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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 2017

FINANCIAL HIGHLIGHTS

The following sets forth a summary of the audited consolidated results for the year ended 31 December 2017:

– Revenue was RMB1,325.6 million, representing a slight decrease of 5.6% compared with the revenue of RMB1,403.9 million in 2016;
– Total gross sales proceeds(1) were RMB2,079.6 million, representing a slight decrease of 3.9% compared with the gross sales proceeds of RMB2,165.0 million in 2016;
– Operating profit was RMB60.1 million, representing an increase of 4.3% compared with operating profit of RMB57.6 million in 2016;
– Profit attributable to owners of the Company was RMB45.6 million, representing a decrease of 24.6% compared with the profit attributable to the owners of the Company of RMB60.5 million in 2016;
– Basic earnings per Share was RMB0.02; and
– Net asset value per Share was RMB0.56.

FINAL DIVIDEND

In view of the decrease in profit attributable to owners of the Company for 2017 and that an interim cash dividend of HK$0.0055 (equivalent to approximately RMB0.0048) per Share for the six months ended 30 June 2017 was declared and paid, the Board does not recommend any final or special dividend for the year ended 31 December 2017 (2016: RMB0.0016 (equivalent to approximately HK$0.0018) per Share.

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 2017

The following sets forth the audited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2017, together with the comparative figures for the year ended 31 December 2016.

CONSOLIDATED INCOME STATEMENT

		Year ended 31 December	
		2017	2016
	Note	***RMB'000***	*RMB'000*
Revenue	*3*	**1,325,566**	1,403,919
Other operating revenue	*4*	**113,453**	125,995
Other gains – net	*5*	**44,604**	5,166
Purchase of and changes in inventories	*6*	**(880,167)**	(983,889)
Employee benefits	*6,7*	**(184,879)**	(184,353)
Depreciation and amortisation	*6*	**(59,672)**	(51,628)
Operating lease rental expenses	*6*	**(125,038)**	(146,730)
Other operating expenses – net	*6*	**(173,737)**	(110,833)
Operating profit		**60,130**	57,647
Finance income	*8*	**3,403**	28,308
Finance costs	*8*	**–**	(1,201)
Finance income – net	*8*	**3,403**	27,107
Share of profit/(loss) of associate		**34**	(28)
Profit before income tax		**63,567**	84,726
Income tax expense	*9*	**(18,112)**	(24,232)
Profit for the year		**45,455**	60,494
Profit attributable to:			
Owners of the Company		**45,610**	60,494
Non-controlling interests		**(155)**	–
		45,455	60,494
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	
		2017	2016
	Note	***RMB'000***	*RMB'000*
Profit for the year		**45,455**	60,494
Other comprehensive income:			
Items that may be reclassified to profit or loss:			
Change in fair value on available-for-sale financial assets, net of tax		**1,359**	(433)
Currency translation differences		**531**	(255)
Items that will not be reclassified to profit or loss:			
Change in fair value of investment properties upon transfer, net of tax		**13,092**	–
Other comprehensive income for the year		**14,982**	(688)
Total comprehensive income for the year		**60,437**	59,806
Attributable to:			
Owners of the Company		**60,592**	59,806
Non-controlling interests		**(155)**	–
Total comprehensive income for the year		**60,437**	59,806

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2017	2016
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Investment properties	*12*	**202,575**	161,500
Property, plant and equipment		**1,081,220**	468,104
Intangible assets		**18,785**	19,045
Investment in an associate		**1,006**	972
Deferred income tax assets		**42,443**	46,944
Other receivables and prepayments	*14*	**68,835**	45,709
		1,414,864	742,274
Current assets			
Inventories		**141,902**	168,666
Available-for-sale financial assets	*13*	**24,485**	28,936
Trade receivables, other receivables and prepayments	*14*	**74,208**	69,925
Bank deposits		**239,274**	455,907
Cash and cash equivalents		**379,814**	829,690
		859,683	1,553,124
Total assets		**2,274,547**	2,295,398
EQUITY			
Equity attributable to owners of the Company			
Share capital		**213,908**	213,908
Share premium		**842,508**	858,649
Shares held for share award scheme		**(5,641)**	(10,411)
Other reserves		**255,482**	234,123
Retained profits		**84,445**	44,714
Equity attributable to the owners of the Company		**1,390,702**	1,340,983
Non-controlling interest		**775**	–
Total equity		**1,391,477**	1,340,983

