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)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

FINANCIAL HIGHLIGHTS

The following sets forth a summary of the unaudited consolidated results of the Group for the six months ended 30 June 2018:–

– Revenue of the Group was RMB602.1 million, representing a decrease of 8.9% as compared with the revenue of RMB661.1 million for the same period in 2017;

– Total gross sales proceeds[(1)] of the Group were RMB929.1 million, representing a decrease of 9.4% as compared with the gross sales proceeds of RMB1,025.5 million for the same period in 2017;

– Operating profit of the Group was RMB19.9 million, representing a decrease of 60.5% as compared with the operating profit of RMB50.4 million for the same period in 2017;

– Profit attributable to owners of the Company was RMB14.9 million, representing a decrease of 63.4% as compared with the profit attributable to owners of the Company of RMB40.7 million for the same period in 2017;

– Basic earnings per Share was RMB0.01;

– Net asset value per Share was RMB0.57; and

INTERIM AND SPECIAL DIVIDEND

In view of the latest changes and development of the Group, the Board would like to express its gratitude to the Shareholders for their continuous support, and would like to recommend an interim and special cash dividend of HKD0.0021 and HKD0.0062 respectively (equivalent to approximately RMB0.0018 and RMB0.0055 respectively) per Share or in the total amount of HKD5.2 million and HKD15.4 million respectively (equivalent to approximately RMB4.4 million and RMB13.6 million respectively) (2017: HKD0.0055 (equivalent to approximately RMB0.0048) per Share or in the total amount of HKD13.7 million (equivalent to approximately RMB12.0 million)) for the six months ended 30 June 2018.

Notes:

(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 pre-paid cards.

I. INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

The board (the "**Board**") of directors (the "**Directors**") of Shirble Department Store Holdings (China) Limited (the "**Company**") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2018, together with the unaudited comparative figures for the corresponding period in 2017. The unaudited consolidated results of the Group are prepared by the Group and reviewed by the audit committee (the "**Audit Committee**") of the Board and the Company's auditors, PricewaterhouseCoopers ("**PwC**").

INTERIM CONSOLIDATED STATEMENT OF INCOME

	Note	For the six months ended 30 June 2018 RMB'000 (unaudited)	2017 RMB'000 (unaudited)
Revenue	*3*	**602,060**	661,105
Other operating revenue	*4*	**67,976**	75,443
Other gain, net	*5*	**27,476**	31,520
Purchase of and changes in inventories	*6*	**(412,337)**	(452,855)
Employee benefits	*6*	**(91,420)**	(96,479)
Depreciation and amortisation	*6*	**(34,078)**	(25,218)
Operating lease rental expenses	*6*	**(67,600)**	(75,698)
Other operating expenses, net	*6*	**(72,194)**	(67,417)
Operating profit		**19,883**	50,401
Finance income – net		**3,869**	3,849
Share of (loss)/profit of associate		**(1,129)**	12
Profit before income tax		**22,623**	54,262
Income tax expense	*7*	**(8,001)**	(13,556)
Profit for the period		**14,622**	40,706
Profit attributable to:			
Owners of the Company		**14,891**	40,706
Non-controlling interests		**(269)**	–
Profit for the period		**14,622**	40,706
Earnings per share for the profit attributable to owners of the Company during the period (expressed in RMB per share)			
– Basic and diluted	*8*	**0.01**	0.02

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		For the six months ended 30 June	
		2018	2017
	Note	***RMB'000***	*RMB'000*
		(unaudited)	(unaudited)
Profit for the period		**14,622**	40,706
Other comprehensive income:			
Item that will not be reclassified subsequently to profit or loss			
Change in fair value of investment properties upon transfer, net of tax	*9*	**–**	13,092
Item that may be reclassified to profit or loss			
Fair value change on debt instruments at fair value through other comprehensive income, net of tax	*11*	**(1,036)**	–
Fair value change on available-for-sale financial assets, net of tax	*11*	**–**	1,202
Currency translation differences		**(15)**	241
Other comprehensive income for the period		**(1,051)**	14,535
Total comprehensive income for the period		**13,571**	55,241
Attributable to:			
Owners of the Company		**13,840**	55,241
Non-controlling interests		**(269)**	–
Total comprehensive income for the period		**13,571**	55,241

