# 2013 Annual Report

**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

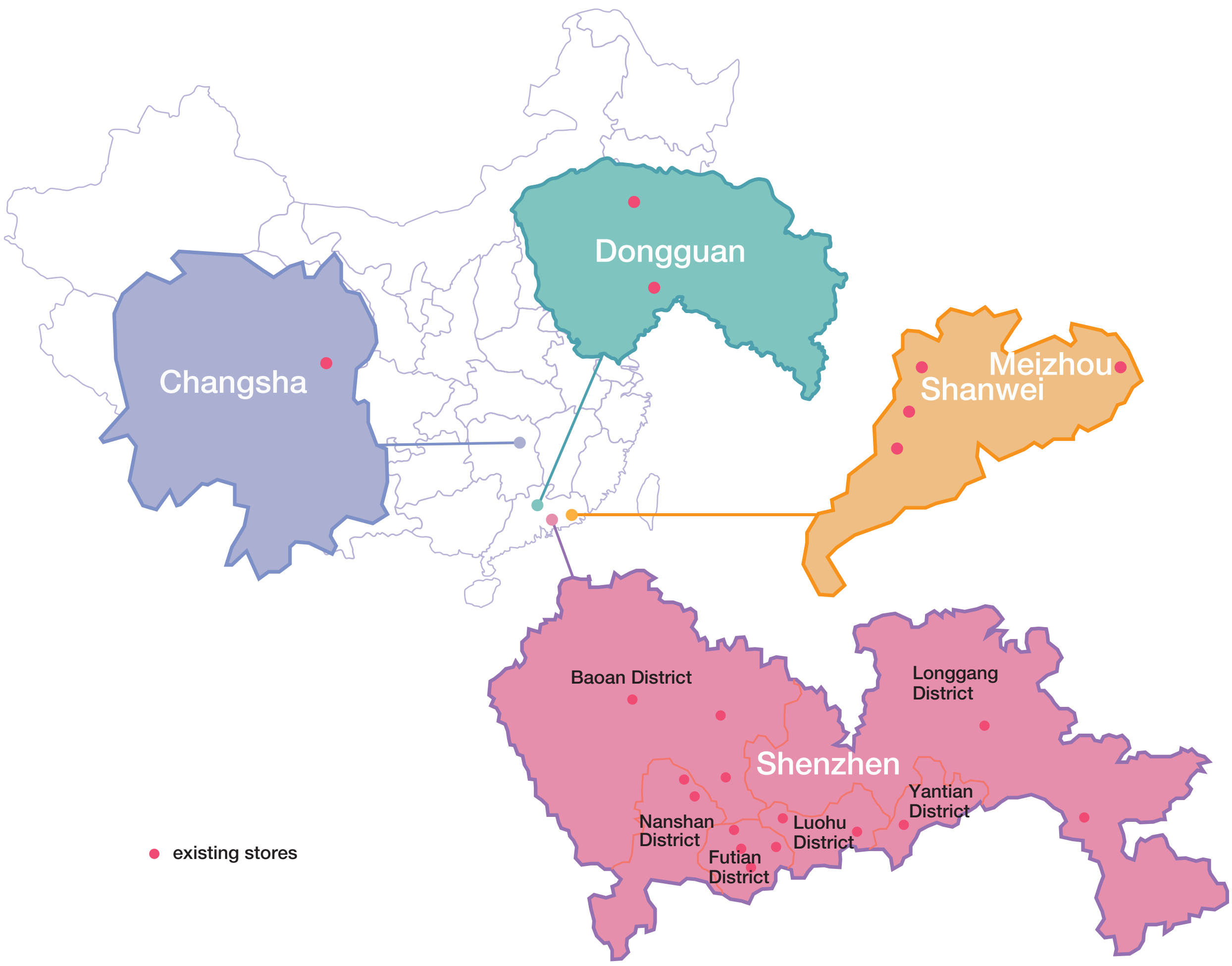
# CONTENTS

# 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 2013, the Group owned and operated 21 department stores, 14 of which are within Shenzhen, two in Dongguan, three in Shanwei (a coastal city in the eastern Guangdong Province), one in Meizhou City (Guangdong Province) and one in Changsha (the capital city of Hunan Province), with a total gross floor area ("**GFA**") of 338,382.2 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

## OPERATING RESULTS

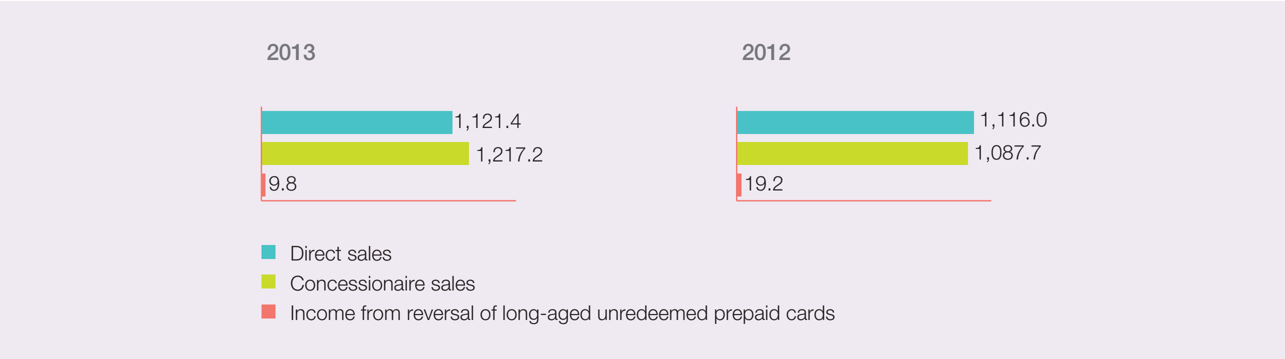
| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| RMB'000 | 2013 | 2012 | 2011 | 2010 | 2009 |
| Revenue | 1,356,502 | 1,372,030 | 1,433,586 | 1,279,619 | 1,148,030 |
| (Loss)/profit before finance costs and tax | (242,305) | (47,330) | 95,043 | 260,966 | 138,341 |
| (Loss)/profit before income tax | (217,191) | (22,675) | 114,999 | 267,466 | 174,832 |
| (Loss)/profit attributable to owners of the Company | (219,515) | (45,779) | 71,632 | 200,082 | 140,304 |
| (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 | (0.09) | (0.02) | 0.03 | 0.10 | 0.07 |

## ASSETS, LIABILITIES AND EQUITY

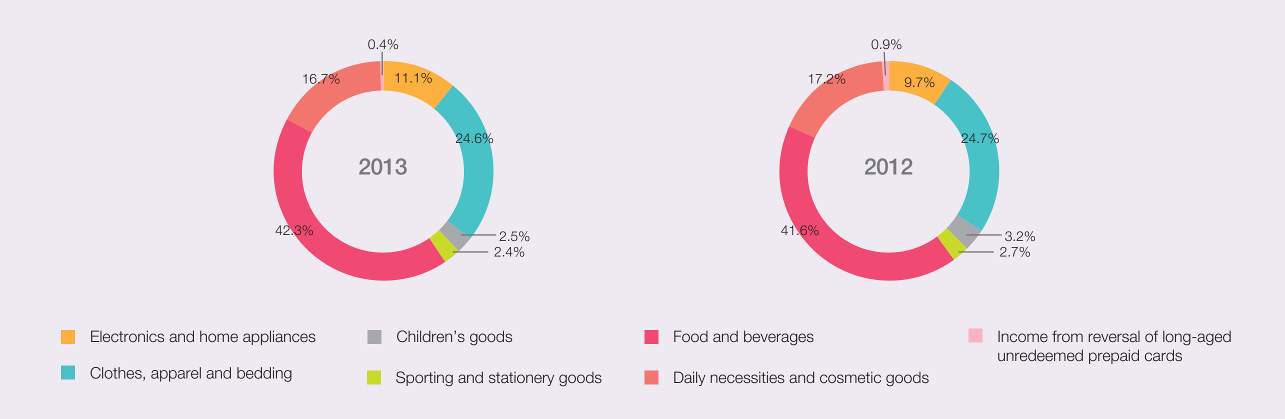
| | At 31 December | | | | |
|---|---|---|---|---|---|
| RMB'000 | 2013 | 2012 | 2011 | 2010 | 2009 |
| Total assets | 2,526,946 | 2,940,617 | 2,939,650 | 2,457,413 | 1,269,343 |
| Total liabilities | 1,307,477 | 1,501,831 | 1,384,481 | 926,369 | 1,007,122 |
| Total equity | 1,219,469 | 1,438,786 | 1,555,169 | 1,531,044 | 262,221 |

## GROSS SALES PROCEEDS – BY CATEGORY

RMB (million)



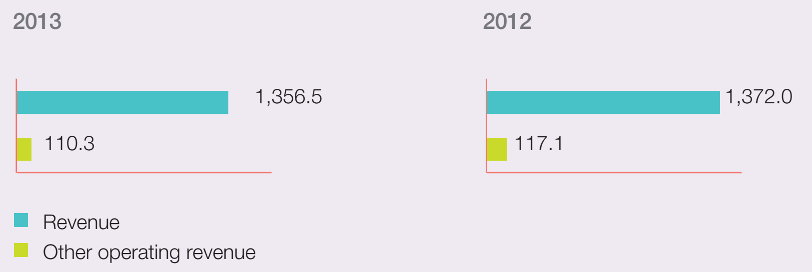

## GROSS SALES PROCEEDS - BY PRODUCT CATEGORY



# FINANCIAL HIGHLIGHTS

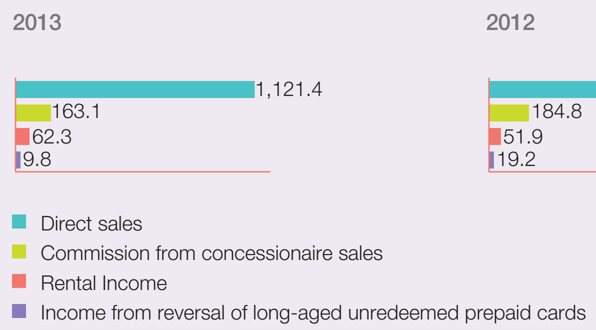
## REVENUE AND OTHER OPERATING REVENUE

RMB (million)




## REVENUE BY CATEGORY

RMB (million)

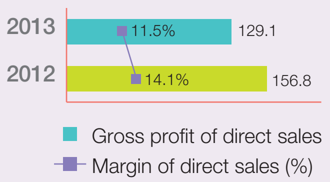


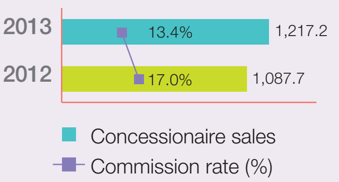

## GROSS PROFIT AND MARGIN OF DIRECT SALES

RMB (million)

## CONCESSIONAIRE SALES AND COMMISSIONS AS A PERCENTAGE OF CONCESSIONAIRE SALES

RMB (million)



# CHAIRMAN'S STATEMENT


THE YEAR OF 2013 WAS A DIFFICULT YEAR FOR RETAIL BUSINESS IN TIER-ONE CITIES, BUT THE ACCELERATING URBANISATION OF THE RURAL AREAS SIGNIFICANTLY IMPROVE THE PERFORMANCE OF RETAIL MARKET AMONGST THE SECOND-TIER OR THIRD-TIER CITIES IN CHINA AND THE RURAL AREAS.

