SHIRBLE DEPARTMENT STORE
歲寶百貨

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: 312

ANNUAL REPORT 2011

Contents

Corporate Profile

Shirble Department Store Holdings (China) Limited (the "**Company**") was incorporated in the Cayman Islands with limited liability on 5 November 2008. The Company and its subsidiaries (collectively, the "**Group**") are principally engaged in the operation of department stores in the People's Republic of China (the "**PRC**").

The Group is a one of the leading and long established Shenzhen-based department store chains. As of 31 December 2011, the group owned and operated 16 department stores, of which 11 are within Shenzhen, two are located in Changsha and Shanwei, respectively and three are located in Dongguan. Most of the Group's stores have similar exterior and interior designs including layouts, colour schemes and decors, thereby enhancing customers' awareness of the brand "歲寶百貨".

A broad range of merchandise is offered in the stores, including footwear, textiles, apparel, cosmetics, children's and households' goods, electrical appliances, daily consumer products and household necessities, which enables the Group to capture a wide and diverse range of customers. The Group's department stores principally target the mid-market segment, aiming to offer its customers with a wide range of quality merchandise and customer-oriented services, as well as a convenient and comfortable "one-stop" shopping environment. It also caters for the higher-end segment of the retail market for certain categories of products by offering well-known international and domestic branded products in its stores, so as to capture the demand of customers with higher consumption power. It is believed that this market position enables the Group to capture high growth potential in the PRC retail sector.

Financial Highlights

A summary of the results and assets, liabilities and equity of the Group for the last five financial years is set out below:

Operating Results

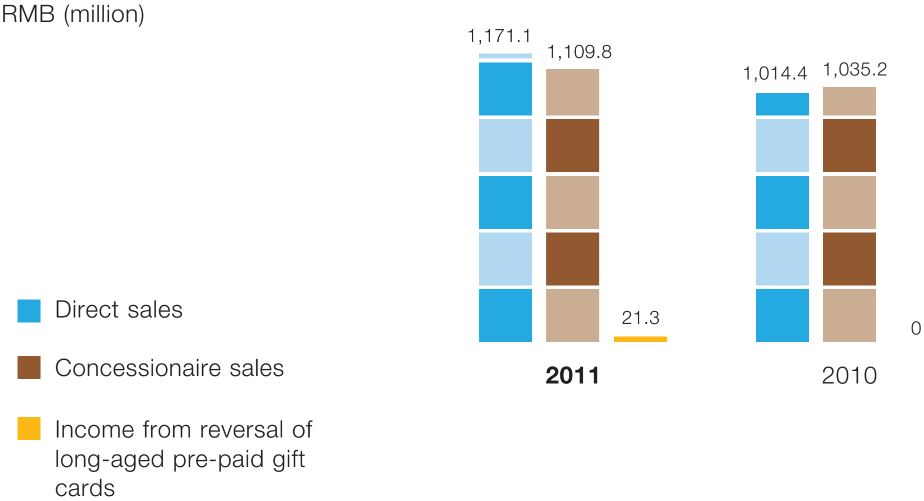
	Year ended 31 December				
RMB'000	**2011**	2010	2009	2008	2007
Turnover	**1,433,586**	1,279,619	1,148,030	1,079,940	1,004,464
Profit from operations	**95,043**	260,966	138,341	104,416	100,421
Profit before tax	**114,999**	267,466	174,832	108,721	107,184
Profit attributable to equity shareholders of the Company	**71,632**	200,082	140,304	89,516	100,747
Earnings per share (RMB per share) – Basic and diluted	**0.03**	0.1	0.07	0.05	0.05

Assets, Liabilities and Equity

	At 31 December				
RMB'000	**2011**	2010	2009	2008	2007
Total assets	**2,939,650**	2,457,413	1,269,343	1,244,494	1,078,023
Total liabilities	**1,384,481**	926,369	1,007,122	831,950	754,995
Total equity	**1,555,169**	1,531,044	262,221	412,544	323,028

GROSS SALES PROCEEDS - BY CATEGORY

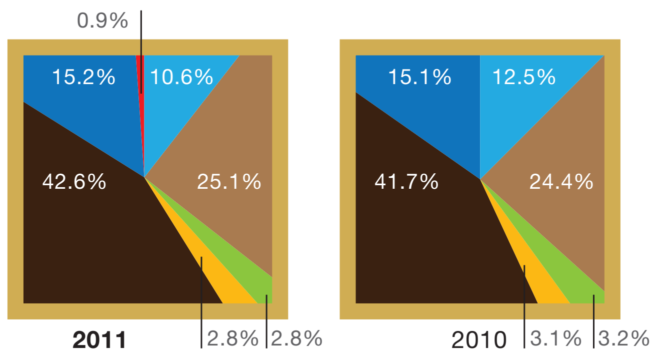
RMB (million)



Financial Highlights

GROSS SALES PROCEEDS - BY PRODUCT CATEGORY

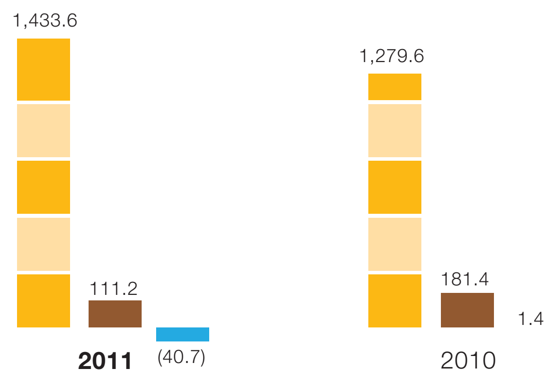
- Electronics and home appliances
- Clothes, apparel and bedding
- Children's goods
- Sporting and stationery goods
- Food and beverages
- Daily necessities and cosmetic goods
- Income from reversal of long-aged pre-paid gift cards



TURNOVER AND OTHER REVENUE

RMB (million)

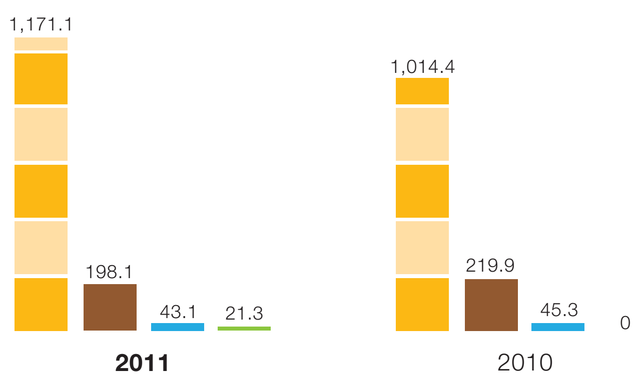
- Turnover
- Other operating revenue
- Other net (loss)/income



TURNOVER BY CATEGORY

RMB (million)

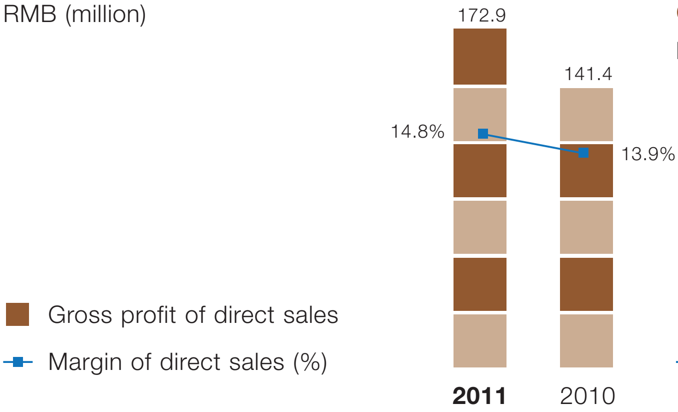
- Direct sales
- Commission from concessionaire sales
- Rental income
- Income from reversal of long-aged pre-paid gift cards



Financial Highlights

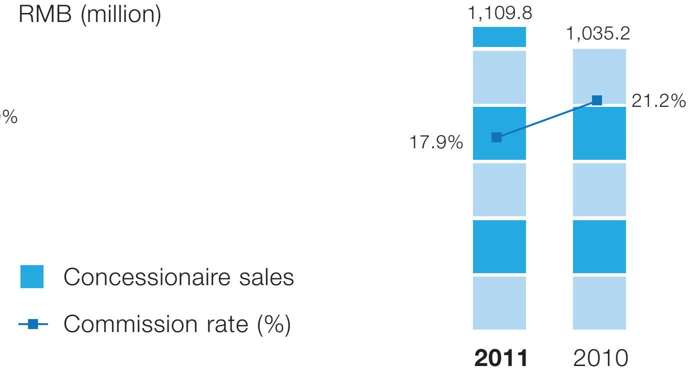
GROSS PROFIT AND MARGIN OF DIRECT SALES

RMB (million)



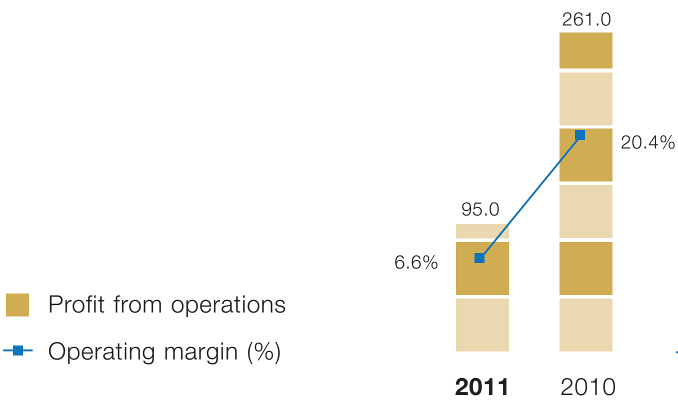
CONCESSIONAIRE SALES AND COMMISSIONS AS A PERCENTAGE OF CONCESSIONAIRE SALES

RMB (million)



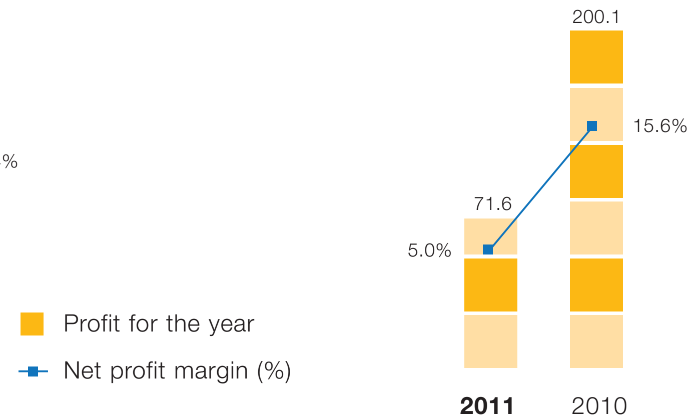
PROFIT FROM OPERATIONS AND OPERATING MARGIN

RMB (million)



NET PROFIT AND NET PROFIT MARGIN

RMB (million)



Chairman's Statement

I would like to refer to the announcements of the Company dated 30 March 2012, 30 April 2012, 31 May 2012 and 12 June 2012 on the delay in the publication of 2011 annual result. The delay was principally due to (a) the time required for the Group to provide the auditors of the Company ("**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 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 qualified transactions and prepare the Moore Stephens Review Report. The Directors have worked closely with the Auditors and provided such information as required for the purpose of completion of the relevant auditing procedures, albeit that the Auditors do not consider that the information is sufficient for the purpose of expressing an unqualified opinion in respect of certain transactions entered into by Shirble Department Store (Shenzhen). A qualified opinion is issued by the Auditors in respect of the transactions.

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.

Chairman's Statement

In September 2011, the Group opened the Liansheng Store in Dongguan City with gross floor area ("**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.

Chairman's Statement

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.

Chairman's Statement

CONCLUSION

On behalf of the board (the "**Board**") of directors (the "**Directors**"), I would like to take this opportunity to express my sincere gratitude to all management and employees, business partners and customers of the Group for their continuous support. In addition, I would like to thank all of the Company's shareholders and investors for their ongoing support. We are all very excited about the Group's growth, and we are confident that the Group will make further progress and deliver good value to shareholders as a result of the continuing economic growth in the PRC.

YANG Xiangbo
Chairman

5 December 2012

Management Discussion and Analysis

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 sales contribution from the three department stores in Dongguan City opened in 2011 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, and income from reversal of long-aged pre-paid gift sales amounted to RMB21.3 million, accounting for 50.9%, 48.2% and 0.9%, respectively of the Group's total gross sales proceeds.

Management Discussion and Analysis

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**	–	–
	2,302.2	**100.0**	2,049.6	100.0

Management Discussion and Analysis

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.

Management Discussion and Analysis

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 cards 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. Please refer to notes 17(b)(iv) and 17(c)(i) for details.

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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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.

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. Please refer to the paragraphs under "Post Balance Sheet Events" for details.

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 review the bank borrowings when necessary.

Management Discussion and Analysis

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.

USE OF NET PROCEEDS

On 17 November 2010, the shares of the Company were listed on the Main Board of the Stock Exchange and the Group raised net proceeds of approximately HKD1,313.4 million (after deducting underwriting fees and related expenses). Up to 31 December 2011, approximately RMB40.0 million out of net proceeds was used for the opening of a department store in Shanwei, Guangdong Province, and approximately RMB80.3 million was used for the opening of three new stores in Dongguan, Guangdong Province.

