the qualified transactions, were not adequate. For details of the additional internal control weaknesses identified by Moore Stephens, please refer to the paragraph headed "The Audit Committee's Conclusion" under this qualified transaction in Section XII of this announcement.

(c) Payment of deposit of RMB41.25 million for the acquisition of a distribution centre in Shenzhen

Having reviewed all the supporting documents, Moore Stephens are of the view that the payment of deposit of RMB41.25 million was made with reasonable anticipation that the Group would proceed to acquire the property for the Group's distribution centre in Shenzhen. The subsequent termination of the acquisition of the property reflected (i) the lack of experience of the management of the Group in handling all the required legal procedures and legal due diligence in acquiring properties for business purposes and (ii) the lack of internal and approvals procedures for the purchase of property. The Group's failure to identify the relevant legal defects prior to entering into legally binding agreements also highlights that the Group needs to improve the internal control improvement measures related to capital investment projects. For details of the additional internal control weaknesses identified by Moore Stephens, please refer to the paragraph headed "The Audit Committee's Conclusion" under this qualified transaction in Section XII of this announcement.

(d) Prepayment of RMB131.25 million for the acquisition of a three-storey commercial property in Shenzhen

Moore Stephens consider that the reason for the cancellation of the acquisition of a three-storey commercial property in Shenzhen was primarily due to the lack of experience of the management of the Group in handling the legal process and identifying the legal pitfalls in property acquisition transactions. The lack of experience, together with the Group's aggressive plan for expansion of the department store network with inadequate procedures and measures on internal control, were the primary reasons for the Group's failure to identify the relevant legal defects prior to entering into legally binding agreements. For details of the additional internal control weaknesses identified by Moore Stephens, please refer to the paragraph headed "The Audit Committee's Conclusion" under this qualified transaction in Section XII of this announcement.

(e) Prepayment of RMB84.0 million for the acquisition of a property in Haifeng County for the Haifeng Store

On the prepayment of RMB84.0 million for the acquisition of a property in Haifeng County for the Haifeng Store, Moore Stephens consider that the primary reasons for the discrepancy between the purchase consideration and the consideration in the initial online registration document submitted to local government, as well as the payments to non-contracting parties, were due to the lack of experience of the management of the Group in handling the required legal procedures and in understanding the legal implications that may arise from the requests from the vendor. For details of the additional internal control weaknesses identified by Moore Stephens, please refer to the paragraph headed "The Audit Committee's Conclusion" under this qualified transaction in Section XII of this announcement.

(f) Prepayment of RMB152.5 million made to the suppliers of the Group for the procurement of goods

Regarding the prepayment of RMB152.5 million to the suppliers of the Group for the procurement of goods, Moore Stephens consider that the procurement of goods were part of the ordinary course of business of the Group. The prepayments were made with the background that the Group has an expanded network of department stores and the anticipated high demand for the merchandises during the holiday seasons. There was a lack of internal control improvement measures, and an unsystematic assessment, filings and collection of suppliers' information. For details of the additional internal control weaknesses identified by Moore Stephens, please refer to the paragraph headed "The Audit Committee's Conclusion" under this qualified transaction in Section XII of this Announcement.

(g) Details on an individual who was either director or legal representative for three entities which were counterparties to transactions entered into by the Group

Regarding the individual, Mr. A, Moore Stephens noted that he has 50.0% of the equity interest in a company which owns Shenzhen Hexinglong. Mr. A is also the legal representative and the director of Shenzhen Hexinglong. In addition, Mr. A owns 87.5% of the equity interest in one of the Group's suppliers and is the legal representative of such supplier. Mr. A is also the supervisor of the vendor of the land for the construction of the distribution centre in Shenzhen. From the independent search report conducted by an independent search consultants on Mr. A, Moore Stephens are not aware of any connection between Mr. A and the Group or any of the key management personnel, including the Directors, or is otherwise involved in other qualified transactions. Mr. A is a business acquaintance of the Group. Moore Stephens concur with the views adopted by the Audit Committee that the Group should strictly follow the internal control procedures so that all transactions engaged by the Group will be conducted on normal commercial terms when selecting the suppliers and vendors.