## MARKET REVIEW

In 2013, the China economy grew modestly and was primarily driven by national investments in infrastructure. The growth in domestic consumption continues to be slow. According to the "*Consumer Market Development Report 2013*" published by the Ministry of Commerce, the growth in retail sales of consumer goods in China in 2013 was amongst the lowest as compared with the previous years. There were no new consumption stimulus policies announced by the PRC government. More importantly, the reduction in the government and extravagant spending contributed to the sluggish market conditions. Because of the slow economic growth and the fierce competition in the already fragmented market, the year of 2013 was a difficult year for retail business in tier-one cities, albeit that the consumption spending of the middle class in those cities continued to increase.

Notwithstanding the slow growth in tier-one cities, the accelerating urbanisation of the rural areas significantly improve the performance of retail market amongst the second-tier or third-tier cities in China and the rural areas. The city lifestyle and mindset are increasingly accepted by the rural population, and consumers nowadays pursue a high-quality lifestyle with high requirements on food safety and quality purchases from branded supermarkets and department stores. The urbanisation creates attractive opportunities for branded retailers which are able to deliver high quality goods and services that meet the consumers' growing demand.

## BUSINESS REVIEW

### Strategic and cautious network expansion plan

In light of the changing market conditions, the Group uses a twofold strategy for the objective to maintain its competitiveness. While the Group is subject to the adverse business environment in the retail market in Shenzhen – one of the most competitive tier-one cities in China, the Group, being one of the established branded department stores in Shenzhen, has been constantly reviewing the business strategies with the goal of strengthening its market position and market share for its existing stores. The Group has also gradually expanded its department store network to second-tier or third-tier cities at which the growth potential of retail business is expected to grow at a higher pace.

# CHAIRMAN'S STATEMENT

From 2011 to 2012, the Group opened eight new stores, with two in Shenzhen, four in Dongguan and two in Shanwei. In January and September 2013, the Group opened the Xingning Store with GFA of 23,996.0 sq.m. in Meizhou City, Guangdong Province, and the Dapeng Store with GFA of 8,817.0 sq.m. in Shenzhen.

Since most of these new stores are of relatively short operating history, the revenue generated by these stores have yet to reach such levels to cover the operating expenses. The profitability of the Group has therefore been adversely affected. In particular, in Dongguan, as part of the Group's initial effort to tap new markets, the Group encountered worse-than-expected market conditions in 2013. The department stores of the Group in Dongguan incurred operating losses and were only able to contribute an insignificant percentage of revenue to the Group. Following re-assessment of the future market conditions, the Directors decided to reduce its market presence in Dongguan gradually. As a result, an one-off impairment loss and related expenses were recognised in 2013 – as a result of the closure/under-performance of certain department stores in Dongguan. Nevertheless, the Directors continue to believe in its expansion strategy in lower-tier cities in China, and are confident in the growth prospects of Shanwei and Meizhou. The Group will also conduct more extensive marketing analysis and studies before penetrating into new city markets.

As of 31 December 2013, the Group had a total of 21 department stores in operation, with a total GFA of 338,382.2 sq.m., representing a decrease of 7.2% when compared with a total of 21 department stores and a total GFA of 364,465.7 sq.m. for the corresponding period of 2012.

## Strategic alliances with suppliers and concessionaires

The Group has forged strategic alliances with certain suppliers and concessionaires, enabling the Group to procure branded products more effectively to better attract customers, as well as to provide concessionaires with preferential priority in setting up concession counters in the Group's stores. All of these efforts aimed at stabilizing product sourcing and optimizing the product mix so as to satisfy the range of needs and preferences of various customer segments and to focus on promoting quality locally-branded products.

# CHAIRMAN'S STATEMENT

### Upgrade of the information technology system and enhancement of internal control procedures

With the implementation of the Group's information and technology system, functions including financial analysis modules, logistics and point-of-sale (POS) management operations have been added and enhanced continually. Coupled with the enhancement of internal control procedures, overall operational and management efficiency have been improved. The Group is also exploring the use of office automation (OA) system to further promote efficiency and corporate governance environment.

### Change of senior management

In September 2013, Mr. Yang Ti Wei ("**Mr. Yang**") was appointed as the Chief Executive Officer and executive Director of the Group following the resignation of Mr. Li Kuansen. Mr. Lam Man Tin was appointed as the CEO strategist to assist the new Chief Executive Officer of the Group to establish and execute the overall corporate strategies of the Group.

Mr. Yang has been the executive vice president of the Group since 2009, while Mr. Lam served as the managing director of Aeon Stores (Hong Kong) Co. Limited (Stock code: 984) from May 2006 to May 2012. The Directors believe that the new management team's expertise and experiences will help support the business development of the Group.

## BUSINESS OUTLOOK

Despite a general slowdown in the retail business sector in the PRC, the Directors remain cautiously optimistic about the continuous business development. The PRC government is expected to continue to implement favorable policies to stimulate the domestic consumption, which will consequently help stabilize the development of the retail business sector. Hence, the Group will continue to implement its twofold strategy of further enhancing its market presence in Shenzhen and exploring opportunities in third-tier or lower tier cities in Guangdong Province that have benefited from rapid urbanisation.

### Expansion of store network

In October 2012, the Group entered into an agreement to purchase a six-storey commercial property in Lufeng city, Shanwei city with GFA of 25,855.8 sq.m. for a new department store to be opened during the second half of 2014. The Group will continue to penetrate the Shanwei market as well as employ more effective marketing strategies in operating the new store by leveraging the experience gained from the two stores opened in Shanwei city in 2012.

In March and May 2013, the Group entered into rental agreements for (i) a five-storey building in Yangxi City with GFA of 33,427.8 sq.m. and (ii) a five-storey building in Shenzhen with GFA of 28,000.0 sq.m., respectively. Upon the request of the landlord, however, the Group agreed to terminate the lease agreement for the Yangxi building in October 2013 with full refund of the amount paid and the receipt of an early termination penalty. Meanwhile, the department store in the five-storey building in Shenzhen is expected to open in 2015 depending on market sentiment and the performance of the Group's other new department stores.

In March 2014, in order to optimise its operational efficiency and enhance shopping experience, Mingxing Store, the only store in Shenzhen which focuses solely on department store section with GFA of 7,920.1 sq.m., will be relocated to another premises in Shenzhen and is scheduled to re-open in 2015 or 2016. Some of the brands which are currently carried and sold only in Mingxing Store will also be sold in Jingtian Store. These re-arrangements are intended to promote the Group's market presence and brand awareness in the area.

# CHAIRMAN'S STATEMENT

### Enhancement of procurement and merchandise mix

The Group will continue to review and optimise its merchandise mix to fulfill different demands and tastes of different customers, especially those in lower-tier new markets where the Group will focus on the promotion of premium local branded products. The Group is also planning to increase the proportion of direct sourcing for fresh food as well as imported/new products in order to enhance the product variety and reduce the procurement costs. A more stringent procurement control system will be in place as well to raise the Group's pricing competitiveness and product safety standards.

### Optimisation of store area and renovation of selected stores

To focus on the enhancement of the shopping experience for customers, the Group from time to time modifies and improves the store layout and adjusts the locations of different sections within department stores in order to bring to the customers with new shopping experience and convenience. The Group will also assess the possibility of introducing new or additional sections such as home furniture, children's playground, internet café, restaurants and cinemas within store premises for the purpose of promoting the customer flow.

### Human resources management and employee's share award scheme

The Group will continue to enhance human resources management through staff training and management trainee programs, and increase the use of internal control procedures to improve service and management efficiency.

To recognise and reward employees for their contributions to the business and development of the Group, as well as provide incentives to raise their performance, the Group adopted an employees' share award scheme in January 2014. Eligible participants include employees, consultants and other personnel employed or engaged by the Group related to the business and operation of the Group, as well as mid-level management, senior management and senior executives of the Group. The Directors believe that the share award scheme will help retain well-performed employees and align their interests with the interest of the Group and boost the overall performance of the Group.

### New business development and potential investment opportunities

In view of the improving market conditions and the financial resources currently available to the Group, the Group will continue to explore other new business and investment opportunities in the retail or other sectors. The Directors will focus on the business and investment opportunities that could provide synergy to the existing business of the Group.

## CONCLUSION

On behalf of the Board of directors, I would like to take this opportunity to express my sincere gratitude to the management team and all colleagues for their commitment and diligence. Appreciation must also be extend to the Group's partners and customers for their continuous support. I wish to further thank all of the shareholders and investors of the Company for their confidence in the Group, and is confident that the business of the Group will continue to grow steadily.

**YANG Xiangbo**
*Chairman*

26 March 2014

# MANAGEMENT DISCUSSION AND ANALYSIS

## Total gross sales proceeds

During the year ended 31 December 2013, the Group's total gross sales proceeds (representing the aggregate of the revenue from direct sales of the Group, total sales proceeds from concessionaire sales at the Group's department stores and the income from reversal of long-aged unredeemed prepaid cards) were RMB2,348.4 million, representing an increase of 5.7% from RMB2,222.9 million for the year ended 31 December 2012. The increase in total gross sales proceeds was primarily a result of the contribution in direct sales and concessionaire sales generated from the new stores in Shanwei, Meizhou and Shenzhen opened in 2012 and 2013, which was offset by the decrease in sales generated by old stores in Shenzhen amid the intense competition, as well as the underperforming Dongguan stores.

Revenue generated from direct sales of the Group amounted to RMB1,121.4 million and the total sales proceeds from concessionaire sales amounted to RMB1,217.2 million, accounting for 47.8% and 51.8%, respectively, of the Group's total gross sales proceeds for the year ended 31 December 2013. For the year ended 31 December 2012, revenue from direct sales amounted to RMB1,116.0 million, while the total sales proceeds from concessionaries sales amounted to RMB1,087.7 million, accounted for 50.2% and 48.9% respectively of the Group's total gross sales proceeds.

The following table sets forth the Group's total gross sales proceeds categorized by principal products:

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | 2013 | | 2012 | |
| | RMB' million | % | RMB' million | % |
| Electronics and home appliances | 260.1 | 11.1 | 215.5 | 9.7 |
| Clothes, apparel and bedding | 577.5 | 24.6 | 549.8 | 24.7 |
| Children's goods | 58.5 | 2.5 | 70.5 | 3.2 |
| Sporting and stationery goods | 55.7 | 2.4 | 59.9 | 2.7 |
| Food and beverages | 993.3 | 42.3 | 925.0 | 41.6 |
| Daily necessities and cosmetic goods | 393.5 | 16.7 | 383.0 | 17.2 |
| Income from reversal of long-aged prepaid gift cards | 9.8 | 0.4 | 19.2 | 0.9 |
| | 2,348.4 | 100.0 | 2,222.9 | 100.0 |

# MANAGEMENT DISCUSSION AND ANALYSIS


## Revenue

The Group's revenue amounted to RMB1,356.5 million in 2013, representing a slight decrease of 1.1% as compared to RMB1,372.0 million in 2012, principally due to decrease in the sales from old stores in Shenzhen and decrease of income from reversal of long-aged pre-paid gift cards recognized in 2013. This was mitigated by the increase in rental income as a result of higher proportion of rental area in new stores for complementary facilities.

