SHIRBLE DEPARTMENT STORE

歲寶百貨

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

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 00312)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL HIGHLIGHTS

The following is a summary of the audited consolidated results for the year ended 31 December 2018:

– Revenue was RMB970.9 million, representing a decrease of 26.8% compared with the revenue of RMB1,325.6 million in 2017;
– Total gross sales proceeds[(1)] were RMB1,356.2 million, representing a decrease of 34.8% compared with the gross sales proceeds of RMB2,079.6 million in 2017;
– Other gains – net were RMB210.1 million, representing an increase of 371.1% compared with the other gains – net of RMB44.6 million in 2017;
– Operating profit was RMB131.8 million, representing an increase of 119.3% compared with operating profit of RMB60.1 million in 2017;
– Profit attributable to owners of the Company was RMB109.9 million, representing an increase of 141.0% compared with the profit attributable to the owners of the Company of RMB45.6 million in 2017;
– Basic earnings per Share was RMB0.04, compared to RMB0.02 in 2017; and
– Net asset value per Share was RMB0.63, compared to RMB0.56 in 2017.

FINAL DIVIDEND

The Board recommended a final dividend of HK$0.0109 (equivalent to approximately RMB0.0093) per Share or in the total amount of HK$27.2 million (equivalent to approximately RMB23.2 million) (2017: Nil) for the year ended 31 December 2018. The proposed final dividend is subject to the Shareholders' approval at the Annual General Meeting.

Note:

(1) Total gross sales proceeds represent the aggregate of the revenue from direct sales and total sales proceeds from concessionaire sales at the Group's department stores.

I. FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

The following sets forth the audited consolidated results of Shirble Department Store Holdings (China) Limited the ("**Company**") and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2018, together with the comparative figures for the year ended 31 December 2017.

CONSOLIDATED INCOME STATEMENT

		Year ended 31 December	
		2018	2017
	Note	***RMB'000***	*RMB'000*
Revenue	*4*	**970,892**	1,325,566
Other operating revenue	*5*	**107,152**	113,453
Other gains – net	*6*	**210,060**	44,604
Purchase of and changes in inventories	*7*	**(613,767)**	(880,167)
Employee benefits	*7,8*	**(200,056)**	(184,879)
Depreciation and amortisation	*7*	**(93,671)**	(59,672)
Net impairment losses on financial assets	*7*	**(2,662)**	–
Operating lease rental expenses	*7*	**(120,640)**	(125,038)
Other operating expenses – net	*7*	**(125,503)**	(173,737)
Operating profit		**131,805**	60,130
Finance income	*9*	**3,466**	3,403
Finance costs	*9*	**(19,363)**	–
Finance (costs)/income – net	*9*	**(15,897)**	3,403
Share of (loss)/profit of an associate and a joint venture		**(3,075)**	34
Profit before income tax		**112,833**	63,567
Income tax expense	*10*	**(3,146)**	(18,112)
Profit for the year		**109,687**	45,455
Profit attributable to:			
Owners of the Company		**109,851**	45,610
Non-controlling interests		**(164)**	(155)
		109,687	45,455
Earnings per share for the profit attributable to owners of the Company during the year (expressed in RMB per share)			
– Basic	*11*	**0.04**	0.02
– Diluted	*11*	**0.04**	0.02

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
		2018	2017
	Note	***RMB'000***	*RMB'000*
Profit for the year		**109,687**	45,455
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
Currency translation differences		**(546)**	531
Items that will not be reclassified to profit or loss:			
Change in fair value of investment properties upon transfer, net of tax		**73,884**	13,092
Other comprehensive income for the year		**73,338**	14,982
Total comprehensive income for the year		**183,025**	60,437
Attributable to:			
Owners of the Company		**183,189**	60,592
Non-controlling interests		**(164)**	(155)
Total comprehensive income for the year		**183,025**	60,437

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2018	2017
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Investment properties	*13*	**730,800**	202,575
Property, plant and equipment		**573,445**	1,081,220
Intangible assets		**16,592**	18,785
Investment in an associate and a joint venture		**3,714**	1,006
Deferred income tax assets		**48,980**	42,443
Other receivables and prepayments	*17*	**128,228**	68,835
		1,501,759	1,414,864
Current assets			
Inventories		**37,883**	141,902
Available-for-sale financial assets ("AFS")	*14*	**–**	24,485
Financial assets at fair value through profit or loss ("FVPL")	*15*	**13,000**	–
Derivative financial instrument	*16*	**191,029**	–
Trade receivables, other receivables and prepayments	*17*	**156,507**	74,208
Bank deposits		**40,000**	239,274
Cash and cash equivalents		**310,634**	379,814
		749,053	859,683
Total assets		**2,250,812**	2,274,547

		As at 31 December	
		2018	2017
	Note	***RMB'000***	*RMB'000*
EQUITY			
Equity attributable to owners of the Company			
Share capital		**213,908**	213,908
Share premium		**822,138**	842,508
Shares held for share award scheme		**(2,415)**	(5,641)
Other reserves		**324,736**	255,482
Retained profits		**194,823**	84,445
Equity attributable to the owners of the Company		**1,553,190**	1,390,702
Non-controlling interest		**12,731**	775
Total equity		**1,565,921**	1,391,477
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**57,081**	25,518
Current liabilities			
Trade and other payables	*18*	**410,920**	813,972
Contract liabilities	*19*	**166,933**	–
Income tax payable		**40,963**	43,580
Borrowings	*20*	**8,994**	–
		627,810	857,552
Total liabilities		**684,891**	883,070
Total equity and liabilities		**2,250,812**	2,274,547

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**"). In 2018, the Group commenced to develop the property business and has successfully bid the tender upon submission to acquire ten parcels of land on 14 December 2018,

2. BASIS OF PREPARATION

These annual financial statements for the year ended 31 December 2018 have been prepared in accordance with the International Financial Reporting Standards ("**IFRS**") and requirements of the Hong Kong Companies Ordinance ("HKCO") Cap.622.

