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

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 00312)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

FINANCIAL HIGHLIGHTS

The following sets forth a summary of the audited consolidated results of the Group for the year ended 31 December 2016:–

– Revenue of the Group was RMB1,403.9 million, representing an increase of 1.0% compared with the revenue of RMB1,389.5 million in 2015;
– Total gross sales proceeds[1] of the Group were RMB2,165.0 million, representing a decrease of 5.5% compared with the gross sales proceeds of RMB2,292.1 million in 2015;
– Operating profit of the Group was RMB57.6 million, representing an increase of 23.1% compared with operating profit of RMB46.8 million in 2015;
– Profit attributable to the owners of the Company was RMB60.5 million, representing an increase of 20.5% compared with the profit attributable to the owners of the Company of RMB50.2 million in 2015;
– Basic earnings per Share was RMB0.02; and
– Net asset value per Share was RMB0.54.

FINAL DIVIDEND

Proposed final dividend of RMB0.0016 (equivalent to approximately HK$0.0018) per Share or in the total amount of RMB4.0 million (equivalent to approximately HK$4.5 million) (2015: RMB0.0024 (equivalent to approximately HK$0.0028) per Share or in the total amount of RMB5.9 million (equivalent to approximately HK$7.1 million)). The proposed final dividend is subject to the Shareholders' approval at the Annual General Meeting.

Note:

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

I. FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

The following sets forth the audited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2016, together with the comparative figures for the year ended 31 December 2015.

CONSOLIDATED INCOME STATEMENT

		Year ended 31 December	
		2016	2015
	Note	***RMB'000***	*RMB'000*
Revenue	*3*	**1,403,919**	1,389,455
Other operating revenue	*4*	**125,995**	129,285
Other gains, net	*5*	**5,166**	3,216
Purchase of and changes in inventories	*6*	**(983,889)**	(966,506)
Employee benefits	*6,7*	**(184,353)**	(186,323)
Depreciation and amortisation	*6*	**(51,628)**	(48,500)
Operating lease rental expenses	*6*	**(146,730)**	(151,614)
Other operating expenses, net	*6*	**(110,833)**	(122,224)
Operating profit		**57,647**	46,789
Finance income	*8*	**28,308**	31,449
Finance costs	*8*	**(1,201)**	(3,190)
Finance income – net	*8*	**27,107**	28,259
Share of loss of associate		**(28)**	–
Profit before income tax		**84,726**	75,048
Income tax expense	*9*	**(24,232)**	(24,829)
Profit for the year		**60,494**	50,219
Profit attributable to:			
Owners of the Company		**60,494**	50,219
Earnings per share for the profit attributable to owners of the Company during the year (expressed in RMB per share)			
– Basic	*10*	**0.02**	0.02
– Diluted	*10*	**0.02**	0.02

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
		2016	2015
	Note	***RMB'000***	*RMB'000*
Profit for the year		**60,494**	50,219
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss:			
Change in fair value of investment properties upon transfer, net of tax		**–**	12,003
Items that may be reclassified to profit or loss:			
Fair value change on available-for-sale financial assets, net of tax		**(433)**	(19)
Currency translation differences		**(255)**	(659)
Other comprehensive income for the year		**(688)**	11,325
Total comprehensive income for the year		**59,806**	61,544
Attributable to:			
Owners of the Company		**59,806**	61,544

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2016	2015
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Investment properties	*12*	**161,500**	159,700
Property, plant and equipment		**468,104**	498,928
Intangible assets		**19,045**	18,240
Investment in associate		**972**	–
Deferred income tax assets		**46,944**	50,583
Other receivables and prepayments	*14*	**45,709**	45,654
		742,274	773,105
Current assets			
Inventories		**168,666**	165,642
Available-for-sale financial assets	*13*	**28,936**	37,265
Trade receivables, other receivables and prepayments	*14*	**69,925**	83,051
Bank deposits		**455,907**	607,533
Cash and cash equivalents		**829,690**	953,378
		1,553,124	1,846,869
Total assets		**2,295,398**	2,619,974
EQUITY			
Equity attributable to owners of the Company			
Share capital		**213,908**	213,908
Share premium		**858,649**	876,986
Shares held for share award scheme		**(10,411)**	(14,531)
Other reserves		**234,123**	225,621
Retained profit/(accumulated loss)		**44,714**	(9,071)
Total equity		**1,340,983**	1,292,913

		As at 31 December	
		2016	2015
	Note	***RMB'000***	*RMB'000*
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**12,246**	10,729
Current liabilities			
Trade and other payables	*15*	**882,684**	1,008,934
Income tax payable		**59,485**	56,058
Borrowings		**–**	251,340
		942,169	1,316,332
Total liabilities		**954,415**	1,327,061
Total equity and liabilities		**2,295,398**	2,619,974

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

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 Group are to operate department stores in The People's Republic of China (the "**PRC**").

2. BASIS OF PREPARATION

These annual financial statements for the year ended 31 December 2016 have been prepared in accordance with the International Financial Reporting Standards ("**IFRS**"). The Directors consider that the Group operates in a single business segment, i.e. operation and management of department stores in the PRC. Accordingly, no segmental analysis is presented.