Direct sales increased slightly by 0.5% from RMB1,116.0 million in 2012 to RMB1,121.4 million in 2013, principally due to the increase in sales from the new department stores in Shanwei, Meizhou and Shenzhen opened in 2012 and 2013. Direct sales as a percentage of the Group's total revenue was 82.7% in 2013 as compared to 81.3% in 2012.

Commission from concessionaire sales decreased by 11.7% from RMB184.8 million in 2012 to RMB163.1 million in 2013, mainly due to the relatively lower commission rate offered in new stores for new markets penetration, and lower commission rate as a result of promotional activities at old stores amidst intense competition. The commission rate of concessionaire sales was 13.4% as compared to 17.0% in 2012. The concessionaire sales increased by 11.9% mainly due to the contribution from new department stores in Shanwei, Meizhou and Shenzhen opened in 2012 and 2013. Commission from concessionaire sales as a percentage of the Group's total revenue was 12.0% for the year ended 31 December 2013 as compared to 13.5% for the year ended 31 December 2012.

Rental income increased by 20.0% from RMB51.9 million in 2012 to RMB62.3 million in 2013, mainly due to the higher proportion of rental area in new stores for complementary facilities. Rental income as a percentage of the Group's total revenue was 4.6% for the year ended 31 December 2013 as compared to 3.8% for the year ended 31 December 2012.

Income from reversal of long-aged unredeemed prepaid cards decreased significantly by 49.0% from RMB19.2 million in 2012 to RMB9.8 million in 2013, mainly due to the fact that most of the long-aged unredeemed prepaid card balances prior to 2009 were recognized in 2011 and 2012.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Other operating revenue

Other operating revenue decreased by 5.8% from RMB117.1 million for the year ended 31 December 2012 to RMB110.3 million for the year ended 31 December 2013, mainly due to more stringent governmental measures in receiving such payments, and the terms were modified such that a higher commission rate was charged instead, resulting in a decrease in credit card handling fee.

## Other loss, net

Other net loss amounted to RMB153.8 million for the year ended 31 December 2013 as compared with other net loss of RMB14.1 million in 2012, mainly due to an one-off impairment loss and related expenses of RMB160.7 million recognized in 2013 as a result of the closure/under-performance of certain department stores in Dongguan, Guangdong Province. 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 RMB992.3 million for the year ended 31 December 2013, representing a slight increase of 3.5% as compared with RMB959.2 million in 2012. As a percentage of revenue from direct sales, purchase of and changes in inventories was 88.5% for the year ended 31 December 2013 as compared with 85.9% in 2012.

## Employee benefits

Employee benefit expenses decreased slightly by 1.2% to RMB190.0 million for the year ended 31 December 2013 from RMB192.3 million in 2012, primarily due to the restructuring of staff in old stores and head office, offset by the increase in number of staff for the two new stores opened during the year and 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 and amortisation expenses increased by 10.9% to RMB63.3 million for the year ended 31 December 2013 from RMB57.1 million in 2012 which was principally attributable to the launch and continuous enhancement of the information technology system, as well as the increase in leasehold improvements and machinery for the new stores opened in second half of 2012 and 2013.

## Operating lease rental expenses

Operating lease rental expenses increased by 12.1% to RMB186.5 million for the year ended 31 December 2013 from RMB166.4 million in 2012. The increase was principally attributable to the rental expenses of a new distribution centre in Shenzhen and the new department stores opened in 2013.

# MANAGEMENT DISCUSSION AND ANALYSIS

### Other operating expenses, net

Other operating expenses, which principally comprised of utility expenses, advertising, marketing, promotion and related expenses, other tax expenses, bank charges, exchange differences and maintenance expenses, decreased by 16.5% to RMB123.1 million for the year ended 31 December 2013 from RMB147.4 million in 2012. This was primarily due to the efficient cost controls and savings for the existing stores and head office, as well as the increase in net exchange gain.

### Loss before finance costs and tax

As a result of the reasons mentioned above, the Group's loss before finance costs and tax amounted to RMB242.3 million for the year ended 31 December 2013 as compared with the loss of the Group of RMB47.3 million in 2012.

### Finance income

Finance income remained relatively stable at RMB27.2 million for the year ended 31 December 2013 as compared to RMB27.4 million for the same period in 2012.

### Finance costs

Finance costs decreased by 25% to RMB2.1 million for the year ended 31 December 2013 from RMB2.8 million in 2012 which was primarily attributable to the decrease in interest rate of the borrowings.

### Income tax expense

Income tax expense amounted to RMB2.3 million for the year ended 31 December 2013, representing a decrease of 90.0% from RMB23.1 million in 2012. 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 attributable to owners of the Company

As a result of the aforementioned, loss attributable to owners of the Company amounted to RMB219.5 million for the year ended 31 December 2013 from loss of RMB45.8 million in 2012.

## LIQUIDITY AND FINANCIAL RESOURCES

As of 31 December 2013, the Group's cash and cash equivalents amounted to RMB626.3 million, decreased by RMB517.7 million from RMB1,144.0 million as of 31 December 2012. The cash and cash equivalents, which were in RMB and Hong Kong dollars, were deposited with banks in the PRC and Hong Kong as short-term deposits for interest income.

As of 31 December 2013, the Group's bank deposits amounted to RMB919.0 million, and increased by RMB301.5 million from RMB617.5 million as of 31 December 2012. The bank deposit which were mainly denominated in RMB, were deposited with banks in the PRC and Hong Kong as long-term fixed deposits for interest income, in which RMB388.4 million (31 December 2012: RMB387.0 million) were pledged to bank as restricted bank deposit to secure borrowings.

As of 31 December 2013, the Group's outstanding bank borrowings amounted to RMB235.9 million (31 December 2012: RMB243.3 million). The borrowings are denominated in Hong Kong dollars with average interest rate of 0.882% per annum (31 December 2012: 1.005%). The gearing ratio of the Group expressed as a percentage of interest-bearing bank loans over the total assets was 9.3% as of 31 December 2013 (31 December 2012: 8.3%). 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 2013 were RMB539.0 million (31 December 2012: RMB624.5 million), representing a decrease of RMB85.5 million. The net assets of the Group as of 31 December 2013 decreased to RMB1,219.5 million (31 December 2012: RMB1,438.8 million), representing a decrease of 15.2%.

### 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 2013, the Group recorded a net foreign exchange gain of RMB8.3 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 2013, the total number of employees of the Group was 2,551. The Group's remuneration policy is determined with reference to market conditions and the performance, qualifications and experience of individual employees.

To recognise and reward the eligible employees for their contributions to the business and development of the Group, the Company adopted an employees' share award scheme on 22 January 2014.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Contingent liabilities

Certain suppliers have commenced proceedings in the PRC against the Group in respect of disputes over contract terms and trademark infringement claim. As at 31 December 2013, the legal proceedings were ongoing. The Group has made a provision of approximately RMB5,084,000 (2012: RMB 4,369,000), 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 of the Group were listed on the Main Board of the Stock Exchange and the Group raised net proceeds of approximately HK$1,313.4 million (after deducting underwriting fees and related expenses). During the year ended 31 December 2013, approximately RMB30.1 million out of the net proceeds was used for the opening and decoration of Xingning Store and Dapeng Store (2012: RMB110.7 million).

# DIRECTORS AND SENIOR MANAGEMENT

## DIRECTORS

### Executive Directors

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

Mr. YANG Xiangbo, aged 51, was appointed as an executive 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 Guangdong and Shenzhen etc.. In 1990, Mr. YANG established Shirble Holdings Limited (which is not part of the Group). 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, Mr. YANG established Shirble Department Store (Shenzhen) Limited with the first department store in Shenzhen opened in January 1996. Part of the equity interest in Shirble Department Store (Shenzhen) Limited 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. YANG Ti Wei,** *Chief Executive Officer and executive Director*

Mr. YANG Ti Wei, aged 27, was appointed as an executive Director and chief executive officer on 7 September 2013. Mr. YANG Ti Wei joined the Group in June 2009 and is the executive vice president of the Group since 2009, principally responsible for the overall strategic development, operational and logistics management, information technology infrastructure planning and coordination of marketing and promotion activities of the Group. Mr. Yang is also 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 obtained a bachelor's degree in business management from the University of Surrey in England in 2010. Mr. YANG Ti Wei is the son of Mr. YANG Xiangbo, the chairman and an executive Director.

# DIRECTORS AND SENIOR MANAGEMENT

## Independent non-executive Directors

**Ms. ZHAO Jinlin,** *Chairperson of the Audit Committee and a member of the Nomination Committee*
Ms. ZHAO Jinlin, aged 45, 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. In January 2014, Ms ZHAO has been an independent non-executive director of Shenzhen Infinova Limited, a company listed in Shenzhen Stock Exchange (SHE:002528).

**Mr. CHEN Fengliang,** *Chairperson of the Remuneration Committee and a member of the Audit Committee*
Mr. CHEN Fengliang, aged 40, 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 the Remuneration Committee*
Mr. JIANG Hongkai, aged 48, 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 (stock code:1638) 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.

# DIRECTORS AND SENIOR MANAGEMENT

## SENIOR MANAGEMENT

**Mr. Lam Man Tin,** age 54, has been appointed as the CEO Strategist effective from 9 September 2013. Prior to joining the Group, Mr. LAM served as the managing director of Aeon Stores (Hong Kong) Co. Limited (Stock Code: 984) from May 2006 to May 2012 and has over 20 years of experience in retail and service industries. Mr. LAM was a director of Aeon Stores Co., Ltd. and an executive Director of Aeon Stores (Hong Kong) Co. Limited from May 1999 to May 2012. Mr. LAM was engaged as a consultant of Aeon Stores (Hong Kong) Co., Limited following his resignation from the board until September 2012. Mr. LAM is also an independent non-executive Director of S. Culture International Holdings Limited (Stock Code: 1255) which is an established distributor and retailer of lifestyle comfort footwear products. Mr. Lam graduated from University of Hull (England) with a master degree in strategic marketing (Distance learning) in July 1996, and is founding member of the Hong Kong Yau Yat Chuen Lions Clubs.

**Mr. CHEN ZhiGang,** aged 36, 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 34, the chief financial officer, company secretary and investor relationship manager of the Company. Ms. CHAN is responsible for overseeing the overall financial and compliance 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, specializing in corporate finance, and two years of experience in the audit and tax departments at Ernst and Young. Ms. CHAN is a member of the Hong Kong Institute of Certified Public Accountants since 2006.