Directors and Senior Management

DIRECTORS

Executive Directors

Mr. YANG Xiangbo, *Executive Chairman, acting Chief Executive Officer and a member of Remuneration Committee*
Mr. YANG Xiangbo, aged 49, was appointed as a Director on 5 November 2008. Mr. YANG is also a director and chairman of Shenzhen Shirble Department Store Co., Ltd. ("**Shirble Department Store (Shenzhen)**") and Shenzhen Shirble Chain Store Limited Liability Company ("**Shirble Chain Store**"), a director of Shirble Department Store (Hong Kong) Limited ("**Shirble Department Store (Hong Kong)**") and Shirble Department Store Investment Limited ("**Shirble Hong Kong**"), and an executive director of Shirble Mingxing Trading Company Limited ("**Shirble Mingxing Trading**"), Changsha Shirble Apparel Company Limited ("**Shirble Apparel**"), Shenzhen Xiangzhixuan Trading Company Limited ("**Shirble Xiangzhixuan**"), Shenzhen Ruizhuo Trading Company Limited ("**Shirble Ruizhuo**") and Shenzhen Yuzhixiang Trading Company Limited ("**Shirble Yuzhixiang**"). Mr. YANG is the founding investor and is responsible for formulating the overall business development strategies and providing the overall management directions of the Group. From 1984 to 1990, Mr. YANG was engaged in trading of products including daily necessities and construction materials in Guangzhou and Shenzhen. In 1990, Mr. YANG established Shirble Holdings Limited (which is not part of the Group). From 1992 to late 1995, Mr. YANG operated a department store in Shenzhen named Dajiangnan Shopping Mall. Mr. YANG ceased to operate Dajiangnan Shopping Mall in late 1995. From 1992 to 2006, Mr. YANG was a director of Haerbin Hatou Investment, which has been listed on the Shanghai Stock Exchange since 1994, the principal business of which is the provision of electricity and heat. In late 1995, through his savings, Mr. YANG established Shirble Department Store (Shenzhen) with the first department store in Shenzhen opened in January 1996. Part of the equity interest in Shirble Department Store (Shenzhen) was held by Haerbin Hatou Investment during the period between February 2000 and August 2006. Mr. YANG served as a director of China Merchants Bank from 1993 to 1995 and a director of China Minsheng Bank from 1995 to 2003. Mr. YANG has been a member of the eighth, ninth and tenth sessions of the National Committee of the Chinese People's Political Consultative Conference. In 1993, Mr. YANG was granted a honorary doctor's degree in engineering from Haerbin Institute of Technology. Mr. YANG is the father of Mr. YANG Ti Wei and the uncle of Mr. ZHU Bijiang, both being members of the senior management team. Mr. YANG is a director of Shirble Department Store Limited ("**Shirble BVI**") and Xiang Rong Investment Limited ("**Xiang Rong Investment**"), both being the Company's substantial shareholders.

Independent non-executive Directors

Ms. ZHAO Jinlin, *the Chairperson of the Audit Committee and a member of the Nomination Committee*
Ms. ZHAO Jinlin, aged 43, was appointed as an independent non-executive Director on 18 June 2010. Ms. ZHAO obtained a bachelor's degree in mechanical engineering from the Xian Jiaotong University in 1989, a master's degree in accountancy from the Southwestern University of Finance and Economics in 1995 and a doctor's degree in accountancy from the Jinan University in 2005. From 1995 to 2006, Ms. ZHAO worked in the Local Tax Bureau of Shenzhen and was responsible for providing guidance on tax collection and tax policies. Since 2006, Ms. ZHAO has been engaged in teaching and research work at the Faculty of Economics of the Shenzhen University, specialising in finance management and taxation management, and is now a professor in accounting and an instructor of postgraduate students. From 2006 to 2007, Ms. ZHAO provided financial advice to a factory in Shenzhen. Ms. ZHAO has also been an academic committee member of the China International Taxation Research Institute since August 2008, a committee member of the Shenzhen International Taxation Research Institute since March 2004 and a committee member of the Shenzhen Local Taxation Research Institute since March 2004.

Directors and Senior Management

Mr. CHEN Fengliang, *the Chairperson of the Remuneration Committee and a member of the Audit Committee*
Mr. CHEN Fengliang, aged 38, was appointed as an independent non-executive Director on 18 June 2010. Mr. CHEN obtained a bachelor's degree in economics from the Inner Mongolia University in 1995. From 1995 to 1998, Mr. CHEN was a planning officer in the planning department of the Yike Zhao League branch of The Agricultural Bank of China. From 1998 to 2001, Mr. CHEN studied at the Graduate School of the People's Bank of China and obtained a master's degree in economics in 2001. From 2001 to 2003, Mr. CHEN was the secretary to the president's office of China Eagle Securities Company Limited. From 2003 to 2005, Mr. CHEN was a manager of risk control of China Eagle Asset Management Company Limited. Since 2006, Mr. CHEN has been a director of investment of Shanghai Sino-V Asset Management Company Limited.

Mr. JIANG Hongkai, *the Chairperson of the Nomination Committee and members of the Audit Committee and the Remuneration Committee*
Mr. JIANG Hongkai, aged 46, was appointed as an independent non-executive Director appointed on 18 June 2010. Mr. JIANG obtained a bachelor of science degree in chemistry from South China Normal School in 1986. From 1986 to 1994, Mr. JIANG was a high school teacher. In 1994, Mr. JIANG became qualified as a lawyer in China after passing an examination required for admission as a PRC lawyer. From 1994 to 2003, Mr. JIANG worked as a lawyer in Guangdong Jihe Law Firm. Since 2003, Mr. JIANG has been working as a lawyer in the King & Capital (Shenzhen) Law Firm (formerly known as the Shenzhen branch of King & Capital Law Firm).

SENIOR MANAGEMENT

Mr. YANG Ti Wei, aged 25, is the Group's Executive Vice President and Chief Administrative Officer. Mr. YANG Ti Wei joined the Group in June 2009 and is principally responsible for the overall strategic development, operational and logistics management, information technology infrastructure planning and coordination of marketing and promotional activities of the Group. Mr. YANG Ti Wei is a director of Shirble Department Store (Shenzhen), and a supervisor of Shirble Chain Store, Changsha Shirble Department Store Limited Liability Company ("**Shirble Department Store (Changsha)**"), Shirble Mingxing Trading, Shirble Xiangzhixuan, Shirble Ruizhuo, Shirble Yuzhixiang and Shirble Apparel. Mr. YANG Ti Wei obtained a bachelor's degree in business management from the University of Surrey in 2010. Mr. YANG Ti Wei is the son of Mr. YANG Xiangbo.

Mr. LI KuanSen, aged 37, is the Group's Vice President and Chief Operating Officer. Mr. LI joined the Group in February 2012 and is responsible for operations, procurement, marketing and supply chain of the Group. He has previously worked in Walmart China and Renrenle Commercial Group Co., Ltd. and has over sixteen years of experience in managing the business operation of supermarkets in the PRC.

Mr. CHEN ZhiGang, aged 34, is the Group's Vice President and Chief People Officer. Mr. CHEN joined the Group in December 2011 and is responsible for human resources, administration and government affairs of the Group. He has previously worked in B&Q China and Walmart China and has over ten years of experience of all-rounded human resources management in multinational companies.

Ms. WAN Yu Foon, aged 52, is the Group's Vice President. Ms. WAN joined the Group in July 2011 and is responsible for the daily management of the SMART specialty store of the Group. She has previously worked in Campbell Soup Far East Limited, Lucullus Food & Wines Company Limited and City Super Limited and has more than 28 years of retail industry experience in China and Hong Kong. Ms. WAN obtained a bachelor's degree in business administration from The Chinese University of Hong Kong in 1983 and a master's degree in business administration from The City Polytechnic of Hong Kong (now known The City University of Hong Kong) in 1992.

Directors and Senior Management

Ms. CHAN Chore Man, Germaine, aged 32, the Chief Financial Officer, Company Secretary and Investor Relationship Manager of the Company. Ms. CHAN is responsible for overseeing the overall financial and corporate governance matters of the Group. Ms. CHAN obtained a bachelor's degree in accounting from the Hong Kong University of Science and Technology in 2002. Prior to joining us in July 2010, Ms. CHAN has over five years of experience in the investment banking sector and two years of experience in the accounting and tax department at Ernst and Young. Ms. CHAN has been a member of the Hong Kong Institute of Certified Public Accountants since 2006.

Mr. PI QuBin, age 35, the Chief Development Officer. Mr. PI joined the Group in August 2012. Prior to joining the Group, he was employed at China Resources Vanguard Co., Ltd as Director of Development for Southern District. He has accumulated over 11 years experience in property acquisition and project development.

Mr. IP Wai Man, aged 44, the Group's Chief Information Officer. Mr. IP joined the Group in February 2011 and is responsible for providing technology leadership in development and implementation of the information operation platform of the Group. Mr. IP has previously worked in Tse Sui Luen Jewellery Company Limited and City Super Limited and has over twenty years of experience in the IT sector of which fifteen years are within the retail industry. Mr. IP obtained his bachelor's degree in Physics from The University of Hong Kong in 1990 and a master's degree in business administration from The Chinese University of Hong Kong in 2009. Mr. IP is a certified SAP solution consultant and a member of Project Management Institution with the credential of Project Management Professional.

Mr. WANG XinRu, aged 39, is the Group's Senior Director of Procurement. Mr. WANG joined the Group in February 2012 and is responsible for procurement business of the Group. He has previously worked in Walmart Business Information (Shenzhen) Co. Ltd. and Tesco China Co. Ltd. and has over thirteen years of experience in the area of procurement in multinational companies.

Ms. HUANG Bihui, aged 40, the Director of Finance. Ms. HUANG is principally responsible for overseeing all the accounting, finance and budget matters of Shirble Department Store (Shenzhen). In January 1996, Ms. HUANG joined Shirble Department Store (Shenzhen) as a supervisor of the finance department and was subsequently promoted to a finance manager before becoming the Director of Finance in 2005. In 2009, Ms. HUANG received a master's degree in business administration from the Shanghai University of Finance and Economics.

Mr. ZHU Bijiang, aged 39, the Director of Asset Procurement. Mr. ZHU is responsible for procurement of assets for all the department stores. He is also a director of Shirble Chain Store and an executive director of Shirble Department Store (Changsha). Mr. ZHU graduated from a four-year part-time course on laws organised by Tongji University in 2006. Mr. ZHU joined Shirble Department Store (Shenzhen) in August 1995 as a procurement manager and has been promoted to be the Director of Procurement since January 2008 and became the Director of Asset Procurement Since April 2012. Mr. ZHU is a nephew of Mr. YANG.

Mr. HE Ge, aged 42, the Deputy Director of Procurement specialised in the sourcing, procurement, management of concessionaire counters and product planning of supermarket items for all the department stores. Mr. HE graduated from a four-year part-time course on business administration from the Ningxia University in 2006. Mr. HE joined Shirble Department Store (Shenzhen) in July 1995 as a procurement officer and was subsequently promoted to be a deputy manager of the procurement department before becoming the Deputy Director of Procurement since January 2005.

Directors and Senior Management

Ms. LIU Lixin, aged 54, the Director of Corporate Affairs. Ms. LIU is principally responsible for the management of corporate affairs for the Group. Ms. LIU graduated from a two-year full-time course in chemistry from the Anhui Suzhou Normal School in 1980, and a further two-year course in chemistry from the Xinjiang Education Institute in 1991. Ms. LIU joined Shirble Department Store (Shenzhen) in June 1995 and has worked as an administration officer and assistant of the general manager of Shirble Department Store (Shenzhen) and the Deputy Director of Business Operation before being promoted to the Director of Corporate Affairs since April 2012.

Mr. YEUNG Tak Wah, age 54, the Director of Design & Construction. Mr. YEUNG joined the Group in April 2012. Prior to joining the Group, he was employed at Wal-Mart as the facilities managing director and was the head of the engineering and real estate department at Shanghai Commercial Bank Limited, Hong Kong, during the period between August 2009 and February 2011. He was also the general manager for the engineering, facilities and design departments of Park'n'Shop, Hong Kong. He has accumulated over 26 years of experience in the engineering field and is a member of Hong Kong Institution of Engineers and the Hong Kong Institute of Surveyors.

Ms. OU Guo Ping, age 42, the Director of Store Operations. Ms. OU joined the Group in February 2012. Prior to joining the Group, she was employed at Wal-mart as senior project manager in new business model and project construction department. She was also the head of fresh food section at Wal-mart. She has accumulated over 15 years of experience in retail management, including shopping mall operational management, restructuring, new store opening and the development of new business models.

Directors' Report

The Board is pleased to present the report on the affairs of the Company, together with the consolidated financial statements and auditor's report, for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

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 principal activities of the Company and its subsidiaries are the operation of department stores in the PRC.

RESULTS

The results of the Group for the year ended 31 December 2011 are set out in the consolidated statement of comprehensive income on page 46 of this report.

PROPOSED FINAL AND SPECIAL DIVIDENDS

The Board recommended the payment of a final dividend of RMB0.0062 in cash per share (2010: RMB0.0041) for the year ended 31 December 2011 and a special dividend of RMB0.0221 per share (2010: Nil) of the Company. Upon the approval being obtained in the forthcoming annual general meeting, the above final and special dividends will be paid to shareholders whose name appear on the register of members of the Company at close of business on 7 February 2013. The proposed final and special dividends will be paid in Hong Kong dollars, and will be calculated by reference to the middle rate published by the People's Bank of China for the conversion of RMB to Hong Kong dollars as of 30 January 2013.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment during the year are set out in note 13 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in share capital during the year are set out in note 24(b) to the consolidated financial statements.

RESERVES

As at 31 December 2011, distributable reserves of the Company included the Company's retained earnings amounted to RMB5,464,000 and the Company's share premium amounted to RMB894,338,000. By passing an ordinary resolution of the Company, dividends may also be declared and paid out of share premium account or any other fund or account which can be authorized for this purpose in accordance with the Companies Law of the Cayman Islands. Details of the movements in reserves of the Company and the Group during the year are set out in note 24(a) to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

Directors' Report

CHARITABLE DONATIONS

The Group did not make any charitable donations for the year ended 31 December 2011.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association and the laws of the Cayman Islands do not impose any limitations on such rights.

DIRECTORS

The Directors of the Company during the year and up to the date of this report are as follows:

Executive Directors:

Mr. YANG Xiangbo *(Chairman)*
Madam YANG Xiaomei (retired on 17 November 2011)

Independent Non-executive Directors:

Ms. ZHAO Jinlin
Mr. CHEN Fengliang
Mr. JIANG Hongkai

Pursuant to Article 83(3) of the Articles, the Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing Board. Any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of Shareholders after his appointment and be subject to re-election of such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Any Director appointed pursuant to Article 83(3) of the Articles shall not be taken into account in determining which particular Directors or the number of Directors who are to retire by rotation.

Pursuant to Article 84 of the articles of association of the Company, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years and shall then be eligible for re-election.

In accordance with the Company's articles of association and the Code on Corporate Governance Practices contained in Appendix 14 to the Rules Governing the Listing of Securities on the The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), Mr. YANG Xiangbo, Mr. Chen Fengliang and Mr. Jiang Hongkai will retire at the forthcoming annual general meeting of the Company. All retiring Directors, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Directors' Report

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract, together with supplement, with the Company for an initial term of three years commencing on the 17 November 2010. The service contract shall continue thereafter and may only be terminated in accordance with the provisions therein contained by either party giving to the other not less than three months' prior notice in writing. Mr. YANG Xiangbo will receive an annual Director's fee of HK$1,440,000 under the service contract.

The three independent non-executive Directors have signed new letters of appointment for a term of three years commencing from 18 June 2011. The annual fee for each independent non-executive Directors is HK$300,000.