IFRS 16 was issued in January 2016. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The Group has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB1,632,912,000 (note 21). The Group's operating leases mainly consisted of leased properties for self-occupied purpose and rental purpose.

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. The Group is yet assessing the impacts to the Group's financial position and finance performance for the coming year.

Except for IFRS 16, There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

3. SEGMENT INFORMATION

In prior years, the Directors consider that the Group operates in a single business segment, i.e. operation of department stores in the PRC. Accordingly, no segmental analysis is presented.

Staring from 2018, the Group commenced to develop the property business. For management purposes, the Group is organised into business units based on their business operations and has two reportable operating segments as follows:

- Department stores – operation of department stores

- Others – property business and unallocated items

For the year ended 31 December 2018, the Group has not commenced any property business except for successfully biding the tender upon submission to acquire ten parcels of land in Xuyi, Jiangsu Province, the PRC.

Unallocated items comprised mainly head office overheads and fair value gain on a derivative financial instrument.

The Board assesses the performance of the operating segments based on a measure of net profit. At the Group level no information regarding segment assets and segment liabilities is provided to the Board.

The segment information is as follows:

		Year ended 31 December 2018		
		Department stores	Others	Group
	Notes	***RMB'000***	***RMB'000***	***RMB'000***
Revenue		970,892	–	970,892
Other operating revenue		107,152	–	107,152
Other gains - net		19,031	191,029	210,060
Purchase of and changes in inventories		(613,767)	–	(613,767)
Employee benefits	*(i)*	(180,139)	(19,917)	(200,056)
Depreciation and amortisation	*(i)*	(93,627)	(44)	(93,671)
Net impairment losses on financial assets		(2,662)	–	(2,662)
Operating lease rental expenses		(118,063)	(2,577)	(120,640)
Other operating expenses, net		(117,493)	(8,010)	(125,503)
Operating profit		(28,676)	160,481	131,805
Finance income		3,441	25	3,466
Finance costs		–	(19,363)	(19,363)
Finance costs - net		3,441	(19,338)	(15,897)
Share of loss of an associate and a joint venture		(3,075)	–	(3,075)
Profit before income tax		(28,310)	141,143	112,833
Income tax expense		(3,146)	–	(3,146)
(Loss)/profit for the year		(31,456)	141,143	109,687

(i) On 15 June 2018, the Group and Hema Network Technology Company Limited ("**Hema**") have entered into the Strategic Cooperation Framework Agreement ("**Agreement**"). For the year ended 31 December 2018, pursuant to the Agreement, the business of certain selected supermarkets of the Group in Shenzhen ceased, and the related areas have been leased to Hema for the business operations of its fresh supermarkets. RMB52,646,000 of a one-off write off of fixed assets and decoration and RMB32,776,000 of one-off staff compensation were accrued as a result of entering into the Agreement and store renovation/upgrade of the remaining department stores.

4. REVENUE

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Direct sales	**708,690**	1,029,648
Commission from concessionaire sales	**83,068**	128,725
Rental income	**179,134**	167,193
	970,892	1,325,566

5. OTHER OPERATING REVENUE

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Promotion, administration and management income	**92,867**	94,565
Credit card handling fees for concessionaire sales	**7,492**	10,799
Government grant	**6,793**	8,089
	107,152	113,453

6. OTHER GAINS – NET

		Year ended 31 December	
		2018	2017
	Note	***RMB'000***	*RMB'000*
Fair value gain on a derivative financial instrument *(Note 16)*		**191,029**	–
Reversal of long-aged accounts payable	*(a)*	**14,009**	–
Fair value adjustment on investment properties *(Note 13)*		**8,625**	6,900
Reversal of legal claims		**4,308**	2,483
Reversal of accrued rental expenses	*(b)*	**1,512**	33,383
Compensation (paid)/received for the contract damages		**(4,824)**	409
Loss on disposals of property, plant and equipment		**(3,674)**	(23)
Loss on disposal of intangible assets		**(2,849)**	–
Fair value (loss)/gain on FVPL (2017: AFS)		**(378)**	2
Donation		**–**	(80)
Others		**2,302**	1,530
		210,060	44,604

(a) At 31 December 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 RMB14,009,000.

(b) 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".

During the year ended 31 December 2018, Shixia store in Shenzhen closed prior to the expiration of the lease agreement. As a result of the early termination of the lease, accrual accumulated for lease incentives and future incremental lease rentals amounting to RMB1,512,000 was reversed and recognized in "Other gains – net".