INTERIM CONSOLIDATED BALANCE SHEET

	Note	As at 30 June 2018 RMB'000 (unaudited)	As at 31 December 2017 RMB'000 (audited)
ASSETS			
Non-current assets			
Investment properties	9	**207,700**	202,575
Property, plant and equipment		**1,034,766**	1,081,220
Intangible assets		**19,950**	18,785
Investment in associate		**4,777**	1,006
Deferred income tax assets		**42,257**	42,443
Other receivables and prepayment	12	**60,925**	68,835
		1,370,375	1,414,864
Current assets			
Inventories		**91,365**	141,902
Assets classified as held for sale		**37,659**	–
Financial assets at fair value through other comprehensive income (**FVOCI**)	11	**31,806**	–
Available-for-sale financial assets	11	**–**	24,485
Trade receivables, other receivables and prepayments	12	**55,447**	74,208
Bank deposits		**220,224**	239,274
Cash and cash equivalents		**333,385**	379,814
		769,886	859,683
Total assets		**2,140,261**	2,274,547
EQUITY			
Equity attributable to owners of the Company			
Share capital		**213,908**	213,908
Share premium		**842,181**	842,508
Shares held for share award scheme		**(4,077)**	(5,641)
Other reserves		**254,389**	255,482
Retained profits		**99,336**	84,445

	Note	As at 30 June 2018 RMB'000 (unaudited)	As at 31 December 2017 RMB'000 (audited)
Equity attributable to the owners of the Company		**1,405,737**	1,390,702
Non-controlling interests		**12,050**	775
Total equity		**1,417,787**	1,391,477
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**25,959**	25,518
Current liabilities			
Trade and other payables	*13*	**650,976**	813,972
Income tax payable		**45,539**	43,580
		696,515	857,552
Total liabilities		**722,474**	883,070
Total equity and liabilities		**2,140,261**	2,274,547

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. GENERAL 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 Company and its subsidiaries (together, the "**Group**") are to operate department stores in Mainland China (the "**PRC**").

2. BASIS OF PREPARATION

This interim condensed consolidated financial information for the six months ended 30 June 2018 ("**the interim period**") has been prepared in accordance with International Accounting Standard ("**IAS**") 34, 'Interim Financial Reporting'. The interim condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2017, which have been prepared in accordance with 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

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Direct sales	**480,023**	522,819
Commission from concessionaire sales	**59,177**	68,443
Rental income	**62,631**	67,220
Income from reversal of long-aged unredeemed prepaid cards	**229**	2,623
	602,060	661,105

4. OTHER OPERATING REVENUE

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Promotion, administration and management income	**59,821**	64,476
Credit card handling fees for concessionaire sales	**5,138**	5,425
Others	**3,017**	5,542
	67,976	75,443

5. OTHER GAIN, NET

		Six months ended 30 June	
		2018	2017
	Note	***RMB'000***	*RMB'000*
Reversal of long-aged accounts payable	*(i)*	**16,632**	–
Change in fair value of investment properties *(Note 9)*		**5,125**	100
Investment gain from redemption on maturity and disposal of FVOCI		**3,041**	–
Reversal of legal claims *(Note 13)*		**3,014**	123
Loss on disposal of property, plant and equipment		**(791)**	(1,998)
Reversal of accrued rental expense	*(ii)*	**–**	33,383
Compensation for the contract damages		**–**	52
Others		**455**	(140)
		27,476	31,520

(i) At 30 June 2018, the Group reviewed the aging of the accounts payable and reversed the balance of certain inactive suppliers and vendors aging over 3 years, amounting to RMB16,632,000.

(ii) During the six months ended 30 June 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 gain, net".