# DIRECTOR'S 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 2013.

## 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 principally engaged in the operation of department stores in the PRC.

## RESULTS

The results of the Group for the year ended 31 December 2013 are set out in the consolidated statement of comprehensive income on page 37 of this report.

## PROPOSED FINAL AND SPECIAL DIVIDENDS

In view of the loss incurred for the year ended 31 December 2013 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 2013 (2012: Nil).

## 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 Company's authorised and issued share capital as at 31 December 2013 are set out in note 21 to the consolidated financial statements.

## RESERVES

As at 31 December 2013, distributable reserves of the Company included the Company's accumulated loss in the amount of RMB85.5 million and the Company's share premium in the amount of RMB894.3 million. Details of the movements in reserves of the Company and the Group during the year under review 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 2013.

## 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 under review and up to the date of this report are as follows:

### Executive Directors:

Mr. YANG Xiangbo *(Chairman)*
Mr. YANG Ti Wei *(Appointed on 7 September 2013)*
Mr. Li Kuansen *(Resigned on 6 September 2013)*

### 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 of association of the Company (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, 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 reelection.

In accordance with the Articles and the Corporate Governance Code 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 Ti Wei and Mr. FOK Hei Yu will retire in accordance with Article 83(3) of the Articles and Mr. YANG Xiangbo and Ms. ZHAO Jinlin will retire by rotation in accordance with Article 84 of the Articles. All retiring Directors, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

# DIRECTOR'S REPORT

## DIRECTORS' SERVICE CONTRACTS

Mr. YANG Xiangbo, one of the executive Director, has entered into a service contract, together with supplements, with the Company for an initial term of three years commencing from 18 June 2013. 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.

Mr. YANG Ti Wei, one of the executive Director, has entered into a service agreement with the Company for a term of three years commencing from 7 September 2013. The service contract shall continue thereafter and may only be terminated in accordance with the terms and conditions specified therein. The directorship is subject to retirement by rotation and re-election at annual general meetings of the Company in accordance with the Articles. Mr. YANG is entitled to an annual remuneration comprising (a) a fixed annual salary of RMB2,160,000 (after taxation) (the "**Base Pay**") and an extra one-month salary of RMB180,000 (after taxation) and (b) a fixed annual director's fee of HK$300,000 (before taxation), which is determined by the Board with reference to his position and his responsibilities. In addition, pursuant to the relevant service agreement, Mr. YANG would be provided, at the discretion of the Board, such amount of management bonus with reference to the amount of the audited consolidated net profit after taxation of the Group (the "**Net Profit**") in the relevant financial year. The amount of the management bonus will be based on the higher of (a) 40.0% of the Base Pay and (b) 0.5%, 0.6%, 0.7% of the Net Profit for the respective three-year term. Mr. Yang's remuneration package is determined with his performance, responsibilities with the Company and the terms of the Company's remuneration policy.

Save as Mr. Fok Hei Yu who has signed a letter of appointment with terms of three years commencing from January 2013, the other three independent non-executive Directors have signed new letters of appointment foe 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 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 2013, 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 2013, 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 during the year ended 31 December 2013.

# DIRECTOR'S REPORT

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

As at 31 December 2013, 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 2013, 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 sector 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**").

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.

## EMPLOYEES' SHARE AWARD SCHEME

The Company adopted an employees' share award scheme ("**Employees' Share Award Scheme**") on 22 January 2014 ("**The Adoption Date**").

The purpose of the Employees' Share Award Scheme is to recognise and reward eligible employees for their contributions to the business and development of the Group, provide incentives to eligible employees for their satisfactory performance, and align the interest of the eligible employees with the interest of the Group through the grant of the award. Unless terminated earlier or extended by the Board in accordance with the Employees' Share Award Scheme rules, the Employees' Share Award Scheme operates for ten years commencing on the Adoption Date. The Board will not grant further award which will result in the number of Shares that may be transferred to the participants under the Employees' Share Award Scheme to exceed 2.0% of the total number of Shares in issue as of the Adoption Date. The maximum number of the Award Shares which may be granted to a Participant but unvested under the Employees' Share Award Scheme will not exceed 0.1% of the total number of Shares in issue as of the Adoption Date. Eligible employees will include different levels of employee of the Group, the total number of which will not be more than 200.

For details of the Employees' Share Award Scheme, please refer to the announcement of the Company dated 22 January 2014.

# DIRECTOR'S REPORT

## 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 Option Scheme and Share Award Scheme pursuant to which the participants, including the Directors, may be granted options to subscribe for the shares or may reward shares directly.

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 2013, 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 then 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 2013.

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 business.

## 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 under review.

## 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", "Share Option Scheme" and "Employees' share award 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.

## EXEMPT CONTINUING CONNECTED TRANSACTIONS

Details of the related party transactions, undertaken in the ordinary course of business are set out in note 29 to the financial statements.

The transactions stated below are entered into in the ordinary and usual course of business, and constitute continuing connected transactions exempt from the reporting, announcement, annual renew and independent shareholders' approval requirements 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 supplemental agreements dated 1 March 2010 and 16 July 2013 entered into between Shirble Chain Store and Shirble Inn, Shirble Chain Store has agreed to lease the property with a total area of 912 sq. m. located at the 1st Floor of Shirble Inn from 1 May 2013 until 30 April 2016 as the Group's Luhe store. The annual rental is fixed at RMB109,440. 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 Ruizhuo Investment Development Co., Ltd ("Ruizhuo Investment")

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

Pursuant to a lease agreement dated 10 January 2013, 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 2013 to 9 January 2016 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 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 2013, the aggregate annual rental paid under the lease agreements with Shirble Inn and Ruizhuo Investment amounted to RMB0.1 million. Since the transactions (the "**Transactions**") under the agreements with Shirble Inn and Ruizhuo Investment, as confirmed by the Directors, are on normal commercial terms and the applicable percentage ratios in respect of the Transactions were on an annual basis, less than 5% and the annual consideration is less than HK$1 million, it falls within the de minims threshold as stipulated under Rule 14A.33(3) of the Listing Rules, the Transactions are exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

# DIRECTOR'S REPORT

## 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 2013.

## 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 2013. None of the Directors or shareholders who owned 5% or more of the issued shares capital of the Company as of 31 December 2013 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 2013.

## BANK LOANS AND OTHER BORROWINGS

As at 31 December 2013, the Group had the bank loans and other borrowings in the amount of RMB235.9 million (2012: RMB243.3 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 2013 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 "Exempt Continuing 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", 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" section of this 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.

## AUDITORS

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

On behalf of the Board

**YANG Xiangbo**
*Chairman*

26 March 2014

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE

The Company is committed to achieving and maintaining high standards of corporate governance. In the opinion of the Directors, throughout the year ended 31 December 2013, the Company has complied with the principles and applicable code provisions set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Listing Rules**") except Code Provision A.6.7 of the CG Code which provides that the independent non-executive directors and non-executive directors should attend general meeting of the Company. Due to other prior business engagements, one independent non-executive director was not able to attend the annual general meeting and the extraordinary general meeting of the Company held on 30 January 2013 and 21 February 2013, respectively.

The enhancement of the internal controls measures will also continue to be monitored by the internal audit department and the 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.

## BOARD OF DIRECTORS

As at 31 December 2013, the Board comprises two Executive Directors, namely Mr. YANG Xiangbo (Chairman) and Mr. Yang Ti Wei (Chief Executive Officer), and four independent Non-executive Directors, namely Ms. ZHAO Jinlin, Mr. CHEN Fengliang, Mr. JIANG Hongkai and Mr. FOK Hei Yu. 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 composition of the Board is well balanced with each Director having sound knowledge, experience and expertise relevant to the business operations and development of the Group. The biographical details of the Directors are set out in the "Directors and Senior Management" section on pages 15 to 17 of this 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 sub-section headed "Corporate Governance Functions" on page 31 of this 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. Mr. Fok has signed a letter of appointment with terms of three years commencing from 31 January 2013 and the other three independent non-executive Directors have signed renewal letters of appointment for a term of three years commencing from 18 June 2012.

## BOARD DIVERSITY POLICY

In respect of a new code provision relating to Board diversity under the CG Code, the Board seeks to achieve a sustainable and balanced development through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, or professional experience.

On 26 August 2013, the Board has formally approved a diversity policy with effective from 1 September 2013.

## DIRECTORS' RESPONSIBILITIES

The Directors have acknowledged their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2013.

## AUDIT COMMITTEE

In accordance with Rule 3.21 of the Listing Rules, the Company has set up an audit committee comprising 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 under review, the Audit Committee held five 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 2013.

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.

## REMUNERATION COMMITTEE

In accordance with Rule 3.25 of the Listing Rules, the Company has set up a remuneration committee with a majority of independent non-executive Directors. The Remuneration Committee comprises four members, namely Mr. CHEN Fengliang (Chairperson), Mr. JIANG Hongkai and 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 to 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.

# CORPORATE GOVERNANCE REPORT

## NOMINATION COMMITTEE

In accordance with Code Provision A.5.1 of the CG Code, the Company has set up a nomination committee with a majority of 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 and diversity of the Board regularly, to assess the independence of independent non-executive Directors and to make recommendation to the Board on relevant matters relating to the appointment or re-appointment of Directors. The Nomination Committee firstly proposes 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 collects 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 carries out, if necessary, other relevant follow up works according to the decisions of or feedback from the Board.

During the year under review, three meetings were held by the Nomination Committee to consider the board diversity policy, the appointment of Mr. YANG Ti Wei as the Chief Executive Officer and executive Director of the Company and 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 meetings held during the year ended 31 December 2013 is set out below:

| | Number of attendance/Number of meetings | | | | |
|---|---|---|---|---|---|
| **Name of Directors** | **Shareholders** | **Board** | **Audit Committee** | **Remuneration Committee** | **Nomination Committee** |
| **Executive Director** | | | | | |
| YANG Xiangbo *(Chairman)* | 3/3 | 10/10 | N/A | 2/2 | 3/3 |
| YANG Ti Wei (i) | N/A | 2/10 | N/A | N/A | N/A |
| LI Kuansen (ii) | 3/3 | 7/10 | N/A | N/A | N/A |
| **Independent non-executive Directors** | | | | | |
| ZHAO Jinlin | 1/3 | 9/10 | 5/5 | N/A | 3/3 |
| CHEN Fengliang | 3/3 | 10/10 | 5/5 | 2/2 | 3/3 |
| JIANG Hongkai | 3/3 | 10/10 | 5/5 | 2/2 | 3/3 |
| FOK Hei Yu (iii) | 2/3 | 8/10 | 3/5 | 1/2 | 2/3 |

(i) Mr. YANG Ti Wei was appointed as an executive Director and the Chief Executive Officer with effect from 7 September 2013.

(ii) Mr. LI Kuansen resigned as an executive Director and the Chief Executive Officer with effect from 6 September 2013.

