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SHIRBLE DEPARTMENT STORE

歲寶百貨

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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00312)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2012 AND RESUMPTION OF TRADING OF SHARES

The Board refers to the announcements of the Company dated 21 August 2012, the 2011 Annual Results Announcement and the profit warning announcement of the Company dated 17 January 2013.

The following sets forth a summary of the unaudited consolidated results of the Group for the six months ended 30 June 2012:-

– Turnover of the Group was RMB687.1 million, representing a slight decrease of 3.7% as compared with the turnover for the same period in 2011;

– Total gross sales proceeds(1) of the Group were RMB1,118.6 million, representing a slight decrease of 3.1% as compared with the gross sales proceeds for the same period in 2011;

– Loss from operations of the Group was RMB15.5 million, representing a decrease of 113.5% as compared with the operating profit for the same period in 2011;

– Loss attributable to the equity shareholders of the Company was RMB13.8 million, representing a decrease of 114.6% as compared with the profit attributable to the equity shareholders of the Company for the same period in 2011;

– Basic losses per Share was RMB(0.01); and

– Net asset value per Share was RMB0.62.

Notes:-

1. Total gross sales proceeds for the six months ended 30 June 2012 represented the aggregate of (a) the revenue from direct sales of the Group and (b) the total sales proceeds from concessionaire sales at the Group's department stores.

Although the turnover and the gross sales proceeds of the Group for the six months ended 30 June 2012 were not substantially less than the corresponding amounts for the same period in 2011, the Group incurred a loss from operations of RMB15.5 million. The loss was principally attributable to a number of non-recurring or economic factors, including (a) the increases in the administrative expenses and operating costs (mainly rental expenses and personnel costs) incurred for the 10 department stores opened in 2010, 2011 and 2012 were more than the increases in the sales generated during the period; (b) the decrease in the sales generated from the existing department stores amid the economic slowdown; (c) the decrease in the commission income from the concessionaire sales as a result of increasing competition in the retail businesses in Shenzhen; (d) the decrease in the advertising and promotion income as a result of stringent governmental policy which has become effective from December 2011; (e) the lack of recognition of the deferred income in respect of the long-aged pre-paid gift cards issued by the Group and (f) the one-off impairment loss in respect of a property acquired by the Group.

Despite the fact that the profitability of the Group was under pressure during the six months ended 30 June 2012, the Board remains optimistic on the future business development of the Group and believes that the 10 new department stores opened in 2010, 2011 and 2012 would generate additional sales following the attention of increased customer base and pedestrian flow.

RESUMPTION OF TRADING OF SHARES

At the request of the Company, trading of the Shares on the Stock Exchange has been suspended with effect from 1:00 p.m. on 29 March 2012. In the 2011 Annual Results Announcement, the Company disclosed the auditors' qualified opinion on certain transactions conducted by the Group in 2011 and early 2012 and the corresponding internal control improvement measures. Application has been made by the Company for the resumption of trading in the Shares on the Stock Exchange with effect from 9:00 a.m. on 30 January 2013.

I. INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2012

The board (the "**Board**") of directors (the "**Directors**") of Shirble Department Store Holdings (China) Limited (the "**Company**") refers to the announcement of the Company dated 21 August 2012, the announcement of the annual results for the year ended 31 December 2011 (the "**2011 Annual Results Announcement**"), and the profit warning announcement of the Company dated 17 January 2013. The Board wishes to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2012, together with the comparative figures for the same period in 2011, as follows:-

The unaudited consolidated results of the Group have not been audited, but have been reviewed by KPMG, in their capacity as the current auditors of the Company, and the audit committee (the "**Audit Committee**") of the Board. The auditors will issue a qualified conclusion in their review report, an extraction of which has been set out in section VI of this announcement.

Condensed consolidated statement of comprehensive income

		For the six months ended 30 June	
		2012	2011
	Notes	***RMB'000***	*RMB'000*
		(unaudited)	(unaudited)
Turnover	*3*	**687,083**	713,845
Other operating revenue	*4*	**48,728**	75,163
Other net (loss)/income	*4*	**(10,394)**	701
Purchases net of changes in inventories	*5(c)*	**(488,278)**	(488,687)
Personnel costs	*5(b)*	**(87,328)**	(58,527)
Depreciation and amortisation	*5(c)*	**(24,739)**	(18,759)
Operating lease rental expense	*5(c)*	**(81,027)**	(59,519)
Other expenses		**(59,508)**	(49,904)
(Loss)/profit from operations		**(15,463)**	114,313
Finance income		**12,654**	11,745
Finance costs		**(1,232)**	(764)
Net finance income		**11,422**	10,981
(Loss)/profit before tax	*5*	**(4,041)**	125,294
Income tax expense	*6*	**(9,798)**	(30,403)
(Loss)/profit for the period, attributable to the equity shareholders of the Company		**(13,839)**	94,891
Other comprehensive (loss)/income for the period			
Exchange differences on translation of financial statements of overseas subsidiaries		**(31)**	90
Total comprehensive (loss)/income for the period		**(13,870)**	94,981
(Losses)/earnings per share			
Basic and diluted *(RMB per share)*	*8*	**(0.01)**	0.04

Condensed consolidated statement of financial position

	Notes	**As at 30 June 2012** *RMB'000* **(unaudited)**	As at 31 December 2011 *RMB'000* (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**375,756**	311,494
Deferred tax assets		**44,552**	42,756
Intangible assets		**33,762**	31,885
		454,070	386,135
CURRENT ASSETS			
Inventories		**202,665**	252,291
Trade and other receivables	*9*	**182,235**	567,769
Pledged deposits		**430,189**	430,152
Cash and cash equivalents		**1,560,021**	1,303,303
		2,375,110	2,553,515
CURRENT LIABILITIES			
Trade and other payables	*10*	**1,020,934**	1,104,581
Interest-bearing borrowings		**244,560**	243,210
Income tax payables		**19,846**	34,149
		1,285,340	1,381,940
NET CURRENT ASSETS		**1,089,770**	1,171,575
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,543,840**	1,557,710
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**2,541**	2,541
		2,541	2,541
NET ASSETS		**1,541,299**	1,555,169
CAPITAL AND RESERVES			
Share capital		**213,908**	213,908
Reserves		**1,327,391**	1,341,261
TOTAL EQUITY		**1,541,299**	1,555,169

Notes to the condensed consolidated financial statements

1. CORPORATE INFORMATION

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

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

2. BASIS OF PREPARATION

The condensed consolidated financial statement for the six months ended 30 June 2012 have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting", issued by International Accounting Standards Board.

The condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2011.

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. TURNOVER

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

		For the six months ended 30 June	
		2012	2011
	Notes	***RMB'000***	*RMB'000*
		(unaudited)	(unaudited)
Direct sales		**574,345**	571,772
Commission from concessionaire sales		**89,905**	98,746
Rental income	*(i)*	**22,833**	22,076
Income from reversal of long-aged pre-paid gift cards	*(ii)*	**–**	21,251
		687,083	713,845

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

	For the six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Sublease rental income	**19,593**	18,249
Contingent rental income	**3,240**	3,827
	22,833	22,076

(ii) This represented the reversal of long-aged pre-paid gift cards of which the Directors considered the likelihood of redemption was remote.

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

	For the six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Other operating revenue		
Advertisement and promotion income	**37,041**	64,208
Credit card handling income	**11,508**	10,271
Others	**179**	684
	48,728	75,163

		For the six months ended 30 June	
		2012	2011
	Note	***RMB'000***	*RMB'000*
		(unaudited)	(unaudited)
Other net (loss)/income			
Net loss on disposal of property, plant and equipment		**(38)**	(23)
Impairment loss on a property in Shanwei	*(i)*	**(10,000)**	–
Others		**(356)**	724
		(10,394)	701

(i) On 21 March 2012, the Group purchased a two-storey commercial property located in Luhe County, Shanwei Province, the PRC from a property developer for the purchases price of RMB53,266,000. In accordance with the valuation carried out by a qualified valuer, the market value of the property in Shanwei at 31 March 2012 was RMB43,000,000. The Directors of the Company consider that the market value of the property in Shanwei at 30 June 2012 has no significant difference with that at 31 March 2012. Provision of impairment loss of RMB10,000,000 was recognised during the six months ended 30 June 2012.

5. (LOSS)/PROFIT BEFORE TAX

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

(a) Net finance income

	For the six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Interest income	**(12,654)**	(11,745)
Finance income	**(12,654)**	(11,745)
Interest expenses	**1,232**	764
Finance costs	**1,232**	764
Net finance income	**(11,422)**	(10,981)

(b) Personnel costs

	For the six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Wages, salaries, and other benefits	**80,795**	56,040
Contribution to defined contribution plans	**6,533**	2,487
	87,328	58,527

(c) Other items

	For the six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Purchases net of changes in inventories	**488,278**	488,687
Depreciation and amortisation	**24,739**	18,759
Operating lease rental expense	**81,027**	59,519

6. INCOME TAX EXPENSE

Income tax expense in the consolidated statement of comprehensive income represents:

	For the six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Current tax expense		
Provision for the period	**11,594**	34,934
Deferred tax credit		
Origination and reversal of temporary differences	**(1,796)**	(4,531)
	9,798	30,403

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

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

(iii) The applicable income tax rate for PRC subsidiaries for the six months ended 30 June 2012 is 25% (six months ended 30 June 2011: 24% to 25%).

7. DIVIDENDS

(i) The Directors do not recommend the distribution of an interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: RMB33,250,000 or RMB1.33 cents per Share). The interim dividend for the six months ended 30 June 2011 has not been recognised as a liability at 30 June 2011.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year:-

	For the six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Final dividend in respect of the previous financial year, approved during the following interim period (six months ended 30 June 2011: RMB0.41 cents per share)	**–**	10,250
Final dividend in respect of previous financial year proposed after interim period of RMB0.62 cents per share (six months ended 30 June 2011: Nil)	**15,469**	–
Special dividend proposed after interim period of RMB2.21 cents per share (six months ended 30 June 2011: Nil)	**55,139**	–
	70,608	–

Final dividend in respect of previous financial year and special dividend proposed after interim period have not been recognised as liabilities at balance sheet date.

8. (LOSSES)/EARNINGS PER SHARE ATTRIBUTABLE TO THE EQUITY SHAREHOLDERS OF THE COMPANY

The calculation of basic (losses)/earnings per share (the "**Share**") of the Company is based on the consolidated loss attributable to equity shareholders of the Company for the six months ended 30 June 2012 of RMB13,839,000 (consolidated profit for the six months ended 30 June 2011: RMB94,891,000) and the weighted average of 2,495,000,000 Shares (six months ended 30 June 2011: 2,500,000,000 Shares) in issue during the period.

There were no potential dilutive ordinary shares for the six months ended 30 June 2012 and 2011, and therefore, the basic and diluted (losses)/earnings per Share are the same.

9. TRADE AND OTHER RECEIVABLES

	Notes	**As at 30 June 2012** *RMB'000* **(unaudited)**	As at 31 December 2011 *RMB'000* (audited)
Trade receivables	*(a)*	**20,576**	18,037
Leased deposits		**31,320**	34,626
Interest receivables		**5,717**	9,385
Other receivables	*(b)*	**18,178**	10,463
Prepaid rental		**1,183**	13,392
Prepayments and deposits	*(c)*	**102,964**	480,330
Amounts due from related parties		**2,297**	1,536
		182,235	567,769

All of the trade and other receivables, apart from deposits for lease of premises with a carrying amount of RMB31,320,000 as at 30 June 2012 (31 December 2011: RMB34,626,000), are expected to be recovered or recognised as expenses or assets within one year.