		As at 31 December	
		2017	2016
	Note	***RMB'000***	*RMB'000*
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**25,518**	12,246
Current liabilities			
Trade and other payables	*15*	**813,972**	882,684
Income tax payable		**43,580**	59,485
		857,552	942,169
Total liabilities		**883,070**	954,415
Total equity and liabilities		**2,274,547**	2,295,398

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 2017 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	
	2017	2016
	RMB'000	*RMB'000*
Direct sales	**1,029,648**	1,122,837
Commission from concessionaire sales	**128,725**	152,666
Rental income	**167,193**	123,714
Reversal of long-aged unredeemed prepaid cards	**–**	4,702
	1,325,566	1,403,919

4. OTHER OPERATING REVENUE

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Promotion, administration and management income	**94,565**	109,481
Credit card handling fees for concessionaire sales	**10,799**	11,557
Government grant	**8,089**	4,957
	113,453	125,995

5. OTHER GAINS – NET

		Year ended 31 December	
		2017	2016
	Note	***RMB'000***	*RMB'000*
Reversal of accrued rental expense	*(i)*	**33,383**	–
Fair value adjustment on investment properties *(Note 12)*		**6,900**	1,800
Reversal of legal claims		**2,483**	3,842
Compensation for the contract damages		**409**	812
Investment gain/(loss) from redemptions on maturity and disposals of available-for-sale financial assets		**2**	(220)
Donation		**(80)**	(2,000)
Loss on disposals of property, plant and equipment		**(23)**	(196)
Others		**1,530**	1,128
		44,604	5,166

(i) During the year 2017, the Group acquired properties in Shenzhen and Changsha, which were originally leased by the Group as department stores. As a result of the acquisition, accrual accumulated for lease incentives and future incremental lease rentals amounting to RMB33,383,000 was reversed and recognised in "Other gains – net".

6. EXPENSES BY NATURE

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

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Purchase of and changes in inventories	**880,167**	983,889
Employee benefits expenses	**184,879**	184,353
Operating lease rental expenses	**125,038**	146,730
Utilities	**70,360**	53,429
Depreciation and amortisation expenses	**59,672**	51,628
Net foreign exchange loss/(gain)	**21,502**	(1,643)
Storage charge	**9,995**	–
Transportation expenses	**9,663**	5,944
Other tax expenses	**7,814**	1,558
Cleaning fee	**6,864**	6,731
Office expenses	**5,957**	5,700
Bank charge fee	**5,214**	6,185
Business travel expenses	**5,021**	3,715
Auditor's remuneration		
– Audit services	**4,258**	4,448
Advertising costs	**2,840**	1,517
Other expenses	**24,249**	23,249
Total cost of sales, distribution expenses, and administration expenses	**1,423,493**	1,477,433

7. EMPLOYEE BENEFITS EXPENSES

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Wages and salaries	**162,889**	161,321
Social security costs	**16,665**	15,560
Share-based compensation expenses	**5,059**	7,140
Others	**266**	332
Total employee benefits expenses	**184,879**	184,353

8. FINANCE INCOME, NET

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Finance income		
Interest income from bank deposits	**3,403**	28,308
Finance costs		
Interest expenses	**–**	(1,201)
Finance income, net	**3,403**	27,107

9. INCOME TAX EXPENSE

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Current income tax		
– PRC corporate income tax	**3,894**	18,361
Deferred income tax	**14,218**	5,871
	18,112	24,232

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	
	2017	2016
	RMB'000	*RMB'000*
Profit before income tax	**63,567**	84,726
Tax calculated at a tax rate of 25% (2016: 25%)	**15,892**	21,181
Tax impact of:		
– Expenses not deductible for tax purposes	**458**	767
– Unrecognised tax loss	**1,173**	1,475
– Withholding tax on dividend	**589**	809
Income tax expense	**18,112**	24,232

(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) 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.