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

## PROFESSIONAL TRAINING FOR DIRECTORS

Each newly appointed Director receives comprehensive, formal induction to ensure that he/she has appropriate understanding of the business and his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The continuous professional development is provided 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.

For the year ended 31 December 2013, all the Directors have attended 20 hours of training in form of in-house seminors and regulatory updates or other relevant reference materials studies.

## 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.

The Board and the Audit Committee reviewed the Group's material controls, including financial, operational and compliance controls and risk management functions. The Board, together with the Audit Committees, 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 December 2013, the Group appointed a reputable accounting firm to conduct a review on the Group's internal control which has been completed and reported its findings to the Audit Committee and Board in March 2014. The Audit Committee followed up with the Company on the findings and suggestions from the accounting firm. The enhancement of the internal controls measures will also continue to be monitored by the internal audit department and the 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.

# CORPORATE GOVERNANCE REPORT

## 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 2013.

## AUDITORS' REMUNERATION

The Independent Auditor's Report issued by PricewaterHouseCoopers, the Company's auditors, in respect of the audit of the Group's financial statements for the year ended 31 December 2013 is set out in note 8 of this report.

During the year ended 31 December 2013, the Auditors' remuneration was RMB5.2 million and RMB0.6 million in respect of provision of audit services and non-audit service to the Group respectively.

## INSURANCE

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

## COMPANY SECRETARY

All Directors have access to the advice and services of the Company Secretary, Ms. Chan Chore Man ("**Ms. Chan**"), a full time employee of the Company. Ms. Chan has confirmed that she has no less than 15 hours of relevant professional training for the year ended 31 December 2013.

## 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, 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.

# 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 37 to 88, which comprise the consolidated and company balance sheets as at 31 December 2013, 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*

# INDEPENDENT AUDITOR'S REPORT

## BASIS FOR QUALIFIED OPINION

There were no alternative audit procedures that we could perform to satisfy ourselves that certain prepayments as well as advances from suppliers were free from material misstatement as at 1 January 2012 and we had been unable to determine whether any adjustments to these amounts were necessary. The aforesaid prepayments as well as advances from suppliers had been refunded and were part of the Group's cash flows for the year ended 31 December 2012. We had been unable to determine whether any adjustments were 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. Our audit opinion on the consolidated financial statements of the Group for the year ended 31 December 2012 was modified accordingly.

Our audit opinion on the financial statements for the year ended 31 December 2013 is also modified because of the possible effects of the above-mentioned matter on the comparability of the corresponding figures in the consolidated statement of cash flows.

## QUALIFIED OPINION

In our opinion, except for the possible effects on the corresponding figures 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 2013, 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, 26 March 2014

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2013

| | Note | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|---|
| Revenue | 5 | 1,356,502 | 1,372,030 |
| Other operating revenue | 6 | 110,317 | 117,135 |
| Other loss, net | 7 | (153,836) | (14,091) |
| Purchase of and changes in inventories | 8,19 | (992,297) | (959,194) |
| Employee benefits | 8,9 | (190,029) | (192,309) |
| Depreciation and amortisation | 8 | (63,317) | (57,105) |
| Operating lease rental expenses | 8 | (186,498) | (166,372) |
| Other operating expenses, net | 8 | (123,147) | (147,424) |
| **Loss before finance costs and tax** | | (242,305) | (47,330) |
| Finance income | 10 | 27,194 | 27,439 |
| Finance costs | 10 | (2,080) | (2,784) |
| Finance income – net | 10 | 25,114 | 24,655 |
| **Loss before income tax** | | (217,191) | (22,675) |
| Income tax expense | 11 | (2,324) | (23,104) |
| **Loss for the year** | | (219,515) | (45,779) |
| **Loss attributable to:** | | | |
| Owners of the Company | | (219,515) | (45,779) |
| **Loss per share for the loss attributable to owners of the Company during the year** (expressed in RMB per share) | | | |
| – Basic and diluted | 13 | (0.09) | (0.02) |

| | | Year ended 31 December | |
|---|---|---|---|
| | | 2013 RMB'000 | 2012 RMB'000 |
| Dividends | 14 | – | – |

The notes on pages 44 to 88 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| **Loss for the year** | (219,515) | (45,779) |
| **Other comprehensive income:** | | |
| Item that may be reclassified to profit or loss | | |
| Currency translation differences | 198 | 4 |
| **Other comprehensive income for the year** | 198 | 4 |
| **Total comprehensive loss for the year** | (219,317) | (45,775) |
| **Attributable to:** | | |
| Owners of the Company | (219,317) | (45,775) |

The notes on pages 44 to 88 are an integral part of these consolidated financial statements.

# CONSOLIDATED BALANCE SHEET

As at 31 December 2013

| | Note | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 15 | 453,841 | 565,183 |
| Intangible assets | 16 | 21,618 | 52,273 |
| Deferred income tax assets | 17 | 54,134 | 48,102 |
| Trade and other receivables | 18 | 150,920 | 152,712 |
| | | 680,513 | 818,270 |
| **Current assets** | | | |
| Inventories | 19 | 219,935 | 252,722 |
| Trade and other receivables | 18 | 81,200 | 108,075 |
| Bank deposits | 20 | 919,007 | 617,540 |
| Cash and cash equivalents | 20 | 626,291 | 1,144,010 |
| | | 1,846,433 | 2,122,347 |
| **Total assets** | | 2,526,946 | 2,940,617 |
| **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 | 196,733 | 195,008 |
| (Accumulated loss)/Retained profits | 23 | (85,510) | 135,532 |
| **Total equity** | | 1,219,469 | 1,438,786 |

On behalf of Board of Directors

**YANG Xiangbo**
*Director*

**YANG Ti Wei**
*Director*

# CONSOLIDATED BALANCE SHEET

As at 31 December 2013

| | Note | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Deferred income tax liabilities | 17 | – | 4,000 |
| **Current liabilities** | | | |
| Trade and other payables | 24 | 1,044,445 | 1,229,433 |
| Income tax payable | | 27,163 | 25,143 |
| Borrowings | 25 | 235,869 | 243,255 |
| | | 1,307,477 | 1,497,831 |
| **Total liabilities** | | 1,307,477 | 1,501,831 |
| **Total equity and liabilities** | | 2,526,946 | 2,940,617 |
| **Net current assets** | | 538,956 | 624,516 |
| **Total assets less current liabilities** | | 1,219,469 | 1,442,786 |

On behalf of Board of Directors

**YANG Xiangbo**
*Director*

**YANG Ti Wei**
*Director*

The notes on pages 44 to 88 are an integral part of these consolidated financial statements.

# BALANCE SHEET

As at 31 December 2013

| | Note | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Investments in subsidiaries | 26(a) | 107,380 | 107,380 |
| Amount due from subsidiaries | 26(b) | 680,041 | 680,041 |
| | | 787,421 | 787,421 |
| **Current assets** | | | |
| Trade and other receivables | 18 | 226,276 | 326,631 |
| Bank deposits | 20 | 238,568 | 230,500 |
| Cash and cash equivalents | 20 | 22,130 | 24,889 |
| | | 486,974 | 582,020 |
| **Total assets** | | 1,274,395 | 1,369,441 |
| **EQUITY AND LIABILITIES** | | | |
| Share capital | 21 | 213,908 | 213,908 |
| Share premium | 21 | 894,338 | 894,338 |
| Other reserves | 22 | 107,782 | 107,782 |
| (Accumulated loss)/Retained profits | 23 | (24,783) | 2,319 |
| **Total equity** | | 1,191,245 | 1,218,347 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 24 | 83,150 | 151,094 |
| **Total liabilities** | | 83,150 | 151,094 |
| **Total equity and liabilities** | | 1,274,395 | 1,369,441 |
| **Net current assets** | | 403,824 | 430,926 |
| **Total assets less current liabilities** | | 1,191,245 | 1,218,347 |

On behalf of Board of Directors

**YANG Xiangbo**
*Director*

**YANG Ti Wei**
*Director*

The notes on pages 44 to 88 are an integral part of this balance sheet.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

| | Attributable to owners of the Company | | | | |
|---|---|---|---|---|---|
| | Share capital RMB'000 | Share premium RMB'000 | Other reserves RMB'000 | (Accumulated loss)/Retained profits RMB'000 | Total equity RMB'000 |
| **Balance at 1 January 2013** | 213,908 | 894,338 | 195,008 | 135,532 | 1,438,786 |
| **Comprehensive income** | | | | | |
| Loss for the year | – | – | – | (219,515) | (219,515) |
| **Other comprehensive income** | | | | | |
| Currency translation differences | – | – | 198 | – | 198 |
| Total other comprehensive income | – | – | 198 | – | 198 |
| **Total comprehensive loss** | – | – | 198 | (219,515) | (219,317) |
| **Total contributions by and distributions to owners of the Company recognised directly in equity** | | | | | |
| Appropriation to reserves | – | – | 1,527 | (1,527) | – |
| **Total transactions with owners** | – | – | 1,527 | (1,527) | – |
| **Balance at 31 December 2013** | 213,908 | 894,338 | 196,733 | (85,510) | 1,219,469 |

| | 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 loss** | – | – | 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 |

The notes on pages 44 to 88 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

| | Note | Year ended 31 December 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash (used in)/generated from operations | 27 | (92,348) | 181,675 |
| Interest paid | | (2,247) | (4,828) |
| Income tax paid | | (8,585) | (35,997) |
| **Net cash (used in)/generated from operating activities** | | (103,180) | 140,850 |
| **Cash flows from investing activities** | | | |
| Payments for purchases of property, plant and equipment and construction in progress | | (61,534) | (359,253) |
| Purchases of intangible assets | | – | (11,694) |
| Refund of prepayments for decoration work, purchases of properties | | – | 227,800 |
| Proceeds from disposals of property, plant and equipment | 27 | 4,832 | 2,153 |
| Increase in bank deposits with initial term of over three months | | (530,568) | (230,500) |
| Decrease in bank deposits with initial term of over three months | | 230,500 | 350,000 |
| Decrease/(increase) in restricted bank deposits | | (1,399) | 43,112 |
| Interest received | | 21,350 | 28,180 |
| **Net cash (used in)/generated from investing activities** | | (336,819) | 49,798 |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | 235,869 | 243,255 |
| Repayments of borrowings | | (243,255) | (243,210) |
| Dividends paid to the Company's shareholders | | (70,608) | – |
| **Net cash (used in)/generated from financing activities** | | (77,994) | 45 |
| **Net (decrease)/increase in cash and cash equivalents** | | (517,993) | 190,693 |
| Cash and cash equivalents at beginning of year | | 1,144,010 | 953,303 |
| Effect of changes in foreign exchange rate | | 274 | 14 |
| **Cash and cash equivalents at end of year** | 20 | 626,291 | 1,144,010 |

The notes on pages 44 to 88 are an integral part of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 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 department stores in Mainland China.

The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 17 November 2010.

In preparation for the listing of the shares in 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.

