联华超市股份有限公司
LIANHUA SUPERMARKET HOLDINGS CO., LTD.

Stock Code : 0980

# IANHUA 联华

Annual Report 2011


# 5,150

Spans the Country with 5,150 Outlets in 19 Provinces and Municipalities


联华超市股份有限公司
LIANHUA SUPERMARKET HOLDINGS CO., LTD.

Lianhua Supermarket Holdings Co., Ltd. ("Lianhua Supermarket" or the "Company") commenced its business in Shanghai in 1991. In the past 21 years, it has developed into a nationwide chain retail operator with a full range of retail segments, expanding through a combination of organic growth, franchises and merger and acquisitions. As at 31 December 2011, Lianhua Supermarket and its subsidiaries (the "Group") operated a total of 5,150 outlets (excluding those operated by the Company's associated companies) spanning 19 provinces and municipalities across the nation. The Company has maintained its leading position in the fast moving consumer goods retail industry in the People's Republic of China (the "PRC"). Lianhua Supermarket was one of the first Chinese retail chain operators to be listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), on 27 June 2003.

The Group operates in three main retail segments – hypermarkets, supermarkets and convenience stores, in order to cater for the diverse needs of consumers. These segments operate under the brand names of "Century Mart", "Lianhua Supermarket", "Hualian Supermarket" and "Lianhua Quik", respectively. In recent years, "Lianhua Supermarket", "Hualian Supermarket" and "Lianhua Quik" have been singled out as one of the excellent brands of the PRC by the Franchise Committee of the PRC Retail Chain Operations Association.

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# Corporate Information

## Directors

**Executive Directors**

Mr. Hua Guo-ping
Mr. Liang Wei (resigned on 21 March 2012)
Ms. Xu Ling-ling
Ms. Cai Lan-ying
Mr. Tang Qi

**Non-Executive Directors**

Mr. Ma Xin-sheng *(Chairman)*
Mr. Xu Bo (resigned on 16 January 2012)
Mr. Wang Zhi-gang (appointed by the Board on 16 January 2012)
Mr. Kazuyasu Misu
Mr. Wong Tak Hung

**Independent Non-Executive Directors**

Mr. Xia Da-wei
Mr. Lee Kwok Ming, Don
Mr. Zhang Hui-ming

## Board Committees

**Audit Committee**

Mr. Lee Kwok Ming, Don *(Chairman)*
Mr. Xia Da-wei
Mr. Zhang Hui-ming

**Remuneration and Appraisal Committee**

Mr. Xia Da-wei *(Chairman)*
Mr. Zhang Hui-ming
Mr. Hua Guo-ping

**Strategic Committee**

Mr. Hua Guo-ping *(Chairman)*
Mr. Ma Xin-sheng
Mr. Kazuyasu Misu
Mr. Zhang Hui-ming

**Nomination Committee**

Mr. Zhang Hui-ming *(Chairman)*
Mr. Xia Da-wei
Mr. Hua Guo-ping

## Supervisors

Mr. Chen Jian-jun
Mr. Wang Long-sheng
Mr. Dao Shu-rong

## Company Secretary

Ms. Xu Ling-ling

## Authorised Representatives

Mr. Hua Guo-ping
Ms. Xu Ling-ling

## International Auditor

Deloitte Touche Tohmatsu

## Legal Advisers to the Company

*As to Hong Kong laws*
Stephen Mok & Co. in association with Eversheds

*As to PRC laws*
Grandall Law Firm (Shanghai)

## Investors and Media Relations Consultant

Christensen International Limited

## Principal Bankers

Industrial and Commercial Bank of China
Pudong Development Bank
China Merchants Bank

# Corporate Information

## Registered and Business Office

**Registered Office in the PRC**
Room 713, 7th Floor
No. 1258 Zhen Guang Road
Shanghai, PRC

**Place of Business in the PRC**
5th to 14th Floors
No. 1258 Zhen Guang Road
Shanghai, PRC

**Place of Business in Hong Kong**
26th to 27th Floors
Harcourt Building
39 Gloucester Road
Wanchai
Hong Kong

**Telephone**
86 (21) 5262 9922

**Fax**
86 (21) 5279 7976

**Company Website**
www.lhok.com.cn

## Shareholder's Enquiries

**Contact Information of the Company**
Department of Securities Affairs
Tel: 86 (21) 5278 9576
Fax: 86 (21) 5279 7976

**Hong Kong Share Registrar and Transfer Office**
Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

## Share Information

**Listing Place**
The Stock Exchange of Hong Kong Limited

**Listing Date**
27 June 2003

**SEHK Stock Code**
980

**Number of H shares Issued**
372,600,000 H shares

**Year-end Date**
31 December

## Results Announcements

Interim Results for 2011 were published on 10 August 2011
Annual Results for 2011 were published on 21 March 2012

## Dividends

Interim Dividends: RMB0.08 (including tax) per share
Proposed Final Dividends: RMB0.12 (including tax) per share

## 2011 Annual General Meeting

To be convened at 10:00 a.m. on Friday, 15 June 2012

# Major Achievements

## JANUARY

S M T W T F S

Premier Wen Jiabao chaired five symposia at Zhongnanhai to ask for opinions on the draft government work report and the draft Twelfth Five-Year Plan for National Economic and Social Development of the People's Republic of China. As one of the 11 representatives present at the symposium of the members at grassroots level, Yao Yanghong, the store manager of Huashang Store, Hangzhou Lianhua Huashang Group Co., Ltd. ("Hangzhou Lianhua Huashang", 杭州聯華華商集團有限公司) of the Group, strongly recommended "farm-supermarket links".

## FEBRUARY

S M T W T F S

Guangxi Lianhua Supermarket Holdings Co., Ltd. ("Guangxi Lianhua", 廣西聯華超市股份有限公司) of the Group was awarded "2010 Outstanding Enterprise of Home Trade Circulation" (2010年度內貿流通優秀企業) by Department of Commerce of Guangxi Zhuang Autonomous Region.

S M T W T F S

"Lianhua", the trademark of Lianhua Supermarket, was awarded "Shanghai Famous Mark" (上海市著名商標).

# Major Achievements

## February

S M T W T F S

Chenyang Store of the Group was awarded "2009-2010 Shanghai Three Eight Red Flag Collective-owned Group" (2009-2010年度上海市三八紅旗集體).

S M T W T F S

Beijing Lianhua Quik Convenience Stores Co., Ltd. (北京聯華快客便利超市有限公司) of the Group was awarded "2010 Beijing Non-local Influential Commercial Brand" (2010年度影響北京外埠商業品牌).

## March

S M T W T F S

H shares of Lianhua Supermarket (0980. HK) was admitted as a constituent of the Hang Seng Composite Index, the Hang Seng Composite Industry Index (Services) and the Hang Seng Composite SmallCap Index respectively in Hong Kong.

S M T W T F S

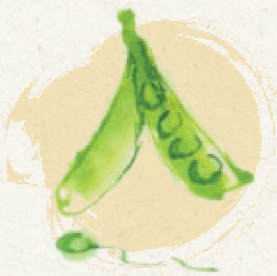
Lianhua Supermarket was awarded "Shanghai Model Unit" (上海市文明單位) for the year 2009-2010. Shanghai Century Lianhua Supermarket Development Company Limited ("Century Lianhua", 上海世紀聯華超市發展有限公司), Hualian Supermarket Holdings Company Limited ("Hualian Supermarket", 華聯超市股份有限公司) and Shanghai Lianhua Quik Convenience Stores Company Limited ("Quik Convenience", 上海聯華快客便利有限公司) were also awarded the same honour.

# Major Achievements


## APRIL

S M T W T F S

Lan Dezheng, the deputy director of the Supervision Department for Market Circulation of Food of the State Administration for Industry and Commerce, led the evaluation and examination team for national food safety rectification work to conduct on-site examination at Century Mart Central Store of the Group located in Putuo District, Shanghai.




## MAY

S M T W T F S

The food safety department of Lianhua Supermarket formally commenced operation to implement the policy of stringent food regulatory put forward by the municipal government after active planning.

# Major Achievements

## June

S M T W T F S

The Group solemnized its 20th anniversary.

## August

S M T W T F S

The Group formally entered into an agreement with Growell Holdings Co., Ltd. ("Growell") of Japan and Shanghai Meiribuy Business Trade Co., Ltd. ("Meiribuy", 上海每日通販商業有限公司) to form a joint venture for cosmeceuticals business.

# Major Achievements

## 10 October

S M T W T F S

Century Mart Stadium Store, also known as "Youpin Living Museum" (優品生活館), the flagship store of Century Lianhua, was completely transformed and opened with the introduction of the international style fashion elements.

## 11 November

S M T W T F S

Lianhua Supermarket was awarded "Listed Company of Best Growth Potential" (最具成長性上市公司) of China Securities Golden Bauhinia Awards (中國證券金紫荊獎) hosted by Ta Kung Pao (Hong Kong), and co-organized by the Hong Kong Chinese Enterprises Association, Hong Kong Securities Association Limited, the Securities Association of China and China Enterprise Confederation.

# Major Achievements

## DECEMBER

S M T W T F S

The foundation works of Jiangqiao Logistics Center (江橋物流中心) of Lianhua Supermarket, currently the greatest modern logistic system in the country with an investment over RMB800 million, commenced.

S M T W T F S

Century Lianhua was awarded "One Star Credible Enterprise" (一星級誠信創建企業) in Shanghai by Shanghai Corporate Integrity Organization Committee and Shanghai Retail Chain Operations Association.

S M T W T F S

The cashier team of Century Mart Stadium Store was awarded "2011 Shanghai Commercial Service Brand (Counter)" (2011年上海商業服務品牌(櫃組)).

S M T W T F S

Comrade Wang Jiarong of Century Lianhua was awarded "2011 Shanghai Commercial Skillful Technician" (2011年上海商業技術能手).

S M T W T F S

Comrade Ye Li of the supermarket segment of the Group was awarded "2011 Shanghai Commercial Skillful Salesman" (2011年上海商業銷售能手).



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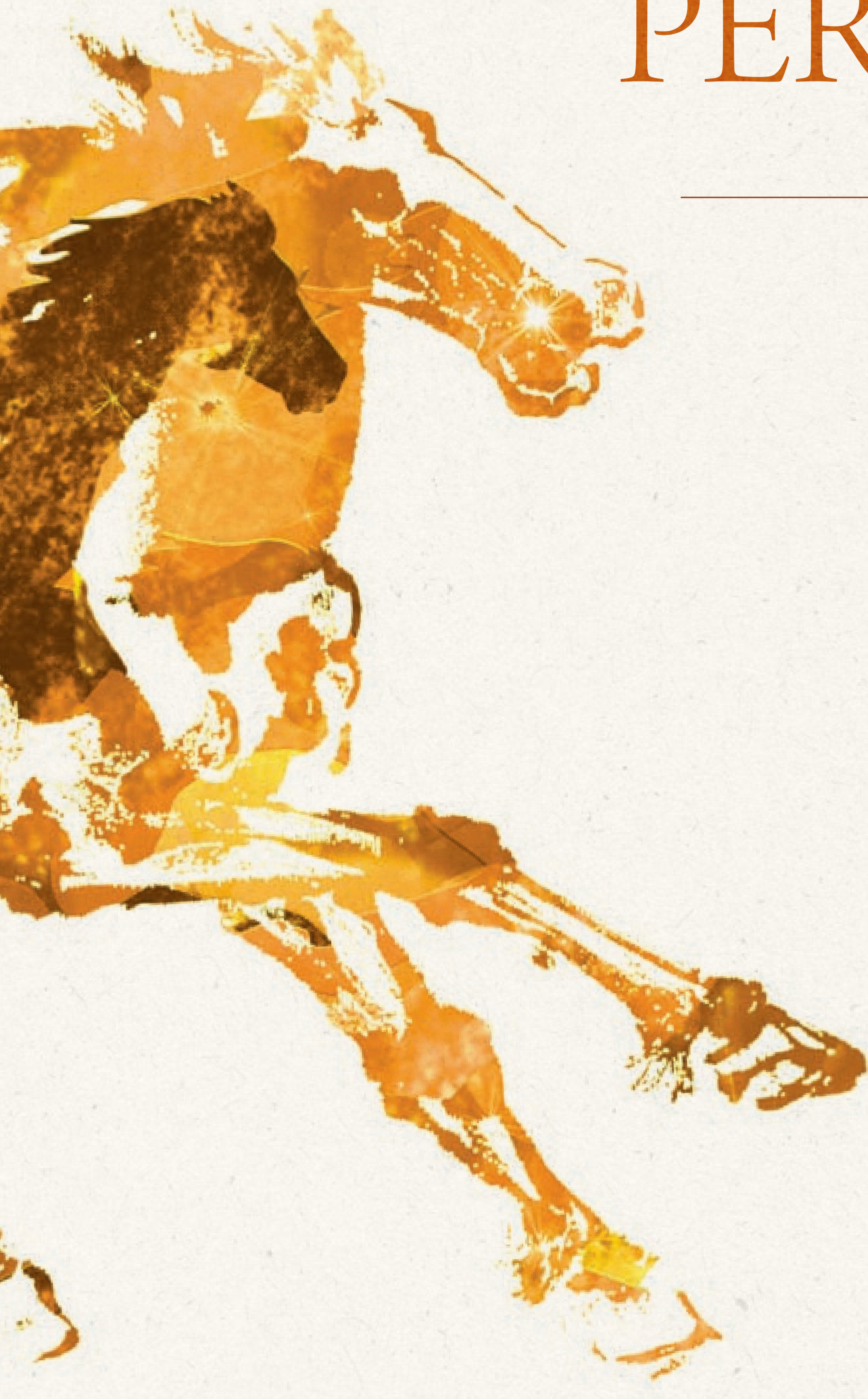
# LEADING
# PERFORM



# Chairman's Statement

**In the year ahead, Lianhua Supermarket, ready for the trends and challenges, will implement reforms, reinforce foundations and continue to innovate, expanding the space for future growth and creating more value for shareholders.**

# Chairman's Statement

**Dear Valued Shareholders,**

I am pleased to present the annual results of Lianhua Supermarket Holdings Co., Ltd. for the year ended 31 December 2011 to our shareholders.