3. REVENUE

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Direct sales	**1,122,837**	1,116,100
Commission from concessionaire sales	**152,666**	161,330
Rental income	**123,714**	103,628
Income from reversal of long-aged unredeemed prepaid cards	**4,702**	8,397
	1,403,919	1,389,455

4. OTHER OPERATING REVENUE

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Promotion, administration and management income	**109,481**	114,118
Credit card handling fees for concessionaire sales	**11,557**	11,894
Others	**4,957**	3,273
	125,995	129,285

5. OTHER GAINS, NET

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Investment (loss)/gain from redemptions on maturity and disposals of available-for-sale financial assets	**(220)**	5,226
Gains from fair value adjustment on investment properties *(Note 12)*	**1,800**	4,600
Compensation for the contract damages	**812**	1,384
Loss on disposals of property, plant and equipment	**(196)**	(3,652)
Reversal of/(provision) for legal claims	**3,842**	(5,996)
Donation	**(2,000)**	–
Others	**1,128**	1,654
	5,166	3,216

6. EXPENSES BY NATURE

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

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Purchase of and changes in inventories	**983,889**	966,506
Employee benefits expenses	**184,353**	186,323
Operating lease rental expenses	**146,730**	151,614
Depreciation and amortisation expenses	**51,628**	48,500
Utilities	**53,429**	40,621
Net foreign exchange (gain)/loss	**(1,643)**	13,242
Transportation expenses	**5,944**	6,026
Office expenses	**5,700**	5,843
Bank charge fee	**6,185**	5,868
Other tax expenses	**1,558**	4,593
Auditor's remuneration		
– Audit services	**4,448**	4,322
– Non-audit services	**–**	655
Business travel expenses	**3,715**	3,831
Advertising costs	**1,517**	2,254
Other expenses	**29,980**	34,969
Total cost of sales, distribution expenses, and administration expenses	**1,477,433**	1,475,167

7. EMPLOYEE BENEFITS EXPENSES

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Wages and salaries	**161,321**	167,431
Social security costs	**15,560**	16,091
Share-based compensation expenses	**7,140**	2,614
Others	**332**	187
Total employee benefits expenses	**184,353**	186,323

8. FINANCE INCOME, NET

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Finance income		
Interest income from bank deposits	**28,308**	31,449
Finance costs		
Interest expenses	**(1,201)**	(3,190)
Finance income, net	**27,107**	28,259

9. INCOME TAX EXPENSE

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Current income tax		
– PRC corporate income tax	**18,361**	20,005
Deferred income tax	**5,871**	4,824
	24,232	24,829

The tax on the Group's 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:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Profit before income tax	**84,726**	75,048
Tax calculated at a tax rate of 25% (2015: 25%)	**21,181**	18,762
Tax impact of:		
– Expenses not deductible for tax purposes	**767**	364
– Unrecognised tax loss	**1,475**	4,988
– Withholding tax on dividend	**809**	715
Income tax expense	**24,232**	24,829

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

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.

The applicable income tax rate are 25% and 15% for all subsidiaries in the PRC.

10. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the earnings attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year. The repurchases of the Company's own ordinary shares was reflected in the weighted average number of ordinary shares in issue from the date shares were repurchased. The weighted average number of ordinary shares in issue changed in 2016 due to the purchase and grant of shares for an employees' share award scheme.

	Year ended 31 December	
	2016	2015
Profits attributable to owners of the Company (in RMB thousand)	**60,494**	50,219
Weighted average number of ordinary shares in issue (thousands)	**2,465,841**	2,486,892
Basic earnings per share (RMB per share)	**0.02**	0.02

(b) Diluted

The awarded shares granted by the Company have potential dilutive effect on the earnings per share. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding by the assumption of the conversion of all potential dilutive ordinary shares arising from awarded shares granted by the Company. No adjustment is made to earnings (numerator).

	Year ended 31 December	
	2016	2015
Earnings (in RMB thousands)		
Profits attributable to owners of the Company	**60,494**	50,219
Weighted average number of ordinary shares (thousands)		
Weighted average number of ordinary shares in issue	**2,465,841**	2,486,892
Adjustments for awarded shares	**28,443**	8,108
Weighted average number of ordinary shares for diluted earnings per share	**2,494,284**	2,495,000
Diluted earnings per share (RMB per share)	**0.02**	0.02

11. DIVIDENDS

Pursuant to the resolutions by the annual general meeting of the Company held on 24 May 2016, a final dividend of RMB0.0024 per ordinary share amounting to RMB5,928,000 out of the share premium account for the year ended 31 December 2015 was approved and paid by the Company.

Pursuant to the resolutions passed by the Board of Directors on 31 August 2016, an interim dividend of RMB0.0049 per ordinary share amounting to RMB12,201,000 out of the share premium account in respect of the six months ended 30 June 2016 was declared and paid by the Company.

On 23 March 2017, the board of directors recommended a final dividend in respect of the year ended 31 December 2016 of RMB0.0016 (equivalent to approximately HK$0.0018) per share, amounting to RMB3,963,000 (equivalent to approximately HK$4,491,000). The final dividend is to be proposed out of the share premium account at the annual general meeting of the Company and these financial statements do not reflect this dividend payable.