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

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

	As at 30 June 2012 *RMB'000* **(unaudited)**	As at 31 December 2011 *RMB'000* (audited)
Within three months	**18,636**	17,562
Over three months but within one year	**1,940**	475
	20,576	18,037

(b) Breakdown of other receivables is as follows:

	Note	**As at 30 June 2012** *RMB'000* **(unaudited)**	As at 31 December 2011 *RMB'000* (audited)
Other receivables		**28,178**	20,463
Provision for tendering deposits	*(i)*	**(10,000)**	(10,000)
		18,178	10,463

(i) In December 2011, the Group paid RMB10.0 million as a deposit for the tendering of a project in Dongguan, PRC to the local government. The Group's tender has been accepted by the local government, but details of the terms of the agreement is still under negotiation and formal agreement is yet to be entered into. In view of the uncertainty of the project, a provision was made as at 31 December 2011.

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

	Notes	**As at 30 June 2012** *RMB'000* **(unaudited)**	As at 31 December 2011 *RMB'000* (audited)
Prepayments for decoration	*(i)*	**27,388**	88,896
Prepayments for acquisition of a distribution centre	*(ii)*	**–**	41,250
Prepayments for acquisition of a property in Shenzhen	*(iii)*	**–**	131,250
Prepayments for acquisition of a property in Haifeng	*(iv)*	**95,000**	84,000
Prepayments to third parties/suppliers	*(v)*	**12,576**	166,934
		134,964	512,330
Provision of impairment loss on prepayments for acquisition of a property in Haifeng	*(iv)*	**(32,000)**	(32,000)
Total		**102,964**	480,330

Notes:

(i) The balance as of 30 June 2012 represents prepayments for decoration for new department stores to be opened. The balance as of 31 December 2011 included payments of RMB55.3 million made to two decoration companies as prepayments for the decoration work of two department stores of the Group. The prepayments represent 70% of the contract amount of the decoration work. The contracts for the decoration work were terminated by mutual agreement between the parties and the prepayments of RMB55.3 million were refunded from the respective decoration companies in March 2012 and April 2012 because of the delay in delivery/acquisition of properties of two department stores and the implementation of the new contract selection procedures.

(ii) The balance as of 31 December 2011 represents a prepayment for purchase of a distribution centre from a developer. As the Directors have assessed the risk involved in the non-delivery of the distribution centre and a more suitable alterative had been provided to the Board, the Board decided to terminate the relevant non-binding letter of intent for purchase of the distribution centre and the prepayment of RMB41.25 million was refunded from the developer in March 2012. No construction work has been commenced.

(iii) The balance as of 31 December 2011 represents a prepayment for purchase from the developer of a three-storey commercial property located in Shenzhen. The prepayments represent 50.0% of the consideration under the sale and purchase agreement. The contract for purchasing the three-storey commercial property was terminated by mutual agreement between the parties due to increased costs for modifications of internal structural designs according to the Group's requirements, and the prepayment of RMB131.25 million was refunded by the developer in March 2012.

(iv) The balance as of 30 June 2012 and 31 December 2011 represents a prepayment for purchase of a property located in Haifeng from a developer, Haifeng Wanye Property Development Co., Ltd. ("**Haifeng Wanye**"). In accordance with the sale and purchase agreement signed between Haifeng Wanye and the Company dated 28 December 2011 (the "**Haifeng Sale and Purchase Agreement**"), the consideration for the property is RMB168.0 million.

After signing the Haifeng Sale and Purchase Agreement, Shanwei Shirble Department Store Company Limited ("**Shanwei Shirble**") and Haifeng Wanye negotiated and agreed to reduce the amount of the first instalment from RMB89.0 million to RMB84.0 million. The Haifeng Sale and Purchase Agreement does not provide for the specific terms for adjustments to the amount of the first instalment. In the circumstances, the payment of RMB84.0 million was settled by the Group, of which RMB16.0 million was paid to Haifeng Wanye in the PRC and the remaining balance of RMB68.0 million was paid by the Company in Hong Kong to three individuals and one company in their respective bank accounts in Hong Kong in accordance with the instructions of Haifeng Wanye during the year ended 31 December 2011. The payment arrangement was made in accordance with the Haifeng Sale and Purchase Agreement, the terms of which has been approved by the Board. The Directors confirm that the payments made to Haifeng Wanye's nominated persons were made in strict compliance with the Haifeng Sales and Purchase Agreement, and upon the request made by Haifeng Wanye.

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

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

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

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

The Company continues to proceed with the Haifeng Sale and Purchase Agreement. In accordance with the valuation report of Property Valuer B dated 16 January 2013, the market value of the property in Haifeng County in RMB138.0 million as of 30 June 2012.

(v) The balance as of 30 June 2012 represents prepayments made to suppliers. The balance as of 31 December 2011 included payments of RMB152.5 million made to three entities as prepayments for purchase of goods at 31 December 2011. Additional RMB110.0 million prepayments were made by the Group to two of these three entities in January 2012. All of these prepayments were refunded from these three entities in March 2012.

10. TRADE AND OTHER PAYABLES

	Notes	As at 30 June 2012 RMB'000 (unaudited)	As at 31 December 2011 RMB'000 (audited)
Advances received from customers		**353,518**	413,903
Trade payables	*(i)*	**370,911**	347,448
Rental payables		**113,227**	102,553
Other taxes payable		**34,209**	53,668
Deferred income		**29,607**	31,665
Accrued wages and salaries		**9,234**	15,650
Advances from third parties	*(ii)*	**27,130**	69,637
Other payables and accruals		**79,515**	67,098
Amount due to related parties	*(iii)*	**3,583**	2,959
		1,020,934	1,104,581

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

	As at 30 June 2012 RMB'000 (unaudited)	As at 31 December 2011 RMB'000 (audited)
Within three months	**267,009**	254,333
Over three months but within one year	**72,817**	63,356
Over one year	**31,085**	29,759
	370,911	347,448

(ii) As of 31 December 2011, RMB69.6 million were received by the Group from its suppliers. As of the date of this announcement, RMB63.6 million out of the amount received was recorded as having been returned to the suppliers.