7. EXPENSES BY NATURE

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Purchase of and changes in inventories	**613,767**	880,167
Employee benefits expenses	**200,056**	184,879
Operating lease rental expenses	**120,640**	125,038
Depreciation and amortisation expenses	**93,671**	59,672
Utilities	**60,393**	70,360
Transportation expenses	**17,433**	9,663
Other tax expenses	**9,672**	7,814
Auditor's remuneration		
– Audit services	**3,280**	3,280
– Other assurance services	**3,178**	978
Office expenses	**6,684**	5,957
Cleaning fee	**6,524**	6,864
Business travel expenses	**6,163**	5,021
Bank charge fee	**3,544**	5,214
Advertising costs	**3,187**	2,840
Storage charge	**3,168**	9,995
Net impairment losses on financial assets	**2,662**	–
Net foreign exchange (gain)/loss	**(15,137)**	21,502
Other expenses	**17,414**	24,249
Total expenses	**1,156,299**	1,423,493

8. EMPLOYEE BENEFIT EXPENSES

		Year ended 31 December	
		2018	2017
	Notes	***RMB'000***	*RMB'000*
Wages and salaries		**149,674**	162,889
Severance pay	*(a)*	**32,776**	–
Social security costs		**15,604**	16,665
Share-based compensation expenses		**1,878**	5,059
Others		**124**	266
Total employee benefit expenses		**200,056**	184,879

(a) As mentioned in note 3, the Group and Hema have entered into the Agreement since 15 June 2018. RMB32,776,000 of the one-off staff compensation was accrued as a result of the strategic cooperation with Hema.

9. FINANCE (COSTS) / INCOME, NET

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Finance income		
Interest income from bank deposits	**3,466**	3,403
Finance costs		
Interest expenses	**(19,363)**	–
Finance (costs) / income, net	**(15,897)**	3,403

10. INCOME TAX EXPENSE

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Current income tax		
– PRC corporate income tax	**2,159**	3,894
Deferred income tax	**987**	14,218
	3,146	18,112

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	
	2018	2017
	RMB'000	*RMB'000*
Profit before income tax	**112,833**	63,567
Tax calculated at a tax rate of 25% (2017: 25%)	**28,208**	15,892
Tax impact of:		
– Income not subject to tax	**(47,757)**	–
– Expenses not deductible for tax purposes	**1,959**	458
– Unrecognised tax loss	**20,736**	1,173
– Withholding tax on dividend	**–**	589
Income tax expense	**3,146**	18,112

(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.

(iv) The fair value gain on the derivative financial instrument is not subject to income tax.

11. 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	
	2018	2017
Profits attributable to owners of the Company (in RMB thousand)	**109,851**	45,610
Weighted average number of ordinary shares in issue (thousands)	**2,490,611**	2,482,762
Basic earnings per share (RMB per share)	**0.04**	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	
	2018	2017
Earnings (in RMB thousands)		
Profits attributable to owners of the Company	**109,851**	45,610
Weighted average number of ordinary shares (thousands)		
Weighted average number of ordinary shares in issue	**2,490,611**	2,482,762
Adjustments for awarded shares	**4,311**	12,238
Weighted average number of ordinary shares for diluted earnings per share	**2,494,922**	2,495,000
Diluted earnings per share (RMB per share)	**0.04**	0.02

12. 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.

Pursuant to the resolutions passed by the board (the "**Board**") of directors (the "**Directors**" of the company) on 20 August 2018, 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 HKD5,240,000 and HKD15,419,000 respectively (equivalent to approximately RMB4,387,000 and RMB13,613,000 respectively) was declared and paid by the Company.

On 25 March 2019, the Board recommended the payment of a final dividend in respect of the year ended 31 December 2018 of HKD0.0109 (equivalent to approximately RMB0.0093) per share, amounting to HKD27,196,000 (equivalent to approximately RMB23,204,000). The final dividend is to be proposed out of the share premium account of the Company and these financial statements do not reflect this dividend payable.

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
(i) Ordinary Shares Interim dividend paid of RMB0.0018 (2017: RMB0.0048) per ordinary share	**4,387**	11,969
(ii) Special cash dividend paid of RMB0.0055 (2017: RMB nil) per ordinary share	**13,613**	–
	18,000	11,969

13. INVESTMENT PROPERTIES

		Year ended 31 December	
		2018	2017
	Notes	***RMB'000***	*RMB'000*
As at 1 January		**202,575**	161,500
Acquisitions		**–**	5,275
Transfer from property, plant and equipment		**421,088**	11,444
Increase in fair value upon transfer	*(i)*	**98,512**	17,456
Net gains from fair value adjustment	*(ii)*	**8,625**	6,900
As at 31 December		**730,800**	202,575

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

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 2018, the Group leased certain owner-occupied premises in Shenzhen to third parties. Accordingly, it transferred these assets with an aggregate carrying amount of RMB421,088,000 from property, plant and equipment to investment properties at fair value of RMB519,600,000 and recognised an increase in fair value of RMB98,512,000 as revaluation surplus within other reserves.

(ii) During the year ended 31 December 2018, gains from changes in fair value of investment properties amounting to RMB8,625,000 in 2018 (2017: RMB6,900,000) had been recognised in "Other gains – net".

14. FINANCIAL INSTRUMENTS BY CATEGORY

The Group holds the following financial instruments:

Financial assets	**Financial assets at amortised cost** *RMB'000*	**Assets at FVOCI** *RMB'000*	**Assets at FVPL** *RMB'000*	**Total** *RMB'000*
2018				
Financial asset at fair value through profit and loss *(Note 15)*	–	–	13,000	13,000
Derivative financial instruments *(Note 16)*			191,029	191,029
Trade and other receivables excluding prepayments	193,986	–	–	193,986
Bank deposits	40,000	–	–	40,000
Cash and cash equivalents	310,634	–	–	310,634
	544,620	–	204,029	748,649
2017				
Available-for-sale financial assets	–	24,485	-	24,485
Trade and other receivables excluding prepayments	114,485	–	-	114,485
Bank deposits	239,274	–	–	239,274
Cash and cash equivalents	379,814	–	–	379,814
	733,573	24,485	–	758,058

Financial liabilities	**Financial liabilities at amortised cost** *RMB'000*
2018	
Trade and other payables excluding non-financial liabilities	359,714
Borrowings (including interest payable upon maturing) *(Note 20)*	8,994
	368,708
2017	
Trade and other payables excluding non-financial liabilities	480,319

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018	2017
	RMB'000	*RMB'000*
As at 1 January	**–**	–
Reclassified from AFS	**24,485**	–
Additions	**466,088**	–
Disposals	**(476,796)**	–
Foreign exchange differences	**(399)**	–
Fair value change recognised in profit and loss	**(378)**	–
As at 31 December	**13,000**	–

The Group's financial asset at fair value through profit and loss represented non-principal guaranteed wealth management products with variable return rate. RMB24,485,000 of wealth management products was reclassified from AFS to FVPL on 1 January 2018.