In 2011, the complex and varied economic environment and domestic market of consumer products posed great challenges to the retail industry, especially in respect of the capability of operation, risk resistance and resilience of retail enterprises in China. The Group was able to maintain the leading position in the industry by striking a balance between quantity and quality, between enhancement of internal management and network expansion, following its development strategy of "Becoming a Regional Leader and National Strong Player". In 2011, the Group recorded a turnover of RMB27,520,176 thousand, representing an increase of 6.2% as compared to last year. Gross profit margin and consolidated income margin both achieved sound growth as anticipated. Operating profit was RMB829,373 thousand, representing an increase of approximately 7.0% as compared to last year. Profit attributable to shareholders of the Company was approximately RMB626,726 thousand, representing an increase of approximately 0.7% as compared to 2010, while earnings per share amounted to RMB0.56.


# Chairman's Statement

2011 was the starting year of China's "Twelfth Five-Year Plan" (2011-2015), and also had special meaning for Lianhua Supermarket which was just at the age of 20. It was a crucial year for Lianhua Supermarket to implement our new strategies, optimise business transformation methods and expand the effect of consolidation and restructuring. As a pioneer in the domestic supermarket chain industry, we were certainly no new to innovation and were well-versed in the importance of adopting transformation in order to tackle difficult problems and create long-lasting solutions. With two decades' development, Lianhua Supermarket evolved from sole operation of supermarket segment to a business mode comprising three main segments, thereby allowing it to leverage the complementary advantages as well as laying a solid foundation for the rapid development of the potential segment of e-commerce. The parent company of Lianhua Supermarket started its restructuring process in 1997 in order to attract investments. H shares of Lianhua Supermarket were listed on the Stock Exchange in 2003, and it was the first Mainland retail chain supermarket operator listed on the Stock Exchange. We dared to challenge ourselves and expand merchandise categories and brands in the hypermarket segment. We restructured the supermarket segment for three times successively and also introduced the operation model of "Q+e" to the convenience store segment to enrich our multi-media value-added service.

Our step by step, pragmatic approach helped making Lianhua Supermarket a mature and vital enterprise, and also enriched our operation concept – consumer is our first priority. We believe that innovation will support sustainable development only based on meeting customers' needs. In 2011, in order to better adapt to market developments, meet various consumer needs and improve the framework of the retail segment, the Group formed a joint venture for cosmeceuticals with Growell of Japan and Meiribuy to make concrete progress in its business. Through six months of elaborate planning, Century Mart Stadium Store of the Group, also known as "Youpin Living Museum", re-opened with a new look on 1 October 2011, with hardware and software demonstrating its human-oriented service concept and received good response from the medium and high-end consumers. The "Lhmart" shopping website came on line in December. The new website adopted an "online + offline" business model, leveraging the advantages of physical outlet network resources to offer the options of home delivery or in-store pickup to meet the emerging need of online shopping. Lianhua Supermarket became a Hong Kong Hang Seng Composite Index constituent stock in 2011 in recognition of its market capitalisation and trading volume, and was awarded "Listed Company of Best Growth Potential" of China Securities Golden Bauhinia Awards in November.

# Chairman's Statement

"Improving people's livelihood" was a national focus throughout 2011. In 2011, Consumer Price Index ("CPI") remained at high level. In order to ensure sufficient supply of daily necessities and commodities, we proactively established fresh produce supply bases and a performance evaluation system. We expanded source purchase of fruits and vegetables and strengthened "farm-supermarket links"; set up a special unit on buying-up merchandises management to improve operational performance; developed new and maintained existing private label products, and focused on improvement in the quality and cost-effectiveness of such products. These measures not only increased sales and revenue, but also stabilised the supply of goods and market prices, thereby creating both economic and social benefits.

As a state-holding enterprise, Lianhua Supermarket has always placed great emphasis on the fulfillment of its social responsibilities. In 2011, frequent food safety incidents had a significant impact on the Group's operations. Facing such challenges, the Group made a commitment to optimise its management and control systems, build a multi-level inspection system to eliminate fake and shoddy goods, and strengthen the long-term supervision mechanisms. During the "panic-buying" of salt and household chemical products in March and the sale of agricultural produce at fire-sale prices in April, the Group played an active role in stabilising the market. Our prompt and efficient actions won the praise of the government as well as the society.

Improving people's livelihood also means that enterprises should pay attention to and care for their employees. Employees are our greatest treasure, and the development of Lianhua Supermarket would not be possible without their hard work. Under the pressure of rising costs in 2011, the Group responded proactively to the policy of "protecting people's livelihood and promoting harmony" in the "Twelfth Five-year Plan" put forward by the Chinese government by increasing salary in the first half of the year. The salary of our front-line employees was increased by 15% on average. Meanwhile, the Group organised a variety of regular recreational activities for employees, as well as training and self-development platforms based on their needs. The Group also optimised the performance incentive system and democratic evaluation mechanism. All these aimed to create a warm feeling of "family" for our employees so as to increase motivation and maintain staff stability.

In the coming 2012, the macroeconomic environment remains challenging. The debt crisis in Europe continues, casting a shadow over the global economy. China's macro economic growth is slowing down, with continuing inflationary pressure and shrinking consumer demand. The era of low-cost expansion and low-cost labor is gone, and the labor shortages are rising. Foreign retail enterprises have become more aggressive in terms of acquiring prime-located stores.

Despite such tremendous pressures, the Chinese government will continue to promulgate relevant policies to improve harmonious relationships between retailers and suppliers, regulate prepaid cards, improve food hygiene standards, lower retail prices of food and raise wages for employees. These measures will lead to profound changes in the business model of the domestic retail sector. On the other hand, the Chinese economy is expected to maintain stable growth, and the Chinese government will continue to place great emphasis on expanding domestic demand, increasing consumer income, encouraging domestic consumption and optimising industrial structure, which will lead to the healthy and sustainable development of the retail chain industry.

With the gradual improvement of the domestic retail market in compliance with regulations and consumers' increasing awareness of sustainability and green consumptions, Lianhua Supermarket, which is sensitive to the market, has been ready for all these trends and challenges. We will follow the Company's development strategies, implement reforms, reinforce our foundations and continue to innovate in order to break operation bottlenecks, increase sales capacity, reform our business model, consolidate our restructuring achievements, explore new business models that meet the needs of consumers, and continue to grow while maintaining quality. We will improve the centralised procurement model and our professional and diversified models of operation, thereby expanding the space for sales growth and the Group's development and creating more value for shareholders.

On behalf of the board of directors of the Company ("Board"), I would like to extend my heartfelt thanks for the dedication and the many contributions of the management and employees, as well as the support of our shareholders and business partners.

By order of the Board
**Ma Xin-sheng**
*Chairman*

21 March 2012
Shanghai, the PRC

# Five Years Financial Highlights

| Unit: RMB'000<br>For the year ended 31 December | **2011** | 2010<br>(restated) | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Turnover | **27,520,176** | 25,905,343 | 24,017,720 | 23,253,764 | 18,086,857 |
| Hypermarkets | **16,082,043** | 14,578,596 | 13,039,537 | 11,910,715 | 9,846,161 |
| – Percentage to turnover(%) | **58.44** | 56.28 | 54.29 | 51.22 | 54.44 |
| Supermarkets | **9,617,432** | 9,432,815 | 9,318,539 | 9,597,304 | 6,560,466 |
| – Percentage to turnover(%) | **34.95** | 36.41 | 38.80 | 41.27 | 36.27 |
| Convenience stores | **1,733,631** | 1,746,729 | 1,552,902 | 1,591,675 | 1,524,042 |
| – Percentage to turnover(%) | **6.30** | 6.74 | 6.47 | 6.85 | 8.43 |
| Other businesses | **87,070** | 147,203 | 106,742 | 154,070 | 156,188 |
| – Percentage to turnover(%) | **0.31** | 0.57 | 0.44 | 0.66 | 0.86 |
| Gross profit | **3,956,440** | 3,612,966 | 3,136,043 | 3,020,832 | 2,348,636 |
| Gross profit margin (%) | **14.38** | 13.95 | 13.06 | 12.99 | 12.99 |
| Consolidated income margin (%) (Note 1) | **25.71** | 25.01 | 24.10 | 23.48 | 25.47 |
| Operating profit | **829,373** | 775,200 | 647,573 | 484,641 | 417,294 |
| Operating profit margin (%) | **3.01** | 2.99 | 2.70 | 2.08 | 2.31 |
| Profit attributable to shareholders of the Company | **626,727** | 622,414 | 506,802 | 412,489 | 268,301 |
| Net profit margin (%) | **2.28** | 2.40 | 2.11 | 1.77 | 1.48 |
| Earnings per share (RMB) (Note 2) | **0.56** | 0.56 | 0.45 | 0.37 | 0.24 |
| Interim dividend per share (RMB) (Note 3) | **0.08** | 0.15 | 0.12 | 0.10 | 0.06 |
| Final dividend per share (RMB) (Note 3) | **0.12** | 0.18 | 0.16 | 0.15 | 0.12 |

# Five Years Financial Highlights

| Unit: RMB'000<br>For the year ended 31 December | **2011** | 2010<br>(restated) | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Net assets | **3,621,646** | 3,224,801 | 2,928,074 | 3,043,994 | 2,715,424 |
| Total assets | **20,313,931** | 18,452,840 | 15,418,396 | 14,692,869 | 12,398,791 |
| Total liabilities | **16,692,285** | 15,228,039 | 12,490,322 | 11,648,875 | 9,683,367 |
| Net cash flow | **(14,863)** | 1,389,208 | 732,746 | (1,639,457) | 2,549,758 |
| Average return on total assets (%) | **3.23** | 3.68 | 3.37 | 3.05 | 2.52 |
| Average return on net assets(%) | **20.19** | 23.23 | 19.89 | 16.53 | 12.17 |
| Gearing ratio (%) (Note 4) | **0.01** | – | – | 1.29 | – |
| Liquidity ratio (times) | **0.73** | 0.80 | 0.82 | 0.90 | 0.87 |
| Turnover of trade payables (days) | **62** | 61 | 59 | 56 | 60 |
| Turnover of inventories (days) | **38** | 37 | 37 | 37 | 35 |

Notes:

1. Consolidated income margin (%) = (Gross profit + Other income + Other revenues)/Turnover
2. Earnings per share for each of the year ended 31 December 2010, 2009, 2008 and 2007 have been adjusted retrospectively for the bonus issue effective in September 2011, details of which are set out in note 37 to the consolidated financial statements in the annual report.
3. The total shares of the Company increased to 1,119,600,000 shares from 622,000,000 shares due to the bonus issue effective in September 2011. Meanwhile, at the Board meeting held on 21 March 2012, the Board proposed the payment of a final dividend of RMB0.12 per share (tax inclusive) for the year ended 31 December 2011 amounting to RMB134,352,000, which representing an increase of 20% as compared to the final dividend amounting to RMB111,960,000 for 2010.
4. Gearing ratio (%) = Loans/Total assets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# CREATING GROWTH

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# Management Discussion and Analysis


## Operating Environment

In 2011, the international situation was complicated and challenging and the domestic economy encountered more difficulties and challenges. The macro-economic control implemented by the PRC government based on the theme of scientific development by way of transformation of the economic development focused on structural adjustment, methodological change, market price control and livelihood benefits so as to facilitate an orderly shift of the national economy from policy-stimulated to organic growth. The economy maintained a stable and relatively rapid growth as a whole and resulted in a good opening of the "Twelfth Five-Year Plan".

In 2011, gross domestic product (GDP) in the PRC reached RMB47,156.4 billion, representing an increase of 9.2% over 2010 at comparable prices according to the National Bureau of Statistics of China. The Chinese government continued to launch various measures to stimulate consumption, which played a more important role in economic growth and fostered further development of the retail industry. In 2011, the contribution of internal demand to GDP growth amounted to 105.8%, among which the contribution of final consumption amounted to 51.6%, representing an increase of 14.8 percentage points over 2010. Total retail sales of consumer products grew by 17.1% to RMB18,391.9 billion when compared with 2010, or by 11.6% in real terms excluding price factor. CPI reached the high level of 6.5% in July 2011 before retreating but was still relatively high for the year with an increase of 5.4% over 2010.

In 2011, the income of urban and rural residents grew steadily. Total annual income per capita of urban resident amounted to RMB23,979, among which disposable income per capita amounted to RMB21,810, representing an increase of 14.1% as compared with 2010 and an increase of 8.4% in real terms excluding price factor. Income of rural residents grew faster than that of urban residents with net annual income per capita amounting to RMB6,977, representing an increase of 17.9% over 2010 and an increase of 11.4% in real terms excluding price factor. The growth in national income per capita is a driving force set for the sustainable development of retail enterprises.

# Management Discussion and Analysis

However, it is worth mentioning that although the CPI waxed and waned, the food price persistently grew at the high level and, in turn, consumer demand shrank to a certain extent. Various costs, in particular with unusual labour cost increase, depressed the earnings of the retail industry. The emergence of counterfeit and inferior food products rocked consumer confidence. These factors all posed great challenges to the development of the retail industry in 2011.