(iii) The applicable income tax rate are 25% for general subsidiaries. Certain of the Company's PRC subsidiaries are entitle to small and micro entity tax credit, which enjoys the 20% tax rate and a 50% deduction of taxable income.

10. EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share is calculated by dividing:

- The profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares.

- By the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding shares held for employee share scheme.

	Year ended 31 December	
	2017	2016
Profits attributable to owners of the Company (in RMB thousand)	**45,610**	60,494
Weighted average number of ordinary shares in issue (thousands)	**2,482,762**	2,465,841
Basic earnings per share (RMB per share)	**0.02**	0.02

(b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- The after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and

- The weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

	Year ended 31 December	
	2017	2016
Earnings (in RMB thousands)		
Profits attributable to owners of the Company	**45,610**	60,494
Weighted average number of ordinary shares (thousands)		
Weighted average number of ordinary shares in issue	**2,482,762**	2,465,841
Adjustments for awarded shares	**12,238**	28,443
Weighted average number of ordinary shares for diluted earnings per share	**2,495,000**	2,494,284
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 23 March 2017, a final dividend of RMB0.0016 per ordinary share amounting to RMB3,963,000 out of the share premium account for the year ended 31 December 2016 was approved and paid by the Company.

Pursuant to the resolutions passed by the Board of Directors on 31 August 2017, an interim dividend of RMB0.0048 per ordinary share amounting to RMB11,969,000 out of the share premium account in respect of the six months ended 30 June 2017 was declared and paid by the Company.

The board of directors do not recommended any final dividend in respect of the year ended 31 December 2017.

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
(i) Ordinary Shares Interim dividend paid of RMB0.0048 (2016: RMB0.0049) per ordinary share	**11,969**	12,201
(ii) Dividends not recognised at the end of the reporting period Proposed final dividend of RMBNil (2016: RMB0.0016) per ordinary share	**–**	3,963
	11,969	16,164

12. INVESTMENT PROPERTIES

		Year ended 31 December	
		2017	2016
	Notes	***RMB'000***	*RMB'000*
As at 1 January		**161,500**	159,700
Acquisitions		**5,275**	–
Transfer from property, plant and equipment		**11,444**	–
Increase in fair value upon transfer	*(i)*	**17,456**	–
Net gains from fair value adjustment	*(ii)*	**6,900**	1,800
As at 31 December		**202,575**	161,500

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.

(i) During the year ended 31 December 2017, the Group leased certain owner-occupied premises in Shenzhen to third parties. Accordingly, it transferred these assets with an aggregate carrying amount of RMB11,444,000 from property, plant and equipment to investment properties at fair value of RMB28,900,000 and recognised an increase in fair value of RMB17,456,000 as revaluation surplus within other reserves.

(ii) During the year ended 31 December 2017, gains from changes in fair value of investment properties amounting to RMB6,900,000 in 2017 (2016: RMB1,800,000) had been recognised in "Other gains – net".

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2017	2016
	RMB'000	*RMB'000*
As at 1 January	**28,936**	37,265
Disposals	**–**	(8,853)
Redemptions on maturity	**(4,985)**	–
Currency translation differences	**(827)**	1,177
Fair value change recognised in other comprehensive income	**1,361**	(653)
As at 31 December	**24,485**	28,936

The Group's available-for-sale financial assets as at 31 December 2017 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 2017. The fair value is within level 2 of the fair value hierarchy.

14. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

		As of 31 December	
		2017	2016
	Notes	*RMB'000*	*RMB'000*
Current portion:			
Trade receivables	*(i)*	**31,144**	32,841
Interest receivables		**1,653**	6,337
Receivable from a trustee for the share purchase for the employees' share award scheme	*(ii)*	**5,243**	14,755
Prepayments		**4,663**	2,428
Other receivables		**19,463**	12,074
Lease deposits		**12,042**	1,473
Amounts due from a related party		**–**	17
		74,208	69,925
Non-current portion:			
Lease deposits		**27,622**	30,969
Other receivables	*(iii)*	**17,318**	–
Prepayments	*(iv)*	**23,895**	14,740
		68,835	45,709
		143,043	115,634

(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	
	2017	2016
	RMB'000	*RMB'000*
0 – 30 days	**19,815**	20,979
31 – 90 days	**8,494**	8,283
91 – 365 days	**2,835**	3,579
	31,144	32,841

As at 31 December 2017, trade receivables of RMB6,957,000 (2016: RMB7,469,000) 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 value approximated their carrying amounts as at 31 December 2017.