(iii) Amounts due to related parties as of 31 December 2011 and 30 June 2012 are unsecured, interest-free and repayable on demand.

11. CAPITAL COMMITMENT

Acquisition and construction of property, plant and equipment

Capital commitments outstanding at the financial period/year end not provided for in the interim financial report were as follows:

	Notes	**As at 30 June 2012** *RMB'000* **(unaudited)**	As at 31 December 2011 *RMB'000* (audited)
Contracted for	*(i)*	**101,122**	267,434
Authorised but not contracted for	*(ii)*	**27,872**	221,276
		128,994	488,710

(i) Capital commitment of RMB123.75 million included in balance as of 31 December 2011 relates to purchase of a distribution centre, which was cancelled in March 2012 (see note 9(c)(ii)).

(ii) Capital commitment of RMB154.95 million included in balance as of 31 December 2011 relates to contracts terminated subsequent to financial year:

- Contracts related to capital commitment of RMB23.7 million for decoration work for two stores were terminated in March 2012 and April 2012 (see note 9(c)(i)).

- Contracts related to capital commitment of RMB131.25 million for purchase a property in Shenzhen were terminated in March 2012 (see note 9(c)(iii)).

II. MANAGEMENT DISCUSSION AND ANALYSIS

MARKET AND BUSINESS REVIEW

Overall review

During the period, the Directors (including all independent non-executive Directors) focused on enhancing and strengthening the internal control measures of the Group for the rapid business development. Certain development projects are being reviewed with additional consideration. The Group, even though recording only a slight decrease of 3.7% in its turnover, recorded the first time an operating loss during the six months ended 30 June 2012 since its listing on the Stock Exchange. The Directors believe that the principal reasons attributing to the operating loss were exceptional and non-recurring, namely the significant increases in the operating expenses, the less-than anticipated revenue generated from the 10 newly opened department stores, and the lack of recognition of income from the long-aged pre-paid gift cards sold by the Group.

During the six months ended 30 June 2012, the PRC retail business remained slow growing. Nevertheless, the Directors believe that the Group has its own niche with focus on its business expansion in the second- and third-tier cities in Guangdong Province, the PRC, with 10 department stores opened in 2010, 2011 and 2012. The expansion in the number of department stores is part of the business strategy of the Group to maintain its competitiveness in the slow growing business environment.

To support the business expansion of the Group and strengthen the internal control measures of the Group, the Group recruited new experienced management teams at each operational level. This increased the wages and salaries incurred by the Group during the six months ended 30 June 2012. In addition, because of the business expansion of the network of the Group's department stores, the administrative expenses and operating cost of the Group, as well as the related depreciation and amortization incurred by the Group, increased significantly, albeit that the sales generated from the newly opened department stores, particularly for those situated at the second- and third-tier cities in Guangdong Province, the PRC, were not increased at the same pace as anticipated by the Directors.

The increasingly competitive business environment also pushed down the commission rate for concessionaire sales received by the Group during the six months ended 30 June 2012. The Group responded to this trend by focusing its efforts on direct sales. During the six months ended 30 June 2012, the Group also encountered significant decreases in two income source. First, the decrease in advertising and promotion income as a result of more stringent governmental policy which has become effective from December 2011. Second, the lack of recognition of income in respect of the long-aged pre-paid gift cards sold by the Group. In addition, the one-off impairment loss on the acquisition of a property in Shanwei also affected the overall profitability of the Group during the six months ended 30 June 2012. As a result of all these factors, the Group incurred a loss from operations for the six months ended 30 June 2012.

Despite the fact that the profitability of the Group was under pressure during the six months ended 30 June 2012, the Board remains optimistic that the business strategy of the Group is appropriate. With the implementation of all the internal control improvement measures, the appointment of the chief executive officer and the continuous opening of new department stores in selected second- and third-tier cities in Guangdong Province, the Board believes that the Group moves back to the right direction of business development and would expect to achieve a higher efficiency and better profitability in the future with no compromise on the corporate governance and the internal control issues.

Expansion of store network

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

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

In March 2012, the Group opened in Dongguan City the supermarket section of the Lifestyle Square (地標店) with GFA of 7,371.48 sq. m. The Lifestyle Square (comprising a supermarket and a department store) was opened in December 2012 with a total GFA of 37,333 sq. m.

As of 30 June 2012, the Group has a total of 18 department stores in operation. The total GFA of the 18 stores is 249,136 sq. m., representing an increase of 4.2% as compared with the GFA in operation as of 31 December 2011.

Renovating selected existing stores

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

Enhancement of VIP program

During the six months ended 30 June 2012, the Group continued to promote its VIP programme in order to enhance customer's loyalty and expand the customer base. The Group organised various outdoor activities for the VIP customers for better communications. The Directors believe that the implementation of a new computerised system could also provide a better platform and tracking system for communications with the Group's VIP customers. As of 30 June 2012, the Group had 750,000 VIP customers, representing an increase of 22.1% from 614,000 customers as of 31 December 2011. Sales generated from these VIP customers accounted for 68.1% of the Group's total gross sales proceeds.

BUSINESS ENVIRONMENT DURING THE SECOND HALF OF 2012

It is clear that the overall economic growth in the PRC remain slow growing during the second half of 2012. This affected the level of consumption of the average consumers in the PRC. Consumers become more price-conscious, and the governmental policies may not be as effective as they were in the past to promote the growth in the retail sector in the PRC. In order to maintain the business growth of the Group, the Group would continue to implement the business expansion strategy in the second- and third-tier cities in Guangdong Province. The following sets forth the steps that have been implemented by the Group in the second half of 2012:-

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

The Group has continued to expand into the neighboring regions of Guangdong Province in order to increase its market share in these regions. In the second half of 2012, in addition to the full opening of Lifestyle Square, the Group opened three department stores, namely Hongfa Store, Luhe Store and Haifeng Store.