(h) Qualified Transaction involving advances from suppliers to the Group

The receipt of the advances from suppliers to the Group, despite the fact that the advances were part of the ordinary course of business of the Group as the Group has received these advances in the past, did not cease even after the introduction of the new laws and regulations. Moore Stephens consider that the reasons for the qualified transactions were primarily due to the inadequate internal control procedures implemented by the Group at the time of qualified transactions. For details of the additional internal control weaknesses identified by Moore Stephens, please refer to the paragraph headed "The Audit Committee's Conclusion" under this qualified transaction in Section XII of this announcement.

(i) Independence background search

Independent search consultants were engaged by Moore Stephens to carry out background searches on such counterparties for each of the qualified transactions so as to allow Moore Stephens to form their opinion. Background searches were also conducted by the independent search consultants on the key management personnel, including the Directors, on a selection basis based on their position and date of employment/appointment. No irregularities relating to the Group or any of the key management personnel, including the Directors of the Group or any special connection between the counterparties and the Group or any of the key management personnel, including the Directors, are noted.

Conclusion

Moore Stephens' views are that the Group's internal control would need to be improved in light of the qualified transactions. All the qualified transactions were primarily due to the inadequate internal control procedures implemented by the Group at the time of the qualified transactions. Moore Stephens have reviewed the findings of the Audit Committee and concurs with the Audit Committee that the findings represented the factual circumstances leading to the qualified transactions.

Moore Stephens confirm that nothing has come to their attention that causes them to believe that the Group has not implemented all the internal control improvement measures as detailed in the Moore Stephens Review Report. Based on their work performed and their past experience and expertise on internal control, Moore Stephens do not consider that the steps performed are ineffective and insufficient to identify the causes of the qualified transactions. Including the internal control improvements measures identified by Moore Stephens, they are not aware that the internal control improvement measures are inadequate based on their expertise and past experience on internal control.

Copies of the Moore Stephens Review Report will be available for inspection at the principal office of the Company in Hong Kong at Suite 1402, Dah Sing Financial Centre, 108 Gloucester Road, Wanchai, Hong Kong during normal business hours from the date of this announcement up to seven days thereafter.

XV. PAST CONNECTED TRANSACTIONS

Shirble Department Store (Shenzhen) entered into certain transactions with Tangming, Hengda Investment and Shenzhen Guozhan. These transactions constituted connected transactions and should have been disclosed pursuant to Chapter 14A of the Listing Rules.

Cash advances to Tangming, Hengda Investment and Shenzhen Guozhan and the reasons for making the cash advances

During the period between January 2011 and March 2012, Shirble Department Store (Shenzhen) had made 19 interest-free and short-term cash advances in the aggregate amount of RMB72.5 million to Tangming, Hengda Investment and Shenzhen Guozhan. The purpose of these cash advances was to provide working capital to Tangming, Hengda Investment and Shenzhen Guozhan, upon their requests, against cheques drawn in favour of Shirble Department Store (Shenzhen). All of the cash advances were fully returned to the Group within two weeks of each cash advance. As of the date of this announcement, none of Tangming, Hengda Investment and Shenzhen Guozhan had any amount due to any member of the Group and there were no occurrences of dishonoured cheques received from the connected persons (as defined in the Listing Rules).

The executive Director and the senior management of the Group confirm that the reason for making these cash advances was that the Group had excessive cash balance at that time. Given that all of the cash advances were made following the receipt and deposit of current-dated cheques (except for four transactions of RMB150,000.0, RMB26,287.5, RMB182,139.6 and RMB6,000,000.0 which were made after the receipt but shortly before the deposit of the relevant cheques) drawn in favour of Shirble Department Store (Shenzhen) and that all these companies were connected persons (as defined in the Listing Rules) of the Company, the executive Director and the senior management of the Group consider that the risk of recoverability to the Group is not significant. The executive Director and the senior management of the Group, in view of the connected relationship, considered that such advances do not have any material adverse impact on the business operations of the Group.

Each cash advance was made against cheque(s) drawn by the payees of the cash advances and the Company had ensured that the connected persons (as defined in the Listing Rules) have sufficient bank balances for honouring the cheques and as such, the executive Director and the senior management of the Group believed that there was no change in the cash position of the Group and there was no need to charge any interest. Because of this opinion and the low credit risk as assessed by the executive Director and the senior management of the Group, there was no interest (which is a parameter of the level of risk that the lender may be exposed to for the non-payment of the loan or advance) charged on the amount of cash advances. Based on the current deposit interest rate, the Company would have earned bank interest in the amount of RMB795.4 if the cash advances were deposited in its bank accounts at the relevant time.