The fair value of the wealth management products is based on its market price as at 31 December 2018.

16. DERIVATIVE FINANCIAL INSTRUMENT

	2018	2017
	RMB'000	*RMB'000*
Derivative financial instrument	**191,029**	–

On 24 December 2018, Baoke Trading (BVI) Company Limited (the "**Purchaser**"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with All Great International Holdings Limited (the "**Vendor**"), pursuant to which the Purchaser agreed to acquire and the Vendor agreed to sell 1,320,000,000 shares of TFG International Group Limited ("**TFG**"), representing approximately 19% of the total issued share capital of TFG, at the price of HKD0.225 per share and equals to total consideration of HKD297,000,000 (approximately RMB260,038,000). The Group recognised a derivative financial instrument accordingly on 24 December 2018. TFG is a company incorporated in the Cayman Islands with limited liability, engaged in property development and hotel business in the PRC and the shares of which are listed on the Main Board of the Stock Exchange Hong Kong Limited. As at 31 December 2018, the Group re-measured the derivative financial instrument using discounted cash flow method and recognised a fair value gain of RMB191,029,000. The total consideration of HKD297,000,000 (approximately RMB260,038,000) was settled in cash and this transaction was completed on 9 January 2019.

17. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

		As of 31 December	
		2018	2017
	Notes	***RMB'000***	*RMB'000*
Current portion:			
Trade receivables	*(i)*	**38,111**	31,144
Interest receivables		**618**	1,653
Receivable from a trustee for the share purchase for the employees' share award scheme	*(ii)*	**5,214**	5,243
Prepayments		**7,477**	4,663
Other receivables	*(iii)*	**103,206**	19,463
Lease deposits		**1,881**	12,042
		156,507	74,208
Non-current portion:			
Lease deposits		**25,140**	27,622
Other receivables	*(iii)*	**22,478**	17,318
Prepayments	*(iv)*	**83,272**	23,895
Less: provision for impairment loss allowance	*(v)*	**(2,662)**	–
		128,228	68,835
		284,735	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 is as follows:

	As of 31 December	
	2018	2017
	RMB'000	*RMB'000*
0 – 30 days	**24,960**	19,815
31 – 90 days	**8,832**	8,494
91 – 365 days	**4,319**	2,835
	38,111	31,144

The Group applies the IFRS simplified approach to measuring for expected credit losses which was a lifetime expected loss allowance for all trade receivables. As at December 2018, no impairment loss allowance was made based on the management's assessment (2017: nil).

All trade receivables are denominated in RMB and their fair value approximated their carrying amounts as at 31 December 2018.

(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 receivables represented the accrual on rental income based on the straight-line method.

As at 31 December 2018, the current portion of other receivables mainly included the receivables from Hema for the fixed assets and leasehold improvements amounted to RMB29,899,000, as well as the severance pay amounted to RMB26,500,000, which will be paid in cash by Hema based on the agreement as mentioned in note 3.

(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. For the year ended 31 December 2018, RMB62,950,000 of deposit for the acquisition of the land was included in the non-current portion of prepayment (note 21(i)).

(v) The Group applies the IFRS 9 three-stage approach to measure expected credit losses for other receivables. As at 31 December 2018, RMB2,662,000 of impairment loss allowance was made based on the management's assessment (2017: nil).

18. TRADE AND OTHER PAYABLES

		As of 31 December	
		2018	2017
	Notes	***RMB'000***	*RMB'000*
Rental payables		**149,758**	146,633
Deposits		**83,273**	61,826
Trade payables	*(i)*	**70,197**	209,423
Accrued wages and salaries		**34,072**	17,310
Other tax payables		**3,814**	12,636
Accrual for legal claims		**3,451**	7,759
Amount due to related parties		**181**	161
Advances received from customers		**–**	263,434
Deferred income		**–**	26,052
Other payables and accruals		**66,174**	68,738
		410,920	813,972

All trade and other payables are denominated in RMB and their fair values approximated their carrying amount as at 31 December 2018.

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

	As of 31 December	
	2018	2017
	RMB'000	*RMB'000*
0 – 30 days	**21,361**	73,439
31 – 60 days	**12,674**	42,503
61 – 90 days	**18,097**	20,291
91 – 365 days	**11,455**	43,755
1 year – 2 years	**5,721**	3,410
2 years – 3 years	**889**	543
Over 3 years	**–**	25,482
	70,197	209,423

(a) The balance of certain inactive suppliers and vendors aging over 3 years amounting to RMB14,009,000 was reversed and recognized in "Other gains – net", see note 6.

(b) The decrease of the balance of the trade payables was mainly due to the change of business model and the strategic cooperation with Hema.