6. EXPENSES BY NATURE

Expenses included in purchase of and changes in inventories, employee benefits, operating lease rental expenses, depreciation and amortisation, and other operating expenses were analysed as follows:

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Purchase of and changes in inventories	**412,337**	452,855
Employee benefits	**91,420**	96,479
Operating lease rental expenses	**67,600**	75,698
Depreciation and amortisation expenses	**34,078**	25,218
Utilities	**30,658**	32,751
Auditor's remuneration	**867**	778
Other expenses	**40,669**	33,888
	677,629	717,667

7. INCOME TAX EXPENSES

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Current income tax		
– PRC corporate income tax	**7,374**	6,559
Deferred income tax	**627**	6,997
	8,001	13,556

(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 interim period. 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.

8. EARNINGS PER SHARE

(i) Basic

Basic earnings per share is calculated by dividing the earnings attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period. The repurchases of the Company's own ordinary shares was reflected in the weighted average number of ordinary shares in issue from the date shares were repurchased.

	Six months ended 30 June	
	2018	2017
Profits attributable to owners of the Company (in RMB thousand)	**14,891**	40,706
Weighted average number of ordinary shares in issue (thousands)	**2,485,141**	2,472,784
Basic earnings per share (RMB per share)	**0.01**	0.02

(ii) Diluted

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

	Six months ended 30 June	
	2018	2017
Earnings (in RMB thousands)		
Profits attributable to owners of the Company	**14,891**	40,706
Weighted average number of ordinary shares (thousands)		
Weighted average number of ordinary shares in issue	**2,485,141**	2,472,784
Adjustments for awarded shares	**9,859**	22,216
Weighted average number of ordinary shares for diluted earnings per share	**2,495,000**	2,495,000
Diluted earnings per share (RMB per share)	**0.01**	0.02

9. INVESTMENT PROPERTIES

	2018	2017
	RMB'000	*RMB'000*
As at 1 January	**202,575**	161,500
Transfer from property, plant and equipment	**–**	11,444
Increase in fair value at the date of transferring from property, plant and equipment	**–**	17,456
Net gains from fair value adjustment	**5,125**	100
As at 30 June	**207,700**	190,500

As at 30 June 2018, the Group had no unprovided contractual obligations for future repairs and maintenance (2017: Nil).

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

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

10. DIVIDENDS

Pursuant to the resolutions by the annual general meeting of the Company held on 31 May 2018, no final dividend was declared and paid by the Company for the year ended 31 December 2017.

On 20 August 2018, the board of directors recommended an interim and special cash dividend of HKD0.0021 and HKD0.0062 respectively (equivalent to approximately RMB0.0018 and RMB0.0055 respectively) per share for the interim period, amounting to HKD5.2 million and HKD15.4 million respectively (equivalent to approximately RMB4.4 million and RMB13.6 million respectively) (six months ended 30 June 2017: HKD13.7 million, equivalent to approximately RMB12.0 million). The interim and special cash dividend is to be proposed out of the share premium account and this interim financial information do not reflect this dividend payable.

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (2017: AVAILABLE-FOR-SALE FINANCIAL ASSETS)

	2018	2017
	RMB'000	*RMB'000*
As at 1 January	**24,485**	28,936
Additions	**29,221**	–
Disposals	**(22,635)**	–
Fair value change recognised in other comprehensive income	**(1,036)**	1,202
Currency translation difference	**1,771**	(332)
As at 30 June	**31,806**	29,806

The Group's FVOCI as at 30 June 2018 represented non-principal guaranteed wealth management products with variable return rate. The FVOCI are denominated in RMB and USD.

The fair value of the wealth management products is based on its market price as at 30 June 2018. The fair value is within level 2 of the fair value hierarchy.

12. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

		As at	
		30 June	31 December
		2018	2017
	Notes	***RMB'000***	*RMB'000*
Current portion:			
Trade receivables	*(i)*	**13,642**	31,144
Other receivables		**22,847**	19,463
Receivable from a trustee for the share purchase for the employees' share award scheme	*(ii)*	**5,140**	5,243
Interest receivables		**3,032**	1,653
Prepayments		**5,829**	4,663
Lease deposits		**4,957**	12,042
		55,447	74,208
Non-current portion:			
Lease deposits		**23,132**	27,622
Other receivables		**32,246**	17,318
Prepayments		**5,547**	23,895
		60,925	68,835
		116,372	143,043

(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 as follows:

	As at	
	30 June	31 December
	2018	2017
	RMB'000	*RMB'000*
0 – 30 days	**6,264**	19,815
31 – 90 days	**3,461**	8,494
91 – 365 days	**3,917**	2,835
	13,642	31,144

All trade receivables are denominated in RMB and their carrying amounts approximate their fair values as at 30 June 2018.