In June 2012, the Group entered into an agreement for the rental of a five-storey high building in Shenzhen with GFA since 44,666.91 sq. m. This store, namely Hongfa Store, has started operations since August 2012. The Hongfa Store provides customers with wide range of quality merchandise and customer-oriented services.

In March 2012, the Group entered into an agreement to acquire a property in Lu He Xian, Shanwei City (the "**Luhe Property**") for the development of Luhe Store. The Luke Property is part of four residential blocks on a two-storey commercial podium, for the purchase price of RMB53,266,000. The Luhe Property comprises a portion of the commercial podium on Level 1 and Level 2 (including the mezzanine level), with GFA of 14,396.28 sq. m. The purchase price was fully paid as of 30 June 2012. The Luhe Store was opened in September 2012.

The Group and Haifeng Wanye entered in a sale and purchase agreement on 28 December 2011 for the acquisition of a property in Haifeng Country for the purchase price of RMB168.0 million. The property consists of a three-storey commercial building with GFA of 18,933.38 sq. m. The Group has settled RMB163.0 million in July 2012 and the RMB5.0 million would be settled when the building ownership certificate is issued. The Haifeng Store was opened in November 2012.

As of 31 December 2012, the Group has a total of 21 department stores in operation, and the total GFA amounted to 364,466 sq. m.

In September 2012, the Group entered into an agreement for the rental of a three-storey high building in Meizhou City with GFA of 23,996 sq. m. This store, namely Xingning Store, is expected to be opened by end of January 2013.

In October 2012, the Group entered into the sale and purchase agreement for the purchase of a commercial property (the "**Lufeng Property**") with a developable area of approximately 15,031 sq. m. for the development of Lufeng Store. The Lufeng Property will be part of a commercial complex known as 陸城華廷商業廣場 and will consist of (a) a commercial plaza of six storeys with anticipated gross floor area of approximately 25,855.76 sq. m. and (b) an outdoor plaza surrounding the commercial complex. The Lufeng Property is expected to open in the second half of 2013.

Strategic alliances

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

Upgrade of information technology system

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

Enhancement of the distribution network and logistics systems

The Group has enhanced its distribution capability and services by leasing a distribution centre in Shenzhen in April 2012. The distribution centre, together with the upgrade of the information technology system, has enhanced the inventory management and control systems of the Group and increase the operation efficiency of the Group.

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

The Group recruited new experienced management teams at each operational level starting from December 2011. The Group will continue to recruit new management teams as part of the improvement measures of the internal control procedures. The Group has establised various internal training programs to provide vocational trainings to the management team members. The Directors believe that with their considerable experience, the new management team could bring expertise in the relevant areas to support the business development of the Group.

III. FINANCIAL REVIEW

Total gross sales proceeds

During the six months ended 30 June 2012, the Group's total gross sales proceeds were RMB1,118.6 million, representing a slight decrease of 3.1% from RMB1,153.4 million for the same period of 2011. The decrease in the total gross sales proceeds was principally due to (a) the lack of recognition of the deferred income in respect of the long-aged pre-paid gift cards; (b) the decrease in the sales generated from the existing stores amid the market slowdown and (c) the decrease in the commission income from the concessionaire sales.

The decrease in the total gross sales proceeds was mitigated by the increases in the sales contributed by five newly opened department stores, namely Liansheng Store, Changfu Store, Liaobu Store, SMART Lifestyle Speciality Store and Lifestyle Square.

The percentage of the sales revenue from the Group's direct sales continued to increase during the six months ended 30 June 2012. The revenue amount generated from the direct sales of the Group amounted to RMB574.3 million and the total sales proceeds from the concessionaire sales amounted to RMB544.3 million, accounting for 51.3% and 48.7%, respectively, of the Group's total gross sales proceeds. The increase in the direct sales, as a percentage of the Group's total gross proceeds, was a result the Group's efforts in opening new department stores and the Group's focus on re-arranging the allocation of store space for maximum economic returns.

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

	For the six months ended 30 June			
	2012		2011	
	RMB' million	*%*	*RMB' million*	*%*
	(unaudited)		(unaudited)	
Electronics and home appliances	**108.5**	**9.7**	126.3	10.9
Clothes, apparel and bedding	**280.9**	**25.1**	295.3	25.6
Children's goods	**32.1**	**2.9**	33.0	2.9
Sporting and stationery goods	**29.2**	**2.6**	32.6	2.8
Food and beverages	**484.3**	**43.3**	473.6	41.1
Daily necessities and cosmetic goods	**183.6**	**16.4**	171.3	14.9
Income from reversal of long-aged pre-paid gift cards	**–**	**–**	21.3	1.8
	1,118.6	**100.0**	1,153.4	100.0

Turnover

The Group's turnover amounted to RMB687.1 million for the six months ended 30 June 2012, representing a slight decrease of 3.7% as compared with RMB713.8 million for the same period of 2011. The decrease was principally due to (a) the lack of recognition of deferred income in respect of the long-aged pre-paid gift cards for the six months ended 30 June 2012;

(b) the decrease in the sales generated from existing department stores amid the market slowdown and (c) the decrease in the commission income generated from the concessionaire sales because of a more competitive market. The decrease was mitigated by the increase in turnover generated from new department stores opened in Dongguan.

The direct sales of the Group during the six months ended 30 June 2012 increased slightly by 0.45% to RMB574.3 million. The increase was principally due to the Group's efforts to promote the direct sales as the principal channel of the revenue of the Group and the opening of new department stores in selected second- and third-tier cities in Guangdong Province, the PRC. The increase in direct sales from the newly opened department store was slow initially, but the Directors are confident on the fast growing in the sales generated from these department stores.