(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.

(iii) The non-current portion of other receivable represented the accrual on rental income based on the straight-line method.

(iv) The non-current portion of prepayment represented the Group's cash paid to third parties for the purchase of property, plant and equipment and intangible assets.

15. TRADE AND OTHER PAYABLES

		As of 31 December	
		2017	2016
	Notes	***RMB'000***	*RMB'000*
Advances received from customers	*(iii)*	**263,434**	266,392
Trade payables	*(i)*	**209,423**	222,250
Rental payables		**146,633**	182,142
Deposits		**61,826**	61,068
Deferred income	*(ii)*	**26,052**	25,613
Accrued wages and salaries		**17,310**	29,877
Other tax payables		**12,636**	24,426
Accrual for legal claims		**7,759**	10,242
Amount due to related parties		**161**	177
Other payables and accruals		**68,738**	60,497
		813,972	882,684

All trade and other payables are denominated in RMB and their fair values approximated their carrying amount as at 31 December 2017.

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

	As of 31 December	
	2017	2016
	RMB'000	*RMB'000*
0 – 30 days	**73,439**	100,269
31 – 60 days	**42,503**	43,062
61 – 90 days	**20,291**	19,267
91 – 365 days	**43,755**	30,329
1 year – 2 years	**3,410**	1,488
2 years – 3 years	**543**	2,272
Over 3 years	**25,482**	25,563
	209,423	222,250

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

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

16. CAPITAL COMMITMENTS

Significant capital expenditure contracted for at the end of reporting period but not recognised as liabilities is as follows:

	As of 31 December	
	2017	2016
	RMB'000	*RMB'000*
Capital commitments – expenditures of property, plant and equipment – Contracted but not provided for	**3,436**	5,531

II. MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF THE RETAIL BUSINESS IN THE PRC

According to the National New-type Urbanisation Plan[1] (全國新型都市化計劃) (2014-2020), urbanisation in the PRC is expected to continue at the rate to reach 60% by the end of 2020. Also, the rapid growth in the size of middle class population in the PRC is expected to accelerate the economic change and social transformation. Research studies suggest that more than 75% of China's urban population will earn RMB60,000 to RMB229,000 a year[2]. This middle class group will become the largest population segment, and private consumption is expected to realise exponential growth. As at 31 December 2017, studies from National Bureau of Statistics[3] show that the total national retail sales of consumer goods reached RMB3,473.4 billion, representing an increase by 9.4% from 2016. In 2017, the online retail sales increased by 32.2% in China from 2016. The proportion of online consumption to the total retail sales increased from 12.6% in 2016 to 15.0% in 2017.

The Group follows closely the latest market development and the preference of different types of consumers, and keeps abreast of various sectors to enhance the public awareness of its "Shirble" supermarket brand and the customer loyalty, thereby enable the Group to deliver its goal of "eat better, live better" for consumers. The year of 2017 was a year of reform for the Group. The Group continued to use its three business channels, comprising the traditional Shirble Department Store ("歲寶百貨"), standalone "SMART" supermarket and new "Shirble Plaza" business model to maintain the business growth. Correspondingly, its department stores have been revamped with the target of providing an unique lifestyle shopping experience and high-quality and fashionable merchandise. Likewise, an integral part of the "Shirble Plaza" business model is the provision of premium, chic goods aimed at the middle class and consumers in the younger generation. The Group also implemented its business transformation strategy, which involves steering the Group towards a more trendy and stylish direction.

Moreover, in recent years, internet and mobile communication services have become an integral part of everyday life. Online shopping and e-commerce are developing quickly which has created fierce competition among the online retailers and challenges to the entire retail business in China. Competition is keen amongst online retailers and also prompted the integration between physical shops and online sales platforms. Many physical shops were under the threat of closure.