As at 30 June 2018, trade receivables of RMB4,914,000 (2017: RMB6,957,000) 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.

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

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

13. TRADE AND OTHER PAYABLES

		As at	
		30 June	31 December
		2018	2017
	Notes	***RMB'000***	*RMB'000*
Advances received from customers	*(i)*	**181,316**	263,434
Trade payables	*(iii)*	**144,264**	209,423
Rental payables		**157,275**	146,633
Deposits		**69,358**	61,826
Deferred income	*(ii)*	**23,720**	26,052
Accrued wages and salaries		**8,740**	17,310
Accrual for legal claims	*(iv)*	**4,745**	7,759
Other tax payables		**5,802**	12,636
Amount due to related parties		**171**	161
Other payables and accruals		**55,585**	68,738
		650,976	813,972

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

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

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

(iii) The aging analysis of the trade payables of the Group were as follows:

	As at **30 June 2018** *RMB'000*	31 December 2017 *RMB'000*
0 – 30 days	**59,160**	73,439
31 – 60 days	**38,627**	42,503
61 – 90 days	**10,791**	20,291
91 – 365 days	**22,182**	43,755
1 year – 2 years	**3,891**	3,410
2 years – 3 years	**756**	543
Over 3 years	**8,857**	25,482
	144,264	209,423

(iv) The amount represented provision for legal claims for certain suppliers, vendors and employees who have commenced legal proceedings against the Group.

14. CAPITAL COMMITMENTS

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

	As at **30 June 2018** *RMB'000*	31 December 2017 *RMB'000*
Capital commitments – expenditures of property, plant and equipment – Contracted but not provided for	**5,661**	3,436

II. MANAGEMENT DISCUSSION AND ANALYSIS

THE RETAIL BUSINESS LANDSCAPE IN THE PRC AND GROUP OVERVIEW

The retail business in the PRC in 2018 grew steadily by an expected increase of 8% compared to the growth rates in previous years. The National Bureau of Statistics of the PRC announced that the economic growth for the first quarter in the current year was in line with the expectation. The GDP for the quarter amounted to RMB 19.88 trillion, representing an increase of 6.8% on a year-on-year basis, which was similar to the growth rate during the fourth quarter in the last year. During January to May 2018, the national online retail sales for products and services reached RMB 257.92 billion, representing a year-on-year growth of 32.4%[1], fully reflecting that the reformation pace of traditional consumption pattern is accelerating.

As at 30 June 2018, the Group owned and operated 19 department stores (including supermarkets) with a total gross floor area of 342,955.3 sq.m. During the period, the Group recorded revenue of RMB602.1 million (2017: RMB661.1 million). Profit attributable to owners of the Company amounted to approximately RMB14.9 million (2017: RMB40.7 million). The decrease was mainly due to (i) a write-off of net book value of decoration as a result of business cooperation with Hema Network Technology Company Limited ("**Hema**"), and (ii) a decrease in revenue resulting from the closure of Wanxiang Store upon expiration of lease agreement, as well as a combination of factors such the increase popularity of online sales in the PRC and unexpected changes in consumers' preference.

Whilst the Group has its own competitive advantages in the Shirble supermarket business and the Shirble department store business and has been improving the level and varieties of its services to satisfy the market demand in past years, its store image and the product offerings are relatively less competitive as always in the rapidly developed retail market in the PRC in combination with the online retail platforms. As mentioned above and in the previous annual reports of the Company, the fast development of the online retail platforms create challenges to the chain store operators. Although the Group has its own online retail platform, the operation scale is restricted to the local population in Shenzhen, the PRC. In addition, the latest combination of online-to-offline business concept creates new business model in retail business so that consumers can enjoy shopping experience at stores with the support of and the convenience provided by online purchase and payment facilities. Against the above background, on 19 June 2018, the Group announced the establishment of partnership with Hema to open "Hema Fresh Supermarkets" in Shirble stores. Hema is an indirectly wholly-owned subsidiary of Alibaba Group Holding Limited ("**Alibaba**"), which mainly engaged in retail business for the convergence of online and offline activities. Based on the information provided by Hema, it can deliver online orders within 30 minutes to customers within a 3-kilometers radius of a Hema physical store, and offers a mobile app that allows consumers to research products and shop while browsing the store. The Group believes that the business will enjoy long-term development in the foreseeable future and provide customers with more convenient and express services.