The amount of commission received from the concessionaire sales decreased by 9.0% to RMB89.9 million for the six months ended 30 June 2012 from RMB98.7 million in the same period of 2011. The commission rate of concessionaire sales was 16.5% as compared to 17.6% in the same period of 2011. Commission from concessionaire sales as a percentage of the Group's total turnover was 13.1% for the six months ended 30 June 2012 as compared to 13.8% in the same period of 2011.

Rental income increased by 3.4% to RMB22.8 million for the six months ended 30 June 2012 from RMB22.1 million in the same period of 2011. Rental income as a percentage of the Group's total turnover was 3.3% for the six months ended 30 June 2012 as compared to 3.1% in the same period of 2011.

Another key reason affecting the amount of turnover during the six months ended 30 June 2012 was the lack of recognition of deferred income from the long-aged pre-paid gift cards sold by the Group. During the six months ended 30 June 2011, the amount recognised was RMB21.3 million. Starting from the beginning of 2012, the Group conducts a bi-yearly review of the level of usage of the pre-paid cards to ensure timely recognition of income. The prepaid card balances that have not been used for a prolonged period will be recognised as income after being approved by the chief executive officer. In general, the balances of pre-paid cards can be recognised as income when the pre-paid cards have not been used in an extensive period or when the management considers that the possibility of subsequent use of the pre-paid cards is reasonably low. The management of the Group will conduct analysis based on the historical records of the pre-paid card usage to determine the possibility of its subsequent use and then the balances may be recognised as income or other appropriate accounting treatment may be made accordingly. The Group has also standardised the filing of value-added tax ("**VAT**") liability on the pre-paid cards sold by the Group. The Group was advised that VAT obligation would arise at the time when pre-paid cards were sold or when the customers use the prepaid cards for purchase at the Group's department stores. In practice, the Group issues invoices for bulk-purchase prepaid cards and upon payment of goods by retail customers using pre-paid cards, and VAT filings will be made monthly in accordance to the invoices issued. In terms of the accounting treatment of the pre-paid card purchases, the Group adopts a prudent approach by making provision for the VAT according to the accumulated balance of the pre-paid cards sold by the Group.

Other operating revenue

Other operating revenue decreased by 35.2% to RMB48.7 million for the six months ended 30 June 2012 from RMB75.2 million for the same period of 2011. The decrease was principally due to the effect of the new government policies effective from December 2011, namely 商秩發[2011]485號《清理整頓大型零售企業向供應商違規收費工作方案》, which is applicable to the Group as a "large-scale retail business enterprise". The Group, as a matter of industry practice, received from suppliers fixed amounts in a year for promotional and advertising promotional purposes. These amounts mainly reflect the locations within the department store at which the suppliers' merchandises are placed for sales and promotion. Under the new government policies, the Group is subject to more stringent measures in the receipt of payments for certain promotion and advertising services upon its fulfillment for being categorized as large retailers under the policy. Hence, the amount recognised as "Other operating revenue" decreased substantially during the six months ended 30 June 2012.

Other net (loss)/income

Other net loss amounted to RMB10.4 million for the six months ended 30 June 2012 as compared with other net income of RMB0.7 million for the same period of 2011. The decrease was mainly attributable to impairment loss on a property in Shanwei.

As detailed in the section headed "Management discussion and analysis" above, the Group entered into an agreement to purchase the Luhe Property at RMB53,266,000. Prior to entering into the transaction, the Board appointed Property valuer A, to conduct a valuation of the Luhe Property. According to the relevant valuation report, the valuation of the Luhe Property as of 2 March 2012 was RMB58.0 million.

During the course of the review of the consolidated financial statements for the six months ended 30 June 2012, the auditors requested the appointment of another property valuer for a second opinion on the value of the Luhe Property. In order to support and expedite the process, the Group engaged Property valuer B on 2 April 2012. The valuation report by Property valuer B stated that the valuation as of 30 June 2012 was RMB43.0 million. Based on the valuation report by Property valuer B, the difference of RMB10.0 million was recognised as an impairment loss on the acquisition of the property in Luhe county.

Purchases net of changes in inventories

Purchase net of changes in inventories amounted to RMB488.3 million for the six months ended 30 June 2012, representing a slight decrease of 0.1% as compared with RMB488.7 million for the same period of 2011, which is consistent with the decrease in turnover from direct sales. As a percentage of turnover from direct sales, purchases net of changes in inventories was 85.0% for the six months ended 30 June 2012 as compared with 85.5% for the same period of 2011.

Personnel costs

Personnel costs increased by 49.2% to RMB87.3 million for the six months ended 30 June 2012 from RMB58.5 million in the same period of 2011, primarily due to the increase in headcounts for the three newly opened Dongguan stores in late 2011 and early 2012 and the recruitment of new management teams. The new members of the senior management teams have extensive experience in the retail business and are expected to make contributions in enhancing the growth of the Group and strengthening the internal controls of the Group.

Depreciation and amortisation

Depreciation increased by 31.9% to RMB24.7 million for the six months ended 30 June 2012 from RMB18.8 million in the same period of 2011, principally attributable to the increase in leasehold improvements and machinery for the new stores and the acquisition of new property in Luhe Province in the current period.

Operating lease rental expense

Operating lease rental expense increased by 36.1% to RMB81.0 million for the six months ended 30 June 2012 from RMB59.5 million in the same period of 2011. The increase was principally attributable to the rental expenses of the new department stores in Dongguan, the SMART Lifestyle Specialty Store in Shenzhen, a new distribution centre in Shenzhen and the Shenzhen headquarter office.

Other expenses

Other expenses, which principally comprised utility expenses, advertising, marketing, promotion and related expenses, other tax expenses, bank charges and maintenance expenses, increased by 19.2% to RMB59.5 million for the six months ended 30 June 2012 from RMB49.9 million in the same period of 2011. This was primarily due to the increase in number of stores in late 2011 and early 2012.