The domestic and international environment have become more complicated with rising uncertainties and a higher level of instability since the beginning of 2012. The economy of China is under pressure as growth is slowing down. However, the Group believes that the fundamentals for stable and rapid growth of the economy of China in the medium-to-long term still remain unchanged, thanks to the great potential of internal demand, which will be driven by the factors of sustained urbanization, the improvement of personal income tax reform, increased subsidies to low-to-middle income groups, the rising income level of the residents and the enhancement of the social security system. Stable growth of consumers' consumption will provide substantial room for dynamic development of the retail industry.

## Financial Review

### Growth in turnover and consolidated income

During the period under review, the Group recorded a turnover of approximately RMB27,520,176 thousand, of which the turnover of hypermarket segment accounted for 58.4%. The Group's turnover recorded in 2011 represented an increase of approximately 6.2% from approximately RMB25,905,344 thousand in 2010, or an increase of approximately 6.7% excluding the effect of the turnover increase from the 2010 Shanghai World Expo. The steady increase in turnover was mainly due to sales growth in comparable outlets driven by CPI where the annual turnover in comparable outlets grew by approximately 5.34% as compared to 2010, and outlet development with both quality and volume, continuous product mix adjustment and creative marketing and promotion activities.

During the period under review, the consolidated income of the Group reached RMB7,075,454 thousand, representing an increase of RMB597,800 thousand or 9.2% as compared with approximately RMB6,477,654 thousand of 2010. The continuous improvement in the consolidated income was mainly due to the fact that: (1) the gross profit of the Group was approximately RMB3,956,440 thousand, representing an increase of RMB343,474 thousand or approximately 9.5% as compared with approximately RMB3,612,966 thousand of 2010 and the stable growth in the gross profit led to a growth in gross margin by 0.43 percentage point to 14.38%; (2) the Group completed the business integration with Hualian Supermarket to jointly enjoy the advantages of merchandise procurement and distribution resources, facilitate the integration of merchandise resources, enhance the bargaining power with suppliers, effectively improve contract transaction terms, thereby raising the centralisation efficiency, and, during the period under review, the income received from the suppliers amounted to RMB1,913,641 thousand, representing an increase of 5.4% as compared with the previous year; and (3) the Group maintained sufficient cash flow, adopted prudent principles and carried out professional management, thereby achieving a stable growth in capital gains, and during the period under review, capital gains were approximately RMB405,913 thousand, representing an increase of approximately 43.1% from the previous year. The steady growth in the consolidated income resulted in the consolidated income margin standing at 25.71%, increased by 0.70 percentage point from 2010.

Note: Consolidated income = Gross profit + Other revenues + Other income

# Management Discussion and Analysis

**Operating cost and net profit**

During the period under review, the distribution expenses and administrative expenses of the Group amounted to RMB5,498,318 thousand and RMB672,614 thousand respectively, representing a cost ratio of distribution expenses and administrative expenses at 22.42%, increased by 0.71 percentage point as compared to the previous year. The year-on-year increase in the cost ratio of distribution expenses and administrative expenses was mainly due to the rigid growth in labour cost, rental costs and utilities charges. During the period under review, the labour cost, rental costs and utilities charges were RMB2,448,145 thousand, RMB1,528,145 thousand and RMB505,853 thousand, respectively. The rise in labour costs was primarily due to the fact that the minimum wage was adjusted upward in 2011: the minimum wage level was adjusted in 24 provinces nationwide with an average growth of 22%, and the higher number of the staff due to newly-opened outlets of the hypermarket segment. The rise in rental costs was primarily due to the rigid increment from renewed outlet rental fees and the rental cost of newly-opened outlets. The Group strived to proactively improve the level of consolidated income to deal with the challenges of the rising distribution expenses and administrative expenses. Meanwhile, the Group continuously improved its human resources system and cost and expense flow management and approval system to realise reasonable control over expenses.

During the period under review, the Group recorded an operating profit of approximately RMB829,373 thousand, representing an increase of approximately 7.0% as compared to 2010. The operating profit margin was 3.01%, representing a slight increase as compared to 2010. Excluding the effect on the operating profit as a result of the 2010 Shanghai Word Expo, the Group's operating profit margin would have increased by approximately 0.1 percentage point as compared to the previous year. The Group's principal business maintained a stable operating profit margin despite the huge pressure from rising costs.

During the period under review, the Group's share of revenue of associated companies was approximately RMB142,578 thousand. As associated companies of the Company were also challenged by the unfavorable market environment, their sales growth was hindered while facing pressure from nurturing the newly-opened outlets of hypermarket business and the rising costs, and their net profit declined as compared to the previous year. As a result, the Group's share of revenue of associated companies decreased by approximately 20.3%. During the period under review, Shanghai Carhua Supermarket Company Limited ("Shanghai Carhua", 上海聯家超市有限公司) opened three new outlets. As of the end of 31 December 2011, Shanghai Carhua had 22 outlets in total.

During the period under review, the Group recorded a total profit and consolidated income attributable to the Company's shareholders of approximately RMB626,726 thousand, representing an increase of approximately 0.7% from 2010. Basic earnings per share amounted to RMB0.56, maintaining the same level as compared to 2010.

**Cash flow**

During the period under review, the Group's net cash outflow was approximately RMB14,863 thousand. Cash and miscellaneous bank balances as at the period end amounted to RMB10,023 million for the year ended 31 December 2011, representing an increase of 7.1% from the previous year. With the Group's continued expansion of outlet resources and continuous growth in turnover as well as consumption by deposits of members, sufficient cash flow was maintained, thereby ensuring a solid foundation for its business growth.

For the year ended 31 December 2011, the turnover period of the Group's trade payables was approximately 62 days, and inventory turnover period was approximately 38 days.

During the year under review, the Group did not use any financial instruments for hedging purposes and the Group did not issue any hedging instruments as at 31 December 2011.

**Growth in retail businesses**

***Hypermarkets***

During the period under review, the turnover of the Group's hypermarkets segment increased by approximately 10.3% when compared to that of 2010 to approximately RMB16,082,043 thousand, which accounted for approximately 58.4% of the Group's total turnover, representing an increase of 2.2 percentage points when compared with previous year. The gross profit margin increased by 0.34 percentage point to 13.47%. The same store sales increased by approximately 5.59%. The growth of turnover and same store sales of hypermarket segment were higher than the average level of the Group, which demonstrated its strong growth momentum in recent years as the primary business contributor. The segment's operating profit was approximately RMB352,728 thousand, representing an increase of approximately

# Management Discussion and Analysis

RMB21,908 thousand from 2010. The operating profit margin was 2.19%, representing a slight decrease when compared to that of 2010. The hypermarket segment took active moves in developing new outlets and increased sales by boosting key and strong outlets. It continued the strategy of procurement from places of origin and optimising the merchandise mix and launched the Group's own logistics delivery system to replace some third party delivery services to improve satisfaction rate of merchandise supply while lowering the logistics costs. Overall operating capabilities were enhanced and the pressure from rising rental and labour costs were effectively removed.

| As at 31 December | 2011 | 2010 |
|---|---|---|
| Gross Profit Margin (%) | **13.47** | 13.13 |
| Consolidated Income Margin (%) | **24.95** | 24.46 |
| Operating Profit Margin (%) | **2.19** | 2.27 |

***Supermarkets***

During the period under review, the supermarket segment fully completed the business integration for the Hualian Supermarket, and recorded a turnover of approximately RMB9,617,432 thousand, representing an increase of approximately 2.0% as compared to that of 2010 and accounting for approximately 34.9% of the Group's total turnover. The supermarket segment benefited from the strengthening outlet transformation and the enhancement of fresh merchandise operation. The same store sales increased by approximately 4.68%. During the period under review, the gross profit was approximately RMB1,495,593 thousand, representing an increase of 7.8% when compared to corresponding period of 2010, and the gross margin grew by 0.84 percentage point to 15.55%. The consolidated income margin rose by approximately 0.58 percentage point to 24.63%. The increase of gross profit margin and consolidated income margin were due to continuous diversified and flexible marketing and promotion activities as well as the centralisation efficiency from business integration. During the period under review, the operating profit from the supermarket segment was approximately RMB359,200 thousand, increased by 2.3% as compared to that of 2010. The operating profit margin was 3.73%, maintaining the same level as in 2010 and seeing the effects of business integration in releasing the pressure caused by cost increase.

| As at 31 December | 2011 | 2010 (restated) |
|---|---|---|
| Gross Profit Margin (%) | **15.55** | 14.71 |
| Consolidated Income Margin (%) | **24.63** | 24.05 |
| Operating Profit Margin (%) | **3.73** | 3.72 |

***Convenience stores***

During the period under review, the Group's convenience store segment recorded a turnover of approximately RMB1,733,631 thousand, accounting for approximately 6.3% of the Group's total turnover, representing a decrease of approximately 0.7% as compared to that of 2010. Excluding the effect of the store closure at 2010 Shanghai World Expo, its turnover grew by 5.9%. Affected by the close of Shanghai World Expo and more intense competition, this segment's turnover growth was once stagnant. However, the Group continuously carried out a differentiated operating strategy, expanded existing store business scope, developed "Little Q" series branded merchandises, and held the unique national commodity exhibition to enhance the overall operating capacities of stores. The convenience store segment also launched unique marketing and promotion activities, and the same store sales increased by approximately 6.71%. During the period under review, the gross profit margin of convenience store segment was 15.41%, representing a decrease of 1.13 percentage points compared to that of 2010 or flat when the gross profit margin was recorded excluding the effect of the store business in 2010 Shanghai World Expo Park. The consolidated income margin was 24.03%, representing a decrease of 0.88 percentage points as compared to that of 2010 or a decrease of 0.33 percentage points as compared to that of 2010 excluding the effect of store business in 2010 Shanghai World Expo Park. Due to the rigid rise in minimum wage, rental costs and utilities charges, the operating profit margin was 0.83%, representing a decrease of 0.91 percentage point when compared with that of 2010 excluding the effect of store business in 2010 Shanghai World Expo Park. In face of the challenging business environment, the segment was now exploring new thoughts and developing new business to enhance store sales in the hope of removing pressure from rising operating cost and effectively increasing operating profit margin.

# Management Discussion and Analysis

| As at 31 December | 2011 | 2010 | 2010 (excluding the effect of Shanghai World Expo) |
|---|---|---|---|
| Gross Profit Margin (%) | **15.41** | 16.54 | 15.43 |
| Consolidated Income Margin (%) | **24.03** | 24.91 | 24.36 |
| Operating Profit Margin (%) | **0.83** | 2.29 | 1.74 |

**Capital structure**

As at 31 December 2011, the Group's cash and bank balances were mainly held in Renminbi, and the Group had no other bank borrowings, except for new borrowings of RMB2,000,000 due within one year from a non-wholly-owned subsidiary of the Group.

During the period under review, equity attributable to shareholders of the Group increased from RMB2,895,700 thousand to RMB3,313,909 thousand, which was mainly due to the increase in profit amounting to RMB626,726 thousand, dividends distribution amounting to RMB201,528 thousand, consideration of RMB4,282 thousand paid for the acquisition of Shanghai Hualian Supermarket Tengzhou Co., Ltd. (上海華聯超市滕州有限責任公司) and the amount of RMB2,707 thousand paid for the increase of the equity interest in the Group's subsidiaries.

**Details of the Group's pledged assets**

As at 31 December 2011, the Group did not pledge any assets.

**Exposure to foreign exchange risk**

Most of the income and expenditures of the Group are denominated in Renminbi. During the period under review, the Group did not experience any material difficulties or negative effects on its operations or liquidity as a result of fluctuation in currency exchange rates. The Group did not enter into any agreements or purchased any financial instruments to hedge the foreign exchange risks of the Group. The Directors believe that the Group is able to meet its foreign exchange requirements.

**Share capital**

As at 31 December 2011, the issued share capital of the Company was as follows:

| Class of shares | Number of Shares in issue | Percentage |
|---|---|---|
| Domestic shares | 639,977,400 | 57.16 |
| Unlisted foreign shares | 107,022,600 | 9.56 |
| H shares | 372,600,000 | 33.28 |
| Total | 1,119,600,000 | 100.00 |

**Contingent liabilities**

As at 31 December 2011, the Group did not have any material contingent liabilities.

## Operating Review

**Outlet development**

During the period under review, the Group focused on achieving growth both in quality and volume and made efforts to reach the goal of "Becoming a Regional Leader and a National Strong Player". The Group executed its strategy of focused development and secured scale advantage, paving the way for a leading position through transformation and upgrade of its franchising model.

# Management Discussion and Analysis

During the period under review, the Group continued its in-depth development in the Eastern China area, and 15 new hypermarkets were opened, including three in Shanghai, five in Zhejiang Province, four in Jiangsu Province, two in Anhui Province and one in Sichuan Province. Meanwhile, in other regions, the Group, after careful consideration, closed certain outlets suffering long-term losses and retreated from some markets due to unfavorable operating conditions to avoid prolonged losses. Six outlets were closed, including two in Jiangsu Province, two in Hebei Province, one in Guangdong Province and one in Guangxi Zhuang Autonomous Region. The Group currently operates a total of 125 hypermarkets in Shanghai, Zhejiang Province, Jiangsu Province and Anhui Province, commanding in a leading position in the Eastern China area.