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 26 March 2014.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.1 Basis of preparation *(continued)*

#### *(i) New and Amended Standards Adopted by the Group*

In the current year, the Group has adopted the following new and revised standards, amendments to existing standards and interpretation which are mandatory for the financial year beginning 1 January 2013:

- Amendment to IAS 1, 'Financial statements presentation' regarding other comprehensive income

  The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.

- IFRS 10 'Consolidated financial statements'

  The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entity (an entity that controls one or more other entities) to present consolidated financial statements. Defines the principle of control, and establishes controls as the basis for consolidation. Set out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. It also sets out the accounting requirements for the preparation of consolidated financial statements.

- IAS 27 (revised 2011) 'Separate financial statements'

  IAS 27 (revised 2011) includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.

- IFRS 11 'Joint arrangements'

  IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.

- IAS 28 (revised 2011) 'Associates and joint ventures'

  IAS 28 (revised 2011) includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.1 Basis of preparation *(continued)*

***(i) New and Amended Standards Adopted by the Group (continued)***

- IFRS 12 'Disclosures of interests in other entities'

  IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

- IFRS 13 'Fair value measurement'

  IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP.

- Amendment to IFRS 7, 'Financial instruments: Disclosures–Offsetting financial assets and financial liabilities'

  The amendments also require new disclosure requirements which focus on quantitative information about recognised financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset.

***(ii) The following new or revised standards, amendments to existing standards and interpretation are effective for the accounting periods beginning after 1 January 2013 which the Group has not early adopted:***

| | |
|---|---|
| IAS 32 (Amendment) | 'Financial instruments: Presentation' on asset and liability offsetting |
| IFRS 10, 12 and IAS 27 (Amendment) | Consolidation for investment entities |
| IAS 36 (Amendment) | Impairment of assets on recoverable amount disclosures |
| IAS 39 (Amendment) | 'Financial Instruments: Recognition and Measurement' |
| IFRIC/HK(IFRIC) 21 | 'Levies' |
| IFRS/HKFRS 2 (Amendment) | 'Share-based payment' |
| IFRS/HKFRS 3 (Amendment) | 'Business combinations' |
| IFRS/HKFRS 8 (Amendment) | 'Operating segments' |
| IFRS/HKFRS 9 (Amendment) | 'Financial instruments' |
| IAS/HKAS 16 (Amendment) | 'Property, plant and equipment' |
| IAS/HKAS 19 (Amendment) | Regarding defined benefit plans |
| IAS/HKAS 24 (Amendment) | 'Related Party Disclosures' |
| IAS/HKAS 37 (Amendment) | 'Provisions, contingent liabilities and contingent assets' |
| IAS/HKAS 38 (Amendment) | 'Intangible assets' |
| IAS/HKAS 40 (Amendment) | 'Investment property' |
| IFRS 9 | Financial Instruments |

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.1 Basis of preparation *(continued)*

#### *(iii) Change in accounting policy*

In previous years, cost of inventories of the Group was determined using the first-in first-out method. On 1 January 2013, the Group, after reassessment of the inventory turnover pattern of the Group, decided to change the inventory costing method to weighted average method. The directors of the Company considered that the Group can provide more reliable and relevant financial information with the change in this accounting policy.

The directors of the Company had assessed the impact of the changes in accounting policy and concluded that the impact on the financial statements for the year ended 31 December 2012 is not significant. As a result, no retrospective restatement was made to the comparative financial statements and the new accounting policy was applied prospectively.

### 2.2 Subsidiaries

#### *(i) Consolidation*

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

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

#### *(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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 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 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.

### 2.4 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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.4 Foreign currency translation *(continued)*

#### *(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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 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. The estimated useful lives and residual values of the property, plant and equipment were as follows:

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

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 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.

### 2.7 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 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 2013, 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.

### 2.9 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.9 Impairment of financial assets *(continued)*

***Assets carried at amortised cost*** *(continued)*

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 weight average 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 2. SUMMARY OF SIGNIFICANT 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 2. SUMMARY OF SIGNIFICANT 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 2. SUMMARY OF SIGNIFICANT 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's 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 2. SUMMARY OF SIGNIFICANT 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 2. SUMMARY OF SIGNIFICANT 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 to 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 awarded. The consideration allocated to the awarded 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 awarded 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 provided accordingly.

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 2. SUMMARY OF SIGNIFICANT 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 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 2013, if Renminbi had strengthened/weakened by 2% (2012: 2%) against the Hong Kong dollars with all other variables held constant, loss before tax for the year would have been approximately RMB4,412,000 (2012: RMB3,242,000) 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 2013, except for the fixed term bank deposits of RMB530,568,000 (2012: RMB230,500,000), which are held at fixed interest rate of 3.27% per annum (2012: 3.50% per annum), and the restricted bank deposits of RMB388,439,000 (2012: RMB387,040,000), which are held at fixed interest rate of 0.8% per annum (2012: 0.8% 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%–2.86% per annum (2012: 0.01%–2.60%). Borrowings at variable rates at 0.82%–1.03% (2012: 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 resulting from the changes in interest rates.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 3. FINANCIAL RISK MANAGEMENT *(continued)*

### (a) Market risk *(continued)*

#### *(ii)* ***Cash flow interest rate risk*** *(continued)*

At 31 December 2013, 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 2013 would have been approximately RMB1,464,000 (2012: RMB1,871,000) higher/lower.

### (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 2013, 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 3. FINANCIAL RISK MANAGEMENT *(continued)*

### (c) Liquidity risk *(continued)*

| | Group | | Company | |
|---|---|---|---|---|
| | 2013<br>RMB'000 | 2012<br>RMB'000 | 2013<br>RMB'000 | 2012<br>RMB'000 |
| Maturity less than 1 year: | | | | |
| Borrowings (including the portion of interest expenses) | 237,949 | 243,449 | – | – |
| Other financial liabilities | 616,436 | 749,948 | 83,359 | 151,094 |

### (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 2013 and 2012 were as follows:

| | 2013 | 2012 |
|---|---|---|
| Debt-to-equity ratio | 19% | 17% |

### (e) Fair value estimation

As at 31 December 2013 and 2012, the Group did not have significant financial instrument carried at fair value.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

### (a) 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 judgment is required. In making this judgment, 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(continued)*

### (d) Income tax

The Group is subject to income taxes in the PRC. Significant judgment 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 judgment 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 estimates 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 had 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 RMB983,000.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 5. REVENUE

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Direct sales | 1,121,355 | 1,116,020 |
| Commission from concessionaire sales | 163,054 | 184,836 |
| Rental income (a) | 62,267 | 51,935 |
| Income from reversal of long-aged unredeemed prepaid cards | 9,826 | 19,239 |
| | 1,356,502 | 1,372,030 |

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

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Sublease rental income | 53,187 | 43,798 |
| Contingent rental income | 9,080 | 8,137 |
| | 62,267 | 51,935 |

## 6. OTHER OPERATING REVENUE

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Promotion, administration and management income | 106,890 | 97,389 |
| Credit card handling fees for concessionaire sales | 1,584 | 18,191 |
| Others | 1,843 | 1,555 |
| | 110,317 | 117,135 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 7. OTHER LOSS, NET

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Impairment loss for property, plant and equipment and intangible assets (a) | (139,158) | (10,000) |
| Penalty for cancellation of lease contracts (a) | (21,509) | – |
| Provision for prepayment and other receivables (Note 18(b)(c)) | (1,149) | – |
| Provision for legal claims (Note 30) | (715) | (4,369) |
| Loss on disposal of property, plant and equipment | (633) | (677) |
| Write back of allowance for tendering deposit (Note 18(c)) | 10,000 | – |
| Others | (672) | 955 |
| | (153,836) | (14,091) |

(a) During the year ended 31 December 2013, the Group decided to close certain department stores in Dongguan, Guangdong Province. The Group also assessed the performance of other stores and made allowance for impairment on certain unprofitable stores. The Group recognised impairment loss of RMB139,158,000 against property, plant and equipment and intangible assets and penalty charge of RMB21,509,000 as a result of cancellation of lease contracts of the department stores to be closed.

## 8. EXPENSES BY NATURE

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

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Purchase of and changes in inventories | 992,297 | 959,194 |
| Employee benefits (Note 9) | 190,029 | 192,309 |
| Depreciation and amortisation | 63,317 | 57,105 |
| Operating lease rental expenses | 186,498 | 166,372 |
| Utilities | 51,925 | 51,781 |
| Auditor's remuneration | | |
| – Audit services | 5,267 | 8,600 |
| – Non-audit services | 635 | 900 |
| Other expenses | 65,320 | 86,143 |
| | 1,555,288 | 1,522,404 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 9. EMPLOYEE BENEFITS

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Wages and salaries | 172,404 | 175,081 |
| Social security costs | 16,876 | 14,499 |
| Others | 749 | 2,729 |
| | 190,029 | 192,309 |

### (a) Directors' and senior management's emoluments

The remuneration of the directors for the year ended 31 December 2013 is set out below:

| Name of director | Fees<br>RMB'000 | Salary allowances and benefits<br>RMB'000 | Retirement schemes contributions<br>RMB'000 | Bonus<br>RMB'000 | Others<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|---|---|---|
| Executive directors | | | | | | |
| Mr. YANG Xiangbo | – | 1,150 | 12 | – | – | 1,162 |
| Mr. YANG Ti Wei (i) | 76 | 1,734 | 2 | 180 | – | 1,992 |
| Mr. LI Kuansen (i) | 160 | 1,497 | – | – | 2,244 | 3,901 |
| Independent non-executive directors | | | | | | |
| ZHAO Jinlin | 240 | – | – | – | – | 240 |
| CHEN Fengliang | 240 | – | – | – | – | 240 |
| JIANG Hongkai | 240 | – | – | – | – | 240 |
| FOK Hei Yu (ii) | 220 | – | – | – | – | 220 |
| | 1,176 | 4,381 | 14 | 180 | 2,244 | 7,995 |

(i) Mr. LI Kuansen has been the executive director and chief executive officer of the Group during the period from 31 December 2012 to 7 September 2013. Mr. Li Kuansen tendered his resignation as an executive director and the chief executive office of the Group on 6 September 2013. Mr. YANG Ti Wei has been appointed as an executive Director and the chief executive officer of the Group effective from 7 September 2013. Mr. LI Kuansen ceased to be the executive director and chief executive officer of the Group on the same date. Other emolument represented the payments made in respect of the early termination of the employment contract.

