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

2012 Annual Report

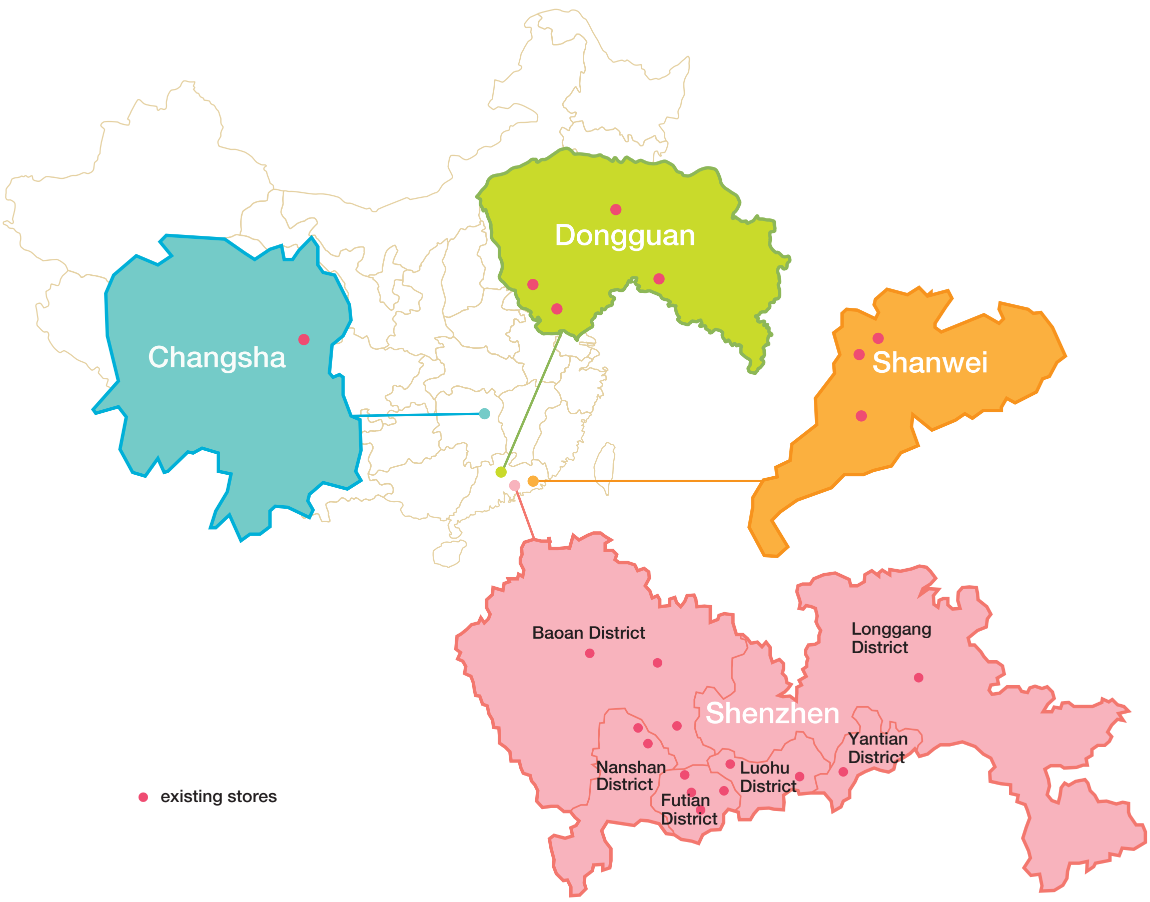
Contents

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 one of the long established Shenzhen-based department store chains. As of 31 December 2012, the Group owned and operated 21 department stores, of which 13 are within Shenzhen, four in Dongguan, one in Changsha (the capital city of Hunan Province) and three in Shanwei (a coastal city in the eastern Guangdong Province), with a total gross floor area ("**GFA**") of 364,466 sq. m. Most of the Group's stores have similar exterior and interior designs including layouts, colour schemes and the overall decoration for the purpose of enhancing customers' awareness of the brand "歲寶百貨".

A broad range of merchandise is offered in the Group's department 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 diverse range of customers. The Group's department stores principally target the mid-market segment, aiming to offer its customers with quality merchandise and customer-oriented services, as well as a convenient and comfortable "one-stop" shopping environment. 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

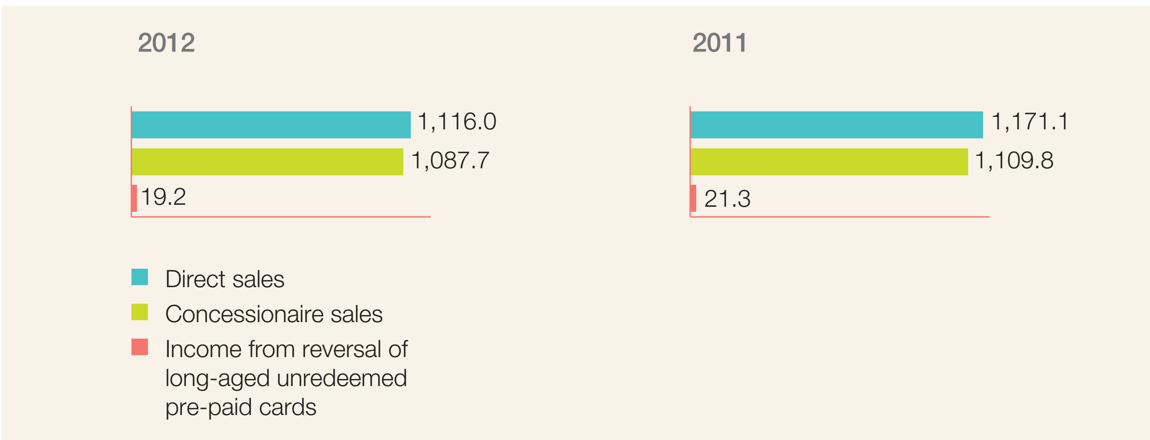
	Year ended 31 December				
RMB'000	**2012**	**2011**	**2010**	**2009**	**2008**
Revenue	1,372,030	1,433,586	1,279,619	1,148,030	1,079,940
(Loss)/profit before finance costs and tax	(47,330)	95,043	260,966	138,341	104,416
(Loss)/profit before tax	(22,675)	114,999	267,466	174,832	108,721
(Loss)/profit attributable to equity shareholders of the Company	(45,779)	71,632	200,082	140,304	89,516
(Loss)/earnings per share (RMB per share) – Basic and diluted	(0.02)	0.03	0.1	0.07	0.05

Assets, Liabilities and Equity

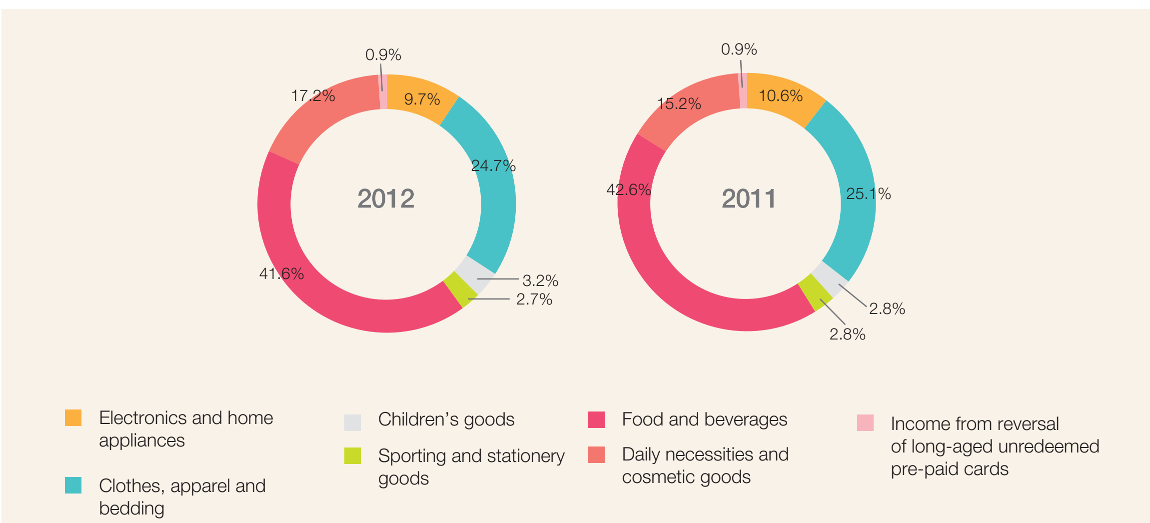
	At 31 December				
RMB'000	**2012**	**2011**	**2010**	**2009**	**2008**
Total assets	2,940,617	2,939,650	2,457,413	1,269,343	1,244,494
Total liabilities	1,501,831	1,384,481	926,369	1,007,122	831,950
Total equity	1,438,786	1,555,169	1,531,044	262,221	412,544

Gross Sales Proceeds - By Category

RMB (million)

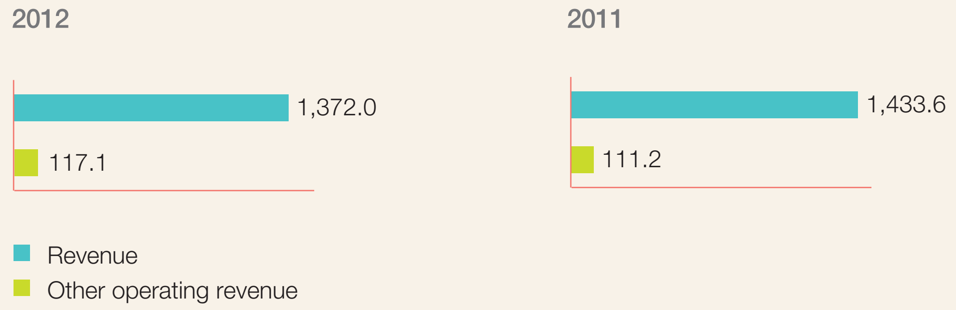


Gross Sales Proceeds - By Product Category



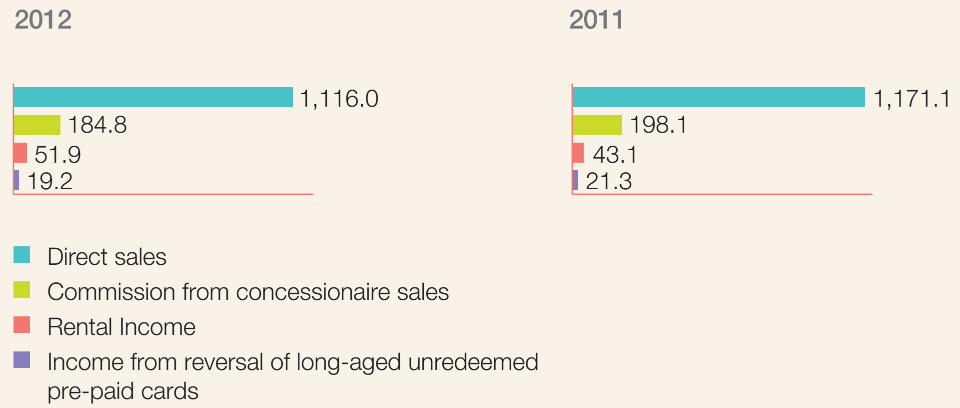
Revenue and Other Operating Revenue

RMB (million)



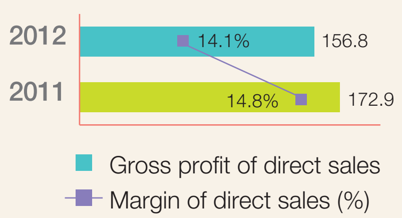
Revenue by Category

RMB (million)



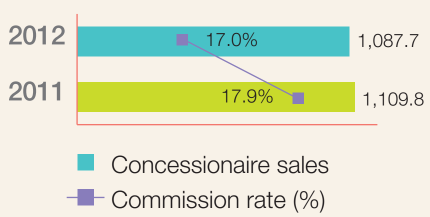
Gross Profit and Margin of Direct Sales

RMB (million)



Concessionaire Sales and Commissions as a percentage of Concessionaire Sales

RMB (million)



Chairman's Statement

Market and business review

The overall economic growth in the PRC remained sluggish during the second half of 2012. This affected the level of consumption of the average consumers in the PRC. Consumers are more price-conscious and the government policies may not be as effective as they were previously made to promote the growth in the retail sector in the PRC.

With the aim of maintaining its competitiveness in the relatively slow PRC retail market environment, the Group focused on its own niche market and has expanded the department store network into the second- and third-tier cities in Guangdong Province, the PRC. A total of 10 new stores were opened in 2010, 2011 and 2012, with six out of the 10 new stores opening in cities other than Shenzhen.

Similar to the first half of 2012, because of the expansion of the network of the Group's department stores, the administrative expenses and operating cost of the Group as well as the related depreciation and amortization incurred by the Group increased significantly, albeit that the sales generated from the newly opened department stores, particularly the sales from those situated in the second- and third-tier cities in Guangdong Province, the PRC, did not increase at the same pace as anticipated by the Directors. Hence, even though the Group only recorded a slight decrease of 4.3% in its revenue, an operating loss was recorded during the year ended 31 December 2012 since its listing on the Stock Exchange in November 2010.

Despite the fact that the profitability of the Group was under pressure during the year ended 31 December 2012, the Board is confident that the Group's business strategy is appropriate. In addition, during the year, the Directors focused on enhancing and strengthening the internal control measures of the Group for its business development. With the implementation of all the internal control improvement measures and the continuous opening of new department stores in selected second- and third-tier cities in Guangdong Province, the Board believes that the Group is in the right direction for further business development in the future.

Expansion of store network

In January 2012, in order to capture the new business opportunities from consumers in China looking for lifestyle products, the Group established the SMART Lifestyle Specialty Store, a supermarket with GFA of 2,605.7 sq.m. in Shenzhen. The supermarket offers high-end and quality everyday products for the middle-class consumers in Shenzhen. The business operation of SMART is under constant review and refinement in order to provide better services and product offerings to the target customers.

To increase its brand awareness in Dongguan, Guangdong Province, the Group seized the new market opportunity and opened another store in the region. The supermarket section of the Lifestyle Square (地標店) in Dongguan with GFA of 7,371.5 sq.m. was opened in March 2012, while the department store section was opened in December 2012 with GFA of 37,333.0 sq.m..