19. CONTRACT LIABILITIES

		2018	2017
	Notes	***RMB'000***	*RMB'000*
Advances received from customers	*(i)*	**144,222**	–
Deferred income	*(ii)*	**22,711**	–
		166,933	–

(i) The amount mainly represented cash received for prepaid cards sold. RMB263,434,000 of advances received from customers was reclassified to contract liabilities upon the adoption of IFRS 15, 1 January 2018.

(ii) The amount mainly represented the carrying amount of unredeemed awarded credits. RMB26,052,000 of deferred income was reclassified to contract liabilities upon the adoption of IFRS 15, 1 January 2018.

20. BORROWINGS

	2018	2017
	RMB'000	*RMB'000*
Unsecured short-term borrowing	**8,994**	–

As at 31 December 2018, the unsecured short-term borrowing was denominated in HKD and was repayable within one year. The weighted average effective interest rate was 15% per annum. The short-term borrowing was repaid by the Group in February 2019.

21. 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	
		2018	2017
	Notes	***RMB'000***	*RMB'000*
Expenditures of property, plant and equipment		**42,539**	3,436
Acquisition of land	*(i)*	**189,650**	–
Acquisition of shares	*(ii)*	**260,038**	–
		492,227	3,436

(i) On 14 December 2018, Xuyi Shirble, a non-wholly owned subsidiary of the Group, has successfully bid the tender upon submission to acquire ten parcels of land in Xuyi, Jiangsu province, the PRC, for a total consideration of RMB252,600,000. Xuyi Shirble has paid RMB62,950,000 as the deposit for the acquisition of the land. The deposit would be treated as part of the purchase price of the land while the remaining part should be settled in cash in the following year.

(ii) The total consideration of HKD297,000,000 (approximately RMB260,038,000) for 19% of TFG shares was settled in cash on 9 January 2019.

22. EVENTS OCCURRING AFTER THE REPORTING PERIOD

Save as the events disclosed in note 16 and note 21, the Group obtained facilities totaling to RMB460,000,000 from certain PRC banks which were secured by certain properties of the Group in March 2019.

II. MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF THE RETAIL BUSINESS IN THE PRC AND GROUP OVERVIEW

According to the National Bureau of Statistics in the PRC, the gross domestic product (GDP) of the PRC in 2018 increased by 6.6% to RMB 90.03 trillion[1] as compared with the previous year. The national consumer price index (CPI) in December 2018 rose by 1.9% as compared with the corresponding period of the previous year. Plagued by the Sino-US trade tension and issues escalating global political tensions, there are uncertainties in the global economic environment. In addition, due to factors such as the changes in consumer spending patterns and the rapid development of e-commerce, the overall retail sector in the PRC continues to be very competitive.

The Group has been operating in the department store and supermarket businesses for many years with its own competitive edge. The Group has improved the quality of services and products to cope with the market demand in past years. The growth momentum, however, faces a lot of challenges in light of the rapidly-growing and ever-changing PRC retail market environment. It is crucial for the Group to continue to be innovative. Thanks to the new business opportunities brought by the rising consumption power of the middle class in China, the Group has been actively modifying its business model, developing new business segments, cooperating with new business partners, recruiting talents and repositioning its brand since last year, so as to meet the demands from the middle class and young generation in the PRC for high quality food and products.

In order to further strengthen its leading position in the department store business and revamp the "Shirble" brand, the Group continued to enhance its department store business under the "Shirble Department Store" brand and started its strategic cooperation with Hema Network Technology Co. Ltd. ("**Hema**", an indirectly wholly-owned subsidiary of Alibaba Group Holdings Ltd. ("**Alibaba**")) to transform and refurbish most of the Group's supermarkets into "Hema Fresh Supermarkets" during the year. The Group intends to promote the online-to-offline "new retail" concept and to secure its income stream through subleasing. Using information technology to realise a new community retail solutions, the Group can attract high consumption groups and increase the visits by the middle class and young generation to Shirble premises and strengthening the Group's leading position in the department store business in Southern China region.

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1 http://www.stats.gov.cn/tjsj/sjjd/201901/t20190121_1645944.html

2 http://www.stats.gov.cn/tjsj/sjjd/201901/t20190110_1644227.html

The current business of the Group is focused on consumers' needs in "apparel and clothing", "food" and "housing" will be the next. By providing merchandise in these segments "apparel and clothing", "food" and "housing", new business model is being developed by the Group. In view of this, the Group commenced the property business and explore new opportunities. During the year, the Group has appointed an executive Director who has more than 30 years of work experience in the construction and property development business. Also, the Group has gradually started the investments relating to the property business, so as to bring sustainable development and better returns to the employees and Shareholders of the Company (the "**Shareholders**").

Although the Group's operational results are subject to short-term fluctuations during its business integration, the Directors are of the view that such integration will be a catalyst in the long term development of the Group. For the year ended 31 December 2018, the Group recorded revenue of RMB970.9 million, representing a decrease of 26.8% compared with RMB1,325.6 million for the previous year. The profit attributable to owners of the Company for the year ended 31 December 2018 increased by 141.0% to RMB109.9 million from RMB45.6 million for the previous year. As of 31 December 2018, the Group was operating 18 department stores (including supermarkets) with a total gross floor area of 339,443.8 sq.m.

BUSINESS REVIEW

Cooperate with Hema of Alibaba Group to Open "Hema Fresh Supermarkets" in Shirble Stores

The retail industry has created a new horizon using the ever-changing technologies and the development of internet, as such, the Group has made strategic changes. In June 2018, the Group has entered into the Strategic Cooperative Framework Agreement with Hema of Alibaba Group to transform and refurbish most of its supermarkets and has launched "Hema Fresh Supermarkets". The mobile application of Hema allows customers to browse its mobile app to search for products and shop online while enjoying in-store shopping experience in the physical stores of "Hema Fresh Supermarkets". It is believed that our business will enjoy rapid development in the near future and provide customers with more convenient and efficient services.