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1 https://www2.deloitte.com/content/dam/Deloitte/cn/Documents/cip/deloitte-cn-cip-cipa-retail-report-2015-en-170113.pdf

2 https://www.mckinsey.com/industries/retail/our-insights/mapping-chinas-middle-class

3 http://www.stats.gov.cn/english/PressRelease/201801/t20180126_1577681.html

4 http://www.stats.gov.cn/tjsj/sjjd/201801/t20180119_1575485.html

Capitalising this development, the Group has utilised its i-Shirble online platform to attract a wider range of consumers and have launched the i-Shirble 2.0 online platform in May 2017. This online platform offers a variety of merchandises including household products and fresh food for consumers to select, which can help to support the Group's e-commerce business.

As at 31 December 2017, the Group recorded revenue of RMB1,325.6 million, decreased by 5.6% from RMB1,403.9 million recorded in the preceding year. Profit attributable to owners of the Company amounted to RMB45.6 million or a decrease of 24.6% from RMB60.5 million last year.

For the year ended 31 December 2017, the Group operated a total of 19 department stores with a total gross floor area of 327,445.6 sq.m.

BUSINESS REVIEW

Revamping of existing stores and official launch of Shirble Plaza

During the review year, the Group continued to enhance its existing arrangement of traditional department stores under the Shirble Department Store ("歲寶百貨") brand. At the same time, the Group opened a Yitian store (益田店) in Futian District, Shenzhen, which represents the first store established by the Group that adopts the "Shirble Plaza" concept. With a gross floor area of approximately 16,500 sq.m., the new establishment will take full advantage of soaring consumption among the middle class and young consumers. Situated next to one of metro stations of the Shenzhen metro line and within walking distance to major residential areas, the store provides a plethora of quality merchandise and services. In line with the business model developed for "Shirble Plaza", the majority of space has been allocated to different retailers as oppose to concessionaire counters, which is consistent with its objective of being a fashionable one-stop shopping mall. Within "Shirble Plaza" is the Group's second "SMART" brand supermarket. Besides being the home to various pop-up stores, there is a Quarter Past Three bakery shop, the Group's self-owned bakery brand that offers a comprehensive range of high-quality bakery products.

Continuous advancement of i-Shirble platform and enhancement of shopping experience

Consistent with the Group's efforts to capitalise on e-commerce, it further upgraded the i-Shirble online platform, introducing the 2.0 iteration in May 2017. In doing so, the Group placed emphasis on providing family-oriented products and fresh food items, leveraging the quality product mix of its wholesale business. The Group also rolled out more user-friendly functions and features that appeal to the e-commerce generation. To win the trust of customers, the Group has introduced the i-Shirble service pledge that guarantees product delivery within an hour of purchase for those living within a certain distance from its stores, and orders being free of charge in cases of late delivery. Reflecting the success of the i-Shirble platform, the Group has more than 172,000 active customers/members as at 31 December 2017, up by approximately 187.0% from 92,000 as at 30 June 2017.

Direct sourcing and development of wholesale business

As more and more younger consumers trend towards more health-conscious eating by choosing healthier foods, the Group has been striving to expand its product offerings to provide high quality and safe food, as well as healthy and trendy merchandise. To boost customers' confidence in the Group offerings, Shirble's high quality food is sourced from safe food sources through direct sourcing. With a dedicated direct sourcing team that is responsible for wholesale/import and export business since 2015, the Group has been actively seeking business partners such as local retailers and distributors. A central kitchen has also been set up for the production of bread to ensure consistent quality and to prepare for wholesale opportunities.

In line with the Group's business transformation and new business development strategies, it recruited several industry veterans, including a new head of sourcing who will be responsible for selecting high-quality merchandise from overseas that will be included in the Group's product portfolio. Moreover, senior managers have joined the Group and will be entrusted with overseeing Shirble's self-owned brands, as well as further develop the Group's e-commerce presence.