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1 *Source:* http://www.stats.gov.cn/english/PressRelease/201806/t20180615_1604933.html

BUSINESS OVERVIEW

During the period under review, the Group has been keeping close attention to the market dynamics and the tastes of customers of various types, continued to appraise and enhance the existing traditional department stores under the brand of “歲寶百貨” and concept stores in “Shirble Plaza”, so as to reposition with an aim to precisely meet the demands for the high quality food and products of the middle-class and young generation in the PRC.

Strategically Tap into Food and Beverage Business

In order to further expand its diversified business, the Group has executed a joint venture agreement in February 2018 with a company to expand its business to food and beverage industry. The first cooperative project is to open “惠比壽橫丁” which is themed as a Japanese gourmet street in Futian district, Shenzhen. The seven stores in the street are decorated in the mix of Japanese customs in the Showa period and trendy Western-Japanese mix-and-match styles, selling cuisines such as sushi, eel, ramen, yakitori, yakiniku and Japanese-style western food respectively, as well as a contemporary bar. As “惠比壽橫丁” has been popular since its opening in May 2018, its has strongly supported the development blueprint of the Group’s expansion into the food and beverage business. The Group will keep close attention to the market demand and consider to conduct other cooperative projects in certain stores of the Group in the future. The Group will also explore suitable locations to introduce the food and beverage business in other regions in the PRC.

Entering into the Strategic Cooperative Framework Agreement

Since the second half of 2016, the Group has been dedicating to redefine its business model, develop new business lines and reposition its brand. In view of the effects of the reposition strategy of the Group becoming prominent, the Directors decided to move a further step to enter into the Strategic Cooperative Framework Agreement with Hema on 19 June 2018. The Directors believe that such cooperation will benefit the Group in the following aspects:

(1) Through the shift of the major income source from direct sales to the receipt of the lease payments, the Group will be able to achieve a more solid and stable income base at lower cost and the overall profitability is expected to improve without being affected by the consumer preferences and the ever increasing competition in the retail business in the PRC both in the local and the national levels.

(2) The strategic cooperation will entail a good opportunity for the Group to develop and tap into a younger consumer group in addition to the Group's mature customer base in Shenzhen, the PRC.

(3) More potential trendy strategic business partners in different segments, such as food and beverage, entertainment and young fashion brands, may cooperate with the Group, which would facilitate the Group to migrate from the traditional department store business to a more trendy one-stop shopping mall.

(4) Through this strategic cooperation, more consumers' traffic visiting the Shirble premises is anticipated, which would increase the overall business opportunities, concessionaire sales and commission rates of the Shirble department store business, generate more favorable leased/sublease rental terms, and improve the business profile and the profitability of the Group.

FUTURE PLANS

Applying Information Technology to Realize a New Community Retail Solutions

In June of this year, the Group entered into the Strategic Cooperation Framework Agreement with Hema of Alibaba, whereby the Group will cooperate with Hema to transform the Shirble supermarkets into the Hema Fresh Supermarkets on a stage-by-stage basis within a period of two years from 1 July 2018 ("**the Effective Date**"). Whilst the business model of 12 selected Shirble supermarket will change after the Effective Date in order to operate the Hema Fresh Supermarkets, the Shirble department store business will not be affected. The Group will continue to operate two Shirble supermarkets in Shenzhen and five Shirble supermarkets in other cities in Guangdong Province and Hunan Province, the PRC.