During the period under review, 171 new supermarkets were opened, including 32 directly-operated supermarkets (five were transformed outlets from convenience store segment) and 139 franchised supermarkets. Based on the original double brands of "Lianhua Supermarket" and "Hualian Supermarket", the Group has begun adopting the "Lianhua Supermarket" brand for its newly-opened supermarkets as well as supermarkets under lease renewal. The Group maintained the growth pace of its directly-operated stores, especially in the middle and high-end markets. Meanwhile, during the period under review, the rental increase at supermarket outlets operated under renewed leases reached a historical high. The Group managed to renew the leases of more than 64% of the outlets with expired lease terms through painstaking negotiations. During the period under review, the Group adjusted its franchised stores development strategy for the supermarket segment. The growing number of franchised stores enabled the Group to expand market share and contributed to the standardization of the retail market. However, franchised stores create potential risks for the Group in terms of quality control and management with respect to compliance with policies and rules and regulations. Accordingly, the Group continued to optimize its network of franchised stores to increase consistency and closed some stores which were not strictly consistent with the Group's business principles, and 139 franchised stores were opened while 160 franchised stores were closed during the period under review. This strategic adjustment will have a significant effect on enhancing outlet quality and controlling operational risk.

# Management Discussion and Analysis

During the period under review, 204 new convenience stores were opened, including 61 directly-operated stores and 143 franchised stores. The convenience stores carried out periodic development strategies taking into account the regional characteristics in the market already entered into and were keen on promoting successful trials in other regions. The Group concentrated on rapid development in Beijing, thereby continuously expanding its local market share. In Zhejiang Province, the Group focused on the development and enhancement of franchised stores in cities with a presence, further maintaining its leading position in the number of outlets and sales volume. The Group concentrated on outlet development in high-end areas in Shanghai, and actively introduced improvement plans for existing outlets in order to boost sales. It also explored new ideas for outlet development in Dalian City of Liaoning Province, such as cooperating with local business hotels to open stores inside the hotels and cooperating with local authorities to set up a convenience store (free of rent) in a business building as a business practice base for university students.

As at 31 December 2011, the Group had a total of 5,150 outlets, approximately 85% of which were located in the Eastern China area.

| | Hypermarkets | Supermarkets | Convenience Stores | Total |
|---|---|---|---|---|
| Direct operation | 152 | 669 | 947 | 1,768 |
| Franchised operation | – | 2,315 | 1,067 | 3,382 |
| Total | 152 | 2,984 | 2,014 | 5,150 |

Note: The above information was as of 31 December 2011.

# Management Discussion and Analysis

**Achieving higher efficiency through business integration**

With the completion of the restructuring focusing on merchandise management and supermarket segment consolidation regarding procurement, distribution, information systems and financial accounting, during the period under review, the Group furthered its integration so as to strengthen the achievements.

Following the restructuring of its merchandise system in Shanghai area in 2010, during the period under review, the Group centralized the procurement for previous Lianhua and Hualian supermarkets during the period under review. Headquarters increased centralized procurement from quality suppliers which were selected after analysis of the suppliers of various segments. The Group also leveraged its scale advantage to lower merchandise cost and improve gross profit based on comparative analysis of the contract terms offered by suppliers of both entities.

During the period under review, the Group continued to implement its Two Warehouses Integration project for normal temperature distribution centers. With the direct delivery online procurement platform (B2B platform) of Lianhua supermarkets extended to Hualian supermarkets, Taopu distribution center ("Tao Warehouse") is now responsible for distribution to both Lianhua supermarkets and Hualian supermarkets, while Caoyang distribution center ("Cao Warehouse") was converted from a supermarket distribution center to a hypermarket distribution center for Shanghai, Jiangsu Province and Anhui Province. During the period under review, the number of outlets served by Tao Warehouse increased from 1,122 at the end of 2010 to 1,888 by the end of 2011, with the value of distributed products increased by 60.17%, while cost increased by only 34.88% compared to 2010. As a result of the Two Warehouse Integration project, the efficiency of the distribution centers was improved. Tao Warehouse's distribution fee ratio decreased by 0.37 percentage point, from 2.33% in 2010 to 1.96% in 2011, against continuous increase in various costs. Despite all difficulties in the transformation, Cao Warehouse eventually solved various logistical challenges created by the mismatch between the size of household appliances and transportation equipment. Distribution to hypermarkets in Shanghai area, reaching approximately RMB1.14 billion during the period under review, was carried out smoothly by Cao Warehouse, providing better merchandise support for hypermarkets. In response to the "panic-buying" of salt and household chemical products in 2011, Cao Warehouse took advantage of its abundant reserves to ensure that hypermarkets had sufficient supply. The Group has found an effective way to dig out the utility of existing logistics before the commencement of operations of the Jiangqiao Logistics Center of the Group providing experience for planning the distribution programme of Jiangqiao Logistics Center.

During the period under review, the Group continued the consolidation of its information systems with the construction of a regional office information platform. It upgraded and integrated the OMS (Operation Management System), DMS (Distribution Management System), BMS (Business Management System), and FAS (Financial Assistant System) of the supermarket segment. It also transformed all the OMS used by Hualian Supermarket outlets to facilitate the procurement and receipt of goods, restocking, inventory management and invoice auditing in all directly-operated stores, which were then fully integrated into the regional offices business platform of Shanghai Lianhua Supermarket Development Co., Ltd. ("New Supermarket", 上海聯華超級市場發展有限公司, consolidated from the previous Lianhua supermarkets and Hualian supermarkets, covering directly-operated and franchised stores). Transformation and integration of the franchising system for supermarkets in Shanghai were started by upgrading the franchising business platform systems of previous Hualian supermarkets, such as ordering, capital management and outlets contracting management systems. Information system integration for New Supermarket ensured a unified flow in business, logistics, information and capital, achieving consistency, completeness and accuracy of data, and providing information sharing among headquarters, regional offices and outlets, enhancing its ability of outlet operations and information management and thus laying a solid foundation for further growth.

# Management Discussion and Analysis

During the period under review, the above mentioned system consolidation further incorporated the Hualian Supermarket system into that of the Group. The Group acquired Hualian Supermarket in 2009 and all related business integration was completed in 2011, which effectively supported the Group's business model of "Centralizing Regional Resources, Sharing National Resources" and facilitated the implementation of the Group's operating strategy of "Becoming a Regional Leader and a National Strong Player".

**Enhancing merchandise competitiveness through operation improvement**

During the period under review, after evaluating current stores in respect of their neighbourhood markets and growth potential, the Group selected candidate stores with great potential and categorized them as flagship, model, and training stores with tailored growth targets and growth plans and improved the operation of key outlets through the implementation of a tracking and communication mechanism for monthly, quarterly and semi-annual work progress. With an improved product mix, optimized pricing strategy, better fresh food offering, improved shopping environment and increasing marketing and promotional activities, both sales and profit of the key stores increased significantly despite the increasingly intense competition, laying a foundation for expansion in the number of key outlets in the future.

During the period under review, fresh product operations were further strengthened as the Group raised its quality requirements. Construction for fresh produce production bases progressed well with the development of a number of bases in regions such as Guangxi Zhuang Autonomous Region, Jilin Province, Hainan Province, Fujian Province and Jiangsu Province. As at 31 December 2011, the Group had 332 fresh produce bases. The Group selected certain fresh produces for large scale cultivation to further reduce purchase costs. By facilitating various regions to share the resources of fresh produce bases in various regions, the Group strengthened its procurement scale advantages. Besides, the Group focused on the launch of new fresh products, innovative mechanisms and professional training. New products were introduced continuously, especially for convenience stores where instant cold and hot foods were added to meet customers' needs. In Shanghai, the Group implemented contractual incentives for vendors of several fresh product categories to successfully promote sales in outlets. Furthermore, the Group continued to strengthen training and guidance for fresh produce operators, which further increased operational capacity of fresh products. During the period under review, the Group optimized its fresh product operation review system and strengthened its fresh product supervision system at the levels of the headquarters, regional offices and outlets accordingly.

During the period under review, the Group bought up more merchandise to guarantee adequate supplies in outlets during peak seasons such as festivals, holidays and season shifts, etc. The merchandise management department of the Group set up an operation team responsible for buying up stocks in bulk, determining buying-up plans for popular products and specialty products as prepared for the Spring Festival and other holidays. These concepts were applied to a growing number of product categories. The Group also placed emphasis on inventory of daily necessities and lowered the purchasing costs by buying larger quantities. The Group assured merchandise supply, increased gross margin and kept market prices stable through higher frequency of monitoring product origins, enhanced market price monitoring system, improved overall evaluation and management system for buying-up merchandise, and the establishment of a tracking system for sales and inventory for buying-up merchandises as well.

# Management Discussion and Analysis

During the period under review, the Group upgraded the quality and cost performance of its private label merchandise to maintain competitive edges of its brands, resulting in substantial sales increase for these products. During the period under review, sales attributable to the Group's private label merchandise accounted for over 3% of total sales, representing an increase of 42.9% compared with 2010. The convenience store segment's products branded with the cartoon image "Little Q", such as handkerchiefs, wet wipes, magic boxes and umbrellas, were well received by customers and enhanced its brand image.

During the period under review, the Group resorted to price management to enhance the operation level of the outlets. The Group paid attention to the regulated use of the price tags at the outlets. Competitive pricing market research was conducted weekly for different product categories and prices in outlets were adjusted to remain competitive. The Group determined price ranges according to the sensitivity of merchandises, and monitored sales of local competitors to adjust prices on a timely basis.

During the period under review, the amount of food safety incidents in the supermarket industry outnumbered that of previous years. Reputable brands and suppliers were involved in most cases and consumers started to lose faith in food safety. These had a significant impact on the Group and on the industry as a whole. After careful review of its safety standards, the Group decided not to rely solely on the various legal licenses and quality inspection reports of those food suppliers, and contended that, as a market leader, it should do more than what is required by law to ensure safety and enhance its brand image. The Group raised its quality monitoring requirements on food, especially fresh produce, implemented five significant measures and endeavoured to improve the quality control process, strengthened the management of procurement from places of origin, set up a food safety inspection division, increased outlet inspection and enhanced trainings on food safety topics to ensure stringent food safety. With the establishment and operation of the food safety department of the Company, the long-term food safety supervision mechanism was improved gradually. The food inspection center of the Group was established in May 2011. Since then and up to the end of 2011, it had undertook quality safety tests of more than 1,000 items and 1,600 projects applying various methods including laboratory microorganism tests, standard laboratory tests, onsite quick inspection of outlets, onsite quick inspection of suppliers and inspection by professional agencies. The Group pioneered the implementation of the relevant requirements of Attached Documents for Alcohol Circulation issued by the Ministry of Commerce to prevent the adulterated or inferior alcohol merchandises from circulating in the market. The Group also set up a complete pork distribution database to build a thorough and complete pork safety supervision network in all aspects of pork distribution from delivery at a fresh meat processing center, receipt and inspection at outlets and further processing at outlets to point of sales terminals.

# Management Discussion and Analysis

**Facilitating marketing and innovation through transformation**

During the period under review, all segments of the Group continued to undergo transformation. In the hypermarket segment, two outlets, one in Shanghai and one in Zhejiang Province, were closed for renovation. Internal decoration, functional layout, product mix and quality of commercial tenants in the two outlets were totally modified to adapt to the most recent market trends. These two hypermarkets had achieved good sales results since their re-opening. At "Youpin Living Museum", the flagship outlet situated at Shanghai Stadium, it introduced the international fashion elements with sales of merchandises of world brands and its facilities and services were customer-oriented. In the supermarket segment, the Group not only pushed forward the transformation of the directly-operated supermarket outlets previously owned by Hualian Supermarket, but also continued to bring forward other operation models such as "fresh product supermarket" and "franchised store with strict consistency". In the first half of 2011, the Group opened a high-end supermarket, branded City Life, which was the first in Hangzhou of Zhejiang Province. So far, City Life had been well-received due to audacious introduction of new items, adjustment and optimization of brand structure and specialty and serialization of brand operation. The second City Life was opened at the end of the year. As for the convenience store segment, focus was also put on the development and design of high-end stores. The convenience store segment set up a management head office for high-end stores, and opened two high-end outlets, incorporating more facilities for on-site cooking, such as instant food bar and ground coffee, etc., aiming to expand instant food sales. Meanwhile, the convenience store segment actively explored the electronic shelf pre-sale business model.

During the period under review, the Group celebrated its 20th anniversary. Taking advantage of this opportunity, the Group launched a series of marketing activities across different segments in various areas. For example, five rounds of direct mail (DM) marketing activities with the theme of "Prosperous 20 Years" (綻放20年) were launched by the Group's supermarket segment. The convenience store segment carried out a number of special marketing activities for various festivals, such as baskets for the Spring Festival, flowers for Valentine's Day, Qingtuan rice roll (青團) for Ching Ming Festival, coupons for Labour Day and rice dumplings for Dragon Boat Festival, etc. In addition, thanks to the promotion of product combinations, wholesale and barter, the Group raised its customer traffic and increased brand recognition and client loyalty to build a stable client base. The convenience store segment conducted a three-month sales exhibition covering special merchandises from across the nation starting from May 2011, through which 19 popular local merchandise were selected from Dalian, Beijing, Hangzhou and Ningbo of Zhejiang Province for promotion and sales in outlets across Shanghai. In Shanghai, the Group also organised automobile sweepstakes with the theme of "Driving a Car back Home without Shopping" (無需購物，贏取臻榮座駕) and scratch card marketing activities with the theme of "Winning Shopping Rewards with Surprise Coming out Every Week" (購物贏大獎，周周有驚喜). In Zhejiang Province, sales of general merchandises were promoted through a series of marketing schemes for snack foods like "Free Taste + Recommended Products on Sale" (試吃推廣+促銷推薦). In Guangxi Zhuang Autonomous Region, the Group carried out activities like sweepstakes and gift coupon dispatch for high-spending-per-ticket customers, so as to attract customers and increase overall sales. These 20th anniversary promotional activities further enhanced the brand image among consumers.