(Loss)/profit from operations

As a result of the reasons mentioned above, the Group's loss from operations decreased by 113.5% to RMB15.5 million for the six months ended 30 June 2012 from profit of RMB114.3 million in the same period of 2011.

Finance income

Finance income increased by 7.7% to RMB12.65 million for the six months ended 30 June 2012 from RMB11.75 million in the same period of 2011 which was primarily attributable to the interest earned from bank deposit of net proceeds received from the initial public offering in Shares and from operations.

Finance costs

Finance costs increased by 61.3% to RMB1,232,000 for the six months ended 30 June 2012 from RMB764,000 in the same period of 2011. The increase was primarily attributable to interest paid for the outstanding bank borrowings. The amount increased as interest was incurred for six months in the current period, while the Group incurred four months interest in the same period of 2011 as the bank borrowings were made in late February 2011.

Income tax expense

Income tax expense amounted to RMB9.8 million for the six months ended 30 June 2012, representing a decrease of 67.8% from RMB30.4 million in the first half of 2011. The effective tax rate applicable to the Group for the period ended 30 June 2012 was 24%. In addition, pursuant to the PRC Corporate Income Tax Law, the Group is liable to withholding taxes on dividends distributed by subsidiaries established in China. The applicable tax rate for the Group is 5%.

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

As a result of the aforementioned, profit attributable to equity shareholders of the Company decreased by 114.6% from RMB94.9 million for the six months ended 30 June 2011 to loss of RMB13.8 million in the same period of 2012.

IV. LIQUIDITY AND FINANCIAL RESOURCES

As of 30 June 2012, the Group's cash and cash equivalents amounted to RMB1,560.0 million, increased by RMB256.7 million from RMB1,303.3 million as of 31 December 2011. The cash and cash equivalents, which were in Hong Kong dollars and Renminbi, were deposited with banks in Hong Kong as short-term deposits for interest income and banks in the PRC.

As of 30 June 2012, the Group's outstanding bank borrowing amounted to RMB244.6 million (31 December 2011: RMB243.2 million). The borrowings are denominated in Hong Kong dollars of fixed interest rate of 1.042% per annum. The gearing ratio of the Group expressed as a percentage of interest-bearing bank loans over the total assets was 8.6% as of 30 June 2012. The Group will continue to review its cashflow position and renew the bank borrowings when necessary.

Net current assets and net assets

The net current assets of the Group as of 30 June 2012 were RMB1,089.8 million (31 December 2011: RMB1,171.6 million), representing a decrease of RMB81.8 million. The net assets of the Group as of 30 June 2012 decreased to RMB1,541.3 million (31 December 2011: RMB1,555.2 million), representing a decrease of 0.9%.

Pledge of assets

As of 30 June 2012, deposits of RMB430.2 million were pledged to bank.

Foreign exchange exposure

The business of the Group is engaged 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 pays dividends in Hong Kong dollars which expose the Group to foreign exchange risks arising from the translation of Hong Kong dollars against RMB. For the six months ended 30 June 2012, the Group recorded a net foreign exchange loss of RMB1.6 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 30 June 2012, the total number of employees of the Group was 2,998. The Group's remuneration policy is determined with reference to market conditions and the performance, qualifications and experience of individual employees.

Contingent liabilities

As at 30 June 2012, the Group did not have any significant contingent liabilities.

Use of net proceeds

On 17 November 2010, the shares of the Company were listed on the Main Board of the Stock Exchange and the Group raised net proceeds of approximately HKD1,313.4 million (after deducting underwriting fees and related expenses). Up to 30 June 2012, approximately RMB40.0 million out of net proceeds was used for the opening of a department store in Shanwei, Guangdong Province, and approximately RMB80.3 million was used for the opening of three new stores in Dongguan, Guangdong Province.

V. POST BALANCE SHEET EVENTS

(a) After 30 June 2012, the Company announced the annual results for the year ended 31 December 2011 and proposed a final dividend for the year ended 31 December 2011. For further details, please refer to note 7(ii) above.

(b) On 15 October 2012, the Group entered into a sale and purchase agreement with an independent third party for the acquisition of a property (the "**Lufeng Property**") on a parcel of land located in Hongxing District, Donghai Town, Lufeng city, PRC at a consideration of RMB206,846,080. The consideration was determined on an arm's length basis following negotiations between the Group and the vendor with reference to the market value of the Lufeng Property as of 30 September 2012 appraised by an independent property valuer. The purchase price will be settled out of the internal financial resources of the Group. The Lufeng Property will be used by the Group as a new department store. At the date of this announcement, the Lufeng Property is still under construction and prepayment of RMB144.8 million has been made. The Directors expect the completion date is not later than December 2013. Details of the Lufeng Property are set forth in the announcement (the "**Lufeng Acquisition Announcement**") dated 15 October 2012.

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

VI. EXTRACT OF THE AUDITORS' QUALIFIED CONCLUSION TO BE INCLUDED IN THE AUDITORS' REVIEW REPORT

The following is an extract of the Auditors' Review Report on the Group's unaudited consolidated interim results for the six months ended 30 June 2012:

"**Basis for Qualified Conclusion**

In our auditor's report dated 5 December 2012 on the financial statements for the year ended 31 December 2011 we qualified our opinion in respect of an inability to obtain sufficient appropriate audit evidence in respect of the nature of certain transactions which were recorded as prepayments, deposits and advances from suppliers in the consolidated statement of financial position as at 31 December 2011 and any other similar transactions. Specifically, in the Basis for qualified opinion paragraph of our auditor's report dated 5 December 2012 we referred to the following balances:

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

(ii) amounts received by the Group totalling RMB69.6 million, which were included in "Advances from suppliers".