While expanding outward, the Group also continued its market penetration in Shenzhen by opening the Hongfa Store in August 2012. The Hongfa Store is situated in a five-storey building in Shenzhen with a total GFA of 44,666.9 sq.m., and provides customers with a wide range of quality merchandise and customer-oriented services.

In addition to its expansion in Dongguan, the Group also set its footprint in Shanwei City, Guangdong Province, to align with its business expansion strategy into second- and third-tier cities. The Group opened the Luhe Store in September 2012, with GFA of 14,396.3 sq.m., and the Haifeng Store in November 2012, with GFA of 18,933.4 sq.m. Both stores are situated in acquired properties, and are positioned as one-stop shopping centres providing more complementary facilities than the Group's Shenzhen stores such as cinemas, restaurants and/or children's playground. Although the sales from the newly opened department stores were slow initially (as not all complementary facilities are fully operated), the Directors are confident that the sales generated from these department stores will increase upon the full operation of the department stores.

As of 31 December 2012, the Group had a total of 21 department stores in operation with a total GFA of 364,465.7 sq.m., representing an increase of 52.4% as compared with the GFA of 239,158.9 sq.m. in operation as of 31 December 2011.

Renovating selected existing stores

The Group performed large-scale renovation for two existing department stores located in Shenzhen, namely the Hongling Store and the Jufu Store, for the purpose of increasing brand awareness and enhancing shopping experience for target customers. The renovation included upgrades of the exterior layout and the interior design. All of the renovation for Hongling Store and Jufu Store has been completed.

Strategic alliances

The Group entered into strategic alliances with various business partners engaging in property development in the PRC. Under the agreements, the business partners would give priority to the Group to lease properties for the development of department stores, while the Group would in turn provide support in research, evaluation, positioning, pre-operating projection planning and exterior and interior designs for the department store opening.

Enhancement of the distribution network and logistics system

The Group 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, helps to support the rapid store expansion network and improve the inventory management and control systems of the Group.

Business outlook

Looking ahead, the Directors are positive on the continuous economic development in the PRC in 2013. The Directors believe that the PRC government will continue to implement 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. The Group's future business strategy will also benefit from the rapid urbanisation of developing cities.

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

In view of the Group's expansion strategy in the second- and third-tier cities in Guangdong Province, the Group intends to open not less than four department stores in these regions by the end of 2013 to increase the Group's total GFA to not less than 447,745.2 sq.m.

In September 2012, the Group entered into an agreement for the rental of a three-storey building in Meizhou City with GFA of 23,996.0 sq.m. for a new department store. This store, namely the Xingning Store, was opened in January 2013.

In October 2012, the Group entered into the sale and purchase agreement for the purchase of a commercial property (the "**Lufeng Property**") which is located at Donghai Town, Lufeng City, Guangdong Province, the PRC, for the development of Lufeng Store. The Lufeng Property will be part of a commercial complex known as 陸城華廷商業廣場 and will consist of (a) a commercial plaza of six-storeys with anticipated GFA of approximately 25,855.8 sq.m. and (b) an outdoor plaza surrounding the commercial complex. The Lufeng Property is expected to be opened in the second half of 2013.

In March 2013, the Group entered into an agreement for the rental of a five-storey high building in Yangxi City with GFA of 33,427.8 sq.m. for the development of a new store which is expected to be opened in second half of 2013.

Upgrade of the information technology system

In December 2012, the Group completed the first stage of the upgrade of its information technology system, including the construction of basic infrastructure, enhancement of accounting and finance modules, logistics functions and the point-of sale management functions. The Group is now undergoing the second stage to fine-tune the system as well as to implement the business intelligence functions. The Directors expect that the overall operational procedures and management efficiency will be improved after full upgrade of the system.

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

The Group recruited new experienced management personnel at each operational level starting from December 2011. The Group will continue to recruit new management personnel as part of the improvement measures of the internal control procedures. An additional independent non-executive Director, who has experience in assisting companies in protecting and enhancing enterprise value, was also appointed on 31 January 2013. The Directors believe that the new management team could bring expertise in the relevant areas to support the business development of the Group. In addition, the Group has engaged a reputable accounting firm to conduct review of the internal control measures adopted by the Group and to provide the Board with regular updates on the Group's internal control environment.

Conclusion

On behalf of the board of 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 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

24 April 2013

Management Discussion and Analysis

Total gross sales proceeds

During the year ended 31 December 2012, the Group's total gross sales proceeds (representing the aggregate of the revenue from direct sales of the Group and the concessionaire sales at the Group's department stores plus reversal of deferred income in respect of long-aged unredeemed prepaid cards) were RMB2,222.9 million, representing a slight decrease of 3.4% from RMB2,302.2 million for the year ended 31 December 2011. The decrease in the total gross sales proceeds was principally due to the decrease in the direct sales and the commission income received from concessionaire sales generated from the existing department stores amid intense competition and overall economic slowdown.

The decrease in the total gross sales proceeds was partly mitigated by the increase in the sales from the five newly opened department stores during the year, namely the SMART Lifestyle Specialty Store and Hongfa Store in Shenzhen, the Lifestyle Square in Dongguan, and the Luhe and Haifeng Stores in Shanwei.

Revenue generated from direct sales of the Group amounted to RMB1,116.0 million and the total sales proceeds from concessionaire sales amounted to RMB1,087.7 million, accounting for 50.2% and 48.9%, respectively, of the Group's total gross sales proceeds for the year ended 31 December 2012. In 2011, revenue from direct sales amounted to RMB1,171.1 million, while the total sales proceeds from concessionaries sales amounted to RMB1,109.8 million, accounted for 50.9% and 48.2% respectively of the Group's total gross sales proceeds.

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

	Year ended 31 December			
	2012 RMB' million	%	2011 RMB' million	%
Electronics and home appliances	215.5	9.7	243.6	10.6
Clothes, apparel and bedding	549.8	24.7	577.5	25.1
Children's goods	70.5	3.2	65.1	2.8
Sporting and stationery goods	59.9	2.7	65.2	2.8
Food and beverages	925.0	41.6	980.1	42.6
Daily necessities and cosmetic goods	383.0	17.2	349.4	15.2
Income from reversal of long-aged unredeemed pre-paid cards	19.2	0.9	21.3	0.9
	2,222.9	100.0	2,302.2	100.0

Revenue

The Group's revenue amounted to RMB1,372.0 million in 2012, representing a decrease of 4.3% as compared to RMB1,433.6 million in 2011. The decrease was principally due to decrease in the direct sales and the commission generated from the concessionaire sales at the existing department stores amid intense competition and overall economic slowdown. The decrease was partly mitigated by the increase in turnover generated from new department stores opened during the year.

Direct sales decreased by 4.7% from 1,171.1 million in 2011 to RMB1,116.0 million in 2012, principally due to the decrease in sales in existing stores amid intense competition and overall economic slowdown. Direct sales as a percentage of the Group's total revenue was 81.3% in 2012 as compared to 81.7% in 2011.

Commission from concessionaire sales decreased by 6.7% from RMB198.1 million in 2011 to RMB184.8 million in 2012, mainly due to the increased market competition and the relatively lower commission rate offered in new stores to attract concession counters. The commission rate of concessionaire sales was 17.0% as compared to 17.9% in 2011. Commission from concessionaire sales as a percentage of the Group's total revenue was 13.5% for the year ended 31 December 2012 as compared to 13.8% for the year ended 31 December 2011.

Rental income increased by 20.4% from RMB43.1 million in 2011 to RMB51.9 million in 2012, mainly due to the increased rental area in new stores for complementary facilities. Rental income as a percentage of the Group's total revenue was 3.8% for the year ended 31 December 2012 as compared to 3.0% for the year ended 31 December 2011.

Since 2011, the Group conducts a bi-yearly review of the level of usage of the pre-paid cards to ensure timely recognition of income. The prepaid card balances that have not been used for a

prolonged period will be recognized as income after being approved by the chief executive officer. In general, the balances of pre-paid cards can be recognized 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 recognized as income or other appropriate accounting treatment may be made accordingly. Income from reversal of long-aged pre-paid cards decreased by 9.9% from RMB21.3 million in 2011 to RMB19.2 million in 2012, mainly due to the fact that some long-aged pre-paid cards balances have been recognized in 2011.

Other operating revenue

Other operating revenue increased by 5.3% from RMB111.2 million in 2011 to RMB117.1 million for the year ended 31 December 2012. As a matter of industry practice, the Group received from suppliers lump sum for promotional and advertising purposes on a regular basis. Under the new government policies, namely 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》, which is applicable to the Group as a "large-scale retail business enterprise", the Group is subject to more stringent measures in receiving payments for certain promotion and advertising services upon its fulfillment for being categorized as large retailers under the policy. Although other operating revenue of the Group was impacted in second half of 2011 and first half of 2012, the Group continued to record a slight increase in 2012 due to the increase in newly opened department stores.

Other loss, net

Other net loss amounted to RMB14.1 million for the year ended 31 December 2012 as compared with other net loss of RMB40.7 million in 2011. Impairment loss of RMB32.0 million was recognized in 2011 as a result of the valuation deficit of an acquired property in Haifeng, and a provision of RMB10.0 million for tendering deposit was also recognized in 2011. Only an impairment loss of RMB10.0 million was recognized in 2012 for a property in Luhe County.

Purchase of and changes in inventories

Purchase of and changes in inventories amounted to RMB959.2 million for the year ended 31 December 2012, representing a slight decrease of 3.9% as compared with RMB998.2 million in 2011, which is consistent with the decrease in revenue from direct sales. As a percentage of revenue from direct sales, purchase of and changes in inventories was 85.9% for the year ended 31 December 2012 as compared with 85.2% in 2011.

Employee benefit expenses

Employee benefit expenses increased by 43.2% to RMB192.3 million for the year ended 31 December 2012 from RMB134.3 million in 2011, primarily due to (i) the increase in monthly salary and social security benefits during the year; (ii) the increase in number of staff as a result of the 5 new stores opened during the year, offset by the restructuring of staff in old stores; and (iii) the recruitment of new management personnel. The new members of the senior management team have extensive experience in the retail business and are expected to make contributions in enhancing the growth of the Group and strengthening the internal controls of the Group.

Depreciation and amortisation

Depreciation increased by 44.2% to RMB57.1 million for the year ended 31 December 2012 from RMB39.6 million in 2011 which was principally attributable to the increase in leasehold improvements and machinery for the new stores and the acquisition of new properties in Haifeng and Luhe County in late 2011 and 2012.

Operating lease rental expenses

Operating lease rental expenses increased by 22.6% to RMB166.4 million for the year ended 31 December 2012 from RMB135.7 million in 2011. The increase was principally attributable to the rental expenses of the new department stores in Dongguan, the SMART Lifestyle Specialty Store and Hongfa Store in Shenzhen, a new distribution centre in Shenzhen and the Shenzhen new headquarter office respectively.

Other operating expenses

Other expenses, which principally comprised of utility expenses, advertising, marketing, promotion and related expenses, other tax expenses, bank charges and maintenance expenses, increased by 45.5% to RMB147.4 million for the year ended 31 December 2012 from RMB101.3 million in 2011. This was primarily due to the increase in number of stores in late 2011 and early 2012.

(Loss)/profit before finance costs and tax

As a result of the reasons mentioned above, the Group's loss before finance costs and tax amounted to RMB47.3 million for the year ended 31 December 2012 as compared with the profit of the Group of RMB 95.0 million in 2011.

Finance income

Finance income increased by 23.4% to RMB27.4 million for the year ended 31 December 2012 from RMB22.2 million in 2011 which was primarily attributable to the higher interest earned from bank deposits.

Finance costs

Finance costs increased by 21.7% to RMB2.8 million for the year ended 31 December 2012 from RMB2.3 million in 2011. The increase was primarily attributable to the full year interest paid for the outstanding bank borrowings in 2012 as compared to the ten months interest incurred in 2011.

Income tax expense

Income tax expense amounted to RMB23.1 million for the year ended 31 December 2012, representing a decrease of 46.8% from RMB43.4 million in 2011. The effective tax rate applicable to the Group for the year ended 31 December 2012 was 25%. 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%.

(Loss)/Profit attributable to equity shareholders of the Company

As a result of the aforementioned, loss attributable to equity shareholders of the Company amounted to RMB45.8 million for the year ended 31 December 2012 from profit of RMB71.6 million in 2011.

LIQUIDITY AND FINANCIAL RESOURCES

As of 31 December 2012, the Group's cash and cash equivalents amounted to RMB1,144.0 million, increased by RMB190.7 million from RMB953.3 million as of 31 December 2011. The cash and cash equivalents, which were in Hong Kong dollars and RMB, were deposited with banks in Hong Kong and the PRC as short-term deposits for interest income.

As of 31 December 2012, the Group's bank deposits amounted to RMB617.5 million, decreased by RMB162.7 million from RMB780.2 million as of 31 December 2011. The bank deposit which were in RMB, were deposited with banks in Hong Kong as long-term fixed deposits for interest income, in which RMB387.0 million (31 December 2011: RMB430.2 million) were pledged to bank as restricted bank deposit to secure borrowings.

As of 31 December 2012, the Group's outstanding bank borrowings amounted to RMB243.3 million (31 December 2011: RMB243.2 million). The borrowings are denominated in Hong Kong dollars with average interest rate of 1.005% per annum (31 December 2011: 1.104%). 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 2012. The Group will continue to review its cash flow position and renew the bank borrowings when necessary.

Net current assets and net assets

The net current assets of the Group as of 31 December 2012 were RMB624.5 million (31 December 2011: RMB1,171.6 million), representing a decrease of RMB547.1 million. The net assets of the Group as of 31 December 2012 decreased to RMB1,438.8 million (31 December 2011: RMB1,555.2 million), representing a decrease of 7.5%.

Foreign exchange exposure

The business operations of the Group is primarily in the 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 paid dividends in Hong Kong dollars which exposed the Group to foreign exchange risks arising from the exchange of Hong Kong dollars against RMB. For the year ended 31 December 2012, the Group recorded a net foreign exchange loss of RMB0.8 million. The Group has not used any forward contracts, currency borrowings or other means to hedge its foreign currency exposure.