# Management Discussion and Analysis


During the period under review, the Group further developed its e-business, integrating its online shopping network and developed concrete category strategies accordingly, among which Zhejiang Province's online shopping service executed its strategy of "Quality Image for Imported Merchandise and High Cost Performance for Private Label Brands" (進口商品樹立品質形象，自有品牌樹立高性價比的形象) resulting in average transaction price of approximately RMB117 per transaction during the period under review. The website of Lianhua Mart (聯華易購) (www.lhmart.com), a shopping website set up in Shanghai by the the Group, was open to the public on 6 December 2011 and achieved an average transaction price of approximately RMB140 per transaction in less than a month through promoting group consumption, scrolling marketing and maternity and children products marketing.

2011 was an eventful year for the Group. Substantial cost increases reduced profit growth of the Group. Greater market competition and shrinking customer demand reduced sales growth of the Group. While the Group continued to achieve sales and profits growth in 2011, the growth rate began to slow down. Externally, the Group was affected by macro-economic circumstances, greater competition and rigid increase in various costs. In particular, the rapid changes in government policies in food safety, retailer-supplier relationships, tax structure, prepaid card and consumer protection, gave rise to new problems for the supermarket industry as a whole, to which the related departments of the Chinese government had also paid a lot of attention. Internally, the centralization of the regional resources was completed after internal restructuring over the last two years but outlets had not yet completely shared the benefits brought by the restructuring. In particular, inconsistencies continued to exist in terms of operation and procurement, and those inconsistencies undermined the benefits of resources centralization. The Group has reached internal consensus to implement further reforms.

# Management Discussion and Analysis

## Employment, Training and Development

As at 31 December 2011, the Group had a total of 60,590 employees, representing an increase of 1,024 employees during the period under review. Total staff costs were RMB2,448,145 thousand.

During the period under review, the Group continued to optimize the integration of merchandise distribution and logistics, and completed the restructuring of organizational structure of departments accordingly. The Group formulated reforms based on the analysis and research on management duties, duty system, staff status, remuneration system, performance evaluation plan, and organizational culture, etc, and consolidated human resources to optimize post setting and staff deployment and control costs reasonably. At the same time, the Group analyzed ways to minimize labour costs so as to ensure reasonable and effective implementation of the budget of labour costs.

During the period under review, the Group strengthened the implementation of the post accountability system and improved its performance evaluation methods over different posts and duties. For example, the Group upgraded the performance evaluation of the merchandise procurement staff by closely linking their performance with their remuneration level, thereby enhancing the benefits of the Group. For the 30 major projects the Group implemented in the year, plans were formulated with explicit assignment of responsibility, with the progress of each project serving as the key indicator in individual's annual performance assessment.

During the period under review, the Group also formulated the talent team cultivation plan and the career planning of fresh graduates and held seminars for management trainees and young managers, in an effort to support the development of its future management team. During the period under review, the Group continued to provide training services for staff of all management levels to effectively enhance personal and team performance. In order to support the development and motivation of front-line personnel, the Group set out the development of highly skilled personnel as annual performance criterion of various subsidiaries and established five staff skill development associations. It also held several trainings and labour competitions to address weakness in employees' operating skills and enhance their operating and management skills.


## Strategy and Plan

2012 is the foundation year of the "Twelfth Five-Year Plan" of the Ministry of Commerce which calls for increasing consumption under the guiding principle of "Increase Consumption for the Sake of Development and People's Livelihood". It is also a year when macro-economic growth is expected to slow down and various economic structural conflicts are becoming more serious. 2012 will see the Group execute its strategic ideas of "Becoming A Regional Leader and National Strong Player with Innovation and Transformation-motivated under way". The overall working objectives of the Group are: insisting on reform, implementing in full scale, strengthening the foundation, and developing with innovation by way of breaking operation bottleneck, enhancing sales capacity, reforming the business model and consolidating the restructuring achievements.

Minimum wage in major cities of China will continue to have a double digit growth in 2012. At the same time, workers will be granted much more benefits and better working conditions. Moreover, there are expected rises in rent for outlets that need to renew their lease and relentless outlet openings by competitors near our own outlets. All these will pose great pressure on the Group. However, the Group has

# Management Discussion and Analysis

strengthened its leading position in the areas including Shanghai and Zhejiang Province through adjustment of its procurement model, restructuring of the logistics systems, continuous improvement of the systems and constant transformation of the outlets over the past two years. Notwithstanding the great market pressure, the Group and its competitors are under the same pressure. Therefore, 2012 will still be a year of development, optimization and enhancement, as long as the Group insists on its development strategy of "Becoming a Regional Leader and a National Strong Player". In 2012, the Group will focus on enhancing its development quality and reversing the downward trend in customer traffic flow, undertake standardized management to improve its operations and optimize transformation so as to overcome the unfavorable operating environment.

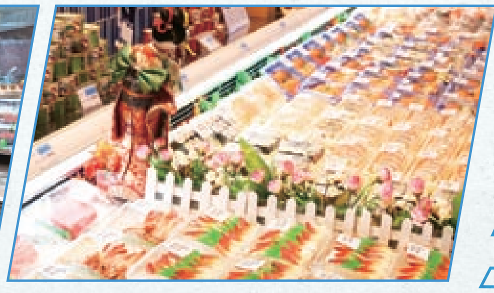
The Group will continue its geographical concentration development strategy and consolidate its market share in the Eastern China area and other markets in which the Group has gained a foothold, based on the premise of ensuring development quality. The Group's planning on opening a total of 350 new outlets throughout the year, among which 12 to 15 will be hypermarkets while the Company will rationalize and optimize existing hypermarkets, 160 will be supermarkets and 180 will be convenience stores. The supermarket segment shall focus on the development in cities such as Shanghai, Hangzhou, Suzhou of Jiangsu Province and Liuzhou of Guangxi Zhuang Autonomous Region to consolidate existing market scale and explore the development for franchised stores with strict consistency. The convenience store segment will continue to accelerate its development in Beijing, Hangzhou and Ningbo, consolidate its market position and seek business growth by transforming and upgrading outlets in Shanghai and Dalian of Liaoning Province. Meanwhile, the Group will pay attention to the success rate of new outlets and sub-new outlets, improve the outlet cultivation mechanism by giving priority to customer traffic flow and sales growth in the operations of a new outlet and place great emphasis on the opening of new outlets and the optimization of sub-new outlets.

The Group will take increase in sales capacity and consolidated income as its most important work objectives, raising customer traffic flow and same store sales. While emphasizing the growth of mature outlets, the Group will pay particular attentions to the growth of sub-new outlets. The Group will review the advantages and disadvantages of the existing operation and procurement systems and apply reforms if necessary. A series of new rules and standards will be established in terms of outlet items management, merchandise display, price supervision and order management to take advantage of the scale purchase and outlet sales.

The enhancement of consolidated income is most important to the consolidation of the profit of the Group. As a result, insistence on focus on pricing strategy, traffic growth, synergy cooperation and procurement optimisation will be of great importance to the Group. "Focus on pricing strategy" requires the Group to determine its pricing policy through "outlet segregation" based on "the sake of livelihood" according to the special economic circumstances in 2012. "Focus on traffic growth" requires the Group to enhance its sale energy level to be capable of achieving traffic growth through a reasonable pricing strategy and product mix to attract more customers. "Focus on synergy creation" requires the Group to coordinate operations and procurement to fully rely on the established regional scale advantage and increase item procurement and sale, thus gaining stronger bargaining power. "Focus on procurement optimisation" requires the Group to further develop procurement at source, procurement of buying-up merchandises, construction of fresh produce bases, privately labelled products and product importing, which will be supplemented by supply chain information system optimisation, higher distribution satisfaction rate of its own logistics system and direct distribution by suppliers, thus increasing its consolidated income.

The Group will further consolidate the results of its restructuring. For merchandise flow, the Group will build a unified procurement center with a centralized procurement system serving different segments and further secure its regional procurement advantages. For logistics restructuring, the Group will continue to enhance the operating efficiency of Tao Warehouse and Cao Warehouse to enhance the distribution satisfaction rate, complement and improve the logistics system outside Shanghai, build the Jiangqiao Logistics Center on schedule and project new logistic systems to support the business model of different segments in various regions.

In 2012, the Chinese government will introduce a series of rules and regulations and policies to control ever-rising prices, increasing food safety issues, more intense market competition and higher consumer protection. In the long run, these rules and regulations and policies will be supportive for the development of the industry. The Group, as a major player in the retail industry in China, will actively take up its social responsibilities, to explore, to become a pioneer and to face the challenges. In the long run, these attempts will have a significant effect on the buildup of the brand of the Group.

# 联华

LIANHUA

# MOVING FORWARD

# Profiles of Directors, Supervisors and Senior Management

## Executive Directors

**Mr. Hua Guo-ping**, aged 49, is the general manager, deputy chairman of the Board and deputy secretary of the party committee of the Company. Mr. Hua is also the chairman and/or director of a number of operating subsidiaries of the Company and a director of Shanghai Friendship Group Incorporated Company ("Shanghai Friendship", 上海友誼集團股份有限公司) (a company listed on the Shanghai Stock Exchange). Mr. Hua is responsible for the operation and management of the Group. He graduated from Tongji University (同濟大學) in 1986 with a Bachelor's degree in electrical appliances automation. In 1989, he graduated from Tongji University with a Master's degree in industrial enterprise engineering management. Between 1993 and 1997, Mr. Hua worked for Hong Kong Tak Shun Investment Consultancy Company Limited (香港德信投資諮詢公司), Shanghai Pudong State-owned Assets Investment Management Co., Ltd. (上海浦東國有資產投資管理公司) and Shanghai Dong Shen Economic Development Co., Ltd. (上海東申經濟發展有限公司). From 1997 to 1999, he worked for Shanghai Industrial Asset Management Company Limited (上海上實資產經營有限公司) as deputy general manager. In 2000, he was the deputy general manager of Shanghai Industrial United Limited (上海實業聯合集團股份有限公司). From 2001, he has been the managing director of Shanghai Industrial United (Group) Commercial Network Development Company Limited (上海實業聯合集團商務網絡發展有限公司). Between May 2000 and the end of 2003, Mr. Hua was a director of the Company. He was also the deputy general manager of the Company commencing from August 2003 until the end of 2003. He was the deputy general manager of the supermarket merchandising division of Bailian Group Co., Ltd. ("Bailian Group", 百聯集團有限公司) since 2004 and became the general manager in 2006. Mr. Hua was re-elected as a non-executive director of the Company at the Annual General Meeting for the year 2004, and since June 2009, he has been appointed as the general manager of the Company. Since March 2010, Mr. Hua has been redesignated as an executive director of the Company.

**Mr. Liang Wei**, aged 60, is a senior economist. He graduated from Heilongjiang Business School (黑龍江商學院) in 1982 with a Bachelor's degree in business and economics. In 2008, he graduated from Shanghai National Accounting Institute (上海國家會計學院) with an EMBA, majoring in financial management. From 1982 to 1992, he worked in Shanghai Textile Company (上海紡織品公司) as a division chief and was responsible for business planning. From 1992 to 1994, he worked in Shanghai Union Trading Corporation (上海市內外聯合貿易公司) as a manager, responsible for foreign trade business. Mr. Liang joined the Group in November 1994. From 1994 to 1997, he was the deputy general manager of the Company, and from 1998 to 1999, he was the administrative vice general manager of the Company. From 2000 to June 2009, he was the general manager of the Company. Mr. Liang was appointed as administrative vice general manager of the Company in June 2009. Mr. Liang is also the chairman and/or director of a number of operating subsidiaries of the Company. Mr. Liang has over 20 years' experience in managing different aspects of commercial enterprises. Mr. Liang was awarded as the "National Commercial Excellent Venture Entrepreneur of The Third Session" (第三屆全國商業優秀創業企業家) by the China Commercial Enterprise Management Association in 2004, and awarded "2003 Top Ten Outstanding People in the National Commercial Service Industry" (全國商業服務業二零零三年度十大傑出人物) by the China General Chamber of Commerce. In 2005, he was named as "Yangtze Delta Market Promotion Influential Person of 2005" (二零零五長江三角市場營銷風雲人物). In the same year, Mr. Liang was awarded as the "National Commercial Excellent Venture Entrepreneur of The Fourth Session" (第四屆全國商業優秀創業企業家). In 2008, Mr. Liang was recognised as the "Shanghai Commercial Excellent Venture Entrepreneur" (上海商業優秀創業企業家) and the "Entrepreneur for its Achievement in Leading the Business Reform and Development in China" (引領中國商業改革發展功勳企業家). In 2009, Mr. Liang was awarded "Top 10 Shanghai Successful Retail Businessman" (上海零售業十大傑出人物). Mr. Liang was appointed as an executive director of the Company since December 2001 and he resigned from being an executive director and administrative vice general manager of the Company on 21 March 2012.