Conversion of fresh food sections from concessions to direct sales

To ensure that the Group is able to deliver safe and high-quality food to its increasingly health-conscious customers, it has begun transforming its business model, moving its fresh food section completely away from concession sales to direct sales, which allow the Group to have greater control over the food quality and variety. The transformation process will also complement the Group's efforts at catering for the needs of customers by providing a large variety of freshly caught deep-sea fish, poultry, pork and vegetables sourced by its wholesale team, as well as result in an improvement in margin.

Strategic alliance with local partners in residential and urban village areas

Never overlooking opportunities, regardless of market scale, the Group has continued to explore niche markets, including urban village areas (城中村). The Group considers the establishment of compact stores or the formation of strategic alliances with local partners as viable means of penetrating these unique markets. In respect of opening compact stores, they would principally provide fresh food or convenience items.

Acquisition of premises for store development

In early 2017, the Group acquired two properties in Jingtian and Changsha where two of its traditional Shirble Department stores are located. This provided greater cost effectiveness in terms of rental costs against property depreciation to capture opportunities from appreciation in the market value of the properties. Should similar opportunities arise and depending on the current value and appreciation potential of such properties, the Group may make considerations and decisions based on capital resources available for the Group at the time.

FUTURE PLANS

Given the rise in consumption power of the middleclass, which is expected to continue increasing in the coming years, the Group will seek to further strengthen its competitiveness by way of implementing its transformation plan. This will consequently involve ongoing efforts at delivering trendy, high-quality products and services via its Shirble department stores, standalone "SMART" supermarkets and shopping malls under the "Shirble Plaza" concept.

Opening second "Shirble Plaza"

In order for the Group to raise the attention of consumers, particularly the middleclass and the young, the Group will be opening a second "Shirble Plaza" in Nankang (南康), Shenzhen. With a total GFA of approximately 18,000 sq.m., the new shopping mall will adhere to the Group's latest concept store format and positioning, hence will provide products and services of the highest quality, and capture the latest trends in fashion, health and living.

Inclusion of more imported merchandise and development of self-owned brand

As a means of increasing the variety and appeal of its products, the Group will leverage the expertise of its newly hired head of sourcing to look for overseas merchandise that enriches the product mix. Concurrently, the same individual will be entrusted with introducing high-quality products for enhancing the appeal of the Group's self-owned brands.

Enhancing the operational efficiency of supermarket fresh food section and electrical appliances section

The Group is reviewing different cooperative methods in operating its supermarket business (such as supermarket fresh food section), as well as electrical appliances business, for the purpose of improving profitability. In this connection, the Group may explore alternatives to the current direct sales business model.

With respect to the Group's electrical appliances section, the Group would gradually convert into jointly managed concession networks with retail business partners. The Directors believe that the Group will be able to reduce the costs, including costs associated with after-sales services, and reduce floor space for inventories. As with the Group's other product offerings, it will continue to review its portfolio of merchandise and introduce new products as needed to cater for the needs of customers and to keep in step with the latest trends.

Strategic move into the catering industry

Indicative of the Group's openness to new ventures, it will be diversifying into the catering industry in 2018. Via a joint venture agreement with a company, the Group will initially be able to expand its business into the catering industry. If it is favorably received by the public, the Group will look at developing zones in other parts of the PRC. It will also consider offering Japanese food created by these restaurants or other authentic cuisines at some of the Group's stores in the future.

Potential investment opportunities and property acquisitions

Besides continuously developing and refining its products and businesses, the Group is also constantly evaluating merger and acquisition opportunities in the retail and department store sectors that can lead to synergies with its existing core business. While these efforts continue, the Directors will also consider acquiring properties that enable the Group to benefit from asset appreciation, taking into consideration its capital resources.

CONCLUSION

On behalf of the board of directors of the Company, I would like to express my gratitude to the management team and the entire Shirble workforce for their commitment and contributions to the Group. I wish to also offer my gratitude to our partners and customers for their generous support and to our shareholders and investors for their unwavering confidence in the Group.

III. FINANCIAL REVIEW

Total gross sales proceeds

During the year ended 31 December 2017, the Group's total gross sales proceeds (representing the aggregate of revenue from direct sales of the Group and total sales proceeds from concessionaire sales at the Group's department stores were RMB2,079.6 million, representing a decrease of 3.9% from RMB2,165.0 million in 2016. The decrease in total gross sales proceeds was principally due to challenging retail business environment especially for traditional physical stores.