In the future, leveraging on their technical, operational and geographical advantages and expertise, the Group and Hema will further explore future cooperation opportunities in new community retail solutions to provide consumers with an excellent, convenient and quality new shopping experience. The Group plans to enhance the strategic alliance with Hema in opening new supermarkets and department stores particularly in Southern China region through the use of the latest information technology.

Renovation of Existing Stores and Revamp of Brands

In conjunction with the renovation and transformation of certain Shirble supermarkets into the Hema Fresh Supermarkets, the Group will also commence the overall store renovation for those stores so as to enhance the overall brand image of the Group. The whole department store section at those stores will also be revamped and upgraded to align with the new market position, with an aim to attract more trendy strategic partners in different segments ranging from food and beverage, entertainment to young fashion brands.

Potential Investment Opportunity and Property Acquisition

The Group will continue to enhance its portfolio of investment properties and/or seek for other potential investment opportunity, so as to provide a stable source of income to support the future business development and initiatives of the Group.

CONCLUSION

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

III. FINANCIAL REVIEW

Total gross sales proceeds

For the six months ended 30 June 2018, the Group's total gross sales proceeds (representing the aggregate of (a) the revenue from direct sales of the Group, (b) total sales proceeds from concessionaire sales at the Group's department stores and (c) income from reversal of long-aged unredeemed prepaid cards) were RMB929.1 million, representing a decrease of 9.4% from RMB1,025.5 million in the corresponding period of 2017. The decrease in total gross sales proceeds was principally due to the closure of Wanxiang store, as well as the more challenging retail business environment.

Revenue generated from direct sales of the Group amounted to RMB480.0 million and the total sales proceeds from concessionaire sales amounted to RMB448.9 million, accounting for 51.7% and 48.3%, respectively, of the Group's total gross sales proceeds for the six months ended 30 June 2018. For the same period in 2017, revenue from direct sales amounted to RMB522.8 million, while the total sales proceeds from concessionaires sales amounted to RMB500.1 million, accounted for 51.0% and 48.8% respectively of the Group's total gross sales proceeds.

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

	For the six months ended 30 June			
	2018		2017	
	RMB million	***%***	*RMB million*	*%*
Electronics and home appliances	**46.0**	**5.0**	71.9	7.0
Clothes, apparel and bedding	**131.1**	**14.1**	143.6	14.0
Children's goods	**13.3**	**1.4**	15.5	1.5
Sporting and stationery goods	**76.4**	**8.2**	112.0	10.9
Food and beverages	**491.6**	**52.9**	499.7	48.7
Daily necessities and cosmetic goods	**170.5**	**18.4**	180.2	17.6
Income from reversal of long-aged unredeemed pre-paid cards	**0.2**	**0.0**	2.6	0.3
	929.1	**100.0**	1,025.5	100.0

Revenue

The Group's revenue amounted to RMB602.1 million for the six months ended 30 June 2018, representing a decrease of 8.9% as compared to RMB661.1 million in the corresponding period of 2017. The decrease was mainly resulting from the closure of Wanxiang Store, as well as the more challenging retail business environment.

Direct sales decreased by 8.2% to RMB480.0 million for the six months ended 30 June 2018 from RMB522.8 million in the corresponding period of 2017, principally due to the decrease in sales from existing stores in Shenzhen and closure of Wanxiang Store. Direct sales as a percentage of the Group's total revenue was 79.7% for the six months ended 30 June 2018 as compared to 79.1% in the corresponding period of 2017.

Commission from concessionaire sales decreased by 13.5% to RMB59.2 million for the six months ended 30 June 2018 from RMB68.4 million in the corresponding period of 2017, mainly due to the closure of Wanxiang Store. The commission rate of concessionaire sales was 13.2% as compared to 13.7% for the corresponding period in 2017 as a result of more promotional activities held in the competitive market. Commission from concessionaire sales as a percentage of the Group's total revenue was 9.8% for the six months ended 30 June 2018 as compared to 10.4% for the corresponding period of 2017.

Rental income decreased by 6.8% to RMB62.6 million for the six month ended 30 June 2018 from RMB67.2 million for the corresponding period in 2017 resulting from the closure of Wanxiang Store, offset by the continuous restructuring of store layout plan in different stores to increase leased/sub-leased area. Rental income as a percentage of the Group's total revenue was 10.4% for the six months ended 30 June 2018 as compared to 10.2% for the corresponding period of 2017.