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Interim dividend paid of RMB0.0049 (2015: RMB0.0034) per ordinary share	**12,201**	8,376
Proposed final dividend of RMB0.0016 (2015: RMB0.0024) per ordinary share	**3,963**	5,928
	16,164	14,304

12. INVESTMENT PROPERTIES

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
As at 1 January	**159,700**	64,000
Transfer from property, plant and equipment	**–**	75,096
Increase in fair value at the date of transferring from property, plant and equipment *(i)*	**–**	16,004
Net gains from fair value adjustment *(ii)*	**1,800**	4,600
As at 31 December	**161,500**	159,700

The Group's investment properties are located in Shenzhen, Lufeng and Haifeng Guangdong Province, China.

The fair value of the Group's investment properties falls under level 3 in the fair value hierarchy.

During the year ended 31 December 2016, gains from changes in fair value of investment properties amounting to RMB1,800,000 in 2016 (2015: RMB4,600,000) had been recognised in other gains-net.

Valuation processes of the Group

The Group's investment properties were valued at 31 December 2016 and 2015 by an independent and professionally qualified valuer who holds a recognised relevant professional qualification and has recent experience in the locations of the investment properties valued.

Valuation techniques

Valuations are based on:

(i) Direct comparison approach assuming sale of each of these properties in its existing state with the benefit of vacant possession. By making reference to sales transactions as available in the relevant market, comparable properties in close proximity have been selected and adjustments have been made to account for the difference in factors such as locations and property size; and

(ii) Income approach taking into account the current rents of the property interests and the reversionary potentials of the tenancies, term yield and reversionary yield are then applied respectively to derive the market value of the property.

(a) Rental income from investment properties

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Rental income	**5,503**	6,263

As at 31 December 2016, the Group had no unprovided contractual obligations for future repairs and maintenance (2015: Nil).

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2016	2015
	RMB'000	*RMB'000*
As at 1 January	**37,265**	–
Additions	**–**	518,520
Disposals	**(8,853)**	(22,256)
Redemptions on maturity	**–**	(464,871)
Currency translation differences	**1,177**	665
Fair value change recognised in other comprehensive income	**(653)**	5,207
As at 31 December	**28,936**	37,265

The Group's available-for-sale financial assets as at 31 December 2016 represented non-principal guaranteed wealth management products with variable return rate. The available-for-sale financial assets are denominated in RMB and USD.

The fair value of the wealth management products is based on its market price as at 31 December 2016. The fair value is within level 2 of the fair value hierarchy.

14. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

		As of 31 December	
		2016	2015
	Notes	***RMB'000***	*RMB'000*
Current portion:			
Trade receivables	*(i)*	**32,841**	33,105
Interest receivables		**6,337**	15,598
Receivable from a trustee for the share purchase for the employees' share award scheme	*(ii)*	**14,755**	14,502
Prepayments		**2,428**	8,673
Other receivables		**12,074**	6,662
Lease deposits		**1,473**	4,492
Amounts due from a related party		**17**	19
		69,925	83,051
Non-current portion:			
Lease deposits		**30,969**	30,555
Prepayments for acquisition of properties		**11,125**	12,007
Prepayments for purchase of computer software		**–**	1,661
Prepayments for construction project		**1,168**	1,431
Prepayments for acquisition of furniture and other equipments		**2,447**	–
		45,709	45,654
		115,634	128,705

(i) 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 aging analysis of the trade receivables of the Group based on invoice date is as follows:

	As of 31 December	
	2016	2015
	RMB'000	*RMB'000*
0 – 30 days	**20,979**	23,475
31 – 90 days	**8,283**	6,073
91 – 365 days	**3,579**	3,557
	32,841	33,105

As at 31 December 2016, trade receivables of RMB7,469,000 (2015: RMB5,396,000) were past due but not impaired. They relate to a number of corporate customers that have good reputation and good trading and settlement history maintained with the Group. Based on past experience, the management believes that no impairment allowance is necessary in respect of these balances.

All trade receivables are denominated in RMB and their fair values approximated their carrying amounts as at 31 December 2016.

(ii) Receivable from a trustee for the share purchase for the employees' share award scheme

This receivable represented the Group's cash paid to an independent trustee for the purchase of the award shares for the employees' share award scheme.

15. TRADE AND OTHER PAYABLES

		As of 31 December	
		2016	2015
	Notes	***RMB'000***	*RMB'000*
Trade payables	*(i)*	**222,250**	260,706
Rental payables		**182,142**	187,901
Other tax payables		**24,426**	20,155
Deferred income	*(ii)*	**25,613**	25,937
Accrued wages and salaries		**29,877**	28,835
Amount due to related parties		**177**	157
Advances from suppliers		**6,365**	6,083
Advances received from customers	*(iii)*	**266,392**	345,356
Deposits		**61,068**	61,700
Accrual for legal claims		**10,242**	14,084
Other payables and accruals		**54,132**	58,020
		882,684	1,008,934

All trade and other payables are denominated in RMB and their fair values approximated their carrying amount as at 31 December 2016.