Employees and remuneration policy

As of 31 December 2012, the total number of employees of the Group was 3,100. The Group's remuneration policy is determined with reference to market conditions and the performance, qualifications and experience of individual employees.

Contingent Liabilities

Legal proceedings in the PRC have commenced against the Group by certain suppliers in respect of disputes on contract terms and trademark infringement claim. As at 31 December 2012, the legal proceedings were ongoing. Provision of approximately RMB4,369,000 has been made in the consolidated financial statements for the year ended 31 December 2012, which the Directors believe is adequate to cover the amounts, if any, payable in respect of these claims.

Material Acquisitions and Disposal of Subsidiaries

There are no material acquisition and disposal of subsidiaries and associated companies during the year under review.

Use of net proceeds

On 17 November 2010, the Shares 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 2012, approximately RMB66.7 million out of net proceeds was used for the opening and decoration of Luhe Store, approximately RMB37.2 million was used for the new information technology system, and approximately RMB6.8 million was used for refurnishing old stores in Shenzhen, Guangdong Province, and the Distribution Centre, (2011: RMB 120.3 million).

Directors and Senior Management

Directors

Executive Directors

Mr. YANG Xiangbo, *Chairman and executive Director and members of the Nomination Committee and Remuneration Committee*

Mr. YANG Xiangbo, aged 50, 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 February 2013, Mr. YANG was also appointed as a member of the twelfth session of the National Committee of the Chinese People's Political Consultative Conference. In 1993, Mr. YANG was granted an 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.

Mr. LI Kuansen, *Chief Executive Officer and executive Director*

Mr. LI Kuansen, aged 37, joined the Group in February 2012 as a vice president and the chief operating officer of the Group. Mr. LI was responsible for operations, procurement, and marketing and supply chain of the Group. Following the appointment as an executive Director and chief executive officer of the Group on 31 December 2012, Mr. LI is responsible for overseeing the business operations of the Group and formulating the business strategy of the Group. Mr. LI has over 16 years of experience in managing the business operations of supermarkets and department stores in the PRC. He joined Walmart China in February 1996 and left Walmart China as the store general manager of its Guiyang store in May 2004. Mr. LI then joined Renrenle Commercial Group Co., Ltd. (人人樂連鎖商業集團股份有限公司) ("**Renrenle**") as its deputy general manager in June 2004 and left Renrenle as the vice president of its department of chain superstore business in February 2012. Mr. LI obtained a bachelor's degree in international trade and finance from Hubei University of Economics and Management (湖北經濟管理大學) in June 1996.

Independent non-executive Directors

Ms. ZHAO Jinlin, *Chairperson of the Audit Committee and a member of the Nomination Committee*
Ms. ZHAO Jinlin, aged 44, 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, specializing 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.

Mr. CHEN Fengliang, *Chairperson of the Remuneration Committee and a member of the Audit Committee*
Mr. CHEN Fengliang, aged 39, 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, *Chairperson of the Nomination Committee and members of the Audit Committee and Remuneration Committee*
Mr. JIANG Hongkai, aged 47, was appointed as an independent non-executive Director 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).

Mr. FOK Hei Yu, *Members of the Audit Committee, Remuneration Committee and Nomination Committee*
Mr. FOK Hei Yu, aged 43, was appointed as an independent non-executive Director on 31 January 2013. Mr. FOK is a senior managing director of FTI Consulting, a business advisory firm assisting companies to protect and enhance enterprise value. Mr. FOK is an independent non-executive director of Kaisa Group Holdings Limited, a company listed on The Stock Exchange of Hong Kong and a director of Emerson Radio Corp., a company listed on the New York Stock Exchange. From 1 December 2009 to 15 June 2012, Mr. FOK was also a non-executive director of Delong Holdings Limited, a company listed on the Singapore Exchange Limited. Mr. FOK is an associate member of the Hong Kong Institute of Certified Public Accountants and Certified Practicing Accountant (Australia) and a member of the Hong Kong Institute of Directors. Mr. FOK graduated from Australian National University with a bachelor's degree in commerce in 1995.

Senior Management

Mr. YANG Ti Wei, aged 26, is the Group's Executive Vice President. 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. CHEN ZhiGang, aged 35, is the Group's Executive Vice President. 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. CHAN Chore Man, Germaine, aged 33, is 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. 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. WANG XinRu, aged 40, is the Group's Senior Director of Procurement. Mr. WANG joined the Group in February 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 41, 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 40, the Director of Fixed 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 Fixed Asset Procurement since August 2012. Mr. ZHU is a nephew of Mr. YANG.

Ms. LIU Lixin, aged 55, 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.

Ms. OU Guo Ping, age 43, the Director of Store Operations. Ms. OU joined the Group in February 2012 as the Deputy Director of New Store Opening and was subsequently promoted as the Director of Store Operations in October 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.

Mr. YAO Shi Jun, age 37, the Director of Project Supervision & Control. Mr. YAO joined the Group in February 2013. Prior to joining the Group, he was the Director of Development Projects of Renrenle Commercial Group Co., Ltd. and has accumulated over 13 years working experiences in construction management.

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 2012.

Principal activities

Shirble Department Store Holdings (China) Limited was incorporated in the Cayman Islands on 5 November 2008 as an exempted company with limited liability under the Companies Law, (Cap. 22) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company is principally engaged in investment holding. The principal activities of the Company and its subsidiaries are engaged in department store in Mainland China.

Results

The results of the Group for the year ended 31 December 2012 are set out in the consolidated statement of comprehensive income on page 47 of this report.

Proposed final and special dividends

In view of the loss incurred for the year ended 31 December 2012 and the working capital requirements for the business expansion of the group, the Board does not recommended any final dividend or special dividend of the Company for the year ended 31 December 2012 (2011: a final dividend of RMB0.0062 per Share and a special dividend of RMB0.0221 per Share).

Property, plant and equipment

Details of movements in property, plant and equipment during the year are set out in note 15 to the consolidated financial statements.

Share capital

Details of the movements in share capital during the year are set out in note 21 to the consolidated financial statements.

Reserves

As at 31 December 2012, distributable reserves of the Company included the Company's retained profits amounted to RMB135.5 million and the Company's share premium amounted to RMB894.3 million. Details of the movements in reserves of the Company and the Group during the year are set out in note 22 to 23 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

Charitable donations

The Group did not make any charitable donations for the year ended 31 December 2012.

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)*
Mr. LI Kuansen (Appointed on 31 December 2012)

Independent Non-executive Directors:

Ms. ZHAO Jinlin
Mr. CHEN Fengliang
Mr. JIANG Hongkai
Mr. FOK Hei Yu (Appointed on 31 January 2013)

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, Ms. Zhao Jinlin 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' 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.

Save as Mr. Fok who has signed a letter of appointment with terms of three years commencing from 31 January 2013, the other three independent non-executive Directors have signed new letters of appointment for a term of three years commencing from 18 June 2012. The annual fee for each independent non-executive Director 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 8 & 9 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 2012, 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 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	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.

(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 2012, 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 2012.

Substantial shareholders' interests and short positions in shares and underlying shares of the Company

As at 31 December 2012, 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%

Save as disclosed above, as at 31 December 2012, 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 issued 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**") representing 10.0% of the issued share capital of the Company as at 24 April 2013.

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.

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 note 9 to the financial statements.

Directors' interest in competing business

As at 31 December 2012, 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 2012.

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.

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 29 to the financial statements.

The transaction relating to the sales of goods with Tangming constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is exempted from the disclosure requirements in Chapter 14A of the Listing Rules.

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 approximately RMB2,970,000.

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 (sq. m.)	Period	Monthly rental (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, the brother-in-law of the Controlling Shareholder and as to 80% by Ms. ZHU Bihui, niece of the Controlling Shareholder. Hence, Shenzhen Guozhan is a connected person of the Company under the Listing Rules.

The two lease agreements were terminated on 20 July 2012 as the Group leased another property as its new distribution centre in 2012 to cater for its business expansion.

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 (sq. m.)	Period	Monthly rental (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 approximately RMB1,457,000.

The lease agreement was terminated on 20 July 2012 as the Group leased another property as its new distribution centre in 2012 to cater for its business expansion.

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 RMB20,136. The property is used as a tobacco sales counter of the Group's Hongbao store.

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 the Controlling Shareholder, and Ms. ZHU Bihui, who is a niece of the Controlling Shareholder. 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 the Controlling Shareholder 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 2012, the aggregate annual rental paid under the lease agreements with Shirble Inn, Shenzhen Guozhan and Ruizhuo Investment was amounted to RMB5,603,000 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.

In accordance with Rule 14A.38 of the Listing Rules, the Board engaged the auditor of the Company to perform procedures on the above continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants.

The board of directors has received a letter from the auditor of the Company stating that:

a. nothing has come to the auditor's attention that causes the auditor to believe that the disclosed continuing connected transactions have not been approved by the Company's board of directors; and

b. nothing has come to the auditor's attention that causes the auditor to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.

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

As disclosed in the announcement of the Company dated 5 December 2012 and the annual report for the year ended 31 December 2011, 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. RMB6.0 million of the RMB72.5 million was made during the year ended 31 December 2012. 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. No cash advances has been made to Tangming, Hengda Investment and Shenzhen Guozhan after 31 March 2012. 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 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.

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 the Controlling Shareholder, 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 the Controlling Shareholder 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 brother-in-law and niece of the Controlling Shareholder. 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.

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).

Purchase, sale or redemption of listed shares of the Company

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 2012. (2011: Repurchased 5,000,000 Shares on the Stock Exchange at an aggregate purchase price of HK$5.1 million (equivalent to RMB4.2 million)).

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 Revenue in year ended 31 December 2012. None of the Directors or shareholders who owned 5% or more of the issued shares capital of the Company as of 31 December 2012 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 2012.

Bank loans and other borrowings

As of 31 December 2012, the Group had the bank loans and other borrowings amounted to RMB243.3 million (2011: RMB243.2 million). Particulars of the bank loans and other borrowings are set out in note 25 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 2012 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.

Controlling shareholder's interests in significant contracts

Saved as disclosed in note 29 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.

Tax relief

The Company is not aware of any relief from taxation available to the Shareholders by reason of their holding of the Shares. 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.

Auditor

PricewaterhouseCoopers was first appointed as auditors of the Company upon the retirement of KPMG.

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

On behalf of the Board

YANG Xiangbo
Chairman

24 April 2013

Corporate Governance Report

Corporate governance practices

The Company is committed to achieving and maintaining high standards of corporate governance. The Company has applied the principles and code provisions set out in the Code on Corporate Governance Practice (the "**Old Code**") (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) (the "**CG Code**") contained in Appendix 14 to the Listing Rules. The Company has, throughout the year ended 31 December 2012, complied with the code provisions of the Old Code and the CG Code as and when they were/are applicable and in force, except for the deviations from Old Code Provision A.2.1.

In accordance with the Old Code Provision A.2.1 of Appendix 14 to 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. Mr. YANG Xiangbo, Chairman of the Board, was the acting Chief Executive Officer during the period from 17 November 2011 to 30 December 2012. On 31 December 2012, the Company appointed Mr. LI Kuansen as the Executive Director and Chief Executive Officer and the roles of the Chairman and the Chief Executive Officer have been separated since then. In the opinion of the Directors, save and except for the combination of the roles of Chairman and Chief Executive Officer which was performed by the same individual, Mr. YANG Xiangbo, during the period from 17 November 2011 to 30 December 2012, the Company complied with the Old Code and the CG Code for the year ended 31 December 2012.

Board of directors

As at 31 December 2012, the Board comprises two Executive Directors, namely Mr. YANG Xiangbo (Chairman) and Mr. Li Kuansen (Chief Executive Officer), and three independent Non-executive Directors, namely Ms. ZHAO Jinlin, Mr. CHEN Fengliang and Mr. JIANG Hongkai. Mr. FOK Hei Yu was subsequently appointed as an independent non-executive Director of the Company on 31 January 2013. 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.

The Board is responsible for overall management and control of the Company including formulation and approval of overall strategies, performing corporate governance duties, 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. Details of the type of decisions taken by the Board and those delegated to the management are set out in the "Corporate Governance Functions" section on pages 37 to 40 of this annual report.

In accordance with Rule 3.13 of the Listing Rules, the Company has received annual confirmation of independence from the four independent non-executive Directors. The Company considers all the independent non-executive Directors are independent. Save as Mr. Fok who has signed a letter of appointment with terms of three years commencing from 31 January 2013, the other three independent non-executive Directors have signed new letters of appointment for a term of three years commencing from 18 June 2012.

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 all the Directors have complied with the Model Code for the year ended 31 December 2012.

Auditors' remuneration

The Independent Auditor's Report of the Company's auditor, PricewaterHouseCoopers, in respect of the audit of the Group's financial statements for the year is set out in note 8 of this report.

During the year ended 31 December 2012, the Auditors' remuneration was RMB8.6 million and RMB0.9 million in respect of provision of audit services and non-audit service to the Group respectively.

Directors' responsibilities

The Directors have acknowledged their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2012.

Audit Committee

As of the date of this report, the Audit Committee comprises of four Independent non-executive Directors, namely, Ms. ZHAO Jinlin (chairman), Mr. CHEN Fengliang, Mr. JIANG Hongkai and Mr. FOK Hei Yu. The Audit Committee has been established to review the financial reporting process and evaluate the effectiveness of internal control procedures (including financial, operational and compliance controls and risk management functions) of the Group. During the year, the Audit Committee has held four regular meetings with management, external auditors and internal control consultant to discuss on the auditing, internal controls and financial reporting matters of the Company, and to review on the Group's internal control and annual results for the year ended 31 December 2012.

In view of the qualified opinion issued by KPMG, the former auditor of the Group in 2011, and the internal control weakness indentified last year, the Audit Committee has appointed Moore Stephens to advise on the Group's internal control improvement measures. Accordingly, the Group has implemented certain internal control procedures. The Audit Committee agrees that the internal control procedures have been improved since the Group implemented all the improvement measures as detailed in the Moore Stephens' report during the course of audit for the year ended 31 December 2011.