The executive Director and the senior management of the Group considered the cash advances, which were made against current-dated cheques in favour of Shirble Department Store (Shenzhen), were made on normal commercial terms and would not have any material adverse impact on the cash position of the Group. More importantly, the executive Directors and the senior management of the Group considered that there was no risk involved in the cash advances and hence, no interest should be charged on the amount. Based on the then prevailing interest rate, the amount of interest foregone would be minimal and as such, the executive Director and the senior management of the Group were of the view that the cash advances were insignificant to the business operations of the Group. Hence, the executive Directors and the senior management of the Group did not consult the compliance advisers and the legal advisers nor disclose the transaction on the misunderstanding that such short-term cash advances would not constitute connected transactions for the Company under the Listing Rules. The executive Director and the senior management of the Group did not seek the Board's approval prior to the transactions.

The Audit Committee's opinion on the cash advances

The Audit Committee has reviewed the bank remittance records of Shirble Department Store (Shenzhen) and noted that the payment and deposit records were consistent with the representations of the executive Director. On this basis, the Audit Committee concurs with the view of the executive Director that the credit risk involved in the cash advance transactions was minimal. The Audit Committee has also reviewed the calculation of the amount of the interest foregone and concurs with the view of the executive Director that the amount of interest foregone was minimal and as such, the fact that the cash advances was made interest-free could be considered as transactions entered into by the Group upon normal commercial terms.

Nevertheless, the Audit Committee does not consider that the cash advances are part of the ordinary course of business of the Group and that the cash balance of the Group should not have been used as advances to third parties, regardless of their relationship with the Group. These cash advances are different from lines of credit provided to the customers of the Group which were provided by the Group after thorough study and assessment.

In light of the above, the Audit Committee considers that there was internal control weakness in cash management of the Group. The executive Director has confirmed to the Company no cash advances will be made to any third party, other than those relating to the business of the Group.

Internal control measures

The Audit Committee is of the view that the implementation of the cash policy is reasonable and in the best interest of the Company. The Directors (including the independent non-executive Directors who are the members of the Audit Committee) confirm that the Company will not make any cash advance in the future and that all connected transactions will be conducted in full compliance with the Listing Rules.

The Group has implemented procedures so that prior approvals from the chief financial officer and the company secretary of the Company would be required before conducting any related party transactions, transactions of more than RMB3.0 million and any other possible transactions which may constitute notifiable transactions (as such term is defined under the Listing Rules) and connected transactions (as such term is defined under the Listing Rules).

Information on Tangming, Hengda Investment, and Shenzhen Guozhan

Tangming is a company established in the PRC and is principally engaged in the business of logistics. Tangming is wholly-owned by Ms ZHU Bihui, who is a niece of Mr. YANG Xiangbo, the chairman of the Company. Hence, Tangming is a connected person of the Company under the Listing Rules.

Hengda Investment is a company established in the PRC and is a property investment company. Hengda Investment is ultimately controlled by Mr. YANG Xiangbo and hence, a connected person of the Company under the Listing Rules. Hengda Investment had been the Shareholder of Shirble Department Store (Shenzhen) before the restructuring of the Group.

Shenzhen Guozhan is a company established in the PRC and is a property investment company. Shenzhen Guozhan is wholly-owned by Mr. YANG Xiangbo's brother-in-law and niece. Hence, Shenzhen Guozhan is a connected person of the Company under the Listing Rules. Shenzhen Guozhan has entered into another continuing connected transaction with the Group to lease part of the Shenzhen distribution center to the Group from 2009 until 2012 as disclosed in the Prospectus.

Implications under the Listing Rules

As the advancements to Tangming, Hengda Investment and Shenzhen Guozhan involve advances to entities controlled by connected persons of the Company, all the advancements to Tangming, Hengda Investment and Shenzhen Guozhan shall be aggregated and treated as if they were one transaction pursuant to Rule 14.22 of the Listing Rules.

As the applicable percentage ratios (as defined in the Listing Rules) exceeded 0.1% but is less than 5% in respect of the aggregate cash advances to Tangming, Hengda Investment and Shenzhen Guozhan and that the Audit Committee considers that these transactions were conducted upon normal commercial terms (for the reasons set forth above), the cash advances should have been subject to the reporting and announcement requirements, but are exempt from independent Shareholders' approval under Rule 14A.66 of the Listing Rules. In addition, as the cash advances to Tangming, Hengda Investment and Shenzhen Guozhen constitute connected transactions under the Listing Rules, the Company should enter into written agreements with the relevant parties in respect of the advances pursuant to Rule 14A.04 of the Listing Rules.