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

	As of 31 December	
	2016	2015
	RMB'000	*RMB'000*
0 – 30 days	**100,269**	123,759
31 – 60 days	**43,062**	48,145
61 – 90 days	**19,267**	19,294
91 – 365 days	**30,329**	37,464
1 year – 2 years	**1,488**	4,240
2 years – 3 years	**2,272**	4,104
Over 3 years	**25,563**	23,700
	222,250	260,706

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

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

16. CAPITAL COMMITMENTS

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

	As of 31 December	
	2016	2015
	RMB'000	*RMB'000*
Capital commitments – expenditures of property, plant and equipment		
– Contracted but not provided for	**5,531**	7,893

II. MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in the department store business and the online retail business in The People's Republic of China (the "**PRC**").

REVIEW OF THE RETAIL BUSINESS IN THE PRC

In 2016, the growth of the retail business in the PRC remained slow as compared to the strong growth in earlier years. Nevertheless the retail market in the PRC continues to be one of the fastest growth retail business markets in the world. According to the National Bureau of Statistics of the PRC, the retail business market in the PRC maintained the growth at 10.4% in 2016. As a result of technological advancement and improving logistics in the PRC, there are increasing number of consumers in the PRC buying online. The online business platforms and channels in the PRC recorded a substantial growth in 2016.

In 2016, the Group celebrated its 20th anniversary and launched a series of celebrating promotional campaigns for this milestone. One of the purposes of these campaigns is to promote the sales through different sales channels offered by the Group. That effort and its attempts to expand into new business segments resulted in the Group to record a sustainable business growth during the year. For the year ended 31 December 2016, the Group recorded RMB1,403.9 million in revenue, a 1.0% increase from RMB1,389.5 million in 2015, and its net profit also increased by 20.5%, to RMB60.5 million from RMB 50.2 million last year.

As at 31 December 2016, the Group operated a total of 20 department stores, with a total gross floor area of 342,231.6 sq.m.

BUSINESS REVIEW

Continuous expansion of i-Shirble and collaboration with other online platforms

The Group continues to promote the online-to-offline sales strategy. In this connection, the Group established business strategic alliances with online platforms in the PRC, such as Jingdong Daojia ("京東到家") and Baidu ("百度"), in addition to its own online platform of "i-Shirble". As one of the first movers in implementing online-to-offline sales strategy in Shenzhen with the network of department stores and the support from the business partners' online platforms, the Group has established a sizeable customer/member base initially in Shenzhen and currently extending to Shanwei region, the south-east part of the Guangdong province. The successful implementation of the Group's 20th anniversary market campaign resulted in the Group having establishing a customer/member base of more than 58,000 members as at 31 December 2016. The customer/member base for i-Shirble includes people of different age with different biographical background at different locations. The conversation rate of the customer/member base in 2016 was approximately 38.2%.

In the future, the Group plans to continue to develop the i-Shirble online for the purposes of enhancing its popularity and increasing the number of customers and members. The Group will continue to add new functions and features to the online platform of i-Shirble apps on mobile platform and refine the portfolio of merchandises offered online. In this connection, we have concrete implementation plans to promote the i-Shirble online platform.

Introducing new store formats and opening new stores

Although the retail business market in the PRC is growing rapidly, it is also increasingly competitive. Successful retailers have to fulfil the increasing demands from different groups of target consumers. In this connection, the Group has developed three business channels to attract and promote the customers' loyalty. These three business channels include the network of the well-established department stores with the brand of "歲寶百貨"; the "SMART" hyper-market focusing on lifestyle products with customers' involvement; and "Shirble Plaza" which is positioned as a trendy one-stop lifestyle shopping mall to attract the young generation and middle-class with high consumption pattern.

In September 2016, the Group opened a SMART store with gross floor area of 3,511.5 sq.m. at Shixia, Futian district in Shenzhen. This new store carries a great variety of offers including hot delicacies, interactive lifestyle pop-up stores, the "Shirble Kitchen" where cooking classes are given, and a learning centre for kids.

Strategic cooperation with local fresh food supermarket chain of over 80 stores

In December 2016, the Group entered into a strategic cooperation agreement (the "Agreement") with Shenzhen New Meiyiduo Investment Limited ("**Meiyiduo**") for further expansion of the Group's network of convenient stores. Meiyiduo currently operates more than 80 fresh food convenient stores in Shenzhen and Guangdong in different neighbourhood areas at different districts under the brand names of Meiyiduo (美宜多), Xinlefu (新樂福) and Huiyijia(惠宜家). These stores are known as convenient stores strategically operating in different small districts in different cities (城中村). These stores offer residents and shoppers in their convenient shopping experience. These stores typically have GFAs of less than 900 sq.m.

With the network of fresh food stores, the Group's plan is to enhance its fresh food offerings on its online platform as well as at the relatively large department stores through bulk purchase of daily food and vegetables. This arrangements are also expected to reduce the procurement cost of the Group. Pursuant to the Agreement, the Group has agreed to, amongst other things, (i) jointly procure with Meiyiduo from local farms or agricultural base directly, (ii) offer Meiyiduo the Group's wholesale products at reasonable prices upon their request, (iii) promote the sales of a wide range of food and daily products under the joint brand of "Shirble-Meiyiduo" (歲寶美宜多), and (iv) explore further cooperation opportunities in logistics and supply chain management for the purposes of further reducing the cost.