In January 2013, the Group appointed a reputable accounting firm to conduct a review on the Group's internal control, and to report its findings to the Audit Committee and the Board. The Audit Committee is satisfied that there is an ongoing process in place for identifying, evaluating and managing the significant risks faced by the Group, and believes that in order to manage the risk of failure in achieving the Company's goals and objectives to an ultimate extent, the Group should continuously enhance its internal control system. The Audit Committee also reviewed the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, as well as training programs and budget. The Audit Committee believes that in view of the rapid expansion plan of the Group, the Group should continue to monitor its total resources in the accounting and financial reporting function, and to increase its resources for staff recruitment and training when necessary.

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 four members, namely Mr. CHEN Fengliang (Chairperson); Mr. JIANG Hongkai; Mr. FOK Hei Yu, all 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 on the remuneration package and the performance assessment of the Directors and other 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. Details of the director's emoluments are set out in Note 9 to the financial statements.

Nomination Committee

The Company has set up a nomination committee with majority members being Independent non-executive Directors. The Nomination Committee comprises four members, namely Mr. JIANG Hongkai (Chairperson), Ms. ZHAO Jinlin and Mr. FOK Hei Yu, all being independent non-executive Directors; and one executive Director, namely Mr. YANG Xiangbo.

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.

The Nomination Committee shall firstly propose a list of candidates for selection, which shall then be submitted by the committee to the Board for review and approval. In respect of the selected candidates, the Nomination Committee shall collect their background information and examine the qualifications in accordance with the applicable requirements and to state their opinion and recommendations on appointments to the Board. The Nomination Committee shall carry out, if necessary, other relevant follow-up works according to the decisions of or feedback from the Board.

During the Reporting Period, one meeting was held by the nomination committee to consider the appointment of Mr. LI Kuansen as the Chief Executive Officer and executive Director of the Company. Another meeting was held in January 2013 regarding the appointment of Mr. FOK Hei Yu as the independent non-executive Director of the Board.

Frequency of meetings and attendance

The attendance record of each of the Directors for the Board and committee meetings held during the year ended 31 December 2012 is set out below:

	Number of attendance/Number of meetings				
Name of Directors	**Shareholder**	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Executive Director					
YANG Xiangbo *(Chairman)*	n/a	15/15	n/a	2/2	1/1
LI Kuansen (i)	n/a	n/a	n/a	n/a	n/a
Independent non-executive Directors					
ZHAO Jinlin	n/a	14/15	4/4	n/a	1/1
CHEN Fengliang	n/a	15/15	4/4	2/2	n/a
JIANG Hongkai	n/a	14/15	4/4	2/2	1/1
FOK Hei Yu (ii)	n/a	1/15 (as observer)	n/a	n/a	n/a

(i) Mr. Li Kuansen was appointed as an executive Director and a Chief Executive Officer with effect from 31 December 2012 and during his tenure, no board meeting or Shareholders' meeting was held.

(ii) Mr. Fok Hei Yu was appointed as an independent non-executive Director with effect from 31 January 2013.

During the year, no shareholders' meeting was held. Annual general meeting for the result of 31 December 2011 and an extraordinary general meeting for the appointment of new auditors were held on 30 January 2013 and 21 February 2013 respectively. Except Ms. Zhao, all the Directors attended the general meetings.

Continuous professional development

The Company regularly arranges continuing briefing and professional development to the Directors at the Company's expense to develop and refresh their knowledge and skills. From time to time the Company Secretary updates and provides Directors with relevant reference material, amendments to Listing Rules and news releases from the Stock Exchange on any developments in statutory and regulatory regime to facilitate the discharge of their responsibilities which Company Secretary complied with Rule 3.29.

During the year, the Directors read the training materials relating to the latest development and amendments to the Listing Rules, corporate governance practices, SFO and other regulatory regimes provided by the Company and the training materials on director's duties provided by the Company's legal advisers.

On 11 December 2012, the Company organised an in-house seminar on the director's duties and responsibilities under the Listing Rules, the CG Code and the amendments to the SFO regarding disclosure of inside information for its Directors namely Mr. YANG Xiangbo, Ms. ZHAO Jinlin, Mr. CHEN Fengliang and Mr. JIANG Hongkai (save for Mr. FOK Hei Yu who was appointed on 31 January 2013 and Mr. Li Kuansen who was appointed on 31 December 2012) conducted by the Hong Kong legal advises of the Company.

All Directors provide a record of their training to the Company Secretary. The individual training record of each Director during the year ended 31 December 2012 is summarised below:-

Name of Director	Reading regulatory updates or other relevant reference material	Attending in-house seminar(s) relevant to business or director's duties and responsibilities
Executive Directors		
YANG Xiangbo *(Chairman)*	V	V
LI Kuansen *(Chief Executive Officer)* *(Appointed on 31 December 2012)*	n/a	n/a
Independent non-executive Directors		
ZHAO Jinlin	V	V
CHEN Fengliang	V	V
JIANG Hongkai	V	V
FOK Hei Yu *(Appointed on 31 January 2013)*	n/a	n/a

Corporate Governance Functions

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 ensure compliance with applicable laws and regulations.

In view of the qualified opinion issued by KPMG, the former auditor of the Group, in 2011, and the internal control weaknesses identified by Moore Stephens in early 2012, the Group implemented the following internal control improvement procedures as proposed by Moore Stephens:

(i) Establishment of internal audit department and legal department

The Group has established an internal audit department in 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 reports directly to the Audit Committee of the Board.

A legal department is also established in 2012 for 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 ensures that agreements are dated accordingly and that all attachments and appendices to agreements are properly annexed. The legal department is also responsible for maintaining the documentation record in relation to material 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 has appointed Mr. FOK Hei Yu on 31 January 2013 as the additional independent non-executive Director to enhance the composition of the Board. Mr. Fok is experienced in assisting companies to protect and enhance enterprise value. Mr. Fok is also a member of the audit committee, remuneration committee and nomination committee of the Board.

(iii) Recruitment of new management teams, 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. On 31 December 2012, the Company appointed Mr. LI Kuansen as the chief executive officer and executive Director. Mr. Li has over seventeen years of experiences in managing the business operation of supermarket in the PRC and has been the Group's chief operating officer since February 2012.

(iv) Standardisation of transaction approval procedures

In 2012, the Group has 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 to ensure that each transaction is approved by relevant departments and to minimize any potential risks. The internal control manual has been circulated to all relevant staff.

(v) Standardisation of property transactions procedures

The Group has also implemented new procedures for entering into formal property acquisition. The Group would conduct thorough due diligence (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 onsite 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 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 project proceeds 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 transaction.

(vi) 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. 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 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.

(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 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 has completed its first stage enterprise resources management system upgrade and is in the process of conducting trainings for various departments on the new enterprise resources management system. The updated system includes modules on supplier management as well as other financial management functions.

(x) Possible notifiable transactions approval procedures

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).

(xi) Appointment of retainer financial advisers

The Company has engaged a retainer financial adviser for one year upon the expiry of the compliance adviser engagement. The Company undertakes to consult the retainer financial advisers 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 and other training materials relating to the latest developments and amendments to the Listing Rules, corporate governance practices, SFO and other regulatory requires provided by the Company, and all Directors (other than Mr. Fok Hei Yu who was appointed on 31 January 2013 and LI Kuansen who was appointed on 31 December 2012) attended additional training on directors' duties and responsibilities under the Listing Rules, the CG Code and the amendment to the SFO regarding disclosure of inside information conducted by the Company's legal advisers in December 2012. For details of Directors' training, please refer to the section of "Continuous Professional Development" as above.

The Board and the Audit Committee reviewed the Group's material controls, including financial, operational and compliance controls and risk management functions. The Board also accessed the adequacy of resources, qualifications and experience of the staff of the Company's accounting and financial reporting function, and their training programs and budget. In January 2013, the Group appointed a reputable accounting firm to conduct a review on the Group's internal control and to report its findings to the Audit Committee and the Board. The enhancement of the internal controls measures will continue to be monitored by the internal audit department and the new Chief Executive Officer of the Group. The internal audit department will periodically report their review and findings on the Group's internal controls to the Audit Committee and the Board.

Shareholder's rights

Pursuant to the Article 58 of the Articles of the Company, any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition.

The shareholders of the Company may communicate to the Board any enquiries they may have. All Shareholders correspondences received by the Company will be delivered to the Group's company secretary for an initial review. The company secretary will maintain a log of the correspondences and forward a copy of the correspondences to the Board for consideration at its next meeting.

Apart from the above, the shareholders of the Company also have the right to nominate candidates to be Directors of the Company. Following the relevant procedures which are made available to the shareholders, the shareholders may at any time send a notice of nomination setting out the information required to the Nomination Committee of the Company. After evaluation, the Nomination Committee may make recommendation to the Board which will then evaluate the nomination.

For putting forward any enquiries to the Board of the Company, Shareholders may send written enquiries to the Company by mail to:

Suite 1402, Dah Sing Financial Centre
108 Gloucester Road
Wanchai
Hong Kong

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 formal announcements, press releases and conferences, analysts presentations and roadshows and forums organized by 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 and senior management will normally attend the annual general meetings and other shareholders' meetings of the Company to answer questions raised at the meetings.

Insurance

The Company has arranged appropriate directors' and officers' liabilities and professional indemnity insurances coverage for the Directors and officers of the Company.

Independent Auditor's Report

羅兵咸永道

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

We have audited the consolidated financial statements of Shirble Department Store Holdings (China) Limited ("**the Company**") and its subsidiaries (together, the "**Group**") set out on pages 46 to 96, which comprise the consolidated and company balance sheets as at 31 December 2012, the consolidated income statement and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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, 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 and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 judgment, 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 qualified audit opinion.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Basis for Qualified Opinion

The consolidated financial statements of the Group for the year ended 31 December 2011 were audited by another firm of auditor whose report dated 5 December 2012 expressed a qualified opinion in respect of the matters as described below:

(i) Prepayments

As described in Note 18(b) to the consolidated financial statements, the Group recorded prepayments with a total balance of RMB512,330,000 as at 31 December 2011. The total balance includes (a) prepayments of RMB55.3 million for decoration work, (b) prepayments of RMB256.5 million for the acquisition of a distribution centre in Shenzhen, a three-storey commercial property in Shenzhen and a property in Haifeng, against which there was an allowance for impairment loss of RMB32.0 million in respect of the Haifeng property as at 31 December 2011; and (c) prepayments of RMB152.5 million for the purchase of merchandise.

(ii) Advances from suppliers

Included in "Advances from suppliers" in Note 24 to the consolidated financial statements are amounts received by the Group totaling RMB69.6 million as at 31 December 2011.

The previous firm of auditor was unable to obtain sufficient audit evidence to verify the nature of the above-mentioned prepayments as well as advances from suppliers and as to whether they were properly accounted for and disclosed in the consolidated financial statements as at 31 December 2011 in accordance with the substance of their natures.

As mentioned in Note 18(b) to the consolidated financial statements, during the year ended 31 December 2012, the contracts for decoration work, the letter of intent for the acquisition of the distribution centre in Shenzhen, the contracts for the acquisition of the three-storey commercial property in Shenzhen and the purchase of merchandise were terminated and the Group had received refunds of the prepayments which include (a) refunds of RMB55.3 million for prepayments for decoration work, (b) refunds of RMB172.5 million for prepayments for the acquisition of the distribution centre in Shenzhen and the three-storey commercial property in Shenzhen; and (c) refunds of RMB262.5 million for the prepayments (including additional prepayments of RMB110.0 million made in January 2012) for the purchase of merchandise. As mentioned in Note 24(b) to the consolidated financial statements, during the year ended 31 December 2012, the Group had refunded RMB63.6 million out of the advances from suppliers.

As at the date of this report, there were no alternative audit procedures that we could perform to satisfy ourselves that the aforesaid prepayments as well as advances from suppliers are free from material misstatement as at 1 January 2012 and we have been unable to determine whether any adjustments to these amounts are necessary. Since the aforesaid payment and refund transactions are part of the Group's cash flows in 2012, we have been unable to determine whether any adjustments are necessary in respect of the cash flows from investing activities and cash flows from operating activities reported in the consolidated statement of cash flows for the year ended 31 December 2012.

Qualified Opinion

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraphs, 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 2012, and of the Group's loss 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.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24 April 2013

Consolidated Income Statement

For the year ended 31 December 2012

	Note	2012 RMB'000	2011 RMB'000
Revenue	5	1,372,030	1,433,586
Other operating revenue	6	117,135	111,232
Other loss, net	7	(14,091)	(40,696)
Purchase of and changes in inventories	8	(959,194)	(998,197)
Employee benefits	8,9	(192,309)	(134,342)
Depreciation and amortisation	8	(57,105)	(39,620)
Operating lease rental expenses	8	(166,372)	(135,663)
Other operating expenses, net	8	(147,424)	(101,257)
(Loss)/profit before finance costs and tax		(47,330)	95,043
Finance income	10	27,439	22,241
Finance costs	10	(2,784)	(2,285)
Finance income – net	10	24,655	19,956
(Loss)/profit before income tax		(22,675)	114,999
Income tax expense	11	(23,104)	(43,367)
(Loss)/profit for the year		(45,779)	71,632
(Loss)/profit attributable to:			
Owners of the Company		(45,779)	71,632
(Loss)/earnings per share for the (loss)/profit attributable to owners of the Company during the year (expressed in RMB per share)			
– Basic and diluted	13	(0.02)	0.03

		Year ended 31 December	
		2012 RMB'000	2011 RMB'000
Dividends	14	–	103,858

The notes on pages 52 to 96 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	2012 RMB'000	2011 RMB'000
(Loss)/profit for the year	(45,779)	71,632
Other comprehensive income:		
Currency translation differences	4	208
Other comprehensive income for the year	4	208
Total comprehensive (loss)/income for the year	(45,775)	71,840
Attributable to:		
Owners of the Company	(45,775)	71,840

The notes on pages 52 to 96 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31 December 2012

	Note	2012 RMB'000	2011 RMB'000 (Note 31)
ASSETS			
Non-current assets			
Property, plant and equipment	15	565,183	311,494
Intangible assets	16	52,273	31,885
Deferred income tax assets	17	48,102	42,756
Trade and other receivables	18	152,712	–
		818,270	386,135
Current assets			
Inventories	19	252,722	252,291
Trade and other receivables	18	108,075	567,769
Bank deposits	20	617,540	780,152
Cash and cash equivalents	20	1,144,010	953,303
		2,122,347	2,553,515
Total assets		2,940,617	2,939,650
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	21	213,908	213,908
Share premium	21	894,338	894,338
Other reserves	22	195,008	190,004
Retained profit	23	135,532	256,919
Total equity		1,438,786	1,555,169
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	17	4,000	2,541
Current liabilities			
Trade and other payables	24	1,229,433	1,104,581
Income tax payable		25,143	34,149
Borrowings	25	243,255	243,210
		1,497,831	1,381,940
Total liabilities		1,501,831	1,384,481
Total equity and liabilities		2,940,617	2,939,650
Net current assets		624,516	1,171,575
Total assets less current liabilities		1,442,786	1,557,710

On behalf of Board of Directors

YANG Xiangbo
Director

Li Kuansen
Director

The notes on pages 52 to 96 are an integral part of these consolidated financial statements.