Save as disclosed above, none of the Directors has entered or has proposed to enter into any service agreements with the Company or any of its subsidiaries (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

RETIREMENT SCHEMES

Employees of the Company's subsidiaries in the PRC and Hong Kong are required to participate in defined contribution retirement schemes. Particulars of these retirement plans are set out in note 6(b) to the financial statements.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2011, the interests of the directors of the Company in the shares of the Company and its associated corporations as recorded in the register required to be kept under Section 352 of the Securities and Futures Ordinance (the "**SFO**"); or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "**Model Code**") set out in Appendix 10 to the Listing Rules were as follows:

(a) Long positions in shares of the Company

Name of director	Capacity	Number of shares	Percentage of shareholding
Mr.YANG Xiangbo[1]	Interest in a controlled corporation	1,662,487,500	66.6%

Note:

(1) Mr. YANG Xiangbo is the beneficial owner of all the issued share capital of Xiang Rong Investment, which in turn owns the entire issued share capital of Shirble BVI and is deemed to be interested in the 1,662,487,500 shares held by Shirble BVI.

Directors' Report

(b) Long positions in the shares of associated corporations

Name of director	Name of associated corporations	Capacity	Number of shares	Percentage of shareholding
Mr. YANG Xiangbo	Shirble BVI	Interest in a controlled corporation	50,000	100%
Mr. YANG Xiangbo	Xiang Rong Investment	Beneficial owner	100	100%

Save as disclosed above, as at 31 December 2011, none of the directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code; nor had there been any grant or exercise of rights of such interests for the year ended 31 December 2011.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2011, so far as is known to any Director or chief executive of the Company, the following persons (other than a Director or chief executive of the Company), had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

Long position in the shares of the Company

Name	Capacity	Number of shares	Percentage of shareholding
Shirble BVI	Beneficial owner	1,662,487,500	66.6%
Xiang Rong Investment	Interest in a controlled corporation	1,662,487,500	66.6%
Homey Enterprises Limited[1]	Beneficial owner	150,000,000	6.0%

Note:

(1) Madam YANG Xiaomei is the beneficial owner of all the issued share capital of Homey Enterprises Limited which holds 150,000,000 shares and is deemed to be interested in the shares held by Homey Enterprises Limited.

Save as disclosed above, as at 31 December 2011, the Directors are not aware of any person (other than a Director or chief executive of the Company) who had any interests or short positions in shares or, underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

SHARE OPTION SCHEME

The Company adopted a Share Option Scheme (the "**Scheme**") pursuant to the resolutions of the shareholders of the Company passed on 30 October 2010:

A summary of the Scheme is as follows:

1. The purpose of the Scheme is to recognise and acknowledge the contributions that the eligible participants have made or may make to the business development of the Group. Apart from the determination of the subscription price, the Directors will have an absolute discretion to impose performance targets on the option holders before any option that can be exercised with reference to the objectives of the Share Option Scheme. A consideration of HK$1.0 will be payable upon acceptance of the offer.

2. The eligible participants of the Scheme are:

   (i) any executive, non-executive or independent non-executive Director;

   (ii) any employee of the Group; and

   (iii) any customer, supplier, agent, business or joint venture partner, consultant, distributor, promoter, service provider, adviser or contractor to any member of the Group.

3. The maximum number of shares may be granted under the Scheme shall not exceed 10% of the issued share capital of the Company (i.e. 250,000,000 shares) as at 17 November 2010 (the "**Listing Date**").

4. Unless approved by shareholders, no option may be granted to any eligible participants which if exercised in full would result in the total number of shares issued and to be issued upon exercise of the share options already granted or to be granted to such eligible participant (including exercised, cancelled and outstanding share option) in the 12-month period up to and including the date of such new grant exceeding 1% of the total number of shares in issue as at the date of such new grant.

5. An option may be exercised in accordance with the terms of the Scheme at any time during the period to be notified by the Board to the grantee save that such period shall not be more than 10 years from the business day on which the option is deemed to have been granted in accordance with the terms of the Scheme. There is no minimum period for which an option must be held before it can be exercised.

6. An offer is deemed to be accepted when the Company receives from the eligible participants the offer letter signed by the eligible participants specifying the number of shares in respect of which the offer is accepted and a remittance to the Company of HK$1.00 as consideration for the grant of option. Such remittance is not refundable in any circumstances.

Directors' Report

7. The subscription price in respect of each share under the Scheme shall, subject to any adjustments made as described below, be a price determined by the Board and notified to the eligible participant and shall be no less than the highest of: (i) the nominal value of a Share; (ii) the closing price of each share as stated in the Stock Exchange's daily quotations sheet on the date of offer to the eligible participant, which must be a day on which licensed banks are open for business in Hong Kong and the Stock Exchange is open for business of dealing in securities (a "**Trading Day**"); and (iii) the average closing price of each share as stated in the Stock Exchange's daily quotations sheets for the five (5) consecutive Trading Days immediately preceding the date of offer to the eligible participant.

8. The Scheme will remain in force until 29 October 2020.

Since the date of adoption of the Scheme and up to the date of this report, no options have been granted under the Scheme.

REMUNERATION POLICY

The employees' and Directors' remuneration is determined with reference to salaries paid by comparable companies, experience, responsibilities and performance of the Group. In addition to the fees, salaries, housing allowances, other allowances, benefits in kind or bonuses, the Company has conditionally adopted the Scheme pursuant to which the participants, including the Directors, may be granted options to subscribe for the shares.

Details of the Directors' emoluments and emoluments of the five highest paid individuals in the Group are set out in notes 8 and 9 to the financial statements.

DIRECTORS' INTEREST IN COMPETING BUSINESS

As at 31 December 2011, none of the Directors or their respective associates (as defined in the Listing Rules) had any interest in a business, which competes or may compete with the business of the Group.

As disclosed in the prospectus of the Company dated 5 November 2010 (the "**Prospectus**"), the Controlling Shareholders (as defined in the Prospectus) and the executive Directors (collectively, the "**Covenantors**") have entered into a deed of non-competition in favor of the Company with effect from the Listing Date. The Covenantors have provided the Group with written confirmations that they and their associates (other than members of the Group) have fully complied with the deed of non-competition for the year ended 31 December 2011.

The independent non-executive Directors have conducted an annual review on the Covenantors' compliance with the deed of non-competition, the options, the pre-emptive rights or first rights of refusals provided by the Controlling Shareholders (as defined in the Prospectus) on their existing or future competing businesses.

Directors' Report

MANAGEMENT CONTRACTS

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

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the sections headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" and "Share Option Scheme" above, at no time during the year was the Company and any of its subsidiaries of the Company and its associated corporations a party to any arrangement to enable the Directors or chief executive or any of their spouse or children under the age of 18 to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

ARRANGEMENTS TO PURCHASE SHARES

At no time during the year was the Company or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in the Company or any other body corporate.

CONNECTED TRANSACTIONS

Details of the significant related party transactions, undertaken in the ordinary course of business are set out in note 28(a) to the financial statements. The transactions stated below constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

Lease agreement with Luhe County Shirble Inn ("Shirble Inn")

Pursuant to a lease agreement dated 1 June 2004 and a supplemental agreement dated 1 March 2010 entered into between Shirble Chain Store and Shirble Inn, Shirble Chain Store has agreed to lease the property with a total area of 2,227 sq. m. located at the 1st Floor and 2nd Floor of Shirble Inn from 3 June 2004 until 31 December 2012 as the Group's Luhe store. The annual rental is fixed at RMB198,000.

Shirble Inn is ultimately controlled by Mr. YANG Xiangbo, an executive Director and a controlling shareholder (as defined in the Listing Rules) ("**Controlling Shareholder**"). Hence, Shirble Inn is an associate of Mr. YANG Xiangbo, being a connected person of the Company. Thus, Shirble Inn is a connected person of the Company.

Lease agreements with Shenzhen Guozhan Investment Development Co., Ltd ("Shenzhen Guozhan")

Pursuant to a lease agreement dated 9 October 2009, Shirble Department Store (Shenzhen) leased part of the Shenzhen Distribution Centre of 7,500.43 sq. m. from Shenzhen Guozhan for the period from 15 September 2009 to 31 December 2012 for the Group's continuous use as distribution centre. The monthly rental is RMB33 per sq. m., i.e. an annual rental of RMB2,970,000.

Directors' Report

In addition, pursuant to another lease agreement and a supplemental agreement both dated 29 June 2009, Shirble Department Store (Shenzhen) leased from Shenzhen Guozhan a property of 13,298.93 sq. m. located at the building complex situated at Shangbu North Road, Bagualing Zone 7-1, Futian District, Shenzhen, the PRC. The property is part of the Group's Shenzhen Distribution Centre. The lease periods are set forth below:

Area	Period	Monthly rental
(sq. m.)		*(RMB)*
3,556.07	1 January 2009 to 31 December 2012	117,350.31
9,742.86	1 April 2009 to 31 December 2012	321,514.38
	Total	**438,864.69**

Shenzhen Guozhan is owned as to 20% by Mr. ZHU Huayue, Mr. YANG Xiangbo's brother-in-law and as to 80% by Ms. ZHU Bihui, Mr. YANG Xiangbo's niece. Hence, Shenzhen Guozhan is a connected person of the Company under the Listing Rules.

Lease agreements with Shenzhen Ruizhuo Investment Development Co., Ltd ("Ruizhuo Investment")

1. *Lease of part of the Shenzhen Distribution Centre*

   Pursuant to a lease agreement and a supplemental agreement both dated 29 June 2009, Shirble Department Store (Shenzhen) leased from Ruizhuo Investment a property of 3,345.82 sq. m. located at the building complex situated at Shangbu North Road, Bagualing Zone 7-1, Futian District, Shenzhen, the PRC. The property is part of the Group's Shenzhen Distribution Centre. The lease periods are set forth below:

Area	Period	Monthly rental
(sq. m.)		*(RMB)*
1,695.63	1 January 2004 to 29 February 2008 and 1 December 2008 to 31 December 2012	55,955.79
277.43	1 January 2004 to 31 December 2012	9,155.19
1,372.76	1 July 2002 to 31 December 2012	56,283.16
	Total	**121,394.14**

   The aggregate annual rental payable pursuant to the lease of part of the Shenzhen Distribution Centre is RMB1,457,000.

2. *Lease of a commercial property as a tobacco sales counter*

   Pursuant to a lease agreement dated 12 January 2010, Shirble Chain Store leased from Ruizhuo Investment a property of 39.02 sq. m. located at Bao'an Road, Luohu District, Shenzhen, China for the period from 10 January 2010 to 9 January 2013 at a monthly rental of RMB1,678, i.e. an annual rental of RMB20,134. The property is used as a tobacco sales counter of the Group's Hongbao store.

Directors' Report

Ruizhuo Investment is owned in equal shares by Mr. ZHU Bijiang, who is a member of the Group's senior management team and a nephew of Mr. YANG Xiangbo, and Ms. ZHU Bihui, who is a niece of Mr. YANG Xiangbo. Hence, Ruizhuo Investment is a connected person of the Company under the Listing Rules.

All of the above transactions involve lease of properties from entities controlled by Mr. YANG Xiangbo or his associates. The continuing connected transactions represented by the lease agreements with Shirble Inn, Shenzhen Guozhan and Ruizhuo Investment should be aggregated and treated as if they were one transaction pursuant to Rule 14A.25 of the Listing Rules.

For the year ended 31 December 2011, the aggregate annual rental paid under the lease agreements with Shirble Inn, Shenzhen Guozhan and Ruizhuo Investment was amounted to RMB9,703,000 which was within the applicable annual cap of RMB9,914,000.

The above constitute continuing connected transactions under Chapter 14A of the Listing Rules and a waiver from strict compliance with the announcement and shareholders' approval requirements under Chapter 14A of the Listing Rules has been granted by the Stock Exchange.

The independent non-executive Directors have reviewed and confirmed that the above continuing connected transactions were:

(i) carried out in the ordinary and usual course of business of the Company;

(ii) carried out on normal commercial terms; and

(iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

PAST CONNECTED TRANSACTIONS

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

Cash advance 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 report, 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

Directors' Report

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 considered that the risk of recoverability to the Group was 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 prohibition of future cash advance transaction 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 till 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 the 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 in such event.

Directors' Report

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

During the year ended 31 December 2011, the Company repurchased 5,000,000 ordinary shares on the Stock Exchange at an aggregate purchase price of HK$5.1 million (equivalent to RMB4.2 million) pursuant to the general mandate granted by the shareholders at the annual general meeting held on 14 April 2011. The repurchases were 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.

Details of the repurchase were as follows:

Month/Year	Number of shares repurchases	Highest price paid HK$	Lowest price paid HK$	Total consideration HK$
09/2011	5,000,000	1.16	0.93	5,129,180

Same as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2011.

MAJOR CUSTOMERS AND SUPPLIERS

As the Group is principally engaged in retail sales, none of its customers and suppliers accounted for more than 5% of its turnover in year ended 31 December 2011. None of the Directors or shareholders who owned 5% or more of the issued shares capital of the Company as of 31 December 2011 or any of their respective associates held any interest in any of the five largest customers and suppliers of the Company for the year ended 31 December 2011.

BANK LOANS AND OTHER BORROWINGS

As of 31 December 2011, the Group had the bank loans and other borrowings amounted to RMB243,210,000 (2010: Nil). Particulars of the bank loans and other borrowings are set out in note 22 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available and within the knowledge of the Directors at the latest practicable date prior to the publication of this annual report, the Company has maintained the prescribed public float under the Listing Rules throughout the year ended 31 December 2011 and at any time up to the latest practicable date prior to the publication of this report.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed under the "Connected Transactions" section above, no Director had a material interest, whether directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

Directors' Report

CONTROLLING SHAREHOLDER'S INTERESTS IN SIGNIFICANT CONTRACTS

Saved as disclosed in note 28 to the financial statements with the section headed "Related Party Transactions" of this report below, at no time during the year had the Company or any of its subsidiaries, and the Controlling Shareholders or any of its subsidiaries entered into any contract of significance or any contract of significance for the provision of services by the Controlling Shareholders or any of its subsidiaries to the Company or any of its subsidiaries.

CORPORATE GOVERNANCE REPORT

Details of the Company's corporate governance practices are set out in the "Corporate Governance Report" under this annual report.

POST BALANCE SHEET EVENTS

For details of the post balance sheet events, please refer to note 30 to the consolidated financial statements.

After the reporting date, the Directors proposed a final dividend of RMB15,469,000 and a special dividend of RMB55,139,000 on 5 December 2012. Further details are disclosed in note 24(d) to the consolidated financial statements.