Under the cooperation agreement, the Group is also granted an option to acquire 20% of the equity interest of Meiyiduo upon such terms and conditions to be discussed and agreed by the relevant parties. If the Group has decided to exercise the option, it will comply with the applicable requirements under the Listing Rules. The Directors consider that the cooperation with Meiyiduo would accelerate the business growth of the Group.

Direct sourcing and development of wholesale business

As consumers in the PRC become more health conscious, their demand for quality products and services is also growing continuously. In the past few years, one of the Group's strategic directions is to increase the direct procurement from overseas (such as Ukraine edible sunflower seed oil and fruit juices) and introduce specialty products (such as organic vegetables and chinese medicine flavored chicken) from the local organic farms. In June 2016, after acquiring 10% equity interest in the online platform "釣胃口", the Group has also boosted its seafood offerings with a wide range of deep-sea fish and other seafood products.

In the second half of 2016, the Group signed an exclusive agreement with a Singaporean company for the supply of a series of high-quality detergents and toiletries. The Group also procured other high quality products such as Bulgarian sunflower seed oil and batteries from different suppliers, and is in discussion with a number of quality suppliers on furthering business cooperation.

The Group set up a dedicated team during the year for the procurement of high-quality and/or specialty products, and these products have been launched at the department stores of the Group in Shenzhen and Shanwei. With the support of its existing store network, online channels, and the strategic partnership with Meiyiduo and other wholesale network, the Group is able to promote these dedicated products to the mass market.

Staff incentive scheme

In these past few years, the Group has been adjusting both its strategic direction and operational strategies to ensure it can survive in the growingly competitive market. The Directors believe that for the corporate transformation to succeed, it is essential that the Group motivate its employees and retain valuable personnel. Hence, the Group granted 32,502,000 Shares to 88 employees in the past two years, and on 20 January 2017, the third batch of an aggregate of 7,524,000 award shares were granted to 50 eligible employees. The Directors hope the share award scheme can encourage employees to contribute to the Group's business.

BUSINESS OUTLOOK

Prudent store expansion plan to establish the "Shirble Plaza" brand

Consistent with the business channel diversification strategy, the Group plans to establish a brand new shopping mall of "Shirble Plaza" with gross floor area of approximately 17,500 sq.m., which is in a three-storey building in Futian District, Shenzhen, and is scheduled to open in mid 2017. The "Shirble Plaza" will be positioned as a trendy one-stop lifestyle shopping mall, and a significant portion of its store area will be leased to different businesses instead of operating different concessionaire counters.

After the three business channels have been implemented, the Group will select the appropriate areas for opening more different stores and continue to refine its various business channels according to the new positioning of selected existing stores and other stores in the pipeline.

Tapping the niche market through supermarket

In the past, most of the Group's stores were positioned as one-stop neighborhood convenient shopping centres with GFA of more than 10,000 sq.m. with a supermarket section, department store section, electrical appliances section and ancillary facilities. Not until recently, the Group started implementing its supermarket model, launching a premium store line under the "SMART" brand that targets consumers with higher consumption power.

In late 2016, the Group started to explore the opportunity of urban village areas (城中村) through the strategic alliance with Meiyiduo. This cooperation will not only expand fresh food procurement source for the Group, but also enable the Group to explore a new market with target customers of different demographic profile.

Establishment of the supply chain and logistic network

The Group currently uses external logistics services for its online business. With the business segment growing quickly and the cooperation with Meiyiduo, the Group will explore the possibility of developing its own integrated supply chain and logistics network that could meet the needs of all stores of the Group, which is expected to increase the efficiency of the online-to-offline business model.

In 2017, to further reduce the logistics cost of its online business, the Group is considering different types of delivery or pick-up arrangements for online customers. The Group is exploring the possibility to build certain customer lockers in physical stores for enhancing shopping convenience. When placing an online order, the customer will receive a SMS with verification code. Customers can enter the verification code and pick-up the goods at the chosen stores.

Acquisition of properties for the business operations

On 14 March 2017, the Group announced that it had won the bid for two properties (the "**Properties**") – one in Shenzhen and the other Changsha, where its Jingtian store and Changsha store currently operate, respectively. The consideration for the acquisitions totaled at approximately RMB611.3 million (equivalent to approximately HK$688.0 million), and will be settled by the Group with internal resources.

The Jingtian store, which is in a prime region in Shenzhen, is one of the most valuable stores of the Group and it had brought the highest contributions, both in revenue and net profit, among all stores of the Group in the past five years. The store has less than eight years on its lease and it is uncertain whether the lease contract can be extended, whereas the lease of the Changsha store will expire in less than 12 years. The Properties, which belonged previously to a state-owned enterprise, were put up for tendering in a bundle. Hence, the Group submitted the bid with the intention of acquiring the Properties (especially the property housing the Jingtian store) to avoid any possible impact or disruption to its operations in the future as a result of change in ownership of the Properties.

Going ahead, according to operational needs and the financial resources available, the Group would consider acquiring other properties upon acceptable commercial terms.