During the second half of 2018, the Group and Hema have gradually agreed to transform 11 Shirble supermarkets located on Shirble premises into "Hema Fresh Supermarkets" in the form of a "store-within-a-store" layout. As at the date of this announcement, 8 supermarkets have been renovated. In the future, the Group will strengthen its strategic alliance with Hema, especially for those newly-opened supermarkets and department stores in the Southern China region.

Upgrade the Department Store's Space and Strengthen the Leading Position of Shirble's Department Store Business

In addition to the business segment of department stores in the PRC, the Group will continue to evaluate and upgrade the department store business under the brand of "歲寶百貨". Over the past year, the Group continued to re-establish its stores with the concept of "Shirble Plaza", further transforming its business model from concession sales to subleasing store spaces to different retailers, so as to shift the major income source from direct sales and concession commissions to sublease rental income. At the same time, new retailers are carefully selected so as to ensure that the in-store style is consistent and in line with the high-spending groups targeted by the Group.

Thanks to the strategic cooperation with Hema for the operation of new supermarkets, the number of customers visiting Shirble has increased, which can attract potential fashionable strategic business partners from different fields to cooperate with the Group and facilitate the transformation of Shirble from traditional department stores to one-stop fashion shopping malls, thus increasing the occupancy rate and rental income of the Shirble department store business and gradually enhancing the Group's profitability. As at the date of this announcement, four stores have been upgraded, and the remaining five stores are in the process of renovation, and are expected to be fully completed by the end of 2019. Expenses in relation to the upgrade and renovation plan of stores in 2019 are expected to be not less than RMB60,000,000.

Expand the Food and Beverage Business

Shopping and catering are inter-related with each other and target the same group of customers. Accordingly, the Group expanded its business to the food and beverage industry and opened a Japanese gourmet street “惠比壽橫丁” in Futian, Shenzhen this year with its business partners. The stores along the street are decorated in the traditional Japanese customs during the Showa period with the Western styles that serve a range of Japanese and Western cuisines Hong Kong style hotpots. As “惠比壽橫丁” has been popular since its opening, it has strongly supported the development of the Group’s food and beverage business.

The Group will continue to keep abreast of the latest trends and consider to conduct other cooperative projects in certain stores in the future. The Group will also explore suitable locations to expand the food and beverage business.

Develop the Property Business to Explore New Opportunities

The property business in the second- and third-tier cities in the PRC has huge growth opportunities. The Group has launched a series of measures in order to tap into this new business. Building a suitable shopping and living environment at a convenient location would attract talents to move in. Such belief drives the Group to further explore and tap into property business and creates synergies with existing core businesses while developing the new business.

In order to rapidly expand its property business, the Group appointed an executive Director who has 30 years of experience in the construction and property development business since September 2018. The executive Director and Co-Chairman of the Group will be responsible for formulating the overall business strategies, particularly in property project management and development.

The Group has realised that operating self-owned properties can reduce rental costs and will benefit from capital appreciation of these properties held for investment purpose. Accordingly, the Group has acquired interest in properties amounting to an aggregate cost of approximately RMB637 million as early as 2017, which includes properties in Shenzhen and Changsha where two traditional Shirble department stores are located. Moreover, the Group has successfully bid the tender upon submission to acquire 10 parcels of land with a gross area of 367,165 sq.m. in Xuyi, Jiangsu Province, the PRC. Such parcels of land are intended to be developed into residential property projects.

During the year, the Group has also entered into a sales and purchase agreement to acquire 19.0% shares of TFG International Group Limited (Stock Code: 542) ("**TFG**") for a total consideration of HK$297.0 million. TFG is principally engages in property development and hotel business in PRC with a number of properties held for sale under development and has property interests across the PRC. The Directors believe that such investment is in line with the Group's strategy in exploring business opportunities in property sector.

FUTURE PROSPECTS

Through the strategic cooperative framework agreement entered into with Hema of Alibaba Group during the year, the Group has started to develop its retail business by implementing online-to-offline new retail solutions with technologies added into shopping through brand-new supermarket operation. Such brand new supermarket operation does not only provide convenience to customers, but also allows them to enjoy excellent, comfortable and quality new shopping experience. In the future, the Group's retail segment will continue to follow the concept of technology integration and further expand supermarkets in department stores, thus creating new retail solutions and instilling new inspiration for traditional retail operations.

The Group will cooperate with Alibaba Group, Hema with its Jufu Store as the first pilot for a new retail solution. Through the cooperative stores provided by the Group and its know-how and other resources provided by Alibaba as well as making use of each other's advantages and professional technology application expertise, operations and geographical locations, the Group plans to cooperate in various aspects, such as the operational store model, store layout, software systems and the design of hardware facilities, goods purchase, data management, etc., for the purpose of achieving an integrated, scenario-based and digitalized online and offline area. Such a new retail solution is expected to break through the constraints on space in the traditional retail business model, so as to maximise sales effectiveness with limited sales spaces.

With the insights of consumers and markets obtained in the operation of the retail business, the Group realizes that if property and retail businesses can be developed at the same time and if these two businesses can be developed simultaneously and healthily, they will complement each other. The domestic economy of the PRC continues to grow steadily and there is still huge room for development in the PRC market. Accordingly, while consolidating our leading position in the department store business, the new direction of the Group's future business development is to gradually invest resources into the property segment.