**Ms. Xu Ling-ling**, aged 53, a PRC certified public accountant, a member of the International Certified Internal Auditor Association (國際註冊內部審計師協會) and a senior accountant, is the chief financial officer of the Company. She is also the chairman, director and/or supervisor of a number of operating subsidiaries of the Company. She is responsible for the overall financial management and information management of the Group. Ms. Xu graduated from Shanghai Lixin University of Commerce (上海立信會計學院) in 1987 with a Bachelor's degree in accounting. She graduated from the graduate school of the Shanghai Academy of Social Science (上海社會科學院) in 2001, majoring in business administration. She graduated from Tong Ji University in 2006, with an EMBA in business management. In 2008, she graduated from Shanghai National Accounting Institute with an EMBA, majoring in financial management. From 1975 to 1983, Ms. Xu was a director in the second branch of Shanghai Huangpu Tobacco and Wines Company Limited (上海黃浦煙酒公司), and from 1983 to 1996, she was the head of the finance department of Shanghai Wangbaohe Corporation Tongyuan Company (上海王寶和總公司同緣公司). She joined the Company in June 1996 as a manager of the audit division. Since 1997, Ms. Xu has been the chief financial officer of the Company and is responsible for the Group's finance, auditing, statistics and investment. Ms. Xu has more than 20 years' experience in the finance and management of companies in the consumer industry. In 2007, Ms. Xu was elected as a representative of the 13th Session of the National People's Congress of Shanghai. She was awarded as the Labour's Role Model of National Commerce Industry (全國商務系統勞動模範) by the Ministry of Personnel and the Ministry of Commerce of the People's Republic of China in 2008. Ms. Xu was

# Profiles of Directors, Supervisors and Senior Management

appointed as an executive director of the Company since January 2003 and Ms. Xu ceased to be the joint company secretary of the Company and was appointed as the company secretary of the Company with effect from 9 March 2011.

**Ms. Cai Lan-ying**, aged 59, a senior economist, is a deputy general manager of the Company. Ms. Cai is also the chairman and/or director of a number of operating subsidiaries of the Company. She is responsible for the overall operation and management of the Group's business in Zhejiang Province. Ms. Cai graduated from Hangzhou Commercial and Technical College (杭州商業技工學校) with a diploma specializing in non-staple goods in 1969 and completed the economics programme at the Correspondence Institute of the Party School of C.C. of C.P.C. (中央黨校函授學院) Ms. Cai has more than 30 years' experience in the retail industry. She was a founder of Hangzhou Huashang Group Co., Ltd. (杭州華商集團有限公司) and served as general manager. She was appointed as the chairman of Hangzhou Lianhua Huashang in July 2002. Ms. Cai was awarded the prize of "Zhejiang Outstanding Entrepreneur" (浙江省優秀企業家) in 1990. She was also awarded the prize "Outstanding Operator with Prominent Contribution in Business and Trading Enterprises of Hangzhou in 2004" (杭州市二零零四年度突出貢獻商貿服務企業優秀經營者) in March 2005. Ms. Cai was appointed as an executive director of the Company since September 2004.

**Mr. Tang Qi**, aged 59, is a senior economist. Mr. Tang graduated from Fudan University (復旦大學) in 1989 with a college degree. From 1999 to 2001, he pursued a postgraduate degree at Research Institute of Yangtze River Development (長江流域發展研究所) of East China Normal University (華東師範大學), majoring in regional economics. He was the division manager and deputy general manager of China Silk Domestic Sales Company at Shanghai (中國絲綢上海內銷公司) from 1988 to 1995. Mr. Tang was deputy general manager of Hualian Group Economic Development Company (華聯集團經濟發展公司) from 1995 to June 1997. Mr. Tang was the general manager of Shanghai Fashion Company (上海時裝公司), Shanghai New Hualian Mansion (上海新華聯大廈) and Hualian Supermarket from July 1997 to late 2003. From late 2003 to August 2009, he was the deputy general manager of the Supermarket Merchandising Division of Bailian Group and the chairman of Hualian Supermarket. Since October 2009, Mr. Tang was the deputy general manager of the Company and chairman of Hualian Supermarket. In June 2010, he has concurrently worked as chairman of the board and general manager of New Supermarket. Mr. Tang is also the chairman and/or director of a number of operating subsidiaries of the Company. Mr. Tang was appointed as an executive director of the Company since June 2010.

## Non-Executive Directors

**Mr. Ma Xin-sheng**, aged 58, a senior economist and senior engineer, is the Chairman of the Board of the Company. Mr. Ma is also the chairman of the board of Bailian Group. Mr. Ma is responsible for the overall operation and management of the Group and the formulation of the development strategies of various businesses. Mr. Ma graduated from the University of Shanghai (上海大學). In 2008, he graduated from Shanghai National Accounting Institute with an EMBA, majoring in financial management. For the period from March 1983 to December 1989, Mr. Ma was the deputy party secretary, party secretary and factory manager of Shanghai Rectifier Factory (上海整流器總廠). For the period from December 1989 to January 1995, Mr. Ma was the deputy general manager of Shanghai Electric Group Co., Ltd. (上海電器股份有限公司). For the period from January 1995 to October 1996, Mr. Ma was the general manager and party secretary of Shanghai Jidian Maoyi Building (上海市機電貿易大廈). For the period from October 1996 to December 2003, Mr. Ma was the chairman of labour union, deputy party secretary, deputy chairman of the board of directors and president of Shanghai Electric (Group) Corporation (上海電氣(集團)總公司), the chairman of the board of directors of Shanghai Electric (Group) Finance Co., Ltd. (上海電氣(集團)財務公司) and the chairman of the board of directors of Shanghai Electric Group Co., Ltd.. For the period from December 2003 to December 2007, Mr. Ma was the deputy party secretary of Shanghai State-owned Assets Supervision and Administration Commission (上海市國有資產監督管理委員會). Mr. Ma is the party secretary and the chairman of the board of directors of Bailian Group, the chairman of the board of directors of Shanghai Bailian Group Co., Ltd. ("Shanghai Bailian", 上海百聯集團股份有限公司) (a company listed on the Shanghai Stock Exchange), the chairman of the board of directors of Shanghai Friendship, the chairman of the board of directors of China Bailian (Hong Kong) Limited (中國百聯(香港)有限公司) and the director of Shanghai Pudong Development Bank Co., Ltd. (上海浦東發展銀行股份有限公司) (a company listed on the Shanghai Stock Exchange) since about 2008. Mr. Ma received a CEO Award in the first Robert A. Mundell World Executive Awards held in 2004. Mr. Ma joined the Group in May 2009 and has been the Chairman of the Board of the Company since 2009.

**Mr. Xu Bo**, aged 50, the vice president and head of asset management division of Bailian Group. He is also the chairman of the board of Shanghai Bailian Group Investment Co., Ltd. ("Bailian Investment"). Mr. Xu was the deputy faculty dean of Shanghai Lixin Accounting College, deputy general manager and chief financial officer of Shanghai Hualian Commercial Building Co., Ltd. (上海華聯商廈股份有限公司), assistant to general manager of Hualian Group Company, assistant to president of Bailian Group and deputy general manager and chief financial officer of Shanghai Bailian in the past. Mr. Xu was the director of Shanghai Material Trading Co., Ltd. (上海物資貿易股份有限公司) (a company listed on the Shanghai Stock Exchange) from 2005 to 2007 and Mr. Xu has been the director of Shanghai Bailian since 2006. Mr. Xu joined the Group in May 2009. Mr. Xu resigned as a non-executive director of the Company on 16 January 2012. As at the date of this report, Mr. Xu has also resigned all positions of Bailian Group, Shanghai Bailian and Bailian Investment.

# Profiles of Directors, Supervisors and Senior Management

**Mr. Wang Zhi-gang**, aged 55, is a senior economist. Mr. Wang graduated from Renmin University of China (中國人民大學) in 1982 and holds a Bachelor's degree in commerce and economics and graduated from Fudan University in 1991 and holds a Master's degree in administration and management. Mr. Wang previously served as division member, vice division head, assistant manager, vice manager of Shanghai Apparel and Shoes Company (上海市服裝鞋帽公司); executive vice general manager and general manager of Shanghai Fashion Co., Ltd. (上海時裝股份有限公司); general manager of Shanghai Jin'an Investment Management Co., Ltd. (上海金安投資管理有限公司); vice general manager of Shanghai Yibai (Holdings) Company Ltd. (上海一百(集團)有限公司) and a member of the board of directors of Shanghai Bailian. Mr. Wang is currently the vice president of Bailian Group. In 1984, Mr. Wang was awarded as Shanghai Outstanding Young Entrepreneur (上海市優秀青年企業家) by The People's Government of Shanghai municipality. Mr. Wang was an executive director of the Company from June 2007 to June 2010 and was appointed as the Chairman of the Company from July 2007 to May 2009. Mr. Wang was appointed as a non-executive director of the Company on 16 January 2012.

**Mr. Kazuyasu Misu**, aged 55. From April 1979 to April 2004, Mr. Misu worked successively in the Foods Administration Department and the Processed Foods Department B of Mitsubishi Corporation (三菱商事株式會社), Mitsubishi Corporation (U.K.) (英國三菱商事株式會社) and the Food Materials Department of Mitsubishi Corporation. From April 2004 to April 2009, Mr. Misu successively served as the general manager of the Processed Foods C Unit, the general manager of the Confectionary and Pet Foods Unit, the acting general manager, and then the general manager, of Living Essentials Group CEO Office of Mitsubishi Corporation. Mr. Misu held position as a director in Yonekyu Co., Ltd. (米久株式會社) (a company listed on the Tokyo Stock Exchange) for the period from May 2007 to May 2008. He also served as a director in Nippon Meat Packers, Inc. (日本火腿株式會社) (a company listed on Osaka Securities Exchange, Tokyo Stock Exchange and the Euronext Paris S.A.) during the period from June 2008 to March 2009. From March 2009 to March 2011, he served as a director in Coca-Cola Central Japan Co., Ltd. (a company listed on Tokyo Stock Exchange and Nagoya Stock Exchange) and a director in Ryoshoku Limited (菱食株式會社) (a company listed on the Tokyo Stock Exchange, currently Mitsubishi Shokuhin Co., Ltd. (三菱食品株式會社)). From April 2009 to March 2011, he worked as the Division COO of the Foods (Products) Division of Mitsubishi Corporation. Since April 2011, he has served as an executive director and head of Living Essentials Group for China in Mitsubishi Corporation. Mr. Misu joined the Group in September 2009.

**Mr. Wong Tak Hung**, aged 60, is the president of Wong Sun Hing Investment Co., Ltd. (王新興投資有限公司). From 1970 to 1978, Mr. Wong was the manager of Sun Hing Textile Factory (新興毛紡織造廠), and from 1978 to 1990, he was the managing director of Wong Sun Hing Company Limited (王新興有限公司). Since 1990, he has been the president of Wong Sun Hing Group (王新興集團). He has also been the chairman of Shenzhen Xin Xing Entrepreneurship Guarantee Company Limited (深圳新興創業擔保有限公司) since 2003 and he has been acting as the chairman of Guangzhou Wanling Properties Company Limited (廣州市萬菱置業有限公司) from 2004. Since 2005, he has also been acting as the chairman of Wanling Industrial (Guangdong) Company Limited (萬菱實業(廣東)有限公司). Mr. Wong joined the Group in April 1997, and he has over 30 years of business experience.

## Independent Non-Executive Directors

**Mr. Xia Da-wei**, aged 59, professor, is a doctoral tutor, the president of Shanghai National Accounting Institute and deputy chairman of the Chinese Industrial Economic Association (中國工業經濟學會), consultant of China Accounting Standards Committee of the Ministry of Finance (財政部會計準則委員會), a member of the Committee on Internal Control Standard of Enterprises of the Ministry of Finance (財政部企業內部控制標準委員會), honorary professor of The Chinese University of Hong Kong (香港中文大學), part-time professor of the School of Management of Fudan University and member of Research Council for Listed Companies Committee (上市公司專家委員會) of Shanghai Stock Exchange. Mr. Xia is also an independent non-executive director of Shanghai Jin Jiang International Hotels (Group) Company Limited (上海錦江國際酒店(集團)股份有限公司) (a company listed on the Stock Exchange), an independent director of Shanghai Electric Power Co., Ltd. (上海電力股份有限公司) (a company listed on the Shanghai Stock Exchange) and an independent director of China United Network Communications Limited (中國聯合網絡通信股份有限公司) (a company listed on the Shanghai Stock Exchange). He joined the Group in September 2004.

**Mr. Lee Kwok Ming, Don**, aged 54, is the financial controller of Stella International Holdings Ltd. (九興控股有限公司), which is listed on the Stock Exchange. He is a fellow of the Hong Kong Institute of Certified Public Accountants (香港會計師公會) and an associate of the Chartered Institute of Management Accountants in the United Kingdom (英國特許管理會計師公會). He holds a master's degree of science in business administration from the University of Bath (英國巴富大學). Mr. Lee has held the position of financial controller in various listed companies on the Stock Exchange. Mr. Lee has more than 20 years of financial management experience and extensive experience in mergers and acquisitions, as well as corporate finance. He joined the Group in May 2003.

# Profiles of Directors, Supervisors and Senior Management

**Mr. Zhang Hui-ming**, aged 55, is the head of the Enterprise Research Institute (企業研究所) and deputy director of Shanghai Logistics Institute (上海物流研究院) at Fudan University. Professor Zhang graduated from Fudan University with a Bachelor's degree in economics in 1982, a master's degree in economics in 1984, and a doctorate in economics in 1995. He has been teaching at Fudan University since 1984 and was promoted to the position of professor in 1996. Since 1997, he has been a tutor for the doctorate programme on enterprise theory and practice. Professor Zhang has published seven books and over 200 research papers in various national magazines. He is an independent director of Shanghai Meilin Aquarius Co., Ltd. (上海梅林正廣和股份有限公司) (a company listed on the Shanghai Stock Exchange) and Shanghai Haibo Co., Ltd. (上海海博股份有限公司) (a company listed on the Shanghai Stock Exchange), and an independent non-executive director of United Gene High-Tech Group Limited (聯合基因科技集團股份有限公司) (a company listed on the Stock Exchange). He joined the Group in January 2003.