TAXATION OF HOLDERS OF SHARES

(a) Hong Kong

The purchase, sale and transfer of shares registered in the Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty. The current rate charged on each of the purchaser and seller (or transferee and transferor) is 0.1% of the consideration or, if greater, the fair value of the shares being bought/sold or transferred (rounded up to the nearest HK$'000). In addition, a fixed duty of HK$5.00 is currently payable on an instrument of transfer of shares.

Profits from dealings in the share arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

(b) Cayman Islands

Under the present Cayman Islands laws, transfers and other dispositions of shares in the Company are exempt from Cayman Islands stamp duty.

(c) Consultation with professional advisers

Intending holders and investors of the Company's shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications (including tax relief) of subscribing for, purchasing, holding, disposing of or dealing in shares. It is emphasized that none of the Company or its Directors or officers will accept any responsibility for any tax effect on, or liabilities of, holders of shares in the Company resulting from their subscription for, purchase, holding, disposal of or dealing in such shares.

Directors' Report

AUDITOR

The consolidated financial statements were audited by KPMG who will retire at the forthcoming annual general meeting of the Company.

On behalf of the Board

YANG Xiangbo
Chairman

5 December 2012

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and code provisions set out in the Code on Corporate Governance Practice (the "**Code**") contained in Appendix 14 to the Listing Rules.

In the opinion of the Directors, except for the deviations as disclosed in this report, the Company has complied with the Code to the Listing Rules for year ended 31 December 2011.

BOARD OF DIRECTORS

As at 31 December 2011, the Board comprises one Executive Director, namely Mr. YANG Xiangbo (Chairman), and three independent Non-executive Directors, namely Ms. ZHAO Jinlin, Mr. CHEN Fengliang and Mr. JIANG Hongkai. Pursuant to Article 84 of the articles of association of the Company, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years and shall then be eligible for re-election. The biographical details of the Directors are set out in the "Directors and Senior Management" section on pages 17 to 20 of this annual report. All independent non-executive Directors are appointed for a specific term of three years, but they are subject to retirement by rotation and re-election at the annual general meeting pursuant to the Company's Articles of Association.

In accordance with A.2.1 of the Listing Rules, the roles of the Chairman and the Chief Executive Officer should be separate and should not be performed by the same individual. Madam YANG Xiaomei was the Chief Executive Officer of the Company from 1 January 2011 to 17 November 2011. Mr. YANG Xiangbo is the Chairman of the Board and has become the acting Chief Executive Officer since the retirement of Madam YANG Xiaomei on 17 November 2011. The Board 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. The Group is in the process of recruiting a chief executive officer who will also be appointed as an executive Director and will oversee all operations of the Group. The recruitment is in final stage. An offer letter has been issued to a candidate who has extensive experience in retail business in China. The candidate is expected to join the Group by the end of 2012.

The Board is responsible for overall management and control of the Company including formulation and approval of overall strategies, material transactions, business plans and other significant financial and operational matters to enhance the value to shareholders. The Board has delegated the responsibilities for day-to-day operations and management of the Group's business to the senior management of the Company.

In accordance with Rule 3.13 of the Listing Rules, the Company has received annual confirmation of independence from the three independent non-executive Directors. The Company considers all the independent non-executive Directors are independent. Each of the independent non-executive Directors is appointed for a term of one year from 18 June 2011.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as the code of conduct regarding the Directors' securities transactions. Having made specific enquiries of all the Directors, the Company confirmed that they have complied with the Model Code for the year ended 31 December 2011.

Corporate Governance Report

AUDITORS' REMUNERATION

The Independent Auditor's Report of the Company's auditor, KPMG, in respect of the audit of the Group's financial statements for the year is set out on pages 43 to 45 of this report.

During the year ended 31 December 2011, the Auditors' remuneration was RMB6,000,000 in respect of provision of audit services to the Group.

DIRECTORS' RESPONSIBILITIES

The directors have acknowledged their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2011.

AUDIT COMMITTEE

Pursuant to the requirements of the Code, the Company has set up an audit committee. The audit committee comprises three Independent non-executive Directors, namely, Ms. ZHAO Jinlin, Mr. CHEN Fengliang and Mr. JIANG Hongkai. Ms. ZHAO Jinlin is the Chairman of the audit committee and possesses relevant accounting expertise. None of the members of the audit committee is a former partner of the Company's existing external auditor.

The primary responsibilities of the audit committee are to review and supervise the Group's financial reporting process and internal control system, monitor the relationship with the Company's external auditor and the integrity of the financial statements.

During the year ended 31 December 2011, the Audit Committee had reviewed the interim and annual results and the effectiveness of the internal control system of the Group. The Audit Committee also reviewed the audit findings discovered in the course of audit and internal control review. The Audit Committee believes the accuracy and existence of the commercial substances of the transactions as listed in the section headed "Response from the Directors" as the audit committee members consider that the transactions were entered into under normal business practice of the Group and in the ordinary course of business of the Group. Nevertheless, the Audit Committee agrees that the internal control procedures has to be improved, and has appointed Moore Stephens to advise on the Group's internal control procedures. The Audit Committee has reviewed the recommendations from Moore Stephens 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. For further details, please refer to the paragraph headed "Improvement in Internal Control Measures" in this section.

REMUNERATION COMMITTEE

Pursuant to the requirements of the Code, the Company has set up a remuneration committee with majority members being Independent non-executive Directors. The remuneration committee comprises three members, namely Mr. CHEN Fengliang (Chairperson) and Mr. JIANG Hongkai, both being independent non-executive Directors; and one executive Director, namely Mr. YANG Xiangbo.

The primary responsibilities of remuneration committee are to provide recommendation to the Board on the remuneration package of Directors and senior management and establish formal and transparent procedures for developing such remuneration policy and structure.

The Remuneration Committee held two meetings during the year to discuss remuneration-related matters. All members of the Remuneration Committee had also deliberated on matters relating to the salary adjustment of the executive director and independent non-executive directors.

Corporate Governance Report

NOMINATION COMMITTEE

The Company has set up a nomination committee with all members being independent non-executive Directors. The Nomination Committee comprises two members, namely Mr. JIANG Hongkai (Chairperson) and Ms. ZHAO Jinlin, both being independent non-executive Directors.

The primary responsibilities of the nomination committee are to review the composition of the Board regularly, assess the independence of independent non-executive Directors and make recommendation to the Board on relevant matters relating to the appointment or re-appointment of Directors.

In the selection process, the Nomination Committee considers the candidates for the appointment based on their integrity, previous working experiences, qualifications and relevant experiences to the Group's business.

During the year ended 31 December 2011, the Nomination Committee reviewed the above matters and make recommendation to the Board of the appointment of Mr. YANG Xiangbo as the Acting Chief Executive Officer after the retirement of Madam YANG Xiaomei.

FREQUENCY OF MEETINGS AND ATTENDANCE

The attendance record of each of the Directors for the Board and committee meetings held during the year is set out below:

	Number of attendance/Number of meetings			
Name of Director	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Executive Director				
YANG Xiangbo *(Chairman)*	13/13	n/a	1/2	n/a
YANG Xiaomei *(Chief Executive Officer)* *(retired on 17 November 2011)*	8/12	n/a	n/a	0/1
Independent non-executive Directors				
ZHAO Jinlin	11/13	2/2	n/a	1/1
CHEN Fengliang	13/13	2/2	2/2	n/a
JIANG Hongkai	13/13	2/2	2/2	1/1

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company believes that effective communication with shareholders is essential for good investor relations and investor understanding of the Group's business performance and strategies. Therefore, the Company always seeks to provide relevant information through various channels including the press and analysts conferences, roadshows and forums organized by leading investment banks in order to enhance the transparency and communication with the investing public.

The Company also maintains a website at www.shirble.net/shirblecorp, where up-to-date information and updates on the Company's financial information, business development and other information are available for public access.

The general meetings of the Company provide a platform for communication between the Board and the shareholders. The Board of Directors will normally attend the annual general meetings and other shareholders' meetings of the Company to answer questions raised at the meetings.

Corporate Governance Report

IMPROVEMENT IN INTERNAL CONTROL MEASURES

The Board acknowledges its responsibility to ensure that sound and effective internal controls are maintained to safeguard the shareholders' investment and the Company's assets and review the effectiveness of the internal control system annually. Procedures have been designed to facilitate effective and efficient operations, ensure reliability of financial reporting, identify and manage potential risks, safeguard assets of the Group and compliance with applicable laws and regulations.

In view of the qualified opinion of the Auditors set forth below 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.

Moore Stephens are appointed to advise on the Group's internal control procedures, and 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:–

(i) 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.

(ii) 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.

(iii) 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.

(iv) 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.

Corporate Governance Report

(v) 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.

(vi) 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.

Corporate Governance Report

(vii) 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.

(viii) 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.

(ix) 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.

(x) 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).

Corporate Governance Report

(xi) 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.

(xii) 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 preliminary findings on the Group's internal control weaknesses conducted by Moore Stephens.

Independent Auditor's Report

To the shareholders of
Shirble Department Store Holdings (China) Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Shirble Department Store Holdings (China) Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 46 to 105, which comprise the consolidated and company statements of financial position as at 31 December 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

Independent Auditor's Report

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 prepayment 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 have not commenced. It also came to our attention that a certain individual was either director or legal representative for three of the seven 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 payment 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 above-mentioned 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 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 above-mentioned 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.

Independent Auditor's Report

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.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

5 December 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

		Year ended 31 December	
		2011	2010
	Note	**RMB'000**	RMB'000
Turnover	4	**1,433,586**	1,279,619
Other operating revenue	5	**111,232**	181,400
Other net (loss)/income	5	**(40,696)**	1,387
Purchase of and changes in inventories	6(c)	**(998,197)**	(872,969)
Personnel costs	6(b)	**(134,342)**	(98,482)
Depreciation and amortisation	6(c)	**(39,620)**	(31,204)
Operating lease rental expense	6(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	6(a)	**19,956**	6,500
Profit before tax	6	**114,999**	267,466
Income tax expense	7(a)	**(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	11	**208**	93
Total comprehensive income for the year		**71,840**	200,175
Earnings per share			
Basic and diluted (RMB)	12	**0.03**	0.10

The notes on pages 51 to 105 form part of these financial statements.

Consolidated Statement of Financial Position

As at 31 December 2011

	Note	At 31 December 2011 RMB'000	2010 RMB'000
Non-current assets			
Property, plant and equipment	13	**311,494**	232,978
Intangible assets	14	**31,885**	–
Deferred tax assets	23	**42,756**	36,243
		386,135	269,221
Current assets			
Inventories	16	**252,291**	215,538
Trade and other receivables	17	**567,769**	151,587
Held-to-maturity investments	18	**–**	85,093
Pledged deposit	19	**430,152**	–
Cash and cash equivalents	20	**1,303,303**	1,735,974
		2,553,515	2,188,192
Current liabilities			
Trade and other payables	21	**1,104,581**	893,569
Interest-bearing borrowings	22	**243,210**	–
Income tax payables	7(c)	**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	23	**2,541**	2,043
		2,541	2,043
NET ASSETS		**1,555,169**	1,531,044
CAPITAL AND RESERVES			
Share capital	24(b)	**213,908**	214,318
Reserves	24(c)	**1,341,261**	1,316,726
TOTAL EQUITY		**1,555,169**	1,531,044

Approved and authorised for issue by the Board of Directors on 5 December 2012.

YANG Xiangbo
Director

The notes on pages 51 to 105 form part of these financial statements.

The Company's Statement of Financial Position

As at 31 December 2011

		At 31 December	
		2011	2010
	Note	**RMB'000**	RMB'000
Non-current assets			
Investment in subsidiaries	15	**107,380**	107,380
Current assets			
Trade and other receivables	17	**627,462**	67,951
Held-to-maturity investments	18	**–**	85,093
Pledged deposit	19	**430,152**	–
Cash and cash equivalents	20	**374,232**	996,431
		1,431,846	1,149,475
Current liabilities			
Trade and other payables	21	**74,524**	30,476
Interest-bearing borrowings	22	**243,210**	–
		317,734	30,476
Net current assets		**1,114,112**	1,118,999
NET ASSETS		**1,221,492**	1,226,379
CAPITAL AND RESERVES			
Share capital	24(b)	**213,908**	214,318
Reserves	24(c)	**1,007,584**	1,012,061
TOTAL EQUITY		**1,221,492**	1,226,379

Approved and authorised for issue by the Board of Directors on 5 December 2012.

YANG Xiangbo
Director

The notes on pages 51 to 105 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

		Attributable to equity shareholders of the Company							
	Note	Share capital RMB'000 (note 24(b))	Share premium RMB'000 (note 24(c)(i))	Capital redemption reserve RMB'000 (note 24(b)(vi))	Merger reserve RMB'000 (note 24(c)(ii))	Statutory reserves RMB'000 (note 24(c)(iii))	Translation reserve RMB'000 (note 24(c)(v))	Retained earnings RMB'000	Total equity RMB'000
At 1 January 2010		107,380	–	–	–	55,515	–	99,326	262,221
Profit for the year		–	–	–	–	–	–	200,082	200,082
Other comprehensive income		–	–	–	–	–	93	–	93
Total comprehensive income for the year		–	–	–	–	–	93	200,082	200,175
Arising from the Reorganisation		(107,372)	–	–	107,372	–	–	–	–
Issuance of shares by initial public offering, net of issuance costs	24(b)(iv)	53,580	1,055,068	–	–	–	–	–	1,108,648
Capitalisation issue	24(b)(v)	160,730	(160,730)	–	–	–	–	–	–
Dividends to equity shareholders	24(d)	–	–	–	–	–	–	(40,000)	(40,000)
Appropriation to reserves	24(c)(iii)	–	–	–	–	20,660	–	(20,660)	–
At 31 December 2010		214,318	894,338	–	107,372	76,175	93	238,748	1,531,044
1 January 2011		**214,318**	**894,338**	**–**	**107,372**	**76,175**	**93**	**238,748**	**1,531,044**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**71,632**	**71,632**
Other comprehensive income		**–**	**–**	**–**	**–**	**–**	**208**	**–**	**208**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**–**	**208**	**71,632**	**71,840**
Dividends to equity shareholders	24(d)	**–**	**–**	**–**	**–**	**–**	**–**	**(43,500)**	**(43,500)**
Purchase of own shares:	24(b)(vi)								
– par value paid		**(410)**	**–**	**–**	**–**	**–**	**–**	**–**	**(410)**
– premium paid		**–**	**–**	**–**	**–**	**–**	**–**	**(3,805)**	**(3,805)**
– transfer between reserves		**–**	**–**	**410**	**–**	**–**	**–**	**(410)**	**–**
Appropriation to reserves	24(c)(iii)	**–**	**–**	**–**	**–**	**5,746**	**–**	**(5,746)**	**–**
At 31 December 2011		**213,908**	**894,338**	**410**	**107,372**	**81,921**	**301**	**256,919**	**1,555,169**