Revenue generated from direct sales of the Group amounted to RMB1,029.6 million and the total sales proceeds from concessionaire sales amounted to RMB1,050.0 million, accounting for 49.5% and 50.5%, respectively, of the Group's total gross sales proceeds for the year ended 31 December 2017. For the year ended 31 December 2016, revenue from direct sales amounted to RMB1,122.8 million, while the total sales proceeds from concessionaires sales amounted to RMB1,037.5 million, accounted for 51.9% and 47.9% 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			
	2017		2016	
	RMB' million	***(%)***	*RMB' million*	*(%)*
Food and beverages	**1,016.5**	**48.9**	1,008.3	46.6
Clothes, apparel and bedding	**298.8**	**14.4**	326.1	15.1
Daily necessities and cosmetic goods	**348.8**	**16.8**	345.3	15.9
Electronics and home appliances	**135.8**	**6.5**	177.9	8.2
Sporting and stationery goods	**247.8**	**11.9**	264.8	12.2
Children's goods	**31.9**	**1.5**	37.9	1.8
Income from reversal of long-aged pre-paid gift cards	**–**	**–**	4.7	0.2
	2,079.6	**100.0**	2,165.0	100.0

Revenue

The Group's revenue amounted to RMB1,325.6 million for the year ended 31 December 2017, representing a decrease of 5.6% as compared to RMB1,403.9 million in 2016. Resulting from the challenging retail business environment, the decrease was principally attributable from the decrease in direct sales and commission from concessionaire sales, offset by the increase in rental income.

Direct sales decreased by 8.3% to RMB1,029.6 million for the year ended 31 December 2017 from RMB1,122.8 million in 2016, principally due to the decrease in the sales from existing stores. Direct sales as a percentage of the Group's total revenue was 77.7% for the year ended 31 December 2017 as compared to 80.0% for the year ended 31 December 2016.

Commission from concessionaire sales decreased by 15.7% to RMB128.7 million for the year ended 31 December 2017 from RMB152.7 million in 2016, mainly due to lower commission rate as a result of more promotional campaigns and 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. The commission rate of concessionaire sales was 12.3% as compared to 14.7% in 2016. Commission from concessionaire sales accounted for 9.7% of the Group's total revenue for the year ended 31 December 2017 as compared to 10.9% in 2016.

Rental income increased significantly by 35.2% to RMB167.2 million for the year ended 31 December 2017 from RMB123.7 million in 2016, 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 12.6% of the Group's total revenue for the year ended 31 December 2017 as compared to 8.8% in 2016.

No income from reversal of long-aged unredeemed pre-paid cards was recognised for the year ended 31 December 2017 as compared to RMB4.7 million in 2016 due to the gradual decrease in pre-paid card issuance in past years.

Other operating revenue

Other operating revenue decreased by 9.9% to RMB113.5 million for the year ended 31 December 2017 from RMB126.0 million in 2016, mainly due to the decrease in promotion, administration and management income.

Other gains – net

Other net gain amounted to RMB44.6 million for the year ended 31 December 2017 as compared with RMB5.2 million in 2016, mainly due to the fair value adjustment on investment properties of RMB6.9 million and the reversal of accrued rental expense of RMB33.4 million as a result of the acquisition of two properties where the Group's Jingtian and Changsha stores used to operate under lease arrangement.

Purchase of and changes in inventories

Purchase of and changes in inventories amounted to RMB880.2 million for the year ended 31 December 2017, representing a decrease of 10.5% as compared with RMB983.9 million in 2016, which is in line with the decrease in direct sales. Purchase of and changes in inventories accounted for 85.5% of the Group's direct sales for the year ended 31 December 2017 as compared with 87.6% in 2016.

Employee benefits

Employee benefits increased slightly by 0.3% to RMB184.9 million for the year ended 31 December 2017 from RMB184.4 million in 2016, primarily due to the recruitment of new personnel for the development of the Group's new business, offset by the decrease in share-based compensation expenses incurred for the share award scheme.