Potential investment opportunities

As mentioned above, the Directors will continue to explore and evaluate new business and investment opportunities in the retail and related sectors that could create synergies with the existing business of the Group and would be in the interest of the Shareholders.

III. FINANCIAL REVIEW

Total gross sales proceeds

During the year ended 31 December 2016, the Group's total gross sales proceeds (representing the aggregate of (a) revenue from direct sales of the Group, (b) total sales proceeds from concessionaire sales at the Group's department stores and (c) income from reversal of deferred income in respect of long aged unredeemed prepaid cards) were RMB2,165.0 million, representing a decrease of 5.5% from RMB2,292.1 million in 2015. The decrease in total gross sales proceeds was principally due to decrease in concessionaires sales from old stores in Shenzhen amid the intense competition.

Revenue generated from direct sales of the Group amounted to RMB1,122.8 million and the total sales proceeds from concessionaire sales amounted to RMB1,037.5 million, accounting for 51.9% and 47.9%, respectively, of the Group's total gross sales proceeds for the year ended 31 December 2016. For the year ended 31 December 2015, revenue from direct sales amounted to RMB1,116.1 million, while the total sales proceeds from concessionaires sales amounted to RMB1,167.6 million, accounted for 48.7% and 50.9% respectively of the Group's total gross sales proceeds.

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

	For the year ended 31 December			
	2016		2015	
	RMB' million	***(%)***	*RMB' million*	*(%)*
Food and beverages	**1,008.3**	**46.6**	1,059.1	46.2
Clothes, apparel and bedding	**326.1**	**15.1**	383.0	16.7
Daily necessities and cosmetic goods	**345.3**	**15.9**	411.2	17.9
Electronics and home appliances	**177.9**	**8.2**	191.2	8.4
Sporting and stationery goods	**264.8**	**12.2**	191.0	8.3
Children's goods	**37.9**	**1.8**	48.2	2.1
Income from reversal of long-aged pre-paid gift cards	**4.7**	**0.2**	8.4	0.4
	2,165.0	**100.0**	2,292.1	100.0

Revenue

The Group's revenue amounted to RMB1,403.9 million for the year ended 31 December 2016, representing an increase of 1.0% as compared to RMB1,389.5 million in 2015. The increase was principally due to additional rental income received as a result of change in strategy to shift concessionaire sales to additional rental income, as well as organic growth of direct sales.

Direct sales increased by 0.6% to RMB1,122.8 million for the year ended 31 December 2016 from RMB1,116.1 million in 2015, principally due to improvement in supermarket product mix. Direct sales as a percentage of the Group's total revenue was 80.0% for the year ended 31 December 2016 as compared to 80.3% for the year ended 31 December 2015.

Commission from concessionaire sales decreased by 5.3% to RMB152.7 million for the year ended 31 December 2016 from RMB161.3 million in 2015, mainly due to the shift of concessionaire sales to rental income as a result of strategic adjustment of store layout in view of the decrease in concessionaire sales in old stores amid the intense competition, offset by the higher commission rate achieved from the remaining concessionaire counters after adjustment. The commission rate of concessionaire sales was 14.7% as compared to 13.8% in 2015. Commission from concessionaire sales accounted for 10.9% of the Group's total revenue for the year ended 31 December 2016 as compared to 11.6% in 2015.

Rental income increased by 19.4% to RMB123.7 million for the year ended 31 December 2016 from RMB103.6 million in 2015, mainly due to the increase in the proportion of leased/sub-leased area for complementary facilities in different stores as a result of the restructuring of store layout plan. Rental income accounted for 8.8% of the Group's total revenue for the year ended 31 December 2016 as compared to 7.5% in 2015.

Income from reversal of long-aged unredeemed pre-paid cards decreased by 44.0% to RMB4.7 million for the year ended 31 December 2016 from RMB8.4 million in 2015 due to the decrease in pre-paid card issuance in past years.

Other operating revenue

Other operating revenue decreased slightly by 2.6% to RMB126.0 million for the year ended 31 December 2016 from RMB129.3 million in 2015, mainly due to decrease in promotion, administration and management income, offset by the increase in government grants.

Other gain, net

Other net gain amounted to RMB5.2 million for the year ended 31 December 2016 as compared with RMB3.2 million in 2015, mainly due to reversal of provision for legal claims of RMB3.8 million upon the conclusion of legal case in 2016.

Purchase of and changes in inventories

Purchase of and changes in inventories amounted to RMB983.9 million for the year ended 31 December 2016, representing an increase of 1.8% as compared with RMB966.5 million in 2015, which is in line with the increase in direct sales. Purchase of and changes in inventories accounted for 87.6% of the Group's direct sales for the year ended 31 December 2016 as compared with 86.6% in 2015.

Employee benefits

Employee benefits decreased by 1.0% to RMB184.4 million for the year ended 31 December 2016 from RMB186.3 million in 2015, primarily due to efficient cost control on personnel cost for the existing stores, offset by the increase in share-based compensation expenses incurred for the share award scheme.

Depreciation and amortization

Depreciation and amortization increased by 6.4% to RMB51.6 million for the year ended 31 December 2016 from RMB48.5 million in 2015 mainly due to the opening of the new Shixia Store in September 2016.