(ii) Mr. FOK Hei Yu has been appointed as an independent non–executive Director and a member of the audit committee from 31 January 2013.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 9. EMPLOYEE BENEFIT EXPENSES *(continued)*

### (a) Directors' and senior management's emoluments *(continued)*

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 | 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 |

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2012: one) directors whose emoluments are reflected in the analysis presented above. The emoluments paid to the remaining two (2012: four) individual during the year are as follows:

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Basic salaries and allowances | 2,814 | 5,779 |
| Year-end bonuses | 128 | 1,686 |
| Contributions to the retirement scheme | 2 | – |
| | 2,944 | 7,465 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 9. EMPLOYEE BENEFIT EXPENSES *(continued)*

### (b) Five highest paid individuals *(continued)*

The emoluments fell within the following bands:

| | Number of individuals | |
|---|---|---|
| | 2013 | 2012 |
| Emolument band | | |
| HKD1,000,001 – HKD2,000,000 | 2 | 2 |
| HKD2,000,001 – HKD3,000,000 | – | 2 |

## 10. FINANCE INCOME, NET

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Finance income | | |
| Interest income from bank deposits | 27,194 | 27,439 |
| Finance costs | | |
| Interest expenses | (2,080) | (2,784) |
| Finance income, net | 25,114 | 24,655 |

## 11. INCOME TAX EXPENSES

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Current income tax | | |
| – PRC corporate income tax | 8,356 | 26,991 |
| Deferred income tax (Note 17) | (6,032) | (3,887) |
| | 2,324 | 23,104 |

The tax on the Group's (loss)/profit before tax differs from the theoretical amount that would arise using the statutory tax rates applicable to the subsidiaries comprising the Group as follows:

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Loss before income tax | (217,191) | (22,675) |
| Tax calculated at a tax rate of 25% (2012: 25%) | (54,298) | (5,669) |
| Tax impact of: | | |
| – Expected profits distribution | – | 1,459 |
| – Expenses not deductible for tax purposes | 5,908 | 8,127 |
| – Unrecognised tax loss | 50,714 | 19,187 |
| Income tax expense | 2,324 | 23,104 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 11. INCOME TAX EXPENSES *(continued)*

(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) The applicable income tax rate is 25% for all subsidiaries in the PRC.

## 12. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Loss attributable to owners of the Company is dealt with in the financial statements of the Company to the extent of RMB27,102,000 (2012: Profit of RMB67,463,000).

## 13. LOSS PER SHARE

### (a) Basic

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

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Loss attributable to equity holders of the Company | (219,515) | (45,779) |
| Weighted average number of ordinary shares in issue (thousands) | 2,495,000 | 2,495,000 |
| Basic loss per share (RMB per share) | (0.09) | (0.02) |

### (b) Diluted

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

Diluted loss per share is not applicable as there were no dilutive potential ordinary shares during the financial year and the previous financial year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 14. DIVIDENDS

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

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Final dividend proposed after the end of the reporting period of RMB nil cents per share (2012: RMB0.62 cents per share) | – | 15,469 |
| Special dividend proposed after the reporting period of RMB nil cents per share (2012: RMB2.21 cents per share) | – | 55,139 |
| | – | 70,608 |

The directors do not recommend any final dividend of the Company for the year ended 31 December 2013 (2012: Nil)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 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 2012** | | | | | | | | |
| 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 (net) | – | (69) | (1,380) | (1,331) | (50) | – | – | (2,830) |
| 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 |
| **Year ended 31 December 2013** | | | | | | | | |
| Opening net book amount | 247,401 | 24,695 | 49,118 | 4,297 | 228,755 | 247 | 10,670 | 565,183 |
| Additions | 1,651 | 2,194 | 11,999 | 430 | 44,092 | – | 3,062 | 63,428 |
| Transfers | – | – | 273 | – | 10,846 | – | (11,119) | – |
| Disposals (net) | – | (15) | (736) | 25 | (4,712) | (27) | – | (5,465) |
| Depreciation | (5,725) | (2,774) | (14,669) | (1,367) | (34,584) | (121) | – | (59,240) |
| Impairment | – | (9,757) | (6,511) | – | (93,797) | – | – | (110,065) |
| **Closing net book amount** | 243,327 | 14,343 | 39,474 | 3,385 | 150,600 | 99 | 2,613 | 453,841 |
| **At 31 December 2013** | | | | | | | | |
| Cost | 299,244 | 73,933 | 92,385 | 9,231 | 528,805 | 2,348 | 2,613 | 1,008,559 |
| Accumulated depreciation | (13,917) | (49,833) | (46,400) | (5,846) | (284,408) | (2,249) | – | (402,653) |
| Impairment | (42,000) | (9,757) | (6,511) | – | (93,797) | – | – | (152,065) |
| **Net book amount** | 243,327 | 14,343 | 39,474 | 3,385 | 150,600 | 99 | 2,613 | 453,841 |

(i) The Group was in the process of applying for the building ownership certificate for its property located in Haifeng. As at 31 December 2013, the cost of this property amounted to RMB168 million (2012: RMB168 million).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 16. INTANGIBLE ASSETS

| | Computer software RMB'000 | Entry right RMB'000 | Total RMB'000 |
|---|---|---|---|
| **At 1 January 2012** | | | |
| 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 |
| **Year ended 31 December 2013** | | | |
| Opening net book amount | 21,997 | 30,276 | 52,273 |
| Additions | 2,515 | – | 2,515 |
| Amortisation | (2,468) | (1,609) | (4,077) |
| Impairment | (426) | (28,667) | (29,093) |
| **Closing net book amount** | 21,618 | – | 21,618 |
| **At 31 December 2013** | | | |
| Cost | 24,845 | 32,186 | 57,031 |
| Accumulated amortisation | (2,801) | (3,519) | (6,320) |
| Impairment | (426) | (28,667) | (29,093) |
| **Net book amount** | 21,618 | – | 21,618 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 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:

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Deferred income tax assets | 54,134 | 48,102 |
| Deferred income tax liabilities | – | 4,000 |
| Net deferred income tax assets | 54,134 | 44,102 |

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

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| **At 1 January** | 44,102 | 40,215 |
| Tax credited to consolidated income statement (Note 11) | 6,032 | 3,887 |
| Withholding tax paid | 4,000 | – |
| **At 31 December** | 54,134 | 44,102 |

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<br>RMB'000 | Depreciation on property, plant and equipment<br>RMB'000 | Impairment provision | Total<br>RMB'000 |
| **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 |
| **Balance at 1 January 2013** | 34,929 | 13,173 | – | 48,102 |
| Credited to the consolidated income statement | 5,368 | (2,170) | 2,834 | 6,032 |
| **Balance at 31 December 2013** | 40,297 | 11,003 | 2,834 | 54,134 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 17. DEFERRED INCOME TAX *(continued)*

| | Deferred tax liabilities – Undistributed profits of subsidiaries (a) RMB'000 |
|---|---|
| **Balance at 1 January 2012** | 2,541 |
| Charged to the consolidated income statement | 1,459 |
| **Balance at 31 December 2012** | 4,000 |
| **Balance at 1 January 2013** | 4,000 |
| Withholding tax paid | (4,000) |
| **Balance at 31 December 2013** | – |

(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 2013, deferred tax liabilities of RMB nil (2012: RMB4,000,000) 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. The tax related to the deferred tax liabilities of RMB4,000,000 recognised at 31 December 2012 has been paid with the distribution of the retained profits of the Group's PRC subsidiaries in 2013. Deferred tax liabilities of RMB6,220,701 have not been recognised, in respect of the remaining retained profits generated by its PRC entities subsequent to 31 December 2007 amounting to RMB124,414,025, 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 2013, certain subsidiaries of the Group have not recognised deferred tax assets in respect of cumulative tax losses carried forward of RMB215,801,897 (2012: RMB102,436,763) 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 18. TRADE AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | 2013<br>RMB'000 | 2012<br>RMB'000 | 2013<br>RMB'000 | 2012<br>RMB'000 |
| **Current portion:** | | | | |
| Trade receivables (a) | 13,224 | 23,238 | – | – |
| Prepayments (b) | 9,420 | 11,129 | – | – |
| Lease deposits | 34,141 | 38,395 | – | – |
| Amounts due from subsidiaries | – | – | 219,548 | 318,485 |
| Amounts due from related parties (Note 29(d)) | – | 1,935 | – | – |
| Other receivables (c) | 3,992 | 6,289 | – | – |
| Prepaid rental | 5,935 | 18,445 | – | – |
| Interest receivable | 14,488 | 8,644 | 6,728 | 8,146 |
| | 81,200 | 108,075 | 226,276 | 326,631 |
| **Non–current portion:** | | | | |
| Prepayments for acquisition of a property in Lufeng | 144,792 | 144,792 | – | – |
| Prepayments for construction project | 5,518 | – | – | – |
| Prepayments for decoration work | 610 | 7,920 | – | – |
| | 150,920 | 152,712 | – | – |
| | 232,120 | 260,787 | 226,276 | 326,631 |

### (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:

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| **0 – 30 days** | 9,523 | 14,609 |
| **31 – 90 days** | 2,554 | 7,152 |
| **91 – 365 days** | 1,147 | 1,477 |
| | 13,224 | 23,238 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 18. TRADE AND OTHER RECEIVABLES *(continued)*

### (a) Trade receivables *(continued)*

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

As at 31 December 2013, trade receivables of RMB13,224,000 were fully performing (2012: RMB23,238,000).

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

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Prepayments | 9,917 | 11,129 |
| Allowance for impairment | (497) | – |
| | 9,420 | 11,129 |

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

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Other receivables | 4,644 | 16,289 |
| Allowance for impairment | (652) | – |
| Allowance for recoverability of tendering deposit | – | (10,000) |
| | 3,992 | 6,289 |

In December 2011, the Group paid RMB10.0 million as a deposit for the tendering of a project in Dongguan, Guangdong Province to the local government. The Group's tender has been accepted by the local government, but details of the terms of the agreement were under negotiation and a formal agreement was yet to be entered into till 31 December 2012. In view of the uncertainty of the project, an allowance has been made in 2011. The tendering deposit has been fully refunded in 2013, and hence the related allowance was reversed in 2013.

## 19. INVENTORIES

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Merchandise held for resale | 225,752 | 255,816 |
| Allowance for obsolescence | (5,817) | (3,094) |
| | 219,935 | 252,722 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 19. INVENTORIES *(continued)*

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

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Carrying amount of inventories sold | 989,574 | 958,816 |
| Write-down of inventories | 2,723 | 378 |
| | 992,297 | 959,194 |

## 20. BANK DEPOSITS, CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|---|---|---|---|---|
| | 2013<br>RMB'000 | 2012<br>RMB'000 | 2013<br>RMB'000 | 2012<br>RMB'000 |
| Fixed term | 530,568 | 230,500 | 238,568 | 230,500 |
| Restricted (a) | 388,439 | 387,040 | – | – |
| Total bank deposits | 919,007 | 617,540 | 238,568 | 230,500 |
| Cash and cash equivalents | 626,291 | 1,144,010 | 22,130 | 24,889 |
| | 1,545,298 | 1,761,550 | 260,698 | 255,389 |

The balances are denominated in the following currencies:

| | Group | | Company | |
|---|---|---|---|---|
| | 2013<br>RMB'000 | 2012<br>RMB'000 | 2013<br>RMB'000 | 2012<br>RMB'000 |
| RMB | 1,536,548 | 1,680,980 | 257,734 | 254,607 |
| HKD | 8,750 | 80,570 | 2,964 | 782 |
| | 1,545,298 | 1,761,550 | 260,698 | 255,389 |

The average effective interest rate on fixed term deposits with maturity more than 3 months was 3.27% (2012: 3.5%).