Depreciation and amortization

Depreciation and amortization increased by 15.7% to RMB59.7 million for the year ended 31 December 2017 from RMB51.6 million in 2016 mainly due to the acquisition of two properties in March 2017.

Operating lease rental expenses

Operating lease rental expenses decreased by 14.8% to RMB125.0 million for the year ended 31 December 2017 from RMB146.7 million in 2016. The decrease was mainly attributable to the rental expenses for Jingtian and Changsha Store, the operating premises of which were acquired by the Group in March 2017, offset by the rental expenses incurred for the new Yitian Store.

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, increased by 56.8% to RMB173.7 million for the year ended 31 December 2017 from RMB110.8 million in 2016. This was mainly due to the new accounting treatment in respect of utility cost incurred by lessees subsequent to the change of PRC law which was originally recorded as net amount in other expenses, the net foreign exchange loss of RMB21.5 million in respect of appreciation of RMB against USD deposit, as well as the storage charge of RMB10.0 million as a result of outsourcing the distribution function to an external independent third party during the year.

Operating profit

As a result of the reasons mentioned above, the Group's operating profit amounted increased by 4.3% to RMB60.1 million for the year ended 31 December 2017 from RMB57.6 million in 2016.

Finance income

Finance income decreased by 88.0% to RMB3.4 million for the year ended 31 December 2017 from RMB28.3 million in 2016 primarily as a result of the decrease in bank deposits and cash and cash equivalent due to the acquisition of Jingtian Store and Changsha Store in March 2017.

Finance costs

No finance costs was incurred for the year ended 31 December 2017 from RMB1.2 million for the year ended 31 December 2016 as a result of the full repayment of outstanding bank borrowings in the second half of 2016.

Income tax expense

Income tax expense amounted to RMB18.1 million for the year ended 31 December 2017, representing decrease of 25.2% from RMB24.2 million for the year ended 31 December 2016. The effective tax rate applicable to the Group for the year ended 31 December 2017 were 25% for general subsidiaries. Certain of the Company's PRC subsidiaries are entitled to small and micro entity tax credit, which enjoys the 20% tax rate and a 50% deduction of taxable income. 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 RMB45.6 million for the year ended 31 December 2017, representing a decrease of 24.6% as compared with the profit of RMB60.5 million in 2016.

Loss attributable to non-controlling interests amounted to RMB0.2 million for the year ended 31 December 2017, resulting from two newly incorporated non-wholly owned subsidiaries during 2017.

IV. DIVIDEND

In view of the decrease in profit attributable to the owners of the Company for 2017 and that an interim cash dividend of HK$0.0055 (equivalent to approximately RMB0.0048) per Share for the six months ended 30 June 2017 was declared and paid, the Board does not recommend any final or special dividend for the year ended 31 December 2017 (2016: RMB0.0016 (equivalent to approximately HK$0.0018) per Share).

V. LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2017, the Group's cash and cash equivalents and bank deposits amounted to RMB619.1 million, representing a decrease of 51.8% from RMB1,285.6 million as at 31 December 2016. 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.

Net current assets and net assets

The net current assets of the Group as at 31 December 2017 were RMB2.1 million (31 December 2016: RMB611.0 million), representing a decrease of 99.7%. The net assets of the Group as at 31 December 2017 increased to RMB1,391.5 million (31 December 2016: RMB1,341.0 million), representing an increase of 3.8%.

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 2017, the Group recorded a net foreign exchange loss of RMB21.5 million. For the year ended 31 December 2016, the Group recorded a net foreign exchange gain 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 at 31 December 2017, the total number of employees of the Group was 2,420. 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, 3,172,000 shares granted to fourteen 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.

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 2017, the legal proceedings were ongoing. The Group has made an accumulated provision of approximately RMB7,759,000 (2016: RMB10,242,000), 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.

VI. 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 2017, 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 2017.

The Audit Committee has reviewed the annual results of the Group for the year ended 31 December 2017.

VII. 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 2017.

VIII. 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 2017, 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.

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.

IX. 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 2017.

X. 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 2017 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.

XI. 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 2017 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.

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

Hong Kong, 22 March 2018

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.