Income from reversal of long-aged unredeemed pre-paid cards was RMB0.2 million for the six months ended 30 June 2018 as compared to RMB2.6 million in the corresponding period of 2017.

Other operating revenue

Other operating revenue decreased by 9.8% to RMB68.0 million for the six months ended 30 June 2018 from RMB75.4 million in the corresponding period in 2017, mainly due to the decrease in promotion, administration and management income resulting from closure of Wanxiang store, as well as a more challenging retail business environment.

Other gain, net

Other net gain amounted to RMB27.5 million for the six months ended 30 June 2018 as compared with RMB31.5 million in the corresponding period of 2017, mainly due to a reversal of long-aged accounts payable of RMB16.6 million and fair value gain of investment properties of RMB5.1 million. It was compared to the amount of write-back of rental expense of RMB33.4 million as a result of the acquisition of two store premises by the Group during the six months ended 30 June 2017.

Purchase of and changes in inventories

Purchase of and changes in inventories amounted to RMB412.3 million for the six months ended 30 June 2018, representing a decrease of 9.0% as compared with RMB452.9 million in the corresponding period of 2017, which is in line with the decrease in direct sales. As a percentage of revenue from direct sales, purchase of and changes in inventories was 85.9% for the six months ended 30 June 2018 as compared with 86.6% in the same period of 2017.

Employee benefits

Employee benefits decreased by 5.3% to RMB91.4 million for the six months ended 30 June 2018 from RMB96.5 million in the corresponding period of 2017, primarily due to the decrease in the number of headcounts of the Group in June as a result of the redefinition of business model and change in operation to shift the major income source from direct sales to the receipt of lease payments.

Depreciation and amortisation

Depreciation and amortisation increased by 35.3% to RMB34.1 million for the six months ended 30 June 2018 from RMB25.2 million in the corresponding period in 2017. The increase was mainly due to an one-off write-off of RMB4.6 million recognised in June 2018, being the net book value of decoration in relation to the store area dedicated for the business cooperation with Hema, as well as the depreciation cost for the two properties acquired in March 2017.

Operating lease rental expenses

Operating lease rental expenses decreased by 10.7% to RMB67.6 million for the six months ended 30 June 2018 from RMB75.7 million in the corresponding period of 2017. This was mainly due to the decrease in rental expenses upon the expiration of lease agreement of Wanxiang Store in March 2018, as well as Jingtian and Changsha Store, the operating premises of which were acquired by the Group in March 2017.

Other operating expenses, net

Other operating expenses, which were principally comprised of utilities expenses, advertising, marketing, promotion and related expenses, other tax expenses, bank charges, exchange differences and maintenance expenses, increased by 7.1% to RMB72.2 million for the six months ended 30 June 2018 from RMB67.4 million in the corresponding period of 2017. This was primarily due to the increase in storage charge of RMB7.7 million as a result of outsourcing the distribution function to an external independent third party.

Operating profit

As a result of the reasons mentioned above, the Group's operating profit amounted to RMB19.9 million for the six months ended 30 June 2018 as compared with the operating profit of the Group of RMB50.4 million for the six months ended 30 June 2017.

Finance income

Finance income was maintained at RMB3.9 million for the six months ended 30 June 2018 as compared to RMB3.8 million in the corresponding period of 2017.

Income tax expense

Income tax expense amounted to RMB8.0 million for the six months ended 30 June 2018, representing decrease of 41.2% from RMB13.6 million in the corresponding period of 2017. The effective tax rate applicable to the Group for the six months ended 30 June 2018 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 owners of the Company

As a result of the aforementioned, profit attributable to owners of the Company amounted to RMB14.9 million for the six months ended 30 June 2018, representing a decrease of 63.4% as compared with RMB40.7 million in the corresponding period of 2017.