The notes on pages 51 to 105 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2011

	Note	Year ended 31 December 2011 RMB'000	2010 RMB'000
Operating activities			
Profit for the year		**71,632**	200,082
Adjustments for:			
Depreciation and amortisation	6(c)	**39,620**	31,204
Net finance income	6(a)	**(19,956)**	(6,500)
Net gain on disposal of property, plant and equipment	5	**(78)**	(14)
Impairment loss on prepayments for acquisition of a property in Haifeng	5	**32,000**	–
Provision for tendering deposit	5	**10,000**	–
Foreign exchange loss		**–**	5,155
Income tax expense	7(a)	**43,367**	67,384
		176,585	297,311
Change in inventories		**(36,753)**	(38,127)
Change in trade and other receivables		**(175,002)**	352,258
Change in trade and other payables		**208,727**	44,792
Advances to related parties	28(a)	**(66,511)**	–
Repayments from related parties	28(a)	**66,511**	–
Receipt in advance from a third party	17(d)	**70,000**	–
Repayment of receipt in advance to a third party	17(d)	**(70,000)**	–
Interest paid		**–**	(1,704)
Income tax paid	7(c)	**(45,990)**	(72,243)
Net cash generated from operating activities		**127,567**	582,287
Investing activities			
Payment for the purchase of property, plant and equipment		**(392,890)**	(146,108)
Payment for the purchase of intangible assets		**(32,186)**	–
Proceeds from disposal of property, plant and equipment		**519**	305
Proceeds from disposal of held-for-trading investments		**–**	306
Payment for the purchase of held-to-maturity investments		**–**	(85,330)
Proceeds from sale of held-to-maturity securities		**85,093**	–
Interest received		**13,675**	7,571
Net cash used in investing activities		**(325,789)**	(223,256)
Financing activities			
Proceeds from initial public offering, net of issuance expenses		**–**	1,099,294
Proceeds from new-bank loans		**243,210**	–
Repayment of interest-bearing borrowings		**–**	(132,032)
(Increase)/decrease in pledged deposits		**(430,152)**	136,532
Payment for repurchase of shares		**(4,215)**	–
Dividend paid		**(43,500)**	(40,000)
Net cash (used in)/generated from financing activities		**(234,657)**	1,063,794
Net (decrease)/increase in cash and cash equivalents		**(432,879)**	1,422,825
Cash and cash equivalents at 1 January		**1,735,974**	317,914
Effect of foreign exchange rate changes		**208**	(4,765)
Cash and cash equivalents at 31 December	20	**1,303,303**	1,735,974

The notes on pages 51 to 105 form part of these financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

1 COMPANY BACKGROUND AND BASIS OF PREPARATION

1.1 General information and basis of presentation

Shirble Department Store Holdings (China) Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability on 5 November 2008 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

Pursuant to a reorganisation (the "Reorganisation") of the Company and its subsidiaries (collectively referred to as the "Group") to rationalise the Group's structure in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the subsidiaries now comprising the Group. Details of the Reorganisation are set out in the prospectus of the Company dated 5 November 2010 (the "Prospectus"). The Company's shares were listed on the Stock Exchange on 17 November 2010.

Since all entities which took part in the Reorganisation were under common control of a group of ultimate shareholders, the Group is regarded as a continuing entity resulting from a reorganisation of entities under common control. These consolidated financial statements have been prepared on the basis that the current group structure had been in existence at the beginning of the earliest period presented. Accordingly, the consolidated results of the Group for the year ended 31 December 2010 include the results of the Company and its subsidiaries with effect from 1 January 2010 or, if later, since their respective dates of incorporation as if the current group structure had been in existence throughout the year presented. All material intra-group transactions and balances have been eliminated on consolidation.

1.2 Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (IFRSs), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards (IASs) and related Interpretations, issued by the International Accounting Standards Board ("IASB"), and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. For the purpose of these consolidated financial statements, the Group has adopted at the beginning of the earliest year presented, all the IFRSs that have been issued and effective for the entire year, except for any new standards or interpretations that are not yet effective for the accounting year ended 31 December 2011. The revised and new accounting standards and interpretations issued but not yet effective for the accounting year ended 31 December 2011 are set out in note 31.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

1 COMPANY BACKGROUND AND BASIS OF PREPARATION *(continued)*

1.2 Basis of preparation *(continued)*

(b) Basis of measurement

The consolidated financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousand, unless otherwise stated. They are prepared on the historical cost basis except for financial instruments classified as held for trading investments that are stated at fair values (see note 2(c)(i)).

(c) Use of estimates and judgments

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

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

Judgments made by management in the application of IFRSs that have significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed as follows:

(i) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. These estimates are based on the current market condition and the historical experience of distributing and selling products of similar nature. They could change significantly as a result of competitor's actions in response to severe economic cycles or other changes in market conditions. Management will reassess the estimations at each reporting date.

(ii) Impairment losses on trade and other receivables

Impairment losses on trade and other receivables are assessed and provided based on management's regular review of ageing analysis and evaluation of collectability. A considerable level of judgment is exercised by the management when assessing the credit worthiness and past collection history of each individual customer. Any increase or decrease in the impairment losses for bad and doubtful debts would affect the profit or loss in future years.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

1 COMPANY BACKGROUND AND BASIS OF PREPARATION *(continued)*

1.2 Basis of preparation *(continued)*

(c) Use of estimates and judgments (continued)

(iii) Depreciation and amortisation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The intangible assets of the Group is entry rights related to the stores. The amortisation period of entry rights is based on 20 years which is over the lease term of the related store. The management periodically reviews changes in customer preferences and industry conditions, assets retirement activity and residual values to determine adjustments to estimated remaining useful lives and depreciation and amortisation rates. Actual economic lives may differ from estimated useful lives. Periodic reviews could result in a change in depreciable lives and therefore depreciation expenses in future periods.

(iv) Impairment losses of property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are reviewed periodically to assess whether impairment losses exist. In determining whether an impairment exists, the Group has to exercise judgement particularly in assessing whether the carrying value of an assets can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset; and the appropriate key assumptions to be applied in preparing cash flow projections including, whether these cash flow projections are discounted using an appropriate rate. Change in assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

(v) Recognition of income taxes and deferred tax assets

Determining income tax provision involves judgment on the future tax treatment of certain transactions. The management carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised in respect of temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgment is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets, where applicable, are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(h)).

(b) Foreign currency

(i) Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity (the "functional currency"). The financial statements are presented in Renminbi (the "presentation currency").

(ii) Foreign currency transactions

Foreign currency transactions during the year are translated at the foreign exchange rates at the transaction dates.

Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the reporting date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Foreign currency *(continued)*

(iii) Financial statements of foreign operations

The results of foreign operations are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Assets and liabilities are translated into Renminbi at the closing foreign exchange rates at the reporting date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the translation reserve.

(c) Financial instruments

(i) Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables, and cash and cash equivalents.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Financial instruments *(continued)*

(i) Non-derivative financial assets (continued)

Held-to-maturity financial assets

If the Group has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

(ii) Non-derivative financial liabilities

The Group initially recognises financial liabilities on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial liabilities: loans and borrowings and trade and other payables.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

(iii) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses (see note 2(h)).

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs (see note 2(p)). Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(ii) Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation of property, plant and equipment is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Buildings held for own use which are situated on leasehold land are depreciated over the shorter of the unexpired term of the lease and their estimated useful lives, ranging from 55 to 59 years after the date of completion.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Property, plant and equipment *(continued)*

(iii) Depreciation (continued)

The estimated useful lives of other property, plant and equipment are as follows:

Buildings	55 – 59 years
Machinery and equipments	5 – 10 years
Electronic and other equipments	3 – 10 years
Motor vehicles	5 – 10 years
Leasehold improvements	10 years or the remaining term of any non-renewable lease, whichever is shorter
Others	5 – 10 years

No depreciation is provided for assets under construction until such time as the relevant assets are completed and available for intended use. Assets under construction are transferred to the relevant category of property, plant and equipment upon the completion of their respective construction.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(iv) Construction in progress

Construction in progress represents primarily leasehold improvements, machinery and equipment, which are stated at cost less accumulated impairment losses (see note 2(i)). Cost includes all direct costs relating to the construction of the assets and installation.

(v) Disposal

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within other net income in the profit or loss.

(e) Intangible assets

The Group's intangible assets are entry rights paid prior to starting up a store. When the entry rights is paid to the previous tenant, it is classified within intangible assets and is amortised using the straight-line method over a period of 20 years which is over the lease term, and is tested for impairment at each balance sheet date, or whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Operating lease charges

Payments made under operating leases are recognised in the profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(g) Inventories

Inventories comprise merchandise purchased for resale and are measured at the lower of cost and net realisable value.

The cost of inventories is based on the first-in, first-out principle, and includes goods purchase cost and other direct costs.

Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(h) Impairment of assets

(i) Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Impairment of assets *(continued)*

(i) Non-derivative financial assets (continued)

Loans and receivables and held-to-maturity investment securities

The Group considers evidence of impairment for loans and receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together receivables and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Impairment of assets *(continued)*

(ii) Non-financial assets (continued)

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amounts of the assets in the unit (group of units) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with IAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same reversal criteria as it would at the end of the financial year.

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Employee benefits

(i) Short-term employee benefits

Salary, annual bonuses and cost of non-monetary benefits are measured on an undiscounted basis and are expensed as the related service is provided.

(ii) Defined contribution retirement plan

Obligations for contributions to local government defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC and the Hong Kong Mandatory Provident Fund Scheme Ordinance are recognised as an expense in profit or loss as incurred.

(j) Provisions and contingent liabilities

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(k) Revenue

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit or loss as follows:

(i) Direct sales

Revenue from direct sales is measured at the fair value of the consideration received or receivable, net of returns and trade discounts. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Revenue *(continued)*

(i) Direct sales (continued)

Sales of goods that result in award credits for customers under the Group's customer loyalty programme, are accounted for as multiple element revenue transactions and the fair value of the consideration received or receivable is allocated between the goods sold and the award credits granted. The consideration allocated to the award credits is measured by reference to the fair value of the cash coupons for which they could be redeemed. Such consideration is not recognised as revenue at the time of the initial sale transaction, but is deferred and recognised as revenue when the award credits are redeemed and the Group's obligations have been fulfilled.

(ii) Commission from concessionaire sales

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

(iii) Rental income from operating leases

Rental income from subleased shop premises under operating leases is recognised in profit or loss in equal instalments over the period covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iv) Promotion, administration and management income

Promotion, administration and management income are recognised according to the underlying contract terms with suppliers and concessionaries and as the services are provided accordingly.

(v) Credit card handling fees

Credit card handling fees is recognised when the relevant service is rendered.

(vi) Pre-paid gift cards

Pre-paid gift cards sold are recognised as liabilities in the statement of financial position initially. Revenue from pre-paid gift cards is recognised in the profit or loss as follows:

- When goods are delivered to customers and other criteria set out in note 2(k)(i) are met;
- Long-aged pre-paid gift cards are recognised as revenue if the management considered the likelihood of redemption is remote.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Finance income and costs

Finance income comprises gains on the disposal of held-for-trading investments, interest income and foreign currency gains. Interest income is recognised as it accrues, using the effective interest method.

Finance costs comprise interest expense on borrowings. All borrowing costs are recognised in profit or loss or capitalised using the effective interest method (see note 2(p)).

Foreign currency gains and losses are reported on a net basis.

(m) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in other comprehensive income or equity, in which case it is recognised in other comprehensive income or equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purpose and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax assets can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are not discounted.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Income tax expense *(continued)*

The carrying amount of a deferred tax asset is reviewed at each reporting date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously, or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same tax authority on either:
  - the same taxable entity, or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(n) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(o) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Borrowing costs

Borrowing costs are expensed in profit or loss in the year in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

(q) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

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

The information reported to the Chairman of the Company, who is the Group's chief operating decision maker for the purpose of resource allocation and assessment of performance, is prepared based on the overall operation of department stores in the PRC, which is the only operating and reporting segment of the Group. All revenues from external customers during the year are generated in the PRC and all significant operating assets of the Group are located in the PRC.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Company's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3 CHANGES IN ACCOUNTING POLICIES

The IASB has issued a number of amendments to IFRSs and new Interpretation that are first effective for the current accounting period of the Group.

Of these, the following developments are relevant to the Group's financial statements:

- IAS 24 (revised 2009), Related party disclosures
- Improvements to IFRSs (2010).

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The impacts of other developments are discussed below:

- IAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous period. IAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Group because the Group is not a government-related entity.
- Improvements to IFRSs (2010) omnibus standard introduce a number of amendments to the disclosure requirements in IFRS 7, Financial instruments: Disclosures. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

4 TURNOVER

Turnover mainly represents direct sales, commission from concessionaire sales, rental income and income from reversal of unused prepaid card. The amount of each significant category of revenue recognised is as follows:

	Note	Year ended 31 December	
		2011	2010
		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 gift 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 gift cards for which the directors considered the likelihood of redemption was remote (2010: Nil).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

5 OTHER OPERATING REVENUE AND OTHER NET (LOSS)/INCOME

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Other operating revenue		
Promotion administration and management income	**89,775**	167,284
Credit card handling fees	**19,623**	13,488
Others	**1,834**	628
	111,232	181,400
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 17(b)(iv))	**(32,000)**	–
Provision for tendering deposit (see note 17(c)(i))	**(10,000)**	–
Others	**1,226**	1,373
	(40,696)	1,387

6 PROFIT BEFORE TAX

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

(a) Net finance income

	Year ended 31 December	
	2011	2010
	RMB'000	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)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

6 PROFIT BEFORE TAX *(continued)*

(b) Personnel costs

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

Personnel costs include directors' remuneration (see note 8).

The Group participates in pension funds organised by the PRC government. According to the respective pension fund regulations, the Group is required to pay annual contributions for the years ended 31 December 2010 and 2011. The Group remits all the pension fund contributions to the respective social security offices, which are responsible for the payments and liabilities relating to the pension funds. The Group has no obligation for payment of retirement and other post-retirement benefits of employees other than the contributions described above.