Operating lease rental expenses

Operating lease rental expenses decreased by 3.2% to RMB146.7 million for the year ended 31 December 2016 from RMB151.6 million in 2015.

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 9.3% to RMB110.8 million for the year ended 31 December 2016 from RMB122.2 million in 2015. This was primarily due to the efficient cost controls and savings for the existing stores and head office, as well as the net foreign exchange gain of RMB1.6 million earned in 2016.

Operating profit

As a result of the reasons mentioned above, the Group's operating profit amounted increased by 23.1% to RMB57.6 million for the year ended 31 December 2016 from RMB46.8 million in 2015.

Finance income

Finance income decreased by 9.9% to RMB28.3 million for the year ended 31 December 2016 from RMB31.4 million in 2015 primarily as a result of the decrease in bank deposits and cash and cash equivalent due to the full repayment of outstanding bank borrowings during the year.

Finance costs

Finance costs decreased significantly by 62.5% to RMB1.2 million for the year ended 31 December 2016 from RMB3.2 million in 2015 which was primarily due to the full repayment of outstanding bank borrowings during the year.

Income tax expense

Income tax expense amounted to RMB24.2 million for the year ended 31 December 2016, representing a decrease of 2.4% from RMB24.8 million in 2015. The applicable income tax rate for all subsidiaries in the PRC are 25% and 15% for the year ended 31 December 2016. In addition, pursuant to the PRC Corporate Income Tax Law, the Group is liable to withholding taxes on dividends distributed by subsidiaries established in China. The applicable tax rate for the Group is 5%.

Profit attributable to equity shareholders of the Company

As a result of the aforementioned, profit attributable to Shareholders amounted to RMB60.5 million for the year ended 31 December 2016, representing an increase of 20.5% as compared with the profit of RMB50.2 million in 2015.

IV. DIVIDEND

The Board proposes the declaration of a final dividend of RMB0.0016 per share (equivalent to approximately HK$0.0018) (2015: RMB0.0024 (equivalent to approximately HK$0.0028) per Share) or in the total amount of RMB4.0 million (equivalent to approximately HK$4.5 million) (2015: RMB5.9 million, (equivalent to approximately HK$7.1 million)) for the year ended 31 December 2016 which will be payable by way of cash in Hong Kong dollars. The Directors consider that this dividend level is appropriate after careful consideration of the operating results of the Group in 2016.

The proposed final dividend is subject to the approval by the Shareholders at the annual general meeting of the Company (the "**Annual General Meeting**"). The proposed final dividend will be paid on or around 21 June 2017 to the Shareholders whose name appears on the register of members of the Company at the close of business on 6 June 2017.

V. CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 23 May 2017 to Friday, 26 May 2017 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for attending and voting at the Annual General Meeting, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 22 May 2017.

The register of members of the Company will be closed from Friday, 2 June 2017 to Tuesday, 6 June 2017 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for the proposed final dividend, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 1 June 2017.

VI. LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2016, the Group's cash and cash equivalents and bank deposits amounted to RMB1,285.6 million, representing a decrease of 17.6% from RMB1,560.9 million as at 31 December 2015. The cash and cash equivalents and bank deposits, which were in RMB, Hong Kong and U.S. dollars, were deposited with banks in the PRC and Hong Kong for interest income.

As at 31 December 2016, the Group does not have an outstanding bank borrowings (31 December 2015: RMB251.3 million). No restricted bank deposit (31 December 2015: RMB394.8 million) were pledged to bank to secure the borrowings as at 31 December 2016.

The gearing ratio of the Group expressed as a percentage of interest-bearing bank loans over the total assets was 0% as at 31 December 2016 upon repayment of all outstanding bank borrowings (31 December 2015: 9.6%).

Net current assets and net assets

The net current assets of the Group as at 31 December 2016 were RMB611.0 million (31 December 2015: RMB530.5 million), representing an increase of 15.2%. The net assets of the Group as at 31 December 2016 increased to RMB1,341.0 million (31 December 2015: RMB1,292.9 million), representing an increase of 3.7%.

Foreign exchange exposure

The business operation 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 and U.S. dollars. The Company paid dividends in Hong Kong dollars. These transactions exposed the Group to foreign exchange risks arising from the exchange rate movement of Hong Kong dollars against RMB. For the year ended 31 December 2016, the Group recorded a net foreign exchange gain of RMB1.6 million. For the year ended 31 December 2015, the Group recorded a net foreign exchange loss of RMB13.2 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 at 31 December 2016, the total number of employees of the Group was 2,350. The Group's remuneration policy is determined with reference to market conditions and the performance, qualifications and experience of individual employees. The Company has also introduced the key performance indicators assessment scheme to boost performance and operational efficiency.