The Company did not enter into written agreements and did not disclose the cash advances to Tangming, Hengda Investment and Shenzhen Guozhan pursuant to the Listing Rules at the time of the transactions reaching the required thresholds under Rule 14A.32 of the Listing Rules. Hence, this failure constitutes a breach of Rule 14A.04, Rule 14A.63 and Rule 14A.66 of the Listing Rules. The Stock Exchange has indicated to the Company that it reserves the right to take further action against the Company and/or its Directors in respect of the breach of the Listing Rules. The Stock Exchange has also indicated to the Company that it reserves the right to require the cash advances to be subject to the approval of the independent Shareholders and hence, the failure of obtaining such approval at the time of the transactions would also constitute a breach of Rule 14A.48 of the Listing Rules.

XVI. AUDIT COMMITTEE

An Audit Committee has been established by the Board to review and supervise the financial reporting process and internal control procedures of the Group. The Audit Committee has reviewed the Group's audited consolidated results for the year ended 31 December 2011 and has the recommendations and views set forth above. The Audit Committee comprises the three independent non-executive Directors.

XVII. CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, save and except for the roles of Chairman and Chief Executive Officer was not separate and was performed by the same individual, Mr. YANG Xiangbo from 17 November 2011 to 31 December 2011, the Company has complied with the Code on Corporate Governance Practice as set out in Appendix 14 to the Listing Rules for the year ended 31 December 2011.

XVIII. MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set forth in Appendix 10 to the Listing Rules (the "**Model Code**"). The Directors have complied with the standard set forth in the Model Code for the year ended 31 December 2011.

XIX. PURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

During the year ended 31 December 2011, the Company repurchased 5,000,000 Shares on the Stock Exchange at an aggregate purchase price of HK$5.1 million (equivalent to RMB4.2 million). The repurchase was effected by the Directors for the enhancement of Shareholders' value. All the Shares repurchased during the year have been cancelled upon delivery of the share certificates.

XX. PUBLICATION OF FINAL RESULTS ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This announcement will be published on the websites of Stock Exchange and the Company. The 2011 Annual Report will be despatched to the Shareholders and published in the websites of the Stock Exchange and the Company before 31 December 2012.

XXI. CONTINUED SUSPENSION OF TRADING OF THE SHARES

Trading of the Shares will continue to be suspended pending the issue of the results announcement of the Group for the six months ended 30 June 2012. The Directors expect that the relevant announcement will be issued before 31 January 2013.

XXII. DEFINITIONS USED IN THIS ANNOUNCEMENT

Unless the context requires otherwise, the capitalised terms used herein shall have the following meanings:–

"2011 Annual Report"	the annual report of the Group for the year ended 31 December 2011 which is expected to be despatched by the Group which contains all the information required by Appendix 16 to the Listing Rules and other applicable laws and regulations;
"2011 Interim Report"	the interim report of the Company for the six months ended 30 June 2011;
"AGM"	the annual general meeting of the Company proposed to be held not later than 30 January 2013;
"associate(s)"	has the meaning ascribed to it under the Listing Rules;
"Audit Committee"	the audit committee of the Board as of the date of this announcement, the members of which include all independent non-executive Directors, namely Ms. ZHAO Jinlin, Mr. CHEN Fengliang and Mr. JIANG Hongkai;
"Auditors"	the auditors of the Company, KPMG;
"Board"	the board of directors of the Company, which consists of one executive Director and three independent non-executive Directors;
"Business Days"	Monday to Friday (other than public holiday) on which banks in Hong Kong are generally open for banking business;
"Company"	Shirble Department Store Holdings (China) Limited (歲寶百貨控股（中國）有限公司) with all the Shares listed on Stock Exchange (stock code: 00312);
"connected person(s)"	has the meaning ascribed to it under the Listing Rules;
"Contractor A"	a decoration company engaged by the Group for decoration projects of the Meizhou Store and an Independent Third Party;
"Contractor B"	a decoration company engaged by the Group from time to time for decoration projects of the Haifeng Store and an Independent Third Party;
"Directors"	the directors of the Company (including the independent non-executive Directors who are the members of the Audit Committee);
"GFA"	gross floor area;
"Group"	the Company and its subsidiaries;