Balance Sheet

As at 31 December 2012

	Note	2012 RMB'000	2011 RMB'000 (Note 31)
ASSETS			
Non-current assets			
Investments in subsidiaries	26(a)	107,380	107,380
Amount due from subsidiaries	26(b)	680,041	480,041
		787,421	587,421
Current assets			
Trade and other receivables	18	326,631	147,421
Bank deposits	20	230,500	780,152
Cash and cash equivalents	20	24,889	24,232
		582,020	951,805
Total assets		1,369,441	1,539,226
EQUITY AND LIABILITIES			
Share capital	21	213,908	213,908
Share premium	21	894,338	894,338
Other reserves	22	107,782	107,782
Retained profits	23	2,319	5,464
Total equity		1,218,347	1,221,492
LIABILITIES			
Current liabilities			
Trade and other payables	24	151,094	74,524
Borrowings	25	–	243,210
Total liabilities		151,094	317,734
Total equity and liabilities		1,369,441	1,539,226
Net current assets		430,926	634,071
Total assets less current liabilities		1,218,347	1,221,492

On behalf of Board of Directors

YANG Xiangbo
Director

LI Kuansen
Director

The notes on pages 52 to 96 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Attributable to owners of the Company				
	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained profits RMB'000	Total equity RMB'000
Balance at 1 January 2012	213,908	894,338	190,004	256,919	1,555,169
Comprehensive income					
Loss for the year	–	–	–	(45,779)	(45,779)
Other comprehensive income					
Currency translation differences	–	–	4	–	4
Total other comprehensive income	–	–	4	–	4
Total comprehensive income	–	–	4	(45,779)	(45,775)
Total contributions by and distributions to owners of the Company recognised directly in equity					
Appropriation to reserves	–	–	5,000	(5,000)	–
Dividends	–	–	–	(70,608)	(70,608)
Total transactions with owners	–	–	5,000	(75,608)	(70,608)
Balance at 31 December 2012	213,908	894,338	195,008	135,532	1,438,786
Balance at 1 January 2011	214,318	894,338	183,640	238,748	1,531,044
Comprehensive income					
Profit for the year	–	–	–	71,632	71,632
Other comprehensive income					
Currency translation differences	–	–	208	–	208
Total other comprehensive income	–	–	208	–	208
Total comprehensive income	–	–	208	71,632	71,840
Total contributions by and distributions to owners of the Company recognised directly in equity					
Purchase of own shares					
– par value paid	(410)	–	–	–	(410)
– premium paid	–	–	–	(3,805)	(3,805)
– transfer between reserves	–	–	410	(410)	–
Appropriation to reserves	–	–	5,746	(5,746)	–
Dividends	–	–	–	(43,500)	(43,500)
Total transactions with owners	(410)	–	6,156	(53,461)	(47,715)
Balance at 31 December 2011	213,908	894,338	190,004	256,919	1,555,169

The notes on pages 52 to 96 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	Note	Year ended 31 December 2012 RMB'000	2011 RMB'000 (Note 31)
Cash flows from operating activities			
Cash generated from operations	27	181,675	173,557
Interest paid		(4,828)	–
Income tax paid		(35,997)	(45,990)
Net cash generated from operating activities		140,850	127,567
Cash flows from investing activities			
Payment for purchases of property, plant and equipment and construction in progress		(359,253)	(392,890)
Purchases of intangible assets		(11,694)	(32,186)
Refund of prepayments for decoration work, purchases of properties (Note 18(b))		227,800	–
Proceeds from disposals of property, plant and equipment		2,153	519
Increase in bank deposits with initial term of over three months		(230,500)	(350,000)
Decrease in bank deposits with initial term of over three months		350,000	–
Decrease/(increase) in restricted bank deposits		43,112	(430,152)
Proceeds from sale of held-to-maturity securities		–	85,093
Interest received		28,180	13,675
Net cash generated from/used in investing activities		49,798	(1,105,941)
Cash flows from financing activities			
Proceeds from borrowings		243,255	243,210
Repayments of borrowings		(243,210)	–
Payment for repurchase of shares		–	(4,215)
Dividends paid to the Company's shareholders		–	(43,500)
Net cash generated from/used in financing activities		45	195,495
Net increase/(decrease) in cash and cash equivalents		190,693	(782,879)
Cash and cash equivalents at beginning of year		953,303	1,735,974
Effect of changes in foreign exchange rate		14	208
Cash and cash equivalents at end of year	20	1,144,010	953,303

The notes on pages 52 to 96 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

1. General information

Shirble Department Store Holdings (China) Limited (the "**Company**") was incorporated in the Cayman Islands on 5 November 2008 as an exempted company with limited liability under the Companies Law, (Cap. 22) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company is principally engaged in investment holding. The principal activities of The Company and its subsidiaries (together, the "**Group**") are to operate in department stores in Mainland China.

In preparation for the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Listing**"), certain reorganisation steps (the "**Reorganisation**") were carried out. After the completion of the Reorganisation, the Company became the holding company of the subsidiaries comprising the Group. The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 17 November 2010.

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

These consolidated financial statements have been approved for issue by the board of directors on 24 April 2013

2. Summary of principal accounting policies

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

2.1 Basis of preparation

These consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") under the historical cost convention.

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

In the current year, the Group has adopted the following revised standards, amendments to existing standards and interpretation which are mandatory for the financial year beginning 1 January 2012:

IFRS 7 (Amendment)	Disclosures – Transfer of Financial Assets

The adoption of these revised standards, amendments to existing standards and interpretation does not have any significant effect on the results and financial position of the Group.

2. Summary of principal accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

The following new or revised standards, amendments to existing standards and interpretation are effective for the accounting periods beginning after 1 January 2012 which the Group has not early adopted:

IFRS 1 (Amendment)	First Time Adoption – Government Loans
IFRS 7 (Amendment)	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities
IFRS 7 and IFRS 9 (Amendments)	Mandatory Effective Date and Transition Disclosures
IFRS 10, IFRS 11 and IFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements, Disclosures of Interest in Other Entities: Transition Guidance
IFRS 10, IFRS 12 and IFRS 9	Consolidated Financial Statements, Disclosure of Interests in Financial Instruments
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurements(IFRIC) – Int 20 Stripping Costs in the Production Phase of a Surface Mine
Annual Improvement Project	Annual Improvements 2009-2011 Cycle

The Group has assessed the accounting implications of the revised IFRS 10 to financial statements and concluded that there was no material impact since the Group did not have any joint arrangements. For other revisions and amendments to the accounting standards the Group is in the process of making an assessment of the impact of these new or revised standards, amendments to existing standards and interpretation on its result of operation and financial position.

Change in accounting estimates

During the year ended 31 December 2012, a review of useful lives and residual values of the property, plant and equipment for the department store operations was conducted. With effect from 1 July 2012, the estimated useful lives and residual values of certain categories of property, plant and equipment have been revised, which are disclosed in Note 2.5. This represents a change in accounting estimates and is accounted for prospectively. As a result of this change, the depreciation charge of the Group for the year ended 31 December 2012, has been increased by approximately RMB4,621,000. Such effect is expected to recur over the remaining lives of the relevant assets.

2. Summary of principal accounting policies *(continued)*

2.2 Subsidiaries

(i) Consolidation

Subsidiaries are all entities over which the Group has power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(ii) Separate financial statements

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

2.3 Segment reporting

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

The information reported to the 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.

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. All revenues from external customers during the year are generated in the PRC and all significant operating assets of the Group are located in PRC.

2. Summary of principal accounting policies *(continued)*

2.4 Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each balance sheet are translated at the closing rate at the date of that balance sheet;

(b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(c) all resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the currency translation reserve.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

2. Summary of principal accounting policies *(continued)*

2.4 Foreign currency translation *(continued)*

(iv) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates that do not result in the Group losing significant influence) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

2.5 Property, plant and equipment

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

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

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. During the year ended 31 December 2012, a review of useful lives and residual values of the property, plant and equipment for the department store operations was conducted. With effect from 1 July 2012, the estimated useful lives and residual values of certain categories of property, plant and equipment have been revised, and the estimated useful lives and residual values of the property, plant and equipment before and after the revision were as follows:

Before 1 July 2012	Useful lives	Residual values
Buildings	55 – 59 years	10%
Machinery and equipment	5 – 10 years	10%
Motor vehicles	3 – 10 years	10%
Electronic and other equipments	5 – 10 years	10%
Leasehold improvements	10 years or the remaining term of any non-renewable lease, whichever is shorter	0%
Others	5 – 10 years	0%

2. Summary of principal accounting policies *(continued)*

2.5 Property, plant and equipment *(continued)*

After 1 July 2012	Useful lives	Residual values
Buildings	50 – 59 years	0%
Machinery and equipment	10 years	5%
Motor vehicles	5 years	5%
Electronic and other equipments	5 years	0% – 5%
Leasehold improvements	10 years or the remaining term of any non-renewable lease, whichever is shorter	0%
Others	5 years	0%

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

Assets under construction represent buildings or leasehold improvements on which construction work has not been completed and plant, machinery and equipment pending installation. It is carried at cost which includes construction expenditures and other direct costs less any impairment losses. On completion, assets under construction are transferred to the appropriate categories of property, plant and equipment at cost less accumulated impairment losses. No depreciation is charged for assets under construction until they are completed and available for use.

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

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

2.6 Intangible assets

(i) Entry rights

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

(ii) Computer software

Acquired computer software licences are capitalised on the basis of the cost incurred to acquire and bring to use the specific software. These cost are amortised over their estimated useful lives of 5-10 years.

2. Summary of principal accounting policies *(continued)*

2.7 Impairment of investments in subsidiaries and non-financial assets

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

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

2.8 Financial assets

(i) Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, available-for-sale and held to maturity investment. The classification depends on the purposes for which the financial assets were acquired. The directors of the Group determine the classification of its financial assets at initial recognition. As at 31 December 2012, the Group only had loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of each reporting period, in which case they are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables", "restricted bank deposits", "fixed deposits" and "cash and cash equivalents" in the consolidated statement of financial position (Notes 2.11 and 2.12).

(ii) Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss is initially recognised at fair value, and transaction costs are expensed in profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2. Summary of principal accounting policies *(continued)*

2.9 Impairment of financial assets

Assets carried at amortised cost

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

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

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

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

2.10 Inventories

Inventories comprise finished goods and are stated at the lower of cost and net realisable value. Cost is determined using the first-in first-out (FIFO) method. Inventories comprise merchandise purchased for resale, and are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.11 Trade and other receivables

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

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

2. Summary of principal accounting policies *(continued)*

2.12 Cash and cash equivalents

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

2.13 Share capital

Ordinary shares are classified as equity.

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

2.14 Trade and other payables

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

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

2.15 Borrowings

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

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

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months from the balance sheet date.

2. Summary of principal accounting policies *(continued)*

2.16 Borrowings costs

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

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

2.17 Current and deferred income tax

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

(i) Current income tax

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

(ii) Deferred income tax

Inside basis differences

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

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

2. Summary of principal accounting policies *(continued)*

2.17 Current and deferred income tax *(continued)*

(ii) ***Deferred income tax*** *(continued)*

Outside basis differences

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

(iii) ***Offsetting***

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

2.18 Employee benefits

(i) ***Pension obligations***

The Group' subsidiaries registered in PRC contributes based on certain percentage of the salaries of the employees to a defined contribution retirement benefit plan and medical benefit plan organised by relevant municipal and provincial government authorities in the PRC on a monthly basis. The government authorities undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

The Group makes contributions to defined contribution retirement schemes under the Mandatory Provident Fund Schemes Ordinance and the Occupational Retirement Scheme Ordinance in Hong Kong, the assets of which are generally held in separate trustee administered funds. The pension plans are generally funded by payments from employees and by the Group. The Group's contributions to the defined contribution retirement schemes are expensed as incurred.

The Group also contributes to employee retirement schemes established by municipal governments in Mainland China. The municipal governments undertake to assume the retirement benefit obligations of all existing and future retired employees of the Group. Contributions to these schemes are charged to the income statement as incurred.

2. Summary of principal accounting policies *(continued)*

2.18 Employee benefits *(continued)*

(ii) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to a termination when the entity has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

2.19 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be low.

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

2.20 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for merchandise supplied and service provided, stated net of discounts returns, rebates, discounts, and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

2. Summary of principal accounting policies *(continued)*

2.20 Revenue recognition *(continued)*

(a) *Direct sales*

Revenue from direct sales of merchandise 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 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.

Sales of merchandise that result in the award of 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 merchandise 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.

(b) *Commission from concessionaire sales*

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

(c) *Rental income from operating leases*

Rental income from lease of property owned by the Company and 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 receivables. Contingent rentals are recognised as income in the accounting period in which they are earned.

(d) *Promotion, administration and management income*

Revenue from promotion, administration and management fees is recognised according to the underlying contract terms with suppliers and concessionaries and as the services are provide accordingly.

(e) *Credit card handling fee for concessionaire sales*

Credit card handling fee for concessionaire sales is recognised when the relevant service is rendered.

2. Summary of principal accounting policies *(continued)*

2.20 Revenue recognition *(continued)*

(f) Prepaid cards

Cash received for prepaid cards sold are recognised as liabilities in the balance sheet. Revenue from prepaid cards is recognised when goods are delivered and the significant risks and rewards of ownership have been transferred.

Long-aged unredeemed prepaid cards are recognised as revenue if the management considered the likelihood of redemption is remote.