## Supervisors

**Mr. Chen Jian-jun**, aged 54, a senior economist, is the chairman of the supervisory committee and the party secretary of the Company. Mr. Chen graduated from Shanghai Second Polytechnic University (上海第二工業大學) in 1998 with a Bachelor's degree in computer application. From 1998 to 2001, he pursued a postgraduate degree at Research Institute of Yangtze River Development of East China Normal University, majoring in regional economics. Mr. Chen was the deputy chief officer, chief officer and deputy director of the resource office of Shanghai First Commercial Bureau (上海市商業一局), deputy human resources manager and manager of Hualian Group Company (華聯集團公司). He was appointed as an assistant to general manager and deputy general manager of Hualian Group Company, in 2000 and 2002 respectively. During his tenure at Hualian Group Company, Mr. Chen held concurrent posts as a director at Hualian Supermarket and chairman at Shanghai Auction Co., Ltd. (上海拍賣行有限公司) From late 2003 to April 2007, he was the supervisor and secretary of party general branch of the disposal centre of Bailian Group and was appointed as the party secretary and secretary of disciplinary committee of the Supermarket Merchandising Division of Bailian Group since April 2007. Since May 2009, Mr. Chen was appointed as the chairman of the Supervisory Committee and party secretary of the Company. In 2010, he was awarded the "Outstanding Organizer of 'Pioneering Programme of Shanghai World Expo' of Shanghai SASAC System" (上海市國資委系統「世博先鋒行動」優秀組織者). Mr. Chen was appointed as a vice chairman of the supervisory committee of Shanghai Friendship in October 2011.

**Mr. Wang Long-sheng**, aged 59, a senior economist, graduated from Shanghai East China Normal University in 1998 with a master's degree in decision-making management. Between 1986 and 2005, Mr. Wang has worked for Shanghai Friendship Antique & Curio Store (上海友誼古玩商店), Shanghai Hongqiao Friendship Shopping Centre (上海虹橋友誼商城), Shanghai Friendship Overseas Chinese Joint Stock Company Limited (上海友誼華僑股份有限公司), China Tour Souvenir Head Company (中華旅遊紀念品總公司), Shanghai Friendship Group Decoration Company (上海友誼集團裝潢總匯), Homemart Decoration Materials Company Limited (好美家裝潢建材有限公司), Shanghai Friendship Nanfang Shopping Center (上海友誼南方購物中心), Shanghai Bailian Xijiao Shopping Center (上海百聯西郊購物中心) and Shanghai Friendship. Mr. Wang has been the general manager of Shanghai Friendship since January 2006. Mr. Wang has been appointed as a director and the administrative director (常務理事) of Shanghai Joint Stock Company and Securities Research Committee (上海股份制與證券研究會) since March 2001. He joined the Group in December 2001. Mr. Wang is the director of Shanghai Friendship.

**Mr. Dao Shu-rong**, aged 57, a senior economist, is the Chairman of the labour union and the deputy party secretary of the Company. Mr. Dao graduated from the Shanghai TV University (上海電視大學) in 1986, majoring in corporate management and from the Graduate School of Shanghai Academy of Social Sciences in 2001, where he majored in business administration. In 2008, he graduated from Shanghai National Accounting Institute with an EMBA, majoring in financial management. Mr. Dao has more than 30 years' experience in business and human resources administration. In 1996, Mr. Dao worked as the deputy manager of the human resources division of Internal and External Commerce Association (內外聯商社). Mr. Dao joined the Company in 1997 and served as the chief of the human resources department and promoted to assistant to the general manager in 1999. He was appointed as division chief of the human resources division of the Company from 2001 till May 2009. Mr. Dao was appointed as the Chairman of the labour union and the deputy party secretary of the Company since May and July 2009 respectively. Mr. Dao was elected as the Supervisor of the Company in May 2009. In 2010, Mr. Dao was granted the name of "Outstanding Organizer of Staff Union of 'Acting as Good Leader and Making Contribution to Shanghai World Expo' in Shanghai" (上海市「當好主力軍建功世博會」工會優秀組織者).

## Company Secretary

**Ms. Xu Ling-ling**

***Please refer to the profiles of Executive Directors (page 36).***

## Senior Management

**Mr. Zhang Guo-hong**, aged 40, is a certified accountant. Mr. Zhang graduated from Shanghai University of Finance and Economics (上海財經大學) in 1999 with a master's degree in international commerce. From 1994 to 1996, he was the head of procurement division at Hubei Lvfeng Stone Co. Ltd. (湖北綠峰石材有限公司). From April 1999 to late 2003, he was the deputy head of Zhejiang management department, deputy head of commodity management department, assistant to general manager and deputy general manager of the Company. Mr. Zhang was deputy general manager of the Supermarket Merchandising Division of Bailian Group from late 2003 to August 2009. He has worked as deputy general manager of the Company since October 2009 and concurrently acted as general manager of Hualian Supermarket from July 2005 to May 2010. In 2006, he was elected as a representative of the 14th Session of the National People's Congress of Yangpu District, Shanghai.

# GROWING FRUITFUL

联华

LIANHUA

# Shareholding Structure

Shanghai Friendship Group Incorporated Company

34.03%

LIANHUA SUPERMARKET HOLDINGS CO., LTD

Shanghai Bailian Group Investment Co., Ltd. 21.17%

Mitsubishi Corporation 6.74%

Wong Sun Hing Investment Company Limited 2.82%

Shanghai Liding Investment Company Limited 1.96%

Public 33.28%

# Report of the Directors

The Board is pleased to present to the shareholders its report of the Company for the year ended 31 December 2011.

## Principal activities

The principal activities of the Group include operation of hypermarkets, supermarkets and convenience stores in the PRC, mainly under four major brands of "Century Mart", "Lianhua Supermarket", "Hualian Supermarket" and "Lianhua Quik".

Percentages of purchases and sales attributable to major suppliers and customers of the Company during the year are as follows:

| | **2011 Percentage** | 2010 Percentage |
|---|---|---|
| Purchases | | |
| Largest supplier | **3.18** | 3.84 |
| Five largest suppliers | **8.32** | 7.56 |
| Sales | | |
| Largest customer | **0.06** | 0.07 |
| Five largest customers | **0.13** | 0.16 |

During the year ended 31 December 2011, to the best knowledge of the Directors, none of the Directors, the supervisors ("Supervisors") of the Company, their respective associates, nor any shareholders of the Company (which to the knowledge of the Directors own more than 5% of the Company's share capital) had any direct or indirect interest in the share capital of the Company's suppliers and customers mentioned above.

## Subsidiaries and associated companies

As at 31 December 2011, the Company's principal subsidiaries are Century Lianhua, Hualian Supermarket, Quik Convenience, Hangzhou Lianhua Huashang, Lianhua Supermarket (Jiangsu) Co., Ltd. (聯華超市(江蘇)有限公司), Lianhua Supermarket Distribution Co., Ltd. (the "Lianhua Supermarket Distribution", 上海聯華配銷有限公司), Shanghai Lianhua Live and Fresh Food Processing and Distribution Co., Ltd. (上海聯華生鮮食品加工配送中心有限公司) and Lianhua E-business Co., Ltd. (the "Lianhua E-business", 聯華電子商務有限公司).

As at 31 December 2011, the Company's principal associated company is Shanghai Carhua.

Please refer to note 46 to the consolidated financial statements of this annual report for the particulars of certain principal subsidiaries and associated companies of the Company.

## Accounts

The audited results of the Group for the year ended 31 December 2011 are set out in the consolidated statement of comprehensive income on page 69 of the annual report.

The financial condition of the Group as at 31 December 2011 is set out in the consolidated statement of financial position on pages 70 to 71 of the annual report.

The cash flow of the Group for the year ended 31 December 2011 is set out in the consolidated statement of cash flow on pages 77 to 78 of the annual report.

## Dividend distribution

The Board recommends payment of a final dividend of RMB0.12 per share (including tax) for the year ended 31 December 2011.

The arrangement of the closure of the register of shareholders of H shares of the Company regarding shareholders' dividends entitlement will be announced in the circular of the annual general meeting for the year 2011 of the Company to be despatched to the shareholders. The above dividend distribution proposal is subject to the approval by the shareholders at the annual general meeting for the year 2011 of the Company.

The dividends to be distributed will be denominated and declared in Renminbi. Distribution to shareholders of domestic shares of the Company will be made in Renminbi, while distribution to shareholders of unlisted foreign shares of the Company will be made in relevant foreign currencies and distribution to shareholders of H shares of the Company will be made in Hong Kong dollars. The dividends to be distributed in Hong Kong dollars will be converted into Hong Kong dollars at the average exchange rate of Renminbi to Hong Kong dollars announced by the People's Bank of China in the week prior to the dividend declaration date.

In accordance with the Enterprise Income Tax Law of the People's Republic of China and its implementation rules which came into effect on 1 January 2008, the Company is required to withhold enterprise income tax at the rate of 10% on behalf of the non-resident enterprise shareholders whose names appear on the register of shareholders of H shares of the Company when distributing final dividends to them. Any

# Report of the Directors

H shares of the Company registered in the name of the non-individual registered shareholder, including HKSCC Nominees Limited, other nominees, trustees, or other organizations and groups, shall be treated as shares being held by a non-resident enterprise shareholder. As such, the enterprise income tax shall be withheld from the dividend payable to such shareholders.

All investors should consider the preceding contents carefully. If any investor intends to change the identity of shareholders, please kindly enquire about the relevant procedures with your nominees or trustees. The Company has no responsibility and shall not be held responsible for confirming the identities of the shareholders. The Company will strictly comply with the law, and withhold and pay the corporate income tax on behalf of the relevant shareholders based on the register of shareholders of H shares of the Company as at the relevant record day. Any requests relating to any delay in confirming the identity of the shareholder or any errors in the identity of the shareholder will not be accepted.

Pursuant to the rules of exemption of individual foreigners from individual income tax on dividend from foreign-invested enterprises, which are set out in the "Notice of the Ministry of Finance and the State Administration of Taxation on Certain Policies Regarding Individual Income Tax (Caishui【1994】20) (《財政部國家稅務總局關於個人所得稅若干政策問題的通知》(財稅(1994)20號)) dated 13 May 1994, when the Company distributes the 2011 final dividend to its individual shareholders whose names appear on the register of shareholders of H shares of the Company as at the relevant record day, the Company will distribute in full the 2011 final dividend to its individual shareholders of H shares.

Shareholders are recommended to consult their taxation advisors regarding the PRC, Hong Kong and other tax implications arising from their holding and disposal of H shares of the Company.

## Reserves

Details of the movements in reserves during the period under review are set out in the consolidated statement of changes in equity on pages 74 to 75 of the annual report.

## Fixed assets

Movements of fixed assets during the period under review are set out in note 14 to the consolidated financial statements of the annual report.

## Bank loans, overdrafts and other borrowings

As at 31 December 2011, the Group had no other bank borrowings, except for new borrowings of RMB2,000,000 due within one year from a non-wholly-owned subsidiary of the Group.

## Capitalised interest

During the period under review, no interest of construction in progress has been capitalised.

## Listing of shares and changes

H shares of the Company were listed on the Main Board of the Stock Exchange on 27 June 2003.

The Company placed 34,500,000 new H shares on 4 October 2004. Accordingly, the total number of shares of the Company in issue increased from 587,500,000 shares to 622,000,000 shares. H shares in issue increased from 172,500,000 shares to 207,000,000 shares, representing approximately 33.28% of the Company's total share capital.

The Company issued 8 additional shares to the shareholders whose names appeared on the register of shareholders of the Company on the record date, i.e. 28 June 2011, for every 10 shares held by them by way of capitalization of the capital reserve fund on 8 September 2011. The total number of shares of the Company in issue increased from 622,000,000 shares to 1,119,600,000 shares. H shares in issue increased from 207,000,000 shares to 372,600,000 shares, representing approximately 33.28% of the Company's total share capital. Please refer to the circular of the Company dated 13 May 2011 for the details of the issue.

Information on the performance of H shares of the Company in 2011:

| | |
|---|---|
| Highest trading price per H share during the year | HK$39.95 |
| Lowest trading price per H share during the year | HK$8.30 |
| Total turnover volume of H shares during the year | 228 million shares |
| Closing price per H share as at 31 December 2011 | HK$9.93 |

## Public float

The Company confirms that the Company's public float during the period under review complied with the applicable requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

# Report of the Directors

## Share capital

As at 31 December 2011, the classes and number of shares of the Company are as follows:

| Class of shares | No. of issued shares ('000 shares) | Percentage (%) |
|---|---|---|
| Domestic shares | 639,977.4 | 57.16 |
| Attributable to: | | |
| Shanghai Friendship Group Incorporated Company | 380,952.0 | 34.03 |
| Shanghai Bailian Group Investment Co., Ltd. | 237,029.4 | 21.17 |
| Shanghai Liding Investment Company Limited | 21,996.0 | 1.96 |
| Unlisted foreign shares | 107,022.6 | 9.56 |
| Attributable to: | | |
| Mitsubishi Corporation | 75,420.0 | 6.74 |
| Wong Sun Hing Investment Company Limited | 31,602.6 | 2.82 |
| H shares | 372,600.0 | 33.28 |
| Total | 1,119,600.0 | 100 |

## Number of shareholders

As at 31 December 2011, details of shareholders as recorded in the register of shareholders of the Company are as follows:

| | |
|---|---|
| Total number of shareholders | 26 |
| Shareholders of domestic shares | 3 |
| Shareholders of unlisted foreign shares | 2 |
| Shareholders of H shares | 21 |

## Legal status of unlisted foreign shares

Set out below is the summary of legal opinions given by Grandall Law Firm (Shanghai) on the rights attached to unlisted foreign shares (the "Unlisted Foreign Shares"). Although the Prerequisite Clauses for Articles of Association of Companies to be Listed Overseas (the "Prerequisite Clauses") provides the definitions of "domestic shares", "foreign shares" and "overseas listed foreign shares" (these definitions have been adopted in the Articles of Association of the Company ("Articles of Association")), the rights attached to the Unlisted Foreign Shares, which are subject to certain restrictions on transfer as referred to the Prospectus and may become H shares of the Company (the "H Shares") upon obtaining the requisite approvals from, among others, the China Securities Regulatory Commission (the "CSRC") and the Stock Exchange, are not expressly provided under the existing PRC laws or regulations. However, the Company's creation of Unlisted Foreign Shares and the subsistence of the Unlisted Foreign Shares does not contravene any PRC laws or regulations.