The Group also operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Scheme Ordinance for all of its employees employed by the Company in Hong Kong. Contributions are made based on a percentage of the employee's basic salaries and are charged to the consolidated statement of comprehensive income as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

(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
Auditor's remuneration	**6,000**	1,533

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

7 INCOME TAX EXPENSE

(a) Income tax expense in the consolidated statements of comprehensive income represents:

	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 Group 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) Shenzhen Shirble Department Store Co., Ltd. ("Shirble Department Store (Shenzhen)") and Shenzhen Shirble Chain Store Limited Liability Company ("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 ("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 is 25% for Changsha Shirble Department Store Limited Liability Company ("Shirble Department Store (Changsha)"), Changsha Shirble Apparel Co., Ltd. ("Shirble Apparel"), Shenzhen Shirble Mingxing Trading Co., Ltd. ("Shirble Mingxing Trading"), Shenzhen Xiangzhixuan Trading Co., Ltd. ("Shirble Xiangzhixuan"), Shenzhen Ruizhuo Trading Company Limited ("Shirble Ruizhuo"), Shenzhen Yuzhixiang Trading Company Limited ("Shirble Yuzhixiang"), Dongguan Shirble Department Store Co., Ltd ("Shirble Dongguan") and Shanwei Shirble Department Store Co., Ltd ("Shirble Shanwei").

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

7 INCOME TAX EXPENSE *(continued)*

(b) Reconciliation between tax expense and accounting profit at applicable tax rate:

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Profit before tax	**114,999**	267,466
Notional tax on profit before taxation, calculated at the respective rates applicable to PRC subsidiaries	**22,533**	60,724
Over-provision in respect of prior year's tax expenses	**(1,581)**	–
Withholding tax on dividends declared by the Group's PRC subsidiaries	**1,750**	4,460
Deferred tax liabilities on expected profits distribution by the Group's PRC subsidiaries (note 23(b))	**2,541**	2,043
Tax effect of unused tax losses not recognised	**6,400**	–
Non-deductible expenses	**11,724**	157
	43,367	67,384

(c) Current taxation in the consolidated statement of financial position represents:

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Balance at beginning of the year	**30,757**	32,266
Provision for income tax for the year	**47,339**	70,734
Release of deferred tax liabilities upon distribution of dividend of PRC subsidiaries	**2,043**	–
Income tax paid during the year	**(45,990)**	(72,243)
Balance at the end of the year	**34,149**	30,757

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

8 DIRECTORS' REMUNERATION

Details of directors' remuneration are as follows:

	Year ended 31 December 2011				
	Fee RMB'000	Basic salaries, allowances and other benefits RMB'000	Discretionary bonus RMB'000	Contributions to retirement benefit schemes RMB'000	Total RMB'000
Name of directors					
Executive directors					
Mr. YANG Xiangbo	–	1,192	77	10	1,279
Madam YANG Xiaomei *	–	567	–	9	576
Independent non-executive directors					
ZHAO Jinlin	248	–	–	–	248
CHEN Fengliang	248	–	–	–	248
JIANG Hongkai	248	–	–	–	248
	744	1,759	77	19	2,599

* Madam Yang Xiaomei was retired as an executive director, chief executive officer of the Company and a member of the nomination committee of the Board with effect from 17 November 2011.

	Year ended 31 December 2010				
	Fee RMB'000	Basic salaries, allowances and other benefits RMB'000	Discretionary bonus RMB'000	Contributions to retirement benefit schemes RMB'000	Total RMB'000
Name of directors					
Executive directors					
Mr. YANG Xiangbo	–	151	–	–	151
Madam YANG Xiaomei	–	1,091	–	–	1,091
Independent non-executive directors					
ZHAO Jinlin	130	–	–	–	130
CHEN Fengliang	130	–	–	–	130
JIANG Hongkai	130	–	–	–	130
	390	1,242	–	–	1,632

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

8 DIRECTORS' REMUNERATION *(continued)*

An analysis of directors' remuneration by the number of directors and remuneration range is as follows:

	Year ended 31 December	
	2011 Number of individuals	2010 Number of individuals
Nil to HKD1,000,000	**4**	4
HKD1,000,000 to HKD1,500,000	**1**	1

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals of the Group during the year include one director of the Company (2010: One), whose emoluments are reflected in the analysis presented in note 8. Details of remuneration paid to the remaining four highest paid individuals of the Group are as follows:

	Year ended 31 December	
	2011 RMB'000	2010 RMB'000
Basic salaries, allowances and other benefits	**4,653**	1,965
Discretionary bonus	**282**	202
Contributions to retirement benefits schemes	**20**	18
	4,955	2,185

The emoluments of the five (2010: five) individuals with the highest emoluments are within the following bands:

	2011 Number of individuals	2010 Number of individuals
Nil – HKD1,000,000	**4**	4
HKD1,000,000 – HKD1,500,000	**1**	1

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

10 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB9,578,000 (2010: loss of RMB8,034,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's profit for the year:

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Amount of consolidated profit/(loss) attributable to equity shareholders dealt with in the Company's financial statements	**9,578**	(8,034)
Dividends from a subsidiary in respect of the previous financial year, approved and paid during the year	**–**	40,000
Dividends from a subsidiary attributable to the current year declared during the year	**33,250**	18,385
The Company's profit for the year (note 24(a))	**42,828**	50,351

11 OTHER COMPREHENSIVE INCOME

Tax effect relating to each component of other comprehensive income

	2011			2010		
	Before-tax amount RMB'000	**Tax (expense)/ benefit RMB'000**	**Net-of-tax amount RMB'000**	Before-tax amount RMB'000	Tax (expense)/ benefit RMB'000	Net-of-tax amount RMB'000
Exchange differences on translation of financial statements of overseas subsidiaries	**208**	**–**	**208**	93	–	93
Other comprehensive income	**208**	**–**	**208**	93	–	93

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12 BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB71,632,000 (2010: RMB200,082,000) and the weighted average of 2,498,560,504 ordinary shares (2010: 1,952,054,795) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2011 Number of share	2010 Number of shares
Issued ordinary shares/shares issued upon incorporation	**2,500,000,000**	1
Issuance of shares upon the Reorganisation	**–**	99,999
Effect of shares issued on initial public offering (see Note 24(b)(iv))	**–**	77,054,795
Effect of capitalisation issue (see Note 24(b)(v))	**–**	1,874,900,000
Effect of cancellation of repurchased shares (see Note 24(b)(vi))	**(1,439,496)**	–
Weighted average number of ordinary shares for year ended 31 December	**2,498,560,504**	1,952,054,795

The weighted average number of shares in issue during the year ended 31 December 2010 was based on the assumption that the 1,875,000,000 shares before the listing of shares on the Stock Exchange were in issue, as if such shares had been outstanding through the year presented.

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

Notes to the Consolidated Financial Statements

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13 PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings RMB'000	Machinery and equipment RMB'000	Furniture and other equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Others RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:								
At 1 January 2010	69,944	50,400	33,949	9,935	264,207	2,311	–	430,746
Additions	–	19,963	2,725	1,928	701	17	45,764	71,098
Disposals	(307)	(37)	(27)	–	–	–	–	(371)
Transferred from construction in progress	–	–	–	–	45,764	–	(45,764)	–
At 31 December 2010	69,637	70,326	36,647	11,863	310,672	2,328	–	501,473
Additions	–	12,610	13,049	4,442	64,350	20	23,805	118,276
Disposals	–	(313)	(387)	–	(83)	–	–	(783)
Transferred from construction in progress	–	–	–	–	9,559	–	(9,559)	–
At 31 December 2011	69,637	82,623	49,309	16,305	384,498	2,348	14,246	618,966
Accumulated depreciation:								
At 1 January 2010	(3,641)	(35,327)	(25,073)	(5,610)	(166,866)	(854)	–	(237,371)
Charge for the year	(1,119)	(2,059)	(3,057)	(1,268)	(23,253)	(448)	–	(31,204)
Disposals	30	33	17	–	–	–	–	80
At 31 December 2010	(4,730)	(37,353)	(28,113)	(6,878)	(190,119)	(1,302)	–	(268,495)
Charge for the year	(1,095)	(6,115)	(1,385)	(1,260)	(29,015)	(449)	–	(39,319)
Disposals	–	10	332	–	–	–	–	342
At 31 December 2011	**(5,825)**	**(43,458)**	**(29,166)**	**(8,138)**	**(219,134)**	**(1,751)**	**–**	**(307,472)**
Net book value:								
At 31 December 2010	64,907	32,973	8,534	4,985	120,553	1,026	–	232,978
At 31 December 2011	**63,812**	**39,165**	**20,143**	**8,167**	**165,364**	**597**	**14,246**	**311,494**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

14 INTANGIBLE ASSETS

	Entry rights RMB'000
Cost:	
At 1 January 2011	–
Addition	32,186
At 31 December 2011	32,186
Accumulated amortisation:	
At 1 January 2011	–
Charge for the year	(301)
At 31 December 2011	(301)
Net book value:	
At 31 December 2011	31,885
At 31 December 2010	–

15 INVESTMENT IN SUBSIDIARIES

	The Company	
	2011 **RMB'000**	2010 RMB'000
Unlisted shares, at cost	**107,380**	107,380

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For the year ended 31 December 2011

15 INVESTMENT IN SUBSIDIARIES *(continued)*

As of 31 December 2011, the Company has direct and indirect interests in the following subsidiaries, all of which are private companies. The particulars of these subsidiaries are set out below:

Name of company	Place of Incorporation/ operating	Percentage of equity attributable to the Company Direct	Indirect	Authorised/ Issued and paid-up capital	Principal activities
Shirble Department Store Investment Limited ("Shirble Hong Kong")	Hong Kong	100%	–	HKD10,000/ HKD1	Investment holding
Shirble Department Store (Hong Kong) Limited	Hong Kong	–	100%	USD1,200/ USD1,200	Investment holding
Shirble Department Store (Shenzhen) (Note(i))	the PRC	–	100%	HKD460,000,000/ HKD460,000,000	Operation and management of department stores
Shirble Chain Store (Note(ii))	the PRC	–	100%	RMB10,000,000/ RMB10,000,000	Operation and management of department stores
Shirble Department Store (Changsha) (Note(ii))	the PRC	–	100%	RMB30,000,000/ RMB30,000,000	Operation and management of department stores
Shirble Apparel (Note(ii))	the PRC	–	100%	RMB100,000/ RMB100,000	Selling merchandise and apparels
Shirble Mingxing Trading (Note(ii))	the PRC	–	100%	RMB100,000/ RMB100,000	Selling merchandise
Shirble Xiangzhixuan (Note(ii))	the PRC	–	100%	RMB100,000/ RMB100,000	Selling merchandise
Shirble Ruizhuo (Note(ii))	the PRC	–	100%	RMB100,000/ RMB100,000	Selling merchandise
Shirble Yuzhixiang (Note(ii))	the PRC	–	100%	RMB1,000,000/ RMB1,000,000	Selling merchandise
Shirble Dongguan (Note(ii))	the PRC	–	100%	RMB30,000,000/ RMB30,000,000	Operation and management of department stores
Shirble Shanwei (Note(ii))	the PRC	–	100%	HKD230,000,000/ HKD230,000,000	Operation and management of department stores

Notes:

(i) This entity is a wholly foreign owned enterprise established in the PRC.

(ii) These entities are limited liability companies established in the PRC.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

16 INVENTORIES

	The Group At 31 December	
	2011 RMB'000	2010 RMB'000
Carrying amount of Merchandise for resale	**255,007**	215,538
Write down of inventories	**(2,716)**	–
	252,291	215,538

The analysis of the amount of inventories recognised as an expense is as follows:

	Year ended 31 December	
	2011 RMB'000	2010 RMB'000
Carrying amount of inventories sold	**995,481**	872,969
Write down of inventories	**2,716**	–
	998,197	872,969

17 TRADE AND OTHER RECEIVABLES

		The Group		The Company	
	Note	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Trade receivables	(a)	**18,037**	4,107	**–**	–
Leased deposits		**34,626**	24,115	**5,081**	–
Interest receivables		**9,385**	819	**9,385**	–
Other receivables	(c)	**10,463**	17,971	**–**	8,287
Prepaid rental		**13,392**	7,980	**–**	–
Amounts due from subsidiaries		**–**	–	**544,996**	57,965
Prepayments and deposits	(b)	**480,330**	96,595	**68,000**	1,699
Amounts due from related parties (note 28(b))		**1,536**	–	**–**	–
		567,769	151,587	**627,462**	67,951

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 or assets within one year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

17 TRADE AND OTHER RECEIVABLES *(continued)*

(a) Retail sales to individual consumers are usually settled in cash, by debit card or by 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:

	At 31 December	
	2011	2010
	RMB'000	RMB'000
Within three month	**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 agreement 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

17 TRADE AND OTHER RECEIVABLES *(continued)*

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

(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 has been commenced.

(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 from the developer in March 2012.

(iv) The balance represents a prepayment for purchase of a property located in Haifeng from a developer, Haifeng Wanye Property Development Co., Ltd. ("Haifeng Wanye"). In accordance with the sale and purchase agreement signed between Haifeng Wanye and the Company dated 28 December 2011 ("Haifeng Sale and Purchase Agreement"), 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 in 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 these financial statements, 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

17 TRADE AND OTHER RECEIVABLES *(continued)*

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

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 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.

(v) The balance included payments of RMB152.5 million made to three entities as prepayments for purchase of goods at 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

17 TRADE AND OTHER RECEIVABLES *(continued)*

(c) Breakdown of other receivables is as follows:

		As at 31 December	
	Note	**2011** **RMB'000**	2010 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 is still under negotiation and formal agreement is yet to be entered into. In view of the uncertainty of the project, a provision has been made.

(d) RMB70 million was received from Dongguan Tongqi Trading Co., Ltd. ("Tongqi") during the period from 29 November 2011 and 20 December 2011, which were subsequently returned to Tongqi by the Group on 29 December 2011 and 30 December 2011.

RMB30 million was received from Shenzhen Taida Hongyuan Trading Co., Ltd ("Taida Hongyuan") on 20 January 2012, which were subsequently returned to Taida Hongyuan by the Group on 14 March 2012.

18 HELD-TO-MATURITY INVESTMENTS

	The Group and the Company At 31 December	
	2011 **RMB'000**	2010 RMB'000
Held-to-maturity investments	**–**	85,093

As at 31 December 2010, the balance represents investment in unlisted fixed-rate bank note of HKD100,000,000 which was due on 24 June 2011.