2.21 Interest income

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

2.22 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Receipts or payments made under operating leases (net of any incentives paid to lessee or received from the lessor) are recognised as income or expense in the income statement on a straight-line basis over the periods of the lease.

2.23 Government grants

Government grants are recognised at their fair values where there is a reasonable assurance that grant will be received and all attaching conditions will be complied with. Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

2.24 Dividend distribution

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

3. Financial risk management

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow interest rate risk, and commodity price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out under the policies approved by the Board of Directors (the "Board"). The Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investing of excess liquidity.

(a) Market risk

(i) Foreign exchange risk

The Group is mainly exposed to foreign exchange risk arising from Hong Kong dollars against Renminbi. This foreign exchange risk arises from future commercial transactions or recognised assets and liabilities denominated in a currency that is not the entity's functional currency of Renminbi. The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and it has not hedged its foreign exchange risk.

At 31 December 2012, if Renminbi had strengthened/weakened by 2% (2011: 2%) against the Hong Kong dollars with all other variables held constant, loss before tax for the year would have been approximately RMB3,242,000 lower/higher (2011: profit before tax would have been approximately RMB4,520,000 higher/lower) mainly as a result of foreign exchange gains/losses on translation of Hong Kong dollars-denominated bank balances and bank borrowings of the Group.

In addition, the conversion of Renminbi into foreign currencies is subject to the rules and regulations of the foreign exchange control promulgated by Mainland China Government.

(ii) Cash flow interest rate risk

As at 31 December 2012, except for the fixed term bank deposits of RMB230,500,000 (2011: RMB350,000,000), which are held at fixed interest rate 3.50% per annum (2011: 3.50% per annum), and the restricted bank deposits of RMB 387,040,000 (2011: RMB430,152,000), which are held at fixed interest rate of 0.8% per annum (2011: 0.45% per annum), the Group has no other significant fixed-rate interest-bearing assets. The Group's interest rate risk arises from cash and cash equivalents and bank borrowings. Cash and cash equivalents bear variable interest rate at 0.01%-2.60% per annum (2011: 0.01%-2.60%). Borrowings issued at variable rates at 0.92%-1.04% expose the Group to cash flow interest rate risk which is offset by cash at bank held at variable rates. The Group's income and operating cash flows are substantially independent of changes in market interest rates. At the reporting date, management does not anticipate significant impact resulted from the changes in interest rates.

At 31 December 2012, if interest rates on bank balances at variable rates and bank borrowings had been 50 basis points higher/lower with all other variables held constant, the Group's finance income, net for the year ended 31 December 2012 would have been approximately RMB1,871,000 higher/lower (2011: approximately RMB2,685,000 higher/lower).

3. Financial risk management *(continued)*

Financial risk factors *(continued)*

(b) Credit risk

The credit risk of the Group mainly arises from bank deposits, cash and cash equivalents, trade and other receivables. The carrying amounts of these balances represent the Group's maximum exposure to credit risk in relation to financial assets. As at 31 December 2012, all the bank deposits are deposited in high quality financial institutions without significant credit risk.

Retail sales are usually settled in cash or by major credit/debit cards. The Group has a policy of allowing a credit period ranging from 0-60 days to its corporate customers depending on the customers' relationship with the Group, their credit worthiness and settlement records. At the reporting date, management considers the Group does not have a significant concentration of credit risk. No single customer accounted for more than 1% of the Group's total revenue during the year.

In addition, the Group monitors the exposure to credit risk in respect of the advances to subsidiaries through exercising control over their financial and operating policy decisions and reviewing their financial positions on a regular basis.

(c) Liquidity risk

The liquidity risk of the Group is controlled by maintaining sufficient cash and cash equivalents, which is generated from the operating cash flows and financing cash flows.

The table below shows the Group's and Company's financial liabilities based on the remaining period at the end of the reporting period to the contractual maturity dates. No financial liabilities mature later than one year. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Group		Company	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Maturity less than 1 year:				
Borrowings (including the portion of interest expenses)	243,449	245,895	–	245,895
Other financial liabilities	749,948	605,345	151,094	74,524

3. Financial risk management *(continued)*

Financial risk factors *(continued)*

(d) Capital risk management

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

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, capital returned to shareholders, new shares issued or assets sold to reduce debt.

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 owners of the Company.

The debt-to-equity ratios at 31 December 2012 and 2011 were as follows:

	2012	2011
Debt-to-equity ratio	17%	16%

(e) Fair value estimation

As at 31 December 2012 and 2011, the Group did not have significant financial instrument carried at fair value.

4. Critical accounting estimates and judgements

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

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

(a) Useful lives and residual values of property, plant and equipment

The estimates of useful lives and residual value of property, plant and equipment were made by the management with reference to the established industry practices, technical assessments made on the durability of the assets, as well as the historical magnitude and trend of repair and maintenance expenses incurred by the Group. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives and residual values are less than those previously estimated or it will write off or write down technically obsolete or non-strategic assets that have been abandoned. The estimated useful lives and residual values of certain categories of property, plant and equipment has been revised. Details are disclosed in Note 2.5.

(b) Net realisable value of inventories

Inventories are carried at the lower of cost and net realisable value. The cost of inventories is written down to net realisable value when there is an objective evidence that the cost of inventories may not be recoverable. The cost of inventories may not be recoverable if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. The cost of inventories may also be not recoverable if the estimated costs to be incurred to make the sale have increased. The amount written off to the income statement is the difference between the carrying value and net realisable value of the inventories. In determining whether the cost of inventories can be recoverable, significant judgement is required. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the amount will be recovered.

(c) Allowance for impairment of trade and other receivables

The Group makes allowance for impairment of trade and other receivables based on an assessment of the recoverability of these receivables. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment of trade and other receivables requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying amounts of receivables and allowances for impairment losses in the period in which such estimate is revised.

4 Critical accounting estimates and judgments *(continued)*

(d) Income tax

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

(e) Deferred taxation

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different. Details of the deferred taxation are disclosed in Note 17.

(f) Impairment of long term assets

In determining whether a long term asset is impaired or the event previously causing the impairment no longer exists, management has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying amount of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognising; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management 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.

(g) Reversal of long-aged unredeemed prepaid cards

Long-aged unredeemed prepaid cards are recognised as revenue if the likelihood of redemption is considered remote. Aging analysis of the unredeemed prepaid cards balance is performed and management estimate the expected future usage ratio for each of the aging category based on the historical utilisation ratio. Long-aged unredeemed balance of prepaid cards are reversed and recognised as revenue based on the expected future usage ratio.

If the estimated future usage ratio has been 10% higher/lower than management's estimates, the revenue for reversal of long-aged unredeemed prepaid cards will would have been lower/higher by RMB1,924,000.

5. Revenue

	2012 RMB'000	2011 RMB'000
Direct sales	1,116,020	1,171,117
Commission from concessionaire sales	184,836	198,075
Rental income (a)	51,935	43,143
Income from reversal of long-aged unredeemed prepaid cards	19,239	21,251
	1,372,030	1,433,586

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

	2012 RMB'000	2011 RMB'000
Sublease rental income	43,798	33,076
Contingent rental income	8,137	10,067
	51,935	43,143

6. Other operating revenue

	2012 RMB'000	2011 RMB'000
Promotion administration and management income	97,389	89,775
Credit card handling fees for concessionaire sales	18,191	19,623
Others	1,555	1,834
	117,135	111,232

7. Other loss, net

	2012 RMB'000	2011 RMB'000
(Loss)/gain on disposal of property, plant and equipment	(677)	78
Impairment loss on prepayments for acquisition of a property in Haifeng (Note 18(b))	–	(32,000)
Impairment loss of a property in Luhe	(10,000)	–
Provision for tendering deposit (Note 18(c))	–	(10,000)
Provision for legal claims (Note 30)	(4,369)	–
Others	955	1,226
	(14,091)	(40,696)

8. Expenses by nature

Expenses included in cost of sales, distribution costs and administrative expenses were analysed as follows:

	2012 RMB'000	2011 RMB'000
Purchase of and changes in inventories	959,194	998,197
Employee benefit expenses (Note 9)	192,309	134,342
Depreciation and amortisation expenses	57,105	39,620
Operating lease expenses	166,372	135,663
Utilities	51,781	41,323
Auditor's remuneration		
– Audit services	8,600	6,000
– Non-audit services	900	–
Other expenses	86,143	53,934
	1,522,404	1,409,079

9. Employee benefit expenses

	2012 RMB'000	2011 RMB'000
Wages and salaries	175,081	123,869
Social security costs	14,499	5,714
Others	2,729	4,759
	192,309	134,342

9. Employee benefit expenses *(continued)*

(a) Directors' and senior management's emoluments

The remuneration of the directors for the year ended 31 December 2012 is set out below:

Name of director	Fees RMB'000	Salary allowances and benefits RMB'000	Retirement schemes contributions RMB'000	Bonus RMB'000	Total RMB'000
Executive directors					
Mr. YANG Xiangbo (i)	1,172	2,410	11	200	3,793
Mr. LI Kuansen (i)	–	–	–	–	–
Independent non-executive directors					
ZHAO Jinlin	244	–	–	–	244
CHEN Fengliang	244	–	–	–	244
JIANG Hongkai	244	–	–	–	244
	1,904	2,410	11	200	4,525

(i) Mr. YANG Xiangbo has been the acting chief executive officer of the Group during the period from 17 November 2011 to 31 December 2012. Mr. LI Kuansen was appointed as executive director and chief executive officer of the Group on 31 December 2012. Mr. YANG Xiangbo ceased to be the acting chief executive officer of the Group on the same date.

The remuneration of the directors for the year ended 31 December 2011 is set out below:

Name of director	Fees RMB'000	Salary allowances and benefits RMB'000	Retirement schemes contributions RMB'000	Bonus RMB'000	Total RMB'000
Executive directors					
Mr. YANG Xiangbo	1,192	–	10	77	1,279
Madam YANG Xiaomei	–	567	9	–	576
Independent non-executive directors					
ZHAO Jinlin	248	–	–	–	248
CHEN Fengliang	248	–	–	–	248
JIANG Hongkai	248	–	–	–	248
	1,936	567	19	77	2,599

9. Employee benefit expenses *(continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2011: one) director whose emoluments are reflected in the analysis presented above. The emoluments paid to the remaining four (2011: four) individual during the year are as follows:

	2012 RMB'000	2011 RMB'000
Basic salaries and allowances	5,779	4,653
Year-end bonuses	1,686	282
Contributions to the retirement scheme	–	20
	7,465	4,955

The emoluments fell within the following bands:

	Number of individuals	
	2012	2011
Emolument band		
Nil – HKD1,000,000	–	4
HKD1,000,001 – HKD2,000,000	2	–
HKD2,000,001 – HKD3,000,000	2	–

10. Finance income, net

	2012 RMB'000	2011 RMB'000
Finance income		
Interest income from bank deposits	27,439	22,241
Finance costs		
Interest expenses	(2,784)	(2,285)
Finance income, net	24,655	19,956

11. Income tax expenses

	2012 RMB'000	2011 RMB'000
Current income tax		
– PRC corporate income tax	26,991	48,920
– Over-provision in prior years	–	(1,581)
Deferred income tax (Note 17)	(3,887)	(3,972)
	23,104	43,367

11. Income tax expenses *(continued)*

The tax on the Group's (loss)/profit before tax differs from the theoretical amount that would arise using the preferential tax rate in Shenzhen, the PRC, the location in which the Group's major subsidiaries operate as follows:

	2012 **RMB'000**	**2011** **RMB'000**
(Loss)/profit before income tax	(22,675)	114,999
Tax calculated at a tax rate of 25% (2011: 24%)	(5,669)	22,533
Tax impact of:		
– Deferred tax liabilities on expected profits distribution	1,459	2,541
– Expenses not deductible for tax purposes	8,127	11,724
– Unrecognised tax loss	19,187	6,400
– Withholding tax on dividend	–	1,750
– Over-provision in prior years	–	(1,581)
Income tax expense	23,104	43,367

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

(b) Hong Kong profits tax has not been provided as the Group did not generate any assessable profits in Hong Kong during the year. Taxes on overseas profits have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

(c) 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. On 16 March 2007, People's Congress passed the Corporate Income 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, respectively.

(d) 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**").

12. Profit attributable to owners of the Company

The profit attributable to owners of the Company is dealt with in the financial statements of the Company to the extent of RMB67,463,000 (2011: RMB42,828,000).

13. (Loss)/earnings per share

(a) Basic

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

	2012 RMB'000	2011 RMB'000
(Loss)/profit attributable to equity holders of the Company	(45,779)	71,632
Weighted average number of ordinary shares in issue (thousands)	2,495,000	2,498,561
Basic (loss)/earnings per share (RMB per share)	(0.02)	0.03

(b) Diluted

Diluted (loss)/earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

The basic and diluted (loss)/earnings per share are the same as there were no dilutive potential ordinary shares throughout the years.

14. Dividends

(a) Dividends payable to owners of the company attributable to the year:

	2012 RMB'000	2011 RMB'000
Interim dividend declared and paid of RMB 0 cents per share (2011: RMB1.33 cents per share)	–	33,250
Final dividend proposed after the end of the reporting period of RMB 0 cents per share (2011: RMB0.62 cents per share)	–	15,469
Special dividend proposed after the reporting period of RMB 0 cents per share (2011: RMB2.21 cents per share)	–	55,139
	–	103,858

(b) Dividends payable to owners of the company attributable to the previous financial year, approved during the year.