Following, the Group will mainly focus on business development in the Greater Bay Area. The Group will also continue to build and develop a team with strong experience in the PRC property market, and will leverage on its reputation of the "Shirble" brand in Shenzhen and the Greater Bay Area to gradually extend its reach to other regions in the PRC, diversifying its businesses by merging the department store and property business of the Group.

In addition to develop continuously and adjust our products and services, the Group will continue to evaluate the investment opportunities for sale and purchase and acquisitions in the retail and department store industry, so as to create synergies with existing core businesses.

CONCLUSION

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to the management team and all colleagues for their commitment and contributions. I would also like to thank our partners and customers for their support as well as our Shareholders and investors for their confidence in our Group.

III. FINANCIAL REVIEW

Segment information

Starting in 2018, the Group started to develop its property business, and has commenced to separate into two reportable operating segments: (i) Department stores - operation of department stores; and (ii) others - property business and unallocated items.

For the year ended 31 December 2018, the Group has not commenced any property management business except for the acquisition of a land in Xuyi, Jiangsu Province, the PRC. The segmental information under "Others" represents mainly the fair value gain of approximately RMB190.0 million as a result of the acquisition of 19% of shares in TFG, as well as certain unallocated headquarters' staff benefit and overhead expenditures. Since the Group operates in a single business segment in prior years, no segmental analysis for 2017 is presented.

The following management discussions and analysis will be based on the Group as a whole.

Total gross sales proceeds

During the year ended 31 December 2018, 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 RMB1,356.2 million, representing a decrease of 34.8% from RMB2,079.6 million in 2017. The decrease in total gross sales proceeds was principally due to the change of business model from direct/concessionaire sales to sub-lease as a result of strategic cooperation with Hema and store renovation/upgrade of remaining department store sections of selected department stores.

Revenue generated from direct sales of the Group amounted to RMB708.7 million and the total sales proceeds from concessionaire sales amounted to RMB647.5 million, accounting for 52.3% and 47.7%, respectively, of the Group's total gross sales proceeds for the year ended 31 December 2018. For the year ended 31 December 2017, revenue from direct sales amounted to RMB1,029.6 million, while the total sales proceeds from concessionaires sales amounted to RMB1,050.0 million, accounted for 49.5% and 50.5% 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			
	2018		2017	
	RMB' million	***(%)***	*RMB' million*	*(%)*
Food and beverages	**605.4**	**44.5**	1,016.5	48.9
Clothes, apparel and bedding	**274.7**	**20.3**	298.8	14.4
Daily necessities and cosmetic goods	**186.6**	**13.8**	348.8	16.8
Electronics and home appliances	**87.6**	**6.5**	135.8	6.5
Sporting and stationery goods	**174.5**	**12.9**	247.8	11.9
Children's goods	**27.4**	**2.0**	31.9	1.5
	1,356.2	**100.0**	2,079.6	100.0

Revenue

The Group's revenue amounted to RMB970.9 million for the year ended 31 December 2018, representing a decrease of 26.8% as compared to RMB1,325.6 million in 2017. It is mainly due to the change of business model from direct/concessionaire sales to sub-lease as a result of the strategic cooperation with Hema and store renovation/upgrade of the remaining department store section of selected department stores.

Direct sales decreased by 31.2% to RMB708.7 million for the year ended 31 December 2018 from RMB1,029.6 million in 2017, principally due to the change of business model from a self-operating supermarket business to the launch of a 'store-within-a-store' Hema Fresh Supermarkets under sub-lease/lease rental arrangement as a result of the strategic cooperation with Hema in July 2018. Direct sales as a percentage of the Group's total revenue was 73.0% for the year ended 31 December 2018 as compared to 77.7% for the year ended 31 December 2017.

Commission from concessionaire sales decreased by 35.4% to RMB83.1 million for the year ended 31 December 2018 from RMB128.7 million in 2017, mainly due to temporary closure of store area as a result of revamp and upgrade of department store sections, as well as the gradual shift of business model for concession sales to receipt of sublease rental income. The commission rate of concessionaire sales for the year ended 31 December 2018 was 12.8% as compared to 12.3% in 2017. Commission from concessionaire sales accounted for 8.6% of the Group's total revenue for the year ended 31 December 2018 as compared to 9.7% in 2017.

Rental income increased by 7.1% to RMB179.1 million for the year ended 31 December 2018 from RMB167.2 million in 2017, mainly due to the strategic shift from direct/concessionaire sales to sub-lease income. Rental income accounted for 18.4% of the Group's total revenue for the year ended 31 December 2018 as compared to 12.6% in 2017.

Other operating revenue

Other operating revenue decreased by 5.6% to RMB107.2 million for the year ended 31 December 2018 from RMB113.5 million in 2017, due to decrease in promotion, administration and management income and credit card handling fees for concessionaire sales.

Other gains – net

Other net gain amounted to RMB210.1 million for the year ended 31 December 2018, representing an increase of 371.1% as compared with RMB44.6 million in 2017, mainly due to the fair value gain of approximately RMB190.0 million as a result of the acquisition of 19% of shares in TFG and fair value gain of RMB8.5 million on investment properties.

Purchase of and changes in inventories

Purchase of and changes in inventories amounted to RMB613.8 million for the year ended 31 December 2018, representing a decrease of 30.3% as compared with RMB880.2 million in 2017, which is in line with the decrease in direct sales. Purchase of and changes in inventories accounted for 86.6% of the Group's direct sales for the year ended 31 December 2018 as compared with 85.5% in 2017.