19 PLEDGED DEPOSITS

Bank deposits of RMB430,152,000 (2010: Nil) as at 31 December 2011 were pledged to secure the Group's and the Company's bank loans (see note 22).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

20 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deposit with banks within three months of maturity	**–**	90,000	**–**	–
Fixed deposits with banks	**350,000**	–	**–**	–
Cash at banks and on hand	**953,303**	1,645,974	**374,232**	996,431
	1,303,303	1,735,974	**374,232**	996,431

21 TRADE AND OTHER PAYABLES

		The Group		The Company	
		2011	2010	**2011**	2010
	Note	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Amounts due to related parties (see note 28(b))	(i)	**2,959**	5,480	**–**	–
Advances received from customers		**413,903**	389,859	**–**	–
Trade payables	(ii)	**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	**609**	–
Amounts due to subsidiaries		**–**	–	**71,627**	28,405
Advances from third parties	(iii)	**69,637**	–	**–**	–
Other payables and accruals		**67,098**	46,282	**2,288**	2,071
		1,104,581	893,569	**74,524**	30,476

(i) Amounts due to related parties at 31 December 2010 and 2011 are unsecured, interest-free and repayable on demand.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

21 TRADE AND OTHER PAYABLES *(continued)*

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

	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

(iii) RMB69.6 million advances from 57 entities were received by the Group as of 31 December 2011. From March 2012 to September 2012, RMB63.6 million were returned by the Group to 42 out of these 57 entities. Among these 57 entities, 39 are suppliers of the Group.

22 INTEREST-BEARING BORROWINGS

	The Group and the Company At 31 December	
	2011	2010
	RMB'000	RMB'000
Current		
Secured bank loans	**243,210**	–

At 31 December 2011, the bank loans were denominated in Hong Kong dollar and subject to an annual interest rate of 1.104%. The bank loans of the Group were secured by the pledged deposits of RMB430,152,000 (see note 19).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

23 DEFERRED TAX ASSETS AND LIABILITIES

(a) Deferred tax assets and liabilities recognised

(i) The Group

The components of deferred tax assets and liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Accrued expenses, deferred revenue and others RMB'000	Depreciation on property, plant and equipment RMB'000	Undistributed profits of PRC subsidiaries RMB'000	Total deferred tax RMB'000
Deferred tax arising from:				
At 1 January 2010	20,992	9,858	–	30,850
Credited/(charged) to consolidated statement of comprehensive income	4,056	1,337	(2,043)	3,350
At 31 December 2010	25,048	11,195	(2,043)	34,200
Credited/(charged) to consolidated statement of comprehensive income	4,948	1,565	(2,541)	3,972
Release upon distribution of dividend	–	–	2,043	2,043
At 31 December 2011	29,996	12,760	(2,541)	40,215

(ii) Reconciliation to the statement of financial position

	At 31 December	
	2011 RMB'000	2010 RMB'000
Net deferred tax assets recognised on the statement of financial position	**42,756**	36,243
Net deferred tax liabilities recognised on the statement of financial position	**(2,541)**	(2,043)
	40,215	34,200

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

23 DEFERRED TAX ASSETS AND LIABILITIES *(continued)*

(b) Deferred tax liabilities not recognised

Pursuant to the New EIT Law in the PRC, 10% withholding tax is levied on foreign investors (5% for foreign investors who are registered in Hong Kong provided they meet certain criteria) in respect of dividend distributions arising from a foreign investment enterprise's profit earned after 1 January 2008. As of 31 December 2011, deferred tax liabilities of RMB2,541,000 (31 December 2010: RMB2,043,000) have been recognised in respect of the tax that would be payable on the distribution of the retained profits of the Group's PRC subsidiaries. Deferred tax liabilities of RMB12,787,986 have not been recognised, in respect of the remaining retained profits generated by its PRC entities subsequent to 31 December 2007 amounting to RMB255,759,729, because the directors do not intend to declare dividends out of such retained profits to overseas companies in the foreseeable future.

(c) Deferred tax assets not recognised

As at 31 December 2011, the Group's certain subsidiaries have not recognised deferred tax assets in respect of cumulative tax losses carried forward of RMB25,688,763 (2010: RMB7,772,578) which will expire within 5 years under the current tax legislation. The cumulative tax losses have not been recognised as a deferred tax asset as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity.

24 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Note	Share capital RMB'000 (note 24(b))	Share premium RMB'000 (note 24(c)(i))	Capital redemption reserve RMB'000 (note 24(b)(vi))	Contributed surplus RMB'000 (note 24(c)(iv))	Retained earnings RMB'000	Total equity RMB'000
At 1 January 2010		–	–	–	–	–	–
Total comprehensive income for the year	10	–	–	–	–	50,351	50,351
Arising from the reorganisation		8	–	–	107,372	–	107,380
Issuance of shares upon initial public offering, net of issuance costs	24(b)(iv)	53,580	1,055,068	–	–	–	1,108,648
Capitalisation issue	24(b)(v)	160,730	(160,730)	–	–	–	–
Dividends to equity shareholders	24(d)	–	–	–	–	(40,000)	(40,000)
At 31 December 2010		214,318	894,338	–	107,372	10,351	1,226,379
At 1 January 2011		214,318	894,338	–	107,372	10,351	1,226,379
Total comprehensive income for the year	10	–	–	–	–	42,828	42,828
Purchase of own shares:	24(b)(vi)						
– par value paid		(410)	–	–	–	–	(410)
– premium paid		–	–	–	–	(3,805)	(3,805)
– transfer between reserves		–	–	410	–	(410)	–
Dividends to equity shareholders	24(d)	–	–	–	–	(43,500)	(43,500)
At 31 December 2011		213,908	894,338	410	107,372	5,464	1,221,492

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

24 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(b) Share capital

The share capital of the Group as at 1 January 2010 represents the aggregate amount of paid-in capital of all the companies comprising the Group at the respective dates, after elimination of investments in subsidiaries.

Pursuant to the Reorganisation, the Company became the holding company of the Group. The share capital of the Group as at 31 December 2010 represents the issued capital of the Company at the reporting date.

Movements in the authorised share capital and issued and fully paid share capital of the Company during the year are as follows:

		Authorised		Issued and fully paid	
	Note	Number of ordinary shares (thousand)	Nominal value of ordinary shares HKD'000	Number of ordinary shares (thousand)	Nominal value of ordinary shares HKD'000
At 1 January 2010	(i)	3,800	380	1	–
Issuance of new share upon the reorganisation	(ii)	–	–	99	10
Increase in authorised share capital on 18 June 2010	(iii)	14,996,200	1,499,620	–	–
Issuance of shares upon initial public offering	(iv)	–	–	625,000	62,500
Capitalisation issue	(v)	–	–	1,874,900	187,490
At 31 December 2010		15,000,000	1,500,000	2,500,000	250,000
RMB equivalent ('000)			1,276,350		214,318

		Authorised		Issued and fully paid	
	Note	Number of ordinary shares (thousand)	Nominal value of ordinary shares HKD'000	Number of ordinary shares (thousand)	Nominal value of ordinary shares HKD'000
At 1 January 2011		15,000,000	1,500,000	2,500,000	250,000
Cancellation of repurchased share	(vi)	–	–	(5,000)	(500)
At 31 December 2011		15,000,000	1,500,000	2,495,000	249,500
RMB equivalent ('000)			1,276,350		213,908

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

24 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(b) Share capital *(continued)*

(i) The Company was incorporated in Cayman Islands on 5 November 2008 with an authorised share capital of HKD380,000 divided into 3,800,000 shares of HKD0.10 each. On the same date, one share was subscribed by Codan Trust Company (Cayman) Limited which was subsequently transferred to Mr. YANG Xiangbo. On the same date, an additional 914 shares was allotted and issued to Mr. YANG Xiangbo, 60 shares were allotted and issued to Madam YANG Xiaomei and 25 shares were allotted and issued to Mr. LI Zuolin.

(ii) On 5 August 2009, Shirble Department Store (Shenzhen) acquired all the equity interest of Shirble Chain Store amounting to RMB10,000,000, which was previously held by Shenzhen Ruizhuo Investment Development Co., Ltd. ("Ruizhuo Investment") and Shenzhen Hengda Investment Development Co., Ltd.("Hengda Investment"), at a consideration of the same amount. Accordingly, the share capital of Shirble Chain Store was eliminated in preparing the consolidated statement of financial position from that date.

On 9 December 2009, the Company, Shirble Hong Kong and Shirble Department Store Limited ("Shirble BVI") entered into a share exchange agreement pursuant to which Shirble BVI transferred the entire equity interest in Shirble Department Store (Shenzhen) to Shirble Hong Kong, a wholly owned subsidiary of the Company, in exchange for 87,751 ordinary shares of HKD0.10 each issued by the Company. The transfer was approved by the relevant PRC government authorities on 11 March 2010.

On 15 June 2010, a share exchange agreement was entered into whereby Homey Enterprises Limited ("Homey Enterprises") and Kwan Mei Enterprise Limited ("Kwan Mei Enterprise") transferred to Xiang Rong Investment Limited ("Xiang Rong Investment") their shareholding in Shirble BVI, in consideration of Xiang Rong Investment paying an aggregate amount equal to the par value of the new shares as consideration for the Company to allot and issue to Homey Enterprises and Kwan Mei Enterprise 7,940 new Shares and 3,309 new Shares, respectively.

(iii) Pursuant to the written resolution passed at the board of directors' meeting on 18 June 2010, the authorised share capital of the Company was increased from HKD380,000 to HKD1,500,000,000 comprising 15,000,000,000 shares of HKD0.10 each.

(iv) On 17 November 2010, 625,000,000 ordinary shares of HKD0.10 each were issued at a price of HKD2.20 per share under the initial public offering. Proceeds of HKD62,500,000 (equivalent to RMB53,580,000) representing the par value, were credited to the Company's share capital and the excess of the proceeds over the nominal value of the total number of ordinary shares issued after offsetting issuance costs of RMB70,099,000, which amounted to RMB1,055,068,000, were credited to the share premium account of the Company.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

24 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(b) Share capital *(continued)*

(v) Pursuant to a written resolution of the then shareholders of the Company passed on 30 October 2010, 1,874,900,000 shares of HKD0.10 each in the Company were issued at par value on 17 November 2010 to the Company's existing shareholders as at 30 October 2010 by way of capitalisation of HKD187,490,000 (equivalent to RMB160,730,000) from the share premium account.

(vi) Purchase of own shares

During the year, the Company repurchased its own ordinary shares on the Stock Exchange of Hong Kong Limited as follows:

Date/Month/Year	Number of share repurchased shares	Highest price paid per share HKD	Lowest price paid per share HKD	Aggregate price paid HKD'000
09 September 2011	300,000	1.16	1.14	345
12 September 2011	338,000	1.12	1.05	364
14 September 2011	572,000	1.08	1.02	599
15 September 2011	264,000	1.09	1.04	281
16 September 2011	540,000	1.12	1.06	588
19 September 2011	344,000	1.08	1.02	359
20 September 2011	858,000	1.02	0.97	844
21 September 2011	724,000	1.04	0.93	720
22 September 2011	1,060,000	1.00	0.94	1,030
	5,000,000			5,130
			RMB equivalent ('000)	4,215

The repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. Pursuant to section 37(3) of the Companies Law of the Cayman Islands, an amount equivalent to the par value of the shares cancelled of RMB410,000 was transferred from retained profits to the capital redemption reserve. The premium paid on the repurchase of the shares of RMB3,805,000 was charged to retained profits.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

24 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(c) Reserves

(i) Share premium

The application of the share premium account is governed by the Companies Law of the Cayman Islands. Under the Companies Law of the Cayman Islands, the funds in share premium account are distributable to shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) Merger reserve

Merger reserve arising from the Reorganisation represents the excess of the paid-in capital of Shirble Department Store (Shenzhen) over the consideration paid by the Company, representing the nominal value of the shares issued by the Company in exchange thereof.

(iii) Statutory reserves

Statutory reserves were established in accordance with the relevant PRC rules and regulations and the articles of association of the companies comprising the Group which are incorporated in the PRC. Appropriations to the reserves were approved by the respective boards of directors' meeting.

For the entity concerned, statutory reserves can be used to make good previous years' losses, if any, and may be converted into capital in proportion to the existing equity interests of investors, provided that the balance of the reserve after such conversion is not less than 25% of the entity's registered capital.

(iv) Contributed surplus

Contributed surplus represents the excess of the fair value of the shares of Shirble Hong Kong determined on the basis of the consolidated net assets of Shirble Hong Kong at the date of the Reorganisation over the nominal value of the shares issued by the Company in exchange thereof.

(v) Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 2(c).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

24 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(d) Dividends

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

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Dividend declared and paid	**–**	40,000
Interim dividend declared and paid of RMB1.33 cents per share (2010: Nil)	**33,250**	–
Final dividend proposed after the end of the reporting period of RMB0.62 cents per share (2010: RMB0.41 cents per share)	**15,469**	10,250
Special dividend proposed after the reporting period of RMB2.21 cents per share (2010: Nil)	**55,139**	–
	103,858	50,250

The final and special dividend proposed after the end of the reporting period has not been recognised as liability at the end of the reporting period.

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

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved paid during the year, of RMB0.41 cents per share (2010: Nil)	**10,250**	–

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Financial assets of the Group include cash and cash equivalents, trade and other receivables, pledged deposits and other investments. Financial liabilities of the Group include interest-bearing borrowings and trade and other payables.

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework, and developing and monitoring the Group's risk management policies.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(a) Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount.

At the reporting date, the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position.

The credit risk on liquid funds, held-to-maturity investments and pledged deposits is limited because the majority of the counterparties are state-owned banks.

The Group has no significant concentration of credit risk for receivables from non-related parties, as the exposure is spread over a large number of counterparties and customers. The Group believes that no impairment allowance is necessary in respect of those receivables based on historic default rates as they are not past due or past due by up to 30 days.

The Group does not provide any guarantee which would expose the Group to credit risk.

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, and to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and long term.