	2012 RMB'000	2011 RMB'000
Final dividend proposed after the end of the reporting period of RMB0.62 cents per share (2011: RMB0.41 cents per share)	15,469	10,250
Special dividend proposed after the reporting period of RMB2.21 cents per share (2011: RMB 0 cents per share)	55,139	–
	70,608	10,250

15. Property, plant and equipment

	Buildings RMB'000 Note (i)	Machinery and equipment RMB'000	Furniture and other equipment RMB'000	Motor vehicles RMB'000	Leasehold improvement RMB'000	Others RMB'000	Construction-in- progress RMB'000	Total RMB'000
At 1 January 2011								
Cost	69,637	70,326	36,647	11,863	310,672	2,328	–	501,473
Accumulated depreciation	(4,730)	(37,353)	(28,113)	(6,878)	(190,119)	(1,302)	–	(268,495)
Net book amount	64,907	32,973	8,534	4,985	120,553	1,026	–	232,978
Year ended 31 December 2011								
Opening net book amount	64,907	32,973	8,534	4,985	120,553	1,026	–	232,978
Additions	–	12,610	13,049	4,442	64,350	20	23,805	118,276
Transfers	–	–	–	–	9,559	–	(9,559)	–
Disposals (cost)	–	(313)	(387)	–	(83)	–	–	(783)
Disposals (depreciation)	–	10	332	–	–	–	–	342
Depreciation	(1,095)	(6,115)	(1,385)	(1,260)	(29,015)	(449)	–	(39,319)
Closing net book amount	63,812	39,165	20,143	8,167	165,364	597	14,246	311,494
At 31 December 2011								
Cost	69,637	82,623	49,309	16,305	384,498	2,348	14,246	618,966
Accumulated depreciation	(5,825)	(43,458)	(29,166)	(8,138)	(219,134)	(1,751)	–	(307,472)
Net book amount	63,812	39,165	20,143	8,167	165,364	597	14,246	311,494
Year ended 31 December 2012								
Opening net book amount	63,812	39,165	20,143	8,167	165,364	597	14,246	311,494
Reclassification	2	(19,428)	17,443	(102)	2,085	–	–	–
Additions	227,955	7,548	21,208	12	90,473	–	14,007	361,203
Transfers (Note 16)	–	1,167	6,198	–	2,697	–	(17,583)	(7,521)
Disposals (cost)	–	(94)	(7,104)	(6,525)	(134)	–	–	(13,857)
Disposals (depreciation)	–	25	5,724	5,194	84	–	–	11,027
Depreciation	(2,368)	(3,688)	(14,494)	(2,449)	(31,814)	(350)	–	(55,163)
Impairment	(42,000)	–	–	–	–	–	–	(42,000)
Closing net book amount	247,401	24,695	49,118	4,297	228,755	247	10,670	565,183
At 31 December 2012								
Cost	297,593	71,817	87,054	9,691	479,619	2,348	10,670	958,792
Accumulated depreciation	(8,192)	(47,122)	(37,936)	(5,394)	(250,864)	(2,101)	–	(351,609)
Impairment	(42,000)	–	–	–	–	–	–	(42,000)
Net book amount	247,401	24,695	49,118	4,297	228,755	247	10,670	565,183

(i) The Group was in the process of applying the building ownership certificate for its property located in Haifeng. As at 31 December 2012, the cost of this property amounted to RMB168 million. Please refer to Note 18 (b)(iv) for the details.

16. Intangible assets

	Computer software RMB'000	Entry right RMB'000	Total RMB'000
At 1 January 2011			
Cost	–	–	–
Accumulated amortisation	–	–	–
Net book amount	–	–	–
Year ended31 December 2011			
Opening net book amount	–	–	–
Additions	–	32,186	32,186
Amortisation	–	(301)	(301)
Closing net book amount	–	31,885	31,885
At 31 December 2011			
Cost	–	32,186	32,186
Accumulated amortisation	–	(301)	(301)
Net book amount	–	31,885	31,885
Year ended 31 December 2012			
Opening net book amount	–	31,885	31,885
Transfers (Note 15)	7,521	–	7,521
Additions	14,809	–	14,809
Amortisation	(333)	(1,609)	(1,942)
Closing net book amount	21,997	30,276	52,273
At 31 December 2012			
Cost	22,330	32,186	54,516
Accumulated amortisation	(333)	(1,910)	(2,243)
Net book amount	21,997	30,276	52,273

17. Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The balances shown in the consolidated balance sheet are, after appropriate offsetting, as follows:

	2012 RMB'000	2011 RMB'000
Deferred income tax assets	48,102	42,756
Deferred income tax liabilities	4,000	2,541
Net deferred income tax assets	44,102	40,215

The movement on net deferred income tax account is as follows:

	2012 RMB'000	2011 RMB'000
At 1 January	40,215	34,200
Tax credited to consolidated income statement (Note 11)	3,887	3,972
Transfer to current tax upon distribution of dividends	–	2,043
At 31 December	44,102	40,215

The movements in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

	Deferred tax assets		
	Accrued expenses, deferred revenue and others RMB'000	Depreciation on property, plant and equipment RMB'000	Total RMB'000
Balance at 1 January 2011	25,048	11,195	36,243
Credited to the consolidated income statement	4,948	1,565	6,513
Balance at 31 December 2011	29,996	12,760	42,756
Balance at 1 January 2012	29,996	12,760	42,756
Credited to the consolidated income statement	4,933	413	5,346
Balance at 31 December 2012	34,929	13,173	48,102

17. Deferred income tax *(Continued)*

	Deferred tax liabilities – Undistributed profits of subsidiaries (a) RMB'000
Balance at 1 January 2011	2,043
Charged to the consolidated income statement	2,541
Transfer to current tax upon distribution of dividend	(2,043)
Balance at 31 December 2011	2,541
Balance at 1 January 2012	2,541
Charged to the consolidated income statement	1,459
Balance at 31 December 2012	4,000

(a) 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 at 31 December 2012, deferred tax liabilities of RMB4,000,000 (31 December 2011: RMB2,541,000) 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 RMB7,013,702 have not been recognised, in respect of the remaining retained profits generated by its PRC entities subsequent to 31 December 2007 amounting to RMB140,274,045, because the directors do not intend to declare dividends out of such retained profits to overseas companies in the foreseeable future.

As at 31 December 2012, the Group's certain subsidiaries have not recognised deferred tax assets in respect of cumulative tax losses carried forward of RMB102,436,763 (2011: RMB25,688,763) which will expire within 5 years under the current tax regulation. 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.

18. Trade and other receivable

	Group		Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Current portion:				
Trade receivables (a)	23,238	18,037	–	–
Prepayments (b)	11,129	512,330	–	68,000
Lease deposits	38,395	34,626	–	5,081
Amounts due from subsidiaries	–	–	318,485	64,955
Amounts due from related parties (Note 29(d))	1,935	1,536	–	–
Other receivables (c)	6,289	10,463	–	–
Prepaid rental	18,445	13,392	–	–
Interest receivable	8,644	9,385	8,146	9,385
	108,075	599,769	326,631	147,421
Allowance for impairment loss on prepayments for acquisition of a property in Haifeng (b)	–	(32,000)	–	–
	108,075	567,769	326,631	147,421
Non-current portion:				
Prepayments for decoration work (b)	7,920	–	–	–
Prepayments for acquisition of a property in Lufeng (b)	144,792	–	–	–
	152,712	–	–	–
	260,787	567,769	326,631	147,421

18. Trade and other receivable *(Continued)*

(a) Trade receivables

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

The ageing analysis of the trade receivables of the Group based on invoice date or the time from the initial recognition of receivables is as follows:

	2012 RMB'000	2011 RMB'000
0 – 30 days	14,609	15,162
31 – 90 days	7,152	2,400
91 – 365 days	1,477	475
	23,238	18,037

All trade and bills receivables are denominated in RMB and their carrying amounts approximated their fair values as at the balance sheet date.

As at 31 December 2012, trade receivables of RMB23,238,000 were fully performing (2011: RMB18,037,000).

(b) Prepayments (current and non-current portion)

		Group		Company	
	Note	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Prepayments for decoration work	(i)	7,920	88,896	–	–
Prepayments for acquisition of a distribution centre in Shenzhen	(ii)	–	41,250	–	–
Prepayments for acquisition of a three-storey commercial property in Shenzhen	(iii)	–	131,250	–	–
Prepayments for acquisition of a property in Haifeng	(iv)	–	84,000	–	68,000
Prepayments for purchase of merchandise	(v)	11,129	166,934	–	–
Prepayments for acquisition of a property in Lufeng	(vi)	144,792	–	–	–
		163,841	512,330	–	68,000
Allowance for impairment loss on prepayments for acquisition of a property in Haifeng	(iv)	–	(32,000)	–	–
		163,841	480,330	–	68,000

(i) The balance as at 31 December 2012 represented the prepayments for decoration work for a department store of the Group. The balance as at 31 December 2011 included payments of RMB55.3 million made to two decoration companies as prepayments. The contracts for the decoration work were subsequently terminated, and the prepayments of RMB55.3 million were refunded from the respective decoration companies to the Group in March 2012 and April 2012 because the completion of the properties for delivery to the Group was delayed.

18. Trade and other receivable *(Continued)*

(b) Prepayments (current and non-current portion) *(Continued)*

(ii) The balance as at 31 December 2011 represented a prepayment of the price for the acquisition of a distribution centre in Shenzhen. The Board decided to terminate the relevant non-binding letter of intent and the prepayment of RMB41.25 million was refunded to the Group in March 2012. No construction work had commenced.

(iii) The balance as at 31 December 2011 represented a prepayment of the price for the acquisition of a three-storey commercial property located in Shenzhen. The prepayment represented 50% of the purchase price under the sale and purchase agreement. The sale and purchase agreement for the property was subsequently terminated and the prepayment of RMB131.25 million was refunded to the Group in March 2012.

(iv) The balance as at 31 December 2011 represented a prepayment of the price for the acquisition of a property located in Haifeng, Guangdong Province, the PRC. In accordance with the relevant sale and purchase agreement, the purchase price for the property was RMB168.0 million.

After signing of the relevant contract, an amount of RMB84.0 million was settled by the Group, of which RMB16.0 million was paid to the developer 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 as instructed by the developer.

On 1 April 2012, the Group made a further payment of RMB79.0 million to the developer in the PRC (which included RMB11.0 million as partial settlement of second instalment and RMB68.0 million as equivalent to the amount originally paid by the Group in Hong Kong), and the developer also refunded to the Group RMB68.0 million. In July 2012, the Group made a further payment of RMB68.0 million to the developer. As at 31 December 2012, net payments of RMB163.0 million have been made by the Group to the developer for the acquisition of the property located in Haifeng. Pursuant to the relevant sale and purchase agreement, the remaining balance of RMB5 million will be paid when the building ownership certificate of the property is issued.

The prepayment has been transferred to property, plant and equipment upon the completion of construction in September 2012.

Further information on the above prepayments and the related issues were set forth in the announcement of the Company dated 5 December 2012.

(v) The balance as at 31 December 2012 represented prepayments made to suppliers. The balance as at 31 December 2011 included payments of RMB152.5 million made to three entities as prepayments for the purchase of merchandise at 31 December 2011. Additional prepayments of RMB110.0 million were made by the Group to two of these entities in January 2012. All of these prepayments were refunded to the Group by these three entities in March 2012.

18. Trade and other receivable *(Continued)*

(b) Prepayments (current and non-current portion) *(Continued)*

(vi) The balance as at 31 December 2012 represented a prepayment for the acquisition of a property in Lufeng, Guangdong Province, the PRC. In October 2012, the Group signed a sale and purchase agreement with Lufeng Huace Property Development Co., Ltd (陸豐市華策置地有限公司) for the acquisition of the property at a price of RMB206,846,080. The Group engaged a property valuer to perform a valuation of the property as at 31 December 2012. Based on the valuation report, the fair value of the property was RMB208,900,000 as at 31 December 2012.

(c) Breakdown of other receivables of the Group is as follows:

	2012 RMB'000	2011 RMB'000
Other receivables	16,289	20,463
Allowance for tendering deposit (Note 7)	(10,000)	(10,000)
	6,289	10,463

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

19. Inventories

	2012 RMB'000	2011 RMB'000
Merchandise held for resale	255,816	255,007
Allowance for obsolescence	(3,094)	(2,716)
	252,722	252,291

The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2012 RMB'000	2011 RMB'000
Carrying amount of merchandise sold	958,816	995,481
Write-down of inventories	378	2,716
	959,194	998,197

20. Bank deposits, cash and cash equivalents

	Group		Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Fixed term	230,500	350,000	230,500	350,000
Restricted (a)	387,040	430,152	–	430,152
Total bank deposits	617,540	780,152	230,500	780,152
Cash and cash equivalents	1,144,010	953,303	24,889	24,232
	1,761,550	1,733,455	255,389	804,384

The balances are denominated in the following currencies:

	Group		Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
RMB	1,680,980	1,715,216	254,607	803,600
HKD	80,570	18,239	782	784
	1,761,550	1,733,455	255,389	804,384

The average effective interest rate on fixed term deposits with maturity more than 3 months was 3.5% (2011: 3.5%).

(a) Restricted bank deposits are as follows:

	Group		Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Pledged deposits for bank borrowings	387,040	430,152	–	430,152

Bank deposits of RMB387,040,000 as at 31 December 2012 were pledged as security for the Group's borrowings (2011: Bank deposits of RMB430,152,000 were pledged as security for the Group's and the Company's borrowings) (Note 25). The average effective interest rate of the restricted bank deposits was 0.8% (2011:0.45%).

21. Share capital and share premium

		Issued and fully paid			
	Number of ordinary shares, authorized (thousand)	Number of ordinary shares (thousand)	Ordinary share capital RMB'000	Share premium RMB'000 (Note i)	Total RMB'000
At 1 January 2011	1,500,000	2,500,000	214,318	894,338	1,108,656
Purchase of own shares (Note ii)	–	(5,000)	(410)	–	(410)
At 31 December 2011 and 2012	1,500,000	2,495,000	213,908	894,338	1,108,246

(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) Purchase of own shares

During the year ended 31 December 2012, the Company did not repurchase its own ordinary shares. During year ended 31 December 2011, the Company repurchased 5,000,000 shares at an aggregate price of HK$5,130,000 (equivalent to RMB4,215,000). 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 repurchased of shares of RMB3,805,000 was charged to retained profits.