At present, there are no express laws and regulations in the PRC governing the rights attached to Unlisted Foreign Shares. Grandall Law Firm (Shanghai) advised that until new laws or regulations are introduced in this aspect, holders of the Unlisted Foreign Shares shall be treated the same as holders of domestic shares ("Domestic Shares") of the Company (in particular, in respect of the rights to attend and vote at general meetings and class meetings and to receive notice of such meetings in the same manner as holders of Domestic Shares), except that the holders of the Unlisted Foreign Shares enjoy the following rights to which the holders of Domestic Shares are not entitled:

(a) to receive dividends declared by the Company in foreign currencies; and

(b) in the event of winding up of the Company, to remit their respective shares of the remaining assets (if any) of the Company out of the PRC in accordance with the applicable foreign exchange control laws and regulations of the PRC.

# Report of the Directors

No provision is made for the settlement of disputes between holders of Unlisted Foreign Shares and holders of Domestic Shares in the Prerequisite Clauses or the Articles of Association. According to the PRC laws, in case of disputes between holders of Unlisted Foreign Shares and holders of Domestic Shares and the parties failed to reach any settlement after negotiation or mediation, either party may choose to resort to an arbitration commission in the PRC or any other arbitration commission to conduct arbitration for dispute resolution pursuant to a written arbitration agreement. If there is no prior arbitration agreement and the parties are not able to reach an agreement in respect of their dispute, either party may initiate legal proceedings in a competent PRC court.

According to the requirements under Clause 163 of the Prerequisite Clauses and the Articles of Association, in general, disputes between holders of H Shares and holders of Domestic Shares are required to be settled through arbitration. Such dispute resolution requirements are also applicable to disputes between holders of H Shares and holders of Unlisted Foreign Shares.

As advised by Grandall Law Firm (Shanghai), the Unlisted Foreign Shares can be converted into new H Shares subject to satisfaction of the following conditions:

(a) the expiry of a period of one year from the date on which the Company was converted from a limited company into a joint stock limited company and listed on the Stock Exchange;

(b) approvals from the original approval authority or authorities in the PRC for the establishment of the Company obtained by holders of Unlisted Foreign Shares for the conversion of Unlisted Foreign Shares into H shares;

(c) approval from the CSRC obtained by the Company for the conversion of Unlisted Foreign Shares into new H Shares;

(d) approval granted by the Stock Exchange for the listing and trading of the new H Shares converted from the Unlisted Foreign Shares;

(e) approval granted by the shareholders of the Company at a general meeting and the holders of H Shares, Domestic Shares and Unlisted Foreign Shares at their respective class meetings to authorize the conversion of Unlisted Foreign Shares into new H Shares in accordance with the Articles of Association; and

(f) full compliance with relevant PRC laws, rules, regulations and policies governing companies incorporated in the PRC and seeking permission for listing of shares outside the PRC and with the Articles of Association and any agreement among the shareholders.

Upon satisfaction of all the conditions mentioned above and other conditions as may be imposed from time to time by the Stock Exchange, Unlisted Foreign Shares may be converted into new H Shares.

## Disclosure of interests

### Directors, Chief Executive Officer and Supervisors of the Company

As at 31 December 2011, none of the Directors, Supervisors or chief executive officer of the Company had any interests and short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations as defined in Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are regarded or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the Company's register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules.

As at 31 December 2011, Mr. Ma Xin-sheng, Mr. Hua Guo-ping, Mr. Chen Jian-jun and Mr. Wang Long-sheng (Mr. Ma Xin-sheng and Mr. Hua Guo-ping are the Directors of the company and Mr. Chen Jian-jun and Mr. Wang Long-sheng are the Supervisors of the Company) are directors, supervisors or employees of Shanghai Friendship. As disclosed below, Shanghai Friendship had interests in the shares of the Company as at 31 December 2011 as recorded in the register required to be kept under section 336 of the SFO.

# Report of the Directors

### Substantial Shareholders of the Company

So far as the Directors are aware, as at 31 December 2011, the following persons (not being a Director, chief executive officer or Supervisor of the Company) had interests in the shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

| Name of shareholders | Class of shares | No. of Domestic Shares/Unlisted Foreign Shares/ H Shares | Approximate percentage of total voting rights of the Company | Approximate percentage of voting rights of domestic shares and unlisted foreign shares | Approximate percentage of voting rights of H shares |
|---|---|---|---|---|---|
| Shanghai Friendship (Notes 1 & 2) | Domestic Shares | 617,981,400 | 55.20% | 82.73% | – |
| Bailian Investment (Note 1) | Domestic Shares | 237,029,400 | 21.17% | 31.73% | – |
| Bailian Group (Notes 2 & 3) | Domestic Shares | 617,981,400 | 55.20% | 82.73% | – |
| Mitsubishi Corporation | Unlisted Foreign Shares | 75,420,000 | 6.74% | 10.10% | – |
| Arisaig Asia Consumer Fund Limited (Notes 4 & 5) | H Shares | 61,488,000 (L) | 5.49% (L) | – | 16.50% (L) |
| Arisaig Partners (Mauritius) Limited (Notes 4 & 5) | H Shares | 61,488,000 (L) | 5.49% (L) | – | 16.50% (L) |
| Lindsay William Ernest Cooper (Notes 4 & 5) | H Shares | 61,488,000 (L) | 5.49% (L) | – | 16.50% (L) |
| Matthews International Capital Management, LLC (Note 5) | H Shares | 29,844,000 (L) | 2.67% (L) | – | 8.01% (L) |
| JPMorgan Chase & Co. | H Shares | 22,084,600 (L)<br>9,936,000 (P) | 1.97% (L)<br>0.89% (P) | –<br>– | 5.93% (L)<br>2.67% (P) |
| Julius Baer International Equity Fund (Note 5) | H Shares | 21,944,804 (L) | 1.96% (L) | – | 5.89% (L) |

(L) = Long position
(S) = Short position
(P) = Lending pool

# Report of the Directors

Notes:

1. As at 31 December 2011, Shanghai Friendship owns 100% interests in Bailian Investment.

2. The Company was informed by Shanghai Friendship on 28 September 2011 that the matter in relation to the capital increment in and merger with Shanghai Bailian by Shanghai Friendship (the "Restructuring Project", being the transaction contemplated under the Assets Purchase Agreement and the Merger Agreement entered into between Shanghai Friendship and (i) Bailian Group; and (ii) Shanghai Bailian, respectively, details of which please refer to the announcements of the Company dated 3 November 2010 and 22 November 2010) has been approved by all related authorities. Upon the approval of the Restructuring Project, Shanghai Friendship became the sole shareholder of Bailian Investment and Bailian Group directly and indirectly holds approximately 49.26% of the shares in Shanghai Friendship. Therefore, Bailian Group is deemed to have interest in the Company.

   As at 31 December 2011, Shanghai Friendship held an aggregate of 617,981,400 shares of the Company, out of which 380,952,000 shares of the Company were held directly, and 237,029,400 shares of the Company were held through Bailian Investment. During the period under review, Shanghai Friendship's shareholding in the Company increased from approximately 34.03% to 55.20%.

   As at 31 December 2011, Mr. Ma Xin-sheng, chairman of the Company, is chairman of Shanghai Friendship, Mr. Hua Guo-ping, the executive Director of the Company, is the director of Shanghai Friendship. Mr. Chen Jian-jun, the supervisor of the Company, is the supervisor of Shanghai Friendship, and Mr. Wang Long-sheng, the supervisor of the Company, is the director of Shanghai Friendship.

3. As at 31 December 2011, Mr. Ma Xin-sheng, the Chairman of the Company, is the chairman of the board of directors of Bailian Group.

4. As at 31 December 2011, Arisaig Asia Consumer Fund Limited was the beneficial owner of 61,488,000 shares. Arisaig Partners (Mauritius) Limited was the fund manager of Arisaig Asia Consumer Fund Limited and held such shares as an investment manager. Lindsay William Ernest Cooper was deemed to have interest in these shares through his interest in his controlled corporations, including Arisaig Partners (Mauritius) Limited.

5. As the Company issued 8 additional shares to the shareholders whose names appeared on the register of shareholders of the Company on the record date, i.e. 28 June 2011, for every 10 shares held by them by way of capitalization of the capital reserve fund on 8 September 2011, the numbers of H shares of the Company held as at 31 December 2011 by holders of H shares have been adjusted accordingly, if necessary.

Save as disclosed above, the directors are not aware of any persons holding any interests or short positions in the shares or underlying shares of the Company which were required to be recorded in the register pursuant to section 336 of the SFO as at 31 December 2011.

## Ultimate holding company

As at the date of this report, Bailian Group, a company incorporated in the PRC with limited liability, is the ultimate holding company of Shanghai Friendship. Accordingly, Bailian Group is the ultimate holding company of the Company.

## Pre-emptive rights

There are no provisions under the Articles of Association of the Company or any applicable laws and regulations requiring the Company to offer pre-emptive rights of new shares to its existing shareholders in accordance with the proportion of their respective shareholdings.

## Purchase, sale or redemption of shares

From 27 June 2003, the date of listing of the Company's shares on the Stock Exchange, to the date of this report, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the shares of the Company.

## Share capital interests held by the Directors and Supervisors

As at 31 December 2011, none of the Directors, Supervisors or chief executive officer of the Company had any interests or short positions in the shares, underlying shares of the Company or any associated corporation (as defined in the SFO) which were required by section 352 of the SFO to be recorded in the register referred to therein, or required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

# Report of the Directors

## Directors and Supervisors

The Directors and Supervisors during the period under review and up to the date of this report were as follows:

*Executive Directors:*
Mr. Hua Guo-ping
Mr. Liang Wei (Note 1)
Ms. Xu Ling-ling
Ms. Cai Lan-ying
Mr. Tang Qi

*Non-executive Directors:*
Mr. Ma Xin-sheng *(Chairman)*
Mr. Xu Bo (Note 2)
Mr. Wang Zhi-gang (Note 2)
Mr. Kazuyasu Misu
Mr. Wong Tak Hung

*Independent Non-executive Directors:*
Mr. Xia Da-wei
Mr. Lee Kwok Ming, Don
Mr. Zhang Hui-ming

*Supervisors:*
Mr. Chen Jian-jun
Mr. Wang Long-sheng
Mr. Dao Shu-rong

Note 1: Mr. Liang Wei resigned from the office of executive Director of the Company on 21 March 2012.

Note 2: Mr. Xu Bo resigned from the office of non-executive Director of the Company on 16 January 2012. The Board of the Company elected Mr. Wang Zhi-gang as the new non-executive Director of the Company on the same date.

Details of the profile of the Directors, Supervisors and senior management of the Company are set out on pages 36 to 39.

## Directors' and Supervisors' service contracts

The Company has entered into service contract with each of the executive Directors and independent non-executive Directors on 28 June 2011, terms of which correspond to their respective term of office as Director for a period of 3 years and renewable subject to applicable laws. Neither the Directors, nor the Supervisors have a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

## Directors' and Supervisors' interests in contracts

No contract of significance (as defined in the Listing Rules, and which remained effective during the year or at the end of the year) to the business of the Company to which the Company or its fellow subsidiaries was a party and in which a Director or Supervisor had material interests, either directly or indirectly, subsisted as at balance sheet date or at any time during the period under review.

## Interest in shares or debentures acquired by the Directors and Supervisors

During the period under review, no arrangement was entered into by the Company or its fellow subsidiaries which enabled the Directors or Supervisors to acquire the shares or bonds of the Company.

## Independence of the independent Directors

The Company has received written confirmation from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules concerning their independence. The Company considers that all existing independent non-executive Directors comply with the provisions of Rule 3.13 of the Listing Rules and are independent.

## Highest paid individuals

All the five highest paid individuals of the Company during the period under review included one of the executive Directors of the Company. Details of their remuneration are set out in note 11 to the consolidated financial statements in this annual report.

# Report of the Directors

## Retirement pension schemes

In accordance with applicable laws and regulations in the PRC, full-time employees of the Group participate in various defined contribution retirement schemes established by the relevant municipal and provincial governments of the PRC, under which the Group and the employees were required to make monthly contributions to these schemes at a particular percentage of the employees' salaries during the relevant periods. Forfeited contributions may not be used by the Group to reduce the existing level of contributions.

Please refer to note 44 to the consolidated financial statement of the Company for details of the retirement benefit plans.

## Change of auditors

The Company appointed Deloitte Touche Tohmatsu as the Company's international auditor from the conclusion of its 2008 annual general meeting, i.e. 27 May 2009, to the conclusion of the annual general meeting of the Company for the year 2009, and PricewaterhouseCoopers ceased to be the Company's international auditor with effect from 27 May 2009.

PwC and the Board have confirmed that there were no matters relating to the change of international auditor of the Company which they consider should be brought to the attention of the shareholders the Company.

The Company appointed Deloitte Touche Tohmatsu as the Company's international auditor from the conclusion of its 2009 annual general meeting, i.e. 23 June 2010, to the conclusion of the 