Employee benefits

Employee benefits increased by 8.2% to RMB200.1 million for the year ended 31 December 2018 from RMB184.9 million in 2017, primarily due to the staff compensation incurred as a result of the strategic cooperation with Hema.

Mr. HAO Jianmin has been appointed as a co-chairman of the Board and an executive Director effective from 26 September 2018. On 26 September 2018, Mr.HAO Jianmin has accepted a transfer of 374,250,000 Shares from Shirble Department Store Limited, a company incorporated in the British Virgin Islands and beneficially owned by Mr. YANG Xiangbo, an executive Director and the controlling shareholder of the Company, for nominal consideration of HKD1. HKD222,500 (approximately RMB195,266) of fair value of 250,000 Shares was charged to profit or loss of the Company as the share-based payment to Mr. HAO Jianmin. Other than the 250,000 Shares and a monthly salary of HKD2,000,000 (approximately RMB1,693,000), no other compensation have been provided to Mr. HAO Jianmin relating to the services to be provided by him to the Group. The remaining number of Shares is unrelated to the services provided by Mr. HAO Jianmin to the Group.

Depreciation and amortization

Depreciation and amortization increased by 57.0% to RMB93.7 million for the year ended 31 December 2018 from RMB59.7 million in 2017 mainly due to the one-off write-off of fixed asset and decoration as a result of the strategic cooperation with Hema and store renovation/upgrade of the remaining department store section.

Operating lease rental expenses

Operating lease rental expenses decreased slightly by 3.5% to RMB120.6 million for the year ended 31 December 2018 from RMB125.0 million in 2017. 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, decreased by 27.8% to RMB125.5 million for the year ended 31 December 2018 from RMB173.7 million in 2017. This was mainly due to the net foreign exchange gain of RMB15.1 million in respect of appreciation of USD against RMB, as compared to the net foreign exchange loss of RMB21.5 million in 2017.

Operating profit

As a result of the reasons mentioned above, the Group's operating profit increased by 119.3% to RMB131.8 million for the year ended 31 December 2018 from RMB60.1 million in 2017.

Finance income

Finance income remained stable at RMB3.5 million for the year ended 31 December 2018 as compared to RMB3.4 million in 2017.

Finance costs

Finance costs amounted to RMB19.4 million was incurred for the year ended 31 December 2018 due to short term borrowings. No finance costs was incurred for the year ended 31 December 2017.

Income tax expense

Income tax expense amounted to RMB3.1 million for the year ended 31 December 2018, representing decrease of 82.9% from RMB18.1 million for the year ended 31 December 2017. The effective tax rate applicable to the Group for the year ended 31 December 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 RMB109.9 million for the year ended 31 December 2018, representing an increase of 141.0% as compared with the profit of RMB45.6 million in 2017.

IV. DIVIDEND

The Board recommended the payment of a final dividend of HK$0.0109 (equivalent to approximately RMB0.0093) per Share or in the total amount of HK$27.2 million (equivalent to approximately RMB23.2 million) (2017: Nil) for the year ended 31 December 2018. The proposed final dividend is subject to the Shareholders' approval at the Annual General Meeting. The proposed final dividend will be paid on or around 10 July 2019 to the Shareholders whose name appears on the register of members of the Company at the close of business on 25 June 2019.

V. LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2018, the Group's cash and cash equivalents and bank deposits amounted to RMB350.6 million, representing a decrease of 43.4% from RMB619.1 million as at 31 December 2017. 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.

In March 2019, the Group obtained secured and unsecured credit facilities amounting to RMB460,000,000 from certain PRC banks which were secured by certain properties of the Group.

Borrowings

As at the date of this announcement, the Group has borrowings of approximately RMB9.0 million as at 31 December 2018 (2017: Nil), representing an unsecured senior note denominated in HKD repayable within one year. As at the date of this announcement, the outstanding amount of the unsecured senior note has been repaid in full.

Net current assets and net assets

The net current asset of the Group as at 31 December 2018 were RMB121.2 million (31 December 2017: RMB2.1 million), representing an increase of 5,671.4%. The net assets of the Group as at 31 December 2018 increased to RMB1,565.9 million (31 December 2017: RMB1,391.5 million), representing an increase of 12.5%.

As at the date of this announcement, the Directors believes it has sufficient liquidity based on RMB460.0 million of credit facilities obtained after the reporting period and the expected cash to be generated from operations to meet its financial obligations as they fall due for the following twelve months.

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 2018, the Group recorded a net foreign exchange gain of RMB15.1 million. For the year ended 31 December 2017, the Group recorded a net foreign exchange loss of RMB21.5 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 2018, the total number of employees of the Group was 1,013. 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, 4,644,600 Shares granted to 30 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 2018, the legal proceedings were ongoing. The Group has made an accumulated provision of approximately RMB3,451,000 (2017: RMB7,759,000), which the Directors believe is adequate to cover the amounts, if any, payable in respect of these claims.

Material acquisition and disposal of subsidiaries

Except for the acquisitions of land and shares in TFG as disclosed in the Company's announcements dated 14 December 2018 and 24 December 2018 respectively, there are no other 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 2018, 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 for 2018 and the annual results for 2017.

The Audit Committee has reviewed the annual results of the Group for the year ended 31 December 2018.

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 2018.

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 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 "**Stock Exchange**") (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 2018.

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 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.

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 2018 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
Co-Chairman and Executive Director

Hong Kong, 25 March 2019

As at the date of this announcement, the Board comprised of seven directors, namely Mr. YANG Xiangbo (Co-Chairman), Mr. HAO Jian Min (Co-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.