"Haifeng Sale and Purchase Agreement"	the sale and purchase agreement dated 28 December 2011 entered into between Shanwei Shirble and Haifeng Wanye for the acquisition of a property in Haifeng County;
"Haifeng Store"	a department store of the Group proposed to be opened in Haifeng County, the PRC;
"Haifeng Wanye"	Haifeng Wanye Property Development Co., Ltd. (海豐縣萬業房地產有限公司), a company established in the PRC and an Independent Third Party;
"Hengda Investment"	Shenzhen Hengda Investment Development Co., Ltd. (深圳市恒大投資發展有限公司), a limited liability company established in the PRC on 10 February 2002 and a connected person of the Company;
"Hong Kong"	The Hong Kong Special Administrative Region of the PRC;
"Independent Third Party(ies)"	person(s) or company(ies) (including their respective ultimate beneficial owner) which are independent of and not connected with any Director, chief executive, substantial shareholder(s) (as defined under the Listing Rules) of the Company and the connected persons of the Company and their respective associates, and an "Independent Third Party" means any of them;
"Listing"	the listing of the Shares on the main board of the Stock Exchange since November 2010;
"Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
"Meizhou Store"	a department store of the Group proposed to be opened in Meizhou, the PRC;
"Moore Stephens"	Moore Stephens Hong Kong, a firm of practising accountants in Hong Kong engaged by the Audit Committee for the purpose of reviewing and investigating the transactions being the subject matters of the Auditors' qualified opinion and making recommendations to the Audit Committee on the Group's internal control procedures;
"Moore Stephens Review Report"	a report issued by Moore Stephens to the Audit Committee on the circumstances leading to and the reasons for the qualified transactions;
"Mr. A"	an Independent Third Party and a businessman in the PRC engaged in a wide range of business activities;

"PRC"	The People's Republic of China which does not include, for the purpose of this announcement, Hong Kong, Macau Special Administrative Region and Taiwan;
"Property Valuer A"	a property valuation company engaged by the Group for valuation of the property in Haifeng County and an Independent Third Party;
"Property Valuer B"	a property valuation company engaged by the Group for valuation of the property in Haifeng County and an Independent Third Party;
"Prospectus"	the prospectus of the Company dated 5 November 2010;
"RMB"	Renminbi yuan, the lawful currency of the PRC;
"Shanwei Shirble"	Shanwei Shirble Department Store Limited Liability Company (汕尾歲寶百貨有限公司), a company established in the PRC and a wholly-owned subsidiary of the Company;
"Share(s)"	the ordinary share(s) of the Company with a par value of HK$0.1;
"Shareholder(s)"	holders of the Share(s);
"Shenzhen Guozhan"	Shenzhen Guozhan Investment Development Co., Ltd. (深圳市國展投資發展有限公司), a limited liability company established in the PRC on 12 September 2005 and a connected person of the Company;
"Shenzhen Hexinglong"	Shenzhen Hexinglong Shiye Company Limited (深圳市禾興隆實業有限公司), a company established in the PRC and an Independent Third Party;
"Shenzhen Sale and Purchase Agreement"	the sale and purchase agreement dated 6 May 2011 entered into between Shirble Department Store (Shenzhen) and Shenzhen Hexinglong for the acquisition of a three-storey commercial property in Shenzhen;
"Shirble Department Store (Shenzhen)"	Shenzhen Shirble Department Store Co., Ltd. (深圳歲寶百貨有限公司), a company established in the PRC and a wholly-owned subsidiary of the Company;
"Shirble Chain Store"	Shirble Chain Store Limited Liability Company (深圳歲寶連鎖商業發展有限公司), a company established in the PRC and a wholly-owned subsidiary of the Company;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited; and

"Tangming"	Shenzhen Tangming Logistic Co., Ltd. (深圳市塘明物流有限公司), a limited liability company established in the PRC and a connected person of the Company.

By order of the Board
Shirble Department Store Holdings (China) Limited
YANG Xiangbo
Chairman and Acting Chief Executive Officer

Hong Kong, 5 December 2012

As of the date of this announcement, the executive Director is Mr. YANG Xiangbo and the independent non-executive Directors are Ms. ZHAO Jinlin, Mr. CHEN Fengliang and Mr. JIANG Hongkai.