22. Other reserves

Group

	Statutory reserve RMB'000	Merger reserve RMB'000	Currency translation reserve RMB'000 (Note i)	Capital redemption reserve RMB'000 (Note ii)	Total RMB'000 (Note 21 (ii))
At 1 January 2011	76,175	107,372	93	–	183,640
Appropriation to statutory reserves	5,746	–	–	–	5,746
Purchase of own shares	–	–	–	410	410
Currency translation differences	–	–	208	–	208
At 31 December 2011	81,921	107,372	301	410	190,004
Appropriation to statutory reserves	5,000	–	–	–	5,000
Currency translation differences	–	–	4	–	4
At 31 December 2012	86,921	107,372	305	410	195,008

Company

	Capital redemption reserve RMB'000 (Note 21 (ii))	Contributed surplus RMB'000 (Note iii)	Total RMB'000
At 1 January 2011	–	107,372	107,372
Purchase of own shares	–	–	–
– transfer between reserves	410	–	410
At 31 December 2011 and 2012	410	107,372	107,782

(i) 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. In 2012, RMB5,000,000 was appropriated to statutory reserve (2011: RMB5,746,000)

(ii) 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) 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.

23. Retained profits

	Group RMB'000	Company RMB'000
At 1 January 2011	238,748	10,351
Profit for the year	71,632	42,828
Purchase of own shares		
– transfer between reserves	(410)	(410)
– premium paid	(3,805)	(3,805)
Dividends paid relating to 2010	(43,500)	(43,500)
Appropriation to reserves	(5,746)	–
At 31 December 2011	256,919	5,464
At 1 January 2012	256,919	5,464
(Loss)/profit for the year	(45,779)	67,463
Dividends	(70,608)	(70,608)
Appropriation to reserves	(5,000)	–
At 31 December 2012	135,532	2,319

24. Trade and other payables

	Group		Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Trade payables (Note a)	400,398	347,448	–	–
Rental payables	145,194	102,553	–	–
Other tax payables	35,292	53,668	–	–
Deferred income	34,934	31,665	–	–
Accrued wages and salaries	26,421	15,650	–	609
Amounts due to subsidiaries	–	–	80,435	71,627
Amount due to related parties (Note 29 (d))	3,170	2,959	–	–
Advances from suppliers (b)	5,970	69,637	–	–
Advances received from customers (c)	409,259	413,903	–	–
Dividend payable (Note 14(b))	70,608	–	70,608	–
Other payables and accruals	98,187	67,098	51	2,288
	1,229,433	1,104,581	151,094	74,524

24. Trade and other payables *(continued)*

(a) The ageing analysis of the trade payables of the Group was follows:

	2012 RMB'000	2011 RMB'000
0 – 30 days	26,399	120,353
31 – 60 days	90,767	94,061
61 – 90 days	111,326	39,919
91 – 365 days	124,905	63,356
1 year – 2 years	28,960	17,090
2 years – 3 years	17,585	12,379
Over 3 years	456	290
	400,398	347,448

(b) As at 31 December 2011, advances received by the Group from its suppliers amounted to RMB69,600,000. During 2012, RMB63,600,000 out of the amount received was returned to the suppliers.

(c) The amount mainly represented cash received for prepaid card sold.

25. Borrowings

	Group		Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Bank borrowings, secured	243,255	243,210	–	243,210

At 31 December 2012, the bank borrowings were denominated in Hong Kong dollar and subject to an annual average interest rate of 1.005% (2011: 1.104%). The bank borrowings were repayable within one year and secured by the pledged deposits of RMB387,040,000 (2011: RMB430,152,000) (Note 20(a)).

The fair value of the borrowings approximated their carrying amount.

The exposure of the borrowings of the Group and the Company to interest rate changes and the contractual repricing dates at the end of the reporting period are as follows:

	Group		Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Less than 1 year	243,255	243,210	–	243,210

26. Investment in and amounts due from subsidiaries – Company

(a) Investments in subsidiaries

	2012 RMB'000	2011 RMB'000
Unlisted shares, at cost	107,380	107,380

Name	Place of incorporation/ operation and kind of legal entity	Principal activities	Particulars of issued share capital	Equity interest held Direct	Equity interest held Indirect
Shirble Department Store Investment Limited ("**Shirble Hong Kong**")	Hong Kong, limited liability company	Investment holding	HKD1	100%	–
Shirble Department Store (Hong Kong) Limited	Hong Kong, limited liability company	Investment holding	USD1,200	–	100%
Shenzhen Shirble Department Store Co., Ltd. ("**Shirble Shenzhen**")	the PRC, wholly foreign owned enterprises	Operation and management of department stores	HKD460,000,000	–	100%
Shenzhen Shirble Chain Store Limited Liability Company ("**Shirble Chain Store**")	the PRC, limited liability company	Operation and management of department stores	RMB10,000,000	–	100%
Changsha Shirble Department Store Limited Liability Company	the PRC, limited liability company	Operation and management of department stores	RMB30,000,000	–	100%
Changsha Shirble Apparel Company Limited	the PRC, limited liability company	Selling merchandise and apparels	RMB100,000	–	100%
Shirble Mingxing Trading Company Limited	the PRC, limited liability company	Selling merchandise	RMB100,000	–	100%
Shenzhen Xiangzhixuan Trading Company Limited	the PRC, limited liability company	Selling merchandise	RMB100,000	–	100%
Shenzhen Ruizhuo Trading Company Limited	the PRC, limited liability company	Selling merchandise	RMB100,000	–	100%
Shenzhen Yuzhixiang Trading Company Limited	the PRC, limited liability company	Selling merchandise	RMB1,000,000	–	100%
Dongguan Shirble Department Store Co., Ltd	the PRC, limited liability company	Operation and management of department stores	RMB30,000,000	–	100%
Shanwei Shirble Department Store Co., Ltd	the PRC, wholly foreign owned enterprises	Operation and management of department stores	HKD230,000,000	–	100%
Luhe Shirble Department Store Co., Ltd ("**Luhe Shirble**") (i)	the PRC, wholly foreign owned enterprises	Operation and management of department stores	RMB200,000,000	–	100%

(i) Luhe Shirble was incorporated in 2012.

26. Investment in and amounts due from subsidiaries – Company *(continued)*

(b) Amounts due from subsidiaries

	2012 RMB'000	2011 RMB'000
Amounts due from subsidiaries – non-current	680,041	480,041

Amounts due from subsidiaries are unsecured, interest free, denominated in RMB and repayable over 1 year.

27. Cash generated from operations

Reconciliation of profit before income tax to cash generated from operations is set out as below:

	2012 RMB'000	2011 RMB'000
(Loss)/profit before income tax	(22,675)	114,999
Adjustments for:		
– Depreciation (Note 15)	55,163	39,319
– Amortisation of intangible assets (Note 16)	1,942	301
– Impairment of loss (Note 7)	10,000	32,000
– Provision for tendering deposits (Note 7)	–	10,000
– Loss/(gain) on disposal of property, plant and equipment (Note 7)	677	(78)
– Interest income (Note 10)	(27,439)	(22,241)
– Interest expense (Note 10)	2,784	2,285
Changes in working capital (excluding the effect of exchange differences on consolidation):		
– Inventories	(431)	(36,753)
– Trade and other receivables	113,935	(175,002)
– Trade and other payables	47,719	208,727
– Advances to related parties (Note 29(c))	(6,000)	(66,511)
– Repayments from related parties (Note 29(c))	6,000	66,511
– Advances from third parties (a)	30,000	70,000
– Repayment of advances to third parties (a)	(30,000)	(70,000)
Cash generated from operations	181,675	173,557

(a) An amount of RMB70 million was received from customer Dongguan Tongqi Trading Co., Ltd. ("**Tongqi**") during the period from 29 November 2011 and 20 December 2011, which was subsequently returned to Tongqi by the Group on 29 December 2011 and 30 December 2011. An amount of RMB30 million was received from Shenzhen Taida Hongyun Trading Co., Ltd ("**Taida Hongyun**") on 20 January 2012, which was subsequently returned to Taida Hongyun by the Group on 14 March 2012.

28. Commitments

(a) Capital commitments

Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

	2012 RMB'000	2011 RMB'000
Capital commitments – expenditures of property, plant and equipment		
– Contracted but not provided for (i)	62,484	267,434
– Authorised but not contracted for (ii)	–	221,276
	62,484	488,710

(i) The contract related to the capital commitment of RMB123.75 million for the purchase of a distribution centre as at 31 December 2011 was cancelled in March 2012 (Note 18(b) (ii)).

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

- The contracts related to the capital commitment of RMB23.7 million for decoration work for two stores were terminated subsequent to 31 December 2011 (see note 18(b) (i)).

- The contracts related to the capital commitment of RMB131.25 million for the purchase of a property in Shenzhen were terminated in March 2012 (see note 18(b) (iii)).

(b) Operating lease commitments – the Group as the lessee

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2012 RMB'000	2011 RMB'000
Land and buildings:		
Not later than 1 year	170,186	141,442
Later than 1 year and not later than 5 years	705,101	696,643
Over 5 years	1,704,080	1,162,069
	2,579,367	2,000,154

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.

28 Commitments *(continued)*

(c) Operating lease commitments – the Group as the lessor

The future aggregate minimum lease receipts under non-cancellable operating leases are as follows:

	2012 RMB'000	2011 RMB'000
Land and buildings:		
Not later than 1 year	33,065	16,558
Later than 1 year and not later than 5 years	60,439	25,288
Over 5 years	35,526	6,805
	129,030	48,651

29. Related party transactions

The Group is controlled by Shirble Department Store Limited (incorporated in the BVI) and Homey Enterprises Limited (incorporated in the BVI), which own 66.6% and 5% of the Company's shares respectively. The remaining 28.4% of the shares are widely held. The ultimate parent of the Group is Xiang Rong Investment Limited (incorporated in the BVI). The ultimate controlling party of the Group is Mr YANG Xiangbo.

The following transactions were carried out with related parties:

Name	Relationship
Mr. YANG Xiangbo	One of the Controlling Shareholders
Shenzhen Ruizhuo Investment Development Company Limited ("**Ruizhuo Investment**")	Owned in equal shares by Mr. YANG Xiangbo's nephew and niece
Shenzhen Hengda Investment Development Company Limited ("**Shenzhen Hengda**")	Ultimately controlled by Mr. YANG Xiangbo
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
Shirble Property Management (Shenzhen) Co., Ltd. ("**Shirble Property Management**")	Controlled by Mr. YANG Xiangbo
Shirble Group (Shenzhen) Property Development Co., Ltd. ("**Shirble Property**")	Controlled by Mr. YANG Xiangbo
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

29. Related party transactions *(continued)*

The following transactions were carried out with related parties:

(a) Sales of goods

	2012 RMB'000	2011 RMB'000
Tangming	1,300	–

(b) Rental expenses to related parties

	2012 RMB'000	2011 RMB'000
Ruizhuo Investment	829	1,457
Shenzhen Guozhan	4,576	8,048
Shirble Inn	198	198
	5,603	9,703

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 favorable to the Group than terms available to or from independent third parties and in the ordinary course of business.

(c) Non-recurring transactions

	2012 RMB'000	2011 RMB'000
Advances to		
Tangming	6,000	54,589
Hengda Investment	–	9,110
Shenzhen Guozhan	–	2,812
	6,000	66,511
Repayment of advance from		
Tangming	(6,000)	(54,589)
Hengda Investment	–	(9,110)
Shenzhen Guozhan	–	(2,812)
	(6,000)	(66,511)

29. Related party transactions *(continued)*

(d) Balances with related parties

(i) Amounts due from related parties

	2012 RMB'000	2011 RMB'000
Shenzhen Guozhan	1,935	1,536

(ii) Amounts due to related parties

	2012 RMB'000	2011 RMB'000
Ruizhuo Investment	1,317	1,132
Shirble Inn	26	–
Shirble Property Management	260	260
Mr. Yang Xiangbo	1,567	1,567
	3,170	2,959

The outstanding balances with these related parties are unsecured, interest-free and repayable on demand.

(e) Key management compensation

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

	2012 RMB'000	2011 RMB'000
Basic salaries and allowances	11,150	5,964
Year-end bonuses	1,886	282
Contributions to the retirement scheme	22	29
	13,058	6,275

30. Contingent liabilities

Legal proceedings in the PRC have commenced against the Group by certain suppliers in respect of disputes on contract terms and trademark infringement claim. As at 31 December 2012, the legal proceedings were ongoing. Provision of approximately RMB4,369,000 has been made in the consolidated financial statements for the year ended 31 December 2012, which the directors believe is adequate to cover the amounts, if any, payable in respect of these claims.

31. Comparative figures

The comparative figures in the consolidated financial statements have been adjusted to reflect the following:

- Bank deposits with an initial term of over 3 months of RMB350,000,000 have been reclassified from "cash and cash equivalents" to "bank deposits" in the consolidated balance sheet as at 31 December 2011.

- The increase in the bank deposits mentioned above has been reclassified as "cash flows from investing activities" in the consolidated statement of cash flows for the year ended 31 December 2011.

- The increase in restricted bank deposits of RMB430,152,000 has been reclassified from "cash flows from financing activities" to "cash flows from investing activities" in the consolidated statement of cash flows for the year ended 31 December 2011.

The comparative figures of the company balance sheet have been adjusted to reflect the following:

- Amounts due from subsidiaries not repayable within one year of RMB480,041,000 have been reclassified from current assets to non-current assets in the company balance sheet.

The reclassification of balances in "bank deposits", and "amounts due from subsidiaries – non-current" mentioned above have no impact to the consolidated balance sheet or company balance sheet as at 31 December 2010. Accordingly, the consolidated balance sheet and company balance sheet as at 31 December 2010 have not been presented.

Corporate Information

Director

Executive Director:

YANG Xiangbo
LI Kuansen

Independent non-executive Directors:

ZHAO Jinlin
CHEN Fengliang
JIANG Hongkai
FOK Hei Yu

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Company secretary

CHAN Chore Man, Germaine, CPA

Authorised representatives

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CHAN Chore Man, Germaine

Hong Kong legal advisors

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Stock code

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Audit committee of the Board

ZHAO Jinlin *(Chairperson)*
CHEN Fengliang
JIANG Hongkai
FOK Hei Yu

Remuneration committee of the Board

CHEN Fengliang *(Chairperson)*
YANG Xiangbo
JIANG Hongkai
FOK Hei Yu

Nomination committee of the Board

JIANG Hongkai *(Chairperson)*
YANG Xiangbo
ZHAO Jinlin
FOK Hei Yu

Principal share registrar and transfer office in the Cayman Islands

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Cayman Islands

Hong Kong share registrar

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Industrial and Commercial Bank of China
Shenzhen Development Bank
China Construction Bank
Bank of Shanghai

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UBS AG

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