The Group had net current assets of RMB1,263,866,000 and RMB1,171,575,000 as at 31 December 2010 and 2011, respectively. The Group had net cash generated from operating activities amounting to RMB582,287,000 and RMB127,567,000 for the years ended 31 December 2010 and 2011, respectively.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(b) Liquidity risk *(continued)*

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of any netting agreement:

		31 December 2010 Contractual undiscounted cash outflow				
	Note	Carrying amount RMB'000	Total undiscounted cash flow RMB'000	Within one year or on demand RMB'000	More than one year but less than five years RMB'000	More than five years RMB'000
Trade and other payables	21	893,569	893,569	893,569	–	–

		31 December 2011 Contractual undiscounted cash outflow				
	Note	**Carrying amount RMB'000**	**Total undiscounted cash flow RMB'000**	**Within one year or on demand RMB'000**	**More than one year but less than five years RMB'000**	**More than five years RMB'000**
Interest-bearing borrowings	22	**243,210**	**245,895**	**245,895**	**–**	**–**
Trade and other payables	21	**1,104,580**	**1,104,580**	**1,104,580**	**–**	**–**
		1,347,790	**1,350,475**	**1,350,475**	**–**	**–**

(c) Market risk

(i) Interest rate risk

Cash and cash equivalents and interest-bearing borrowings are the major types of the Group's financial instruments subject to interest rate risk. Cash and cash equivalents are with fixed interest rates of approximately 0.36% per annum as at 31 December 2010 and 2011, respectively.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(c) Market risk *(continued)*

(i) Interest rate risk (continued)

The Group's interest-bearing borrowings and interest rates as at 31 December 2010 and 2011 are set as below:

	Effective interest rate	At 31 December 2011 RMB'000	At 31 December 2010 RMB'000
Fixed rate borrowings	1.104%	**243,210**	–

Sensitivity analysis

The Group does not account for any fixed rate borrowings at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

(ii) Foreign currency risk

RMB is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place through the People's Bank of China or other institutions authorised to buy and sell foreign exchange. The exchange rate adopted for the foreign exchange transactions are the rates of exchange quoted by the People's Bank of China that are determined largely by supply and demand. The Group is exposed to foreign currency risk primarily through cash and cash equivalents and held-to-maturity investments that are denominated in HKD, while all the other operations of the Group are mainly transacted in RMB.

The following table demonstrates the Group's exposure at the reporting dates to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	At 31 December 2011 HKD'000	At 31 December 2010 HKD'000
Cash	**22,496**	407,008
Trade and other receivables	**485**	9,548
Held-to-maturity investments	**–**	100,000
Statement of financial position exposure	**22,981**	516,556

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(c) Market risk *(continued)*

(ii) Foreign currency risk (continued)

Foreign exchange sensitivity analysis

A 3 percent strengthening of the RMB against the HKD at 31 December would have decreased the profit by the amount shown below. This analysis assumes that the reasonably possible change in foreign exchange rates had occurred at the reporting dates and had been applied to each of the Group entities' exposure to currency risk for financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant. (The analysis has been performed on the same basis for 2010 and 2011.)

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Profit decrease		
– HKD	**503**	13,186

A 3 percent weakening of the RMB against the HKD at 31 December would have had the equal but opposite effect on the above currency to the amounts shown above. The analysis has been performed on the basis that all other variables remain constant.

(d) Fair value

The carrying amounts of significant financial assets and liabilities approximate their respective fair values as at 31 December 2010 and 2011, respectively.

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Consistent with industry practice, the Group monitors its capital structure on the basis of debt-to-equity ratio. For this purpose, the Group defines debt as total loans and borrowings and equity as total equity attributable to equity shareholders of the Company.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(e) Capital management *(continued)*

The debt-to-equity ratio at 31 December 2010 and 2011 was as follows:

	At 31 December	
	2011	2010
Debt-to-equity ratio	**16%**	–

26 CAPITAL COMMITMENTS

Acquisition and construction of property, plant and equipment

Capital commitments outstanding at the respective year end but not provided for in the consolidated financial statements were as follows:

		At 31 December	
		2011	2010
	Note	**RMB'000**	RMB'000
Contracted for	(i)	**267,434**	49,944
Authorised but not contracted for	(ii)	**221,276**	127,950
		488,710	177,894

(i) Capital commitment of RMB123.75 million for purchase a distribution centre were cancelled in March 2012 (see note 17(b)(ii)).

(ii) Contracts related to capital commitments of RMB154.95 million were terminated subsequent to 31 December 2011:

- Contracts related to capital commitment of RMB23.7 million for decoration work for two stores were terminated subsequent to the year end date (see note 17(b)(i)).

- Contracts related to capital commitment of RMB131.25 million for purchase a property in Shenzhen were terminated in March 2012 (see note 17(b)(iii)).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

27 OPERATING LEASES

(a) Leases as lessee

At each reporting date, the total future minimum lease payments of the Group under non-cancellable operating leases are payable as follows:

	At 31 December	
	2011	2010
	RMB'000	RMB'000
Within 1 year	**141,442**	146,155
After 1 year but within 5 years	**696,643**	565,434
After 5 years	**1,162,069**	1,153,077
	2,000,154	1,864,666

The Group leases a number of properties under operating leases in respect of retail shops, offices and warehouses. The leases typically run for a period of 7 to 22 years, with an option to renew the lease when all terms should be subjected to renegotiation. None of the leases includes contingent rentals.

(b) Leases as lessor

Future minimum lease income under non-cancellable operating leases are as follows:

	At 31 December	
	2011	2010
	RMB'000	RMB'000
Within 1 year	**16,558**	21,624
After 1 year but within 5 years	**25,288**	37,971
After 5 years	**6,805**	11,063
	48,651	70,658

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

28 RELATED PARTY TRANSACTIONS

For the year ended 31 December 2011, transactions with the following parties are considered as related party transactions.

Name of party	Relationship
Ruizhuo Investment	Owned in equal shares by Mr. YANG Xiangbo's nephew and niece
Hengda Investment	Ultimately Controlled by Mr. YANG Xiangbo, one of the Controlling Shareholders
Shenzhen Guozhan Investment Development Co., Ltd. ("Shenzhen Guozhan")	Wholly-owned by Mr. YANG Xiangbo's brother-in-law and niece, who is one of the equity interest holders of Ruizhuo Investment
Luhe County Shirble Inn ("Shirble Inn")	Controlled by Mr. YANG Xiangbo, one of the Controlling Shareholders
Shirble Property Management (Shenzhen) Co., Ltd. ("Shirble Property Management")	Controlled by Mr. YANG Xiangbo, one of the Controlling Shareholders
Mr. YANG Xiangbo	One of the Controlling Shareholders
Shirble Group (Shenzhen) Property Development Co., Ltd. ("Shirble Property")	Controlled by Mr. YANG Xiangbo, one of the Controlling Shareholders
Ms. ZHU Bihui	Mr. YANG Xiangbo's niece
Shenzhen Tangming Logistic Co., Ltd. ("Tangming")	Wholly-owned by Ms. ZHU Bihui, who is one of the equity interest holders of RuiZhuo Investment

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

28 RELATED PARTY TRANSACTIONS *(continued)*

(a) Significant related party transactions

Particulars of significant transactions between the Group and the above related parties during the years ended 31 December 2010 and 2011 are as follows:

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Rental fee paid to		
Ruizhuo Investment	**1,457**	1,477
Shenzhen Guozhan	**8,048**	8,237
Shirble Inn	**198**	198
	9,703	9,912

The Group entered into lease agreements in respect of certain leasehold properties with related parties of the Group for its distribution centre, retail shops, training centre and employee dormitories.

The directors of the Company are of the opinion that the above related party transactions were conducted on terms no less favourable to the Group than terms available to or from independent third parties and in the ordinary course of business.

	Year ended 31 December	
	2011	2010
Non-recurring transactions:	**RMB'000**	RMB'000
Advances to		
Tangming	**54,589**	–
Hengda Investment	**9,110**	30,300
Shenzhen Guozhan	**2,812**	3,200
	66,511	33,500
Repayment of advance from		
Tangming	**(54,589)**	–
Hengda Investment	**(9,110)**	(294,009)
Shenzhen Guozhan	**(2,812)**	(64,270)
Mr. YANG Xiangbo	**–**	(52,476)
Ruizhuo Investment	**–**	(297)
	(66,511)	(411,052)
Dispose properties to		
Ruizhuo Investment	**–**	297
Rental fee paid to		
Shirble Property Management	**–**	209

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

28 RELATED PARTY TRANSACTIONS *(continued)*

(b) Balances with related parties

	At 31 December	
	2011	2010
	RMB'000	RMB'000
Amounts due to		
Ruizhuo Investment	**1,132**	389
Shirble Property Management	**260**	260
Shenzhen Guozhan	**–**	4,831
Mr. YANG Xiangbo	**1,567**	–
	2,959	5,480
Amounts due from		
Shenzhen Guozhan	**1,536**	–

The outstanding balances with these related parties are unsecured, interest-free and have no fixed repayment terms.

(c) Transaction with key management personnel

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Short-term employee benefits	**6,246**	5,406
Post employment benefits	**29**	71
	6,275	5,477

Total remuneration is included in "personnel costs" (see note 6(b)).

29 IMMEDIATE AND ULTIMATE HOLDING COMPANY

The directors consider the immediate parent and ultimate controlling party of the Group to be Shirble BVI and Xiang Rong Investment, which are incorporated in the British Virgin Islands. Neither of them produces financial statements available for public use.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

30 POST BALANCE SHEET EVENT

(a) After the end of the reporting period, the Board of Directors proposed final dividend and special dividend. Further details are disclosed in note 24(d).

(b) After 31 December 2011, certain prepayments and deposits amounted to RMB380.3 million has been returned to the Group. The details are as follows:

(i) 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 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.

(ii) 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 Shenzhen Sale and Purchase Agreement by the parties. After the property developer obtained the relevant land-use right certificate, construction land planning permit, construction works planning permit and construction works commencement permit 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.

(iii) 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 nondelivery 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.

(iv) 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.

Notes to the Consolidated Financial Statements

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30 POST BALANCE SHEET EVENT *(continued)*

(c) 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. 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.

31 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2011

Up to the date of issue of these consolidated financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2011 and which have not been adopted in these consolidated financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to IAS 12, Income taxes – Deferred tax: *Recovery of underlying assets*	1 January 2012
Amendments to IAS 1, Presentation of financial statements – *Presentation of items of other comprehensive income*	1 July 2012
IFRS 10, Consolidated financial statements	1 January 2013
IFRS 13, Fair value measurement	1 January 2013
IAS 27, Separate financial statements (2011)	1 January 2013
Revised IAS 19, Employee benefits	1 January 2013

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

32 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to confirm to the current year's presentation to facilitate comparison.

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 "Internal control procedures" in the corporate governance report. 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.

Response from the Directors and the Opinion of the Audit Committee following its Independent Review of the Transactions

(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.

Response from the Directors and the Opinion of the Audit Committee following its Independent Review of the Transactions

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 buyer 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 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.

Response from the Directors and the Opinion of the Audit Committee following its Independent Review of the Transactions

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.

Response from the Directors and the Opinion of the Audit Committee following its Independent Review of the Transactions

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 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.

Response from the Directors and the Opinion of the Audit Committee following its Independent Review of the Transactions

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 report.

Response from the Directors and the Opinion of the Audit Committee following its Independent Review of the Transactions

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.

Response from the Directors and the Opinion of the Audit Committee following its Independent Review of the Transactions

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 commenced 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.

Response from the Directors and the Opinion of the Audit Committee following its Independent Review of the Transactions

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.

Response from the Directors and the Opinion of the Audit Committee following its Independent Review of the Transactions

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 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 prepayment under decoration agreement 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.

Response from the Directors and the Opinion of the Audit Committee following its Independent Review of the Transactions

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 qualified transaction and any matter that needs to be brought to the attention of the Audit Committee.

Response from the Directors and the Opinion of the Audit Committee following its Independent Review of the Transactions

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.

Response from the Directors and the Opinion of the Audit Committee following its Independent Review of the Transactions

(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.

Response from the Directors and the Opinion of the Audit Committee following its Independent Review of the Transactions

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.

Response from the Directors and the Opinion of the Audit Committee following its Independent Review of the Transactions

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 has not commenced 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:–

Response from the Directors and the Opinion of the Audit Committee following its Independent Review of the Transactions

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 the 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.

Response from the Directors and the Opinion of the Audit Committee following its Independent Review of the Transactions

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 to 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.

Response from the Directors and the Opinion of the Audit Committee following its Independent Review of the Transactions

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.

Response from the Directors and the Opinion of the Audit Committee following its Independent Review of the Transactions

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 intend 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.) and 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 has been 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 were 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.

Response from the Directors and the Opinion of the Audit Committee following its Independent Review of the Transactions

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 report.

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.

Response from the Directors and the Opinion of the Audit Committee following its Independent Review of the Transactions

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 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.

Response from the Directors and the Opinion of the Audit Committee following its Independent Review of the Transactions

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.

Response from the Directors and the Opinion of the Audit Committee following its Independent Review of the Transactions

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 Hexinglong 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.

Response from the Directors and the Opinion of the Audit Committee following its Independent Review of the Transactions

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 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.

Response from the Directors and the Opinion of the Audit Committee following its Independent Review of the Transactions

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 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.

Response from the Directors and the Opinion of the Audit Committee following its Independent Review of the Transactions

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.

Response from the Directors and the Opinion of the Audit Committee following its Independent Review of the Transactions

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 in 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:–

Response from the Directors and the Opinion of the Audit Committee following its Independent Review of the Transactions

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 is 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 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 consideration will 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.

Response from the Directors and the Opinion of the Audit Committee following its Independent Review of the Transactions

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 market 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.

Response from the Directors and the Opinion of the Audit Committee following its Independent Review of the Transactions

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.

Response from the Directors and the Opinion of the Audit Committee following its Independent Review of the Transactions

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiry, all the 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.

Response from the Directors and the Opinion of the Audit Committee following its Independent Review of the Transactions

Following the termination of sourcing goods from the three suppliers, the Group sought alternative supply 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 merchandise 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.

Response from the Directors and the Opinion of the Audit Committee following its Independent Review of the 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.

Response from the Directors and the Opinion of the Audit Committee following its Independent Review of the Transactions

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 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

Response from the Directors and the Opinion of the Audit Committee following its Independent Review of the Transactions

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.

Response from the Directors and the Opinion of the Audit Committee following its Independent Review of the Transactions

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 is focusing 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 source 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.

Response from the Directors and the Opinion of the Audit Committee following its Independent Review of the 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. Hence, 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 check 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 report, an amount of RMB63.6

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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.

Response from the Directors and the Opinion of the Audit Committee following its Independent Review of the Transactions

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 qualified 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 qualified 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.

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 the 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 the announcement);

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

Extract of the Moore Stephens Review Report

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 the 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 the 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 the 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.

Extract of the Moore Stephens Review Report

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 "Response from the Directors" of this report.

(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 "Response from the Directors" of this report.

Extract of the Moore Stephens Review Report

(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 "Response from the Directors" of this report.

(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 "Response from the Directors" of this report.

(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 "Response from the Directors" of this report.

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(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 "Response from the Directors" of this report.

(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 "Response from the Directors" of this report.

(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.

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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 the announcement up to seven days thereafter.

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CHEN Fengliang
JIANG Hongkai

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CHEN Fengliang *(Chairperson)*
YANG Xiangbo
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