To recognise and reward the eligible employees for their contributions to the business and development of the Group, the Company has adopted an employee's share award scheme on 22 January 2014. On 13 July 2015, the rights to receive 18,672,000 Shares have been granted to 28 eligible employees pursuant to the employee's share award scheme. Subsequently, on 17 December 2015, the rights to receive an additional 13,830,000 Shares have been granted to 60 eligible employees. In addition, on 20 January 2017, the third batch of an aggregate of 7,524,000 Shares were granted to 50 eligible employees. As approved by the Board under the share award scheme, the aggregate of 40,026,000 Shares and the related income will be vested to the relevant employees during a period of three years commencing from the first anniversary of the dates of grant in the percentages of 33.3%, 33.3% and 33.4%, respectively. As at the date of this announcement, 1,950,000 shares granted to eight eligible employees have not been vested due to departure, while an additional of 631,800 shares were granted to two eligible employees upon their promotion.

In 2016, the Group has appointed a consultant to review the internal control procedures on the human resources functions and staff performance appraisal procedures in order to further enhance the Group's remuneration policy. The new remuneration policy is target to be implemented in 2017.

Contingent liabilities

Certain suppliers have commenced legal proceedings in the PRC against the Group in respect of disputes over contract terms and trademark infringement claim. As of 31 December 2016, the legal proceedings were ongoing. The Group has made an accumulated provision of approximately RMB10,242,000 (2015: RMB14,084,000), which the Directors believe is adequate to cover the amounts, if any, payable in respect of these claims.

Material acquisition and disposal of subsidiaries

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

VII. SUBSEQUENT EVENT

The Board announced on 14 March 2017 that three indirect wholly owned subsidiaries of the Company have successfully tendered for the following properties for RMB611,296,200 (equivalent to approximately HK$688,013,873),

- a 4-level storeys building located on levels 1-4 of Tianjin Mingyuan, Block 5 of Xiangmi Third Village, Hongli West Road, Futian District, Shenzhen (the "**SZ Properties**"); and

- 14 units located on the first to fourth level of Block H, Tianjin Furong Shengshi, No. 88, Part 1 of Furong Road Middle, Kaifu District, Changsha (the "**CS Properties**").

The SZ Properties and CS Properties to be acquired are currently leased by the Group for operational use.

The consideration was the floor price of a public bid. Having considered the average annual rental expense of the SZ Properties and CS Properties for the remaining lease period, which is higher as compared to the annual depreciation expense of the SZ Properties and CS Properties calculated based on their acquisition cost and remaining useful lives, the Directors consider that the acquisitions have been made on normal commercial terms and that such terms are fair and reasonable so far as the Company and the Shareholders are concerned and that the acquisitions are in the interest of the Company and the Shareholders as a whole.

VIII. AUDIT COMMITTEE

As of the date of this announcement, the Audit Committee comprises 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 ended 31 December 2016, the Audit Committee held two regular meetings with the management, external auditors and internal control consultant to discuss on the Group's auditing, internal controls and financial reporting matters, and to review on the Group's internal control, audit planning, the interim result and the annual results for 2016.

The Audit Committee has reviewed the annual results of the Group for the year ended 31 December 2016.

IX. PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES 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 2016.

X. 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 2016, the Company has complied with the principles and code provisions of the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). The internal audit department has reported its findings and work plan to the Audit Committee twice in the year, and the Board and the Audit Committee then reviewed and refined the Group's material controls, including financial, operational and compliance controls and risk management functions.

The Board, together with the Audit Committee, also assessed the adequacy of resources, qualifications and experience of the staff of the Company's accounting and financial reporting and internal audit functions, and their training programs and budget.

In March 2016, the Group appointed a reputable internal control consultant to assist the management to review the internal control on human resources procedures and suppliers' settlement procedures of the Group for the purpose of enhancing the internal controls and efficiencies of those functions, the progress and adoption of which were reported to the Board in 2016.

The enhancement of the internal control measures will continue to be monitored by the internal audit department and the chief executive officer of the Group, and the internal audit department will periodically report their review and findings on the internal controls of the Group to the Audit Committee and the Board.

XI. MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding the Directors' securities transactions. Having made specific enquiries of all the Directors, the Company confirmed that they have complied with the Model Code during the year ended 31 December 2016.

XII. PUBLICATION OF ANNUAL RESULTS ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This announcement is published on the websites of Stock Exchange and the Company. The annual report for the year ended 31 December 2016 containing all the information required by Appendix 16 to the Listing Rules will be despatched to Shareholders and published on the websites of the Stock Exchange and the Company in due course.

XIII. SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group's consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2016 as set out in the preliminary announcement have been agreed by the Group's auditors, PricewaterhouseCoopers ("**PwC**"), to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PwC in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PwC on this preliminary announcement.

XIV. ANNUAL GENERAL MEETING

The Annual General Meeting will be held on 26 May 2017. A notice convening the Annual General Meeting will be published on the websites of the Stock Exchange and the Company and dispatched to the Shareholders on or around 25 April 2017.

By order of the Board
Shirble Department Store Holdings (China) Limited
YANG Xiangbo
Chairman

Hong Kong, 23 March 2017

As at the date of this announcement, the Board comprised Mr. YANG Xiangbo (Chairman) and Mr. YANG Ti Wei (Chief Executive Officer) as the executive Directors and Ms. ZHAO Jinlin, Mr. CHEN Fengliang, Mr. JIANG Hongkai and Mr. FOK Hei Yu as the independent non-executive Directors.