We also referred to certain subsequent events which occurred during the period immediately following 31 December 2011, which were related to the above balances. Specifically, we referred to:

(iii) additional advance payments to suppliers for goods of RMB110 million;

(iv) the subsequent termination of the contract for the decoration work on department stores, the letter of intent for purchase of the distribution centre, and the contract for purchase of Shenzhen property and the refund of the related prepayments and deposits;

(v) the recovery from the relevant suppliers of the above-mentioned total amount of RMB262.5 million paid by the Group as prepayments for goods (being refund of the RMB152.5 million prepayment as at 31 December 2011 and the additional RMB110 million prepayment which had been paid to the suppliers in January 2012); and

(vi) the return to the suppliers of RMB63.6 million out of the above-mentioned advance of RMB69.6 million.

Further details of these transactions are disclosed in notes 12(b), 14 and 17 to this Interim financial report. These transactions are reflected in this Interim financial report as follows:

(a) the balances as at 31 December 2011 are included as comparative amounts in the Consolidated statement of financial position at 30 June 2012, as further disclosed in notes 12(b) and 14; and

(b) the cash flows during the six months ended 30 June 2012 have been reported within the "Net cash generated from/(used in) investing activities" in the Condensed consolidated statement of cash flows, with the exception of the cash flows relating to payments to/from suppliers, which have been included in "Cash generated from operations". As the majority of the cash flows relating to these transactions in 2011 occurred during the second half of that year, these transactions have not impacted materially on the comparative amounts shown in the Condensed consolidated statement of cash flows for the six months ended 30 June 2011.

As we stated in our Basis for qualified opinion in our Auditor's report dated 5 December 2012 on the financial statements for the year ended 31 December 2011, there was insufficient evidence available to us to ascertain the nature of the above mentioned payments and receipts. Consequently, we have also been unable to complete our review of the Group's Interim financial report for the six months ended 30 June 2012. Had we been able to complete our review, matters might have come to our attention indicating that adjustments might be necessary to the Interim financial report.

Qualified Conclusion

Except for the adjustments to the interim financial statements that we might have become aware of had it not been for the situation described above, based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2012 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim Financial Reporting*."

VII. 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 six months ended 30 June 2012.

VIII. CODE ON CORPORATE GOVERNANCE PRACTICES

Corporate governance practices

The Company is committed to achieving and maintaining high standards of corporate governance. The Company has applied the principles and code provisions set out in the Code on Corporate Governance Practice (the "**Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange (the "**Listing Rules**").

In the opinion of the Directors, save and except for the roles of Chairman and Chief Executive Officer was not separate and was performed by the same individual, Mr. YANG Xiangbo, during the period from 17 November 2011 to 30 June 2012, the Company complied with the Code during the six months ended 30 June 2012. The Group appointed an executive Director and Chief Executive Officer on 31 December 2012.

In view of the qualified opinion of KPMG set forth in the annual report of the Company for the year ended 31 December 2011 and the internal control weaknesses identified, the Group appointed Moore Stephens Hong Kong ("**Moore Stephens**") to advise on the Group's internal control procedures. Moore Stephens have provided to the Group and the Audit Committee a list of internal control improvement measures in response to internal control weaknesses identified. The Group has implemented the following internal control procedures: (i) establishment of internal audit department and legal department; (ii) appointment of additional independent non-executive Director; (iii) recruitment of new management teams and chief executive officer and executive Director; (iv) standardisation of transaction approval procedures; (v) establishment of formal tendering procedures; (vi) standardisation of property transactions procedures; (vii) establishment of cash management policy; (viii) establishment of prepayment approval procedures and enhancement of payment approval procedures; (ix) update of enterprise resources management system; (x) possible notifiable transactions approval procedures; (xi) appointment of retainer financial advisers; and (xii) continuous training provided to Directors. For details, please refer to the 2011 Results Announcement.

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

The Company will announce the results of the internal control review conducted by the independent internal control adviser in around March 2013. In the future, the Group will continue to engage independent internal control advisers to conduct periodic reviews, the results of which will be published in the Company's interim and annual reports accordingly.

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 all of the Directors have complied with the Model Code during the six months ended 30 June 2012.

Audit Committee

As of the date of this announcement, the Audit Committee comprises of three Independent non-executive Directors, namely, Ms. ZHAO Jinlin, Mr. CHEN Fengliang and Mr. JIANG Hongkai. The Audit Committee has been established to review and supervise the financial reporting process and internal control procedures of the Group, and has held meetings to discuss the auditing, internal controls and financial reporting matters of the Company, including the review and discussion with external auditor and management in relation to the Group's interim results for the six months ended 30 June 2012.

IX. INTERIM DIVIDEND

In view of the loss incurred for the six months ended 30 June 2012 and the working capital requirements for the business expansion of the Group, the Board does not recommend the distribution of an interim dividend for the six months ended 30 June 2012 (for the six months ended 30 June 2011: RMB1.33 cents per Share).

X. PUBLICATION OF INFORMATION ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This announcement is published on the websites of Stock Exchange and the Company. The interim report for the six months ended 30 June 2012 containing all the information required by Appendix 16 to the Listing Rules will be despatched to shareholders of the Company and published in the websites of the Stock Exchange and the Company in due course.

XI. RESUMPTION OF TRADING OF SHARES

At the request of the Company, trading of the Shares on the Stock Exchange has been suspended with effect from 1:00 p.m. on 29 March 2012. In the 2011 Annual Results Announcement, the Company disclosed the auditors' qualified opinion on certain transactions conducted by the Group in 2011 and early 2012 and the corresponding internal control improvement measures. Application has been made by the Company for the resumption of trading in the Shares on the Stock Exchange with effect from 9:00 a.m. on 30 January 2013.

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

Hong Kong, 29 January 2013

As of the date of this announcement, the Board comprises Mr. YANG Xiangbo (Chairman) and Mr. LI Kuansen (Chief Executive Officer) as the executive Directors, and Ms. ZHAO Jinlin, Mr. CHEN Fengliang, and Mr. JIANG Hongkai as the independent non-executive Directors.