IV. INTERIM AND SPECIAL DIVIDEND

The Board declares an interim and special cash dividend of HKD0.0021 and HKD0.0062 respectively (equivalent to approximately RMB0.0018 and RMB0.0055 respectively) per share or in the total amount of HKD5.2 million and HKD15.4 million respectively (equivalent to approximately RMB4.4 million and RMB13.6 million respectively) (2017: HKD0.0055 (equivalent to approximately RMB0.0048) per Share or in the total amount of HKD13.7 million (equivalent to approximately RMB12.0 million)) for the six months ended 30 June 2018 which will be payable by way of cash in Hong Kong dollars. The Directors consider that this dividend level is appropriate after due consideration of the operating results of the Group for the six months ended 30 June 2018. The interim dividend will be paid on around 27 September 2018 to Shareholders whose names appear on the Register of Members at the close of business on 12 September 2018.

V. CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 10 September 2018 to 12 September 2018 (both days inclusive), during which period no transfer of shares of the Company will be registered for the purpose in order to determine the entitlement to receive the interim dividend. In order to qualify for the interim dividend, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 7 September 2018.

VI. LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2018, the Group's cash and cash equivalents and bank deposits amounted to RMB553.6 million, representing a decrease of 10.6% from RMB619.1 million as at 31 December 2017. The cash and cash equivalents and bank deposits, which were in RMB, Hong Kong dollars and United State 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 of 30 June 2018 were RMB73.4 million (31 December 2017: RMB2.1 million). The net assets of the Group as at 30 June 2018 increased to RMB1,417.8 million (31 December 2017: RMB1,391.5 million), representing an increase of 1.9%.

Foreign exchange exposure

The business operations of the Group is primarily in the PRC with most of its transactions settled in RMB. Certain of the Group's cash and bank balances are denominated in Hong Kong and United States dollars. The Company paid dividends in Hong Kong dollars. These exposed the Group to foreign exchange risks arising from the exchange rate movement of Hong Kong dollars against RMB. For the six months ended 30 June 2018, the Group recorded a net foreign exchange gain of RMB4.5 million as a result of the US dollar appreciation. 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 30 June 2018, the total number of employees of the Group was 2,088. 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.

Contingent liabilities

Certain suppliers, vendors and employees have commenced proceedings in the PRC against the Group in respect of disputes over contract terms. As at 30 June 2018, the legal proceedings were ongoing. The Group has made an accumulated provision of approximately RMB4.7 million (31 December 2017: RMB7.8 million), which the Directors believe is adequate to cover the Group's liabilities, if any, payable in respect of these claims.

Material acquisitions and disposal of subsidiaries

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

VII. 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 six months ended 30 June 2018, the Audit Committee held one regular meeting with the management and external auditors to discuss on the auditing, internal controls and financial reporting matters of the Company, and to review on the Group's internal control and the annual results for the year ended 31 December 2017.

VIII. REVIEW OF PRELIMINARY ANNOUNCEMENT

The Group's unaudited interim results for the six months ended 30 June 2018 have been reviewed by the audit committee and by PwC, the independent auditors of the Company in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

IX. PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2018.

X. CORPORATE GOVERNANCE

The Company is committed to achieve and maintain high corporate governance standards. In the opinion of the Directors, throughout the six months ended 30 June 2018, 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 a 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. The internal audit department will periodically report their review and findings on the internal controls of the Group to the Audit Committee and the Board.

XI. MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding the Directors' securities transactions. Having made specific enquiries of all the Directors, the Company confirmed that they have complied with the Model Code during the six months ended 30 June 2018.

XII. PUBLICATION OF INTERIM 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 interim report for the six months ended 30 June 2018 containing all the information required by Appendix 16 to the Listing Rules will be despatched to Shareholders and published on the websites of the Stock Exchange and the Company in due course.

XIII. CONCLUSION

The Board would like to take this opportunity to express its gratitude to the management team and all colleagues for their commitment and diligence. Appreciation must also be extended to the Group's partners and customers for their continuous support. The Board wishes to further thank all of the shareholders and investors of the Company for their utmost confidence in the Group, and is confident that the business of the Group will continue to grow steadily.

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

Hong Kong, 20 August 2018

As of the date of this announcement, the Board comprises 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.