(a) Restricted bank deposits are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2013<br>RMB'000 | 2012<br>RMB'000 | 2013<br>RMB'000 | 2012<br>RMB'000 |
| Pledged deposits for bank borrowings | 388,439 | 387,040 | – | – |

As at 31 December 2013, bank deposits of RMB388,439,000 (2012: RMB387,040,000) were pledged as security for the Group's borrowings (Note 25). The average effective interest rate of the restricted bank deposits was 0.8% (2012: 0.8%).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 21. SHARE CAPITAL AND SHARE PREMIUM

### Group and Company

| | Number of ordinary shares, authorized (thousand) | Issued and fully paid: Number of ordinary shares (thousand) | Issued and fully paid: Ordinary share capital RMB'000 | Share premium RMB'000 (Note i) | Total RMB'000 |
|---|---|---|---|---|---|
| **At 31 December 2012 and 2013** | 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.

## 22. OTHER RESERVES

### Group

| | Statutory reserve RMB'000 (Note i) | Merger reserve RMB'000 (Note ii) | Currency translation reserve RMB'000 | Capital redemption reserve RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **At 1 January 2012** | 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 |
| Appropriation to statutory reserves | 1,527 | – | – | – | 1,527 |
| Currency translation differences | – | – | 198 | – | 198 |
| At 31 December 2013 | 88,448 | 107,372 | 503 | 410 | 196,733 |

### Company

| | Capital redemption reserve RMB'000 | Contributed surplus RMB'000 (Note iii) | Total RMB'000 |
|---|---|---|---|
| **At 31 December 2012 and 2013** | 410 | 107,372 | 107,782 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 22. OTHER RESERVES *(continued)*

(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 2013, RMB1,527,000 was appropriated to statutory reserve (2012: RMB5,000,000).

(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 Department Store Investment Limited ("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. (ACCUMULATED LOSS)/RETAINED PROFITS

| | Group RMB'000 | Company RMB'000 |
|---|---|---|
| **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 |
| **At 1 January 2013** | 135,532 | 2,319 |
| Loss for the year | (219,515) | (27,102) |
| Appropriation to reserves | (1,527) | – |
| **At 31 December 2013** | (85,510) | (24,783) |

## 24. TRADE AND OTHER PAYABLES

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 RMB'000 | 2012 RMB'000 | 2013 RMB'000 | 2012 RMB'000 |
| Trade payables (a) | 304,046 | 400,398 | – | – |
| Rental payables | 180,969 | 145,194 | – | – |
| Other tax payables | 12,857 | 35,292 | – | – |
| Deferred income (b) | 33,010 | 34,934 | – | – |
| Accrued wages and salaries | 22,701 | 26,421 | 237 | – |
| Amounts due to subsidiaries | – | – | 82,913 | 80,435 |
| Amount due to related parties (Note 29 (d)) | 81 | 3,170 | – | – |
| Advances from suppliers | 5,970 | 5,970 | – | – |
| Advances received from customers (c) | 382,142 | 409,259 | – | – |
| Other payables and accruals | 102,669 | 98,187 | – | 51 |
| Dividend payable (Note 14) | – | 70,608 | – | 70,608 |
| | 1,044,445 | 1,229,433 | 83,150 | 151,094 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 24. TRADE AND OTHER PAYABLES *(continued)*

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

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

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| 0 – 30 days | 124,418 | 26,399 |
| 31 – 60 days | 69,091 | 90,767 |
| 61 – 90 days | 15,413 | 111,326 |
| 91 – 365 days | 51,902 | 124,905 |
| 1 year – 2 years | 35,843 | 28,960 |
| 2 years – 3 years | 7,128 | 17,585 |
| Over 3 years | 251 | 456 |
| | 304,046 | 400,398 |

(b) The amount mainly represented the carrying value of unredeemed awarded credits.

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

## 25. BORROWINGS

| | Group | |
|---|---|---|
| | 2013<br>RMB'000 | 2012<br>RMB'000 |
| Bank borrowings, secured | 235,869 | 243,255 |

At 31 December 2013, the bank borrowings were denominated in Hong Kong dollar and subject to an annual average interest rate of 0.882% (2012: 1.005%). The bank borrowings were repayable within one year and secured by the pledged deposits of RMB388,439,000 (2012: RMB387,040,000) (Note 20(a)).

The fair value of the borrowings approximated their carrying amount.

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

| | Group | |
|---|---|---|
| | 2013<br>RMB'000 | 2012<br>RMB'000 |
| Less than 1 year | 235,869 | 243,255 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 26. INVESTMENT IN AND AMOUNTS DUE FROM SUBSIDIARIES – COMPANY

### (a) Investments in subsidiaries

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Unlisted shares, at cost | 107,380 | 107,380 |

| Name | Place of incorporation/ operation and type 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**") | the PRC, wholly foreign owned enterprises | Operation and management of department stores | RMB200,000,000 | – | 100% |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 26. INVESTMENT IN AND AMOUNTS DUE FROM SUBSIDIARIES – COMPANY *(continued)*

### (b) Amounts due from subsidiaries

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Amounts due from subsidiaries – non-current | 680,041 | 680,041 |

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

## 27. CASH GENERATED FROM OPERATIONS

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

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Loss before income tax | (217,191) | (22,675) |
| Adjustments for: | | |
| – Depreciation (Note 15) | 59,240 | 55,163 |
| – Amortisation of intangible assets (Note 16) | 4,077 | 1,942 |
| – Impairment of loss (Note 7) | 139,158 | 10,000 |
| – Provision for prepayments and other receivables (Note 7) | 1,149 | – |
| – Write back of impairment provision for tendering deposits (Note 7) | (10,000) | – |
| – Loss on disposal of property, plant and equipment (Note 7) | 633 | 677 |
| – Interest income (Note 10) | (27,194) | (27,439) |
| – Interest expense (Note 10) | 2,080 | 2,784 |
| – Changes in working capital (excluding the effect of exchange differences on consolidation): | | |
| – Inventories | 32,787 | (431) |
| – Trade and other receivables | 41,571 | 113,935 |
| – Trade and other payables | (118,658) | 47,719 |
| – Advances to related parties (Note 29(c)) | – | (6,000) |
| – Repayments from related parties (Note 29(c)) | – | 6,000 |
| – Advances from third parties (a) | – | 30,000 |
| – Repayment of advances to third parties (a) | – | (30,000) |
| Cash generated from operations | (92,348) | 181,675 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 27. CASH GENERATED FROM OPERATIONS *(continued)*

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

(b) In the statement of cash flows, proceeds from sale of property, plant and equipment comprise:

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Net book amount (Note 15) | 5,465 | 2,828 |
| Loss on disposal of property, plant and equipment (Note 7) | (633) | (675) |
| Proceeds from disposal of property, plant and equipment | 4,832 | 2,153 |

## 28. COMMITMENTS

### (a) Capital commitments

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

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Capital commitments – expenditures of property, plant and equipment | | |
| – Contracted but not provided for | 69,714 | 62,484 |

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

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

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Land and buildings: | | |
| Not later than 1 year | 170,044 | 170,186 |
| Later than 1 year and not later than 5 years | 706,057 | 705,101 |
| Over 5 years | 1,698,486 | 1,704,080 |
| | 2,574,587 | 2,579,367 |

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 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:

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Land and buildings: | | |
| Not later than 1 year | 33,187 | 33,065 |
| Later than 1 year and not later than 5 years | 55,292 | 60,439 |
| Over 5 years | 14,511 | 35,526 |
| | 102,990 | 129,030 |

## 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 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 29. RELATED PARTY TRANSACTIONS *(continued)*

The following transactions were carried out with related parties:

### (a) Sales of goods

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Tangming | – | 1,300 |

### (b) Rental expenses to related parties

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Ruizhuo Investment | 20 | 829 |
| Shenzhen Guozhan | – | 4,576 |
| Shirble Inn | 134 | 198 |
| | 154 | 5,603 |

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

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Advances to<br>Tangming | – | 6,000 |
| Repayment of advance from<br>Tangming | – | (6,000) |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 29. RELATED PARTY TRANSACTIONS *(continued)*

### (d) Balances with related parties

#### *(i) Amounts due from related parties*

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Shenzhen Guozhan | – | 1,935 |

#### *(ii) Amounts due to related parties*

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Ruizhuo Investment | 81 | 1,317 |
| Shirble Inn | – | 26 |
| Shirble Property Management | – | 260 |
| Mr. Yang Xiangbo | – | 1,567 |
| | 81 | 3,170 |

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:

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Basic salaries and allowances | 9,659 | 11,150 |
| Year-end bonuses | 929 | 1,886 |
| Contributions to the retirement scheme | 28 | 22 |
| Others | 2,244 | – |
| | 12,860 | 13,058 |

## 30. CONTINGENT LIABILITIES

Certain suppliers have commenced proceedings in the PRC against the Group in respect of disputes over contract terms and trademark infringement claim. As at 31 December 2013, the legal proceedings were ongoing. The Group has made a provision of approximately RMB5,084,000 (2012: RMB4,369,000), which the directors believe is adequate to cover the amounts, if any, payable in respect of these claims.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 31. SUBSEQUENT EVENTS

The Company has adopted an employees' share award scheme on 22 January 2014.

The purpose of the Employees' Share Award Scheme is to recognise and reward eligible employees for their contributions to the business and development of the Group, provide incentives to eligible employees for their satisfactory performance, and align the interest of the eligible employees with the interest of the Group through the grant of the award. Eligible participants include employees, consultants and other personnel employed or engaged by the Group related to the business and operation of the Group, as well as mid-level management, senior management and senior executives of the Group, the total number of which will not be more than 200.

Up to the reporting date, the Company has not awarded any shares to the employees.

# CORPORATE INFORMATION

## DIRECTORS

**Executive Directors:**

YANG Xiangbo
YANG Ti Wei *(Appointed on 7 September 2013)*
LI Kuansen *(Resigned on 6 September 2013)*

**Independent non-executive Directors:**

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

## 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

## COMPANY SECRETARY

CHAN Chore Man, Germaine, CPA

## AUTHORISED REPRESENTATIVES

YANG Xiangbo
CHAN Chore Man, Germaine, CPA

## AUDITOR

PricewaterhouseCoopers
22nd Floor, Prince's Building
10 Chater Road
Central, Hong Kong

## HONG KONG LEGAL ADVISORS

Squire Sanders
29th Floor, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

## PRINCIPAL BANKERS

**In China**

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

**In Hong Kong**

The Hongkong and Shanghai Banking
Corporation Limited
UBS AG

# CORPORATE INFORMATION

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

## HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712–16, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

## REGISTERED OFFICE

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Cayman Islands

## PRINCIPAL PLACE OF BUSINESS AND HEADQUARTER IN PRC

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2028 Jintian Road
Huanggang Business Centre
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Shenzhen
PRC

## PLACE OF BUSINESS IN HONG KONG

Suite 1402, Dah Sing Financial Centre
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Wanchai
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## COMPANY'S WEBSITE

www.shirble.net

## STOCK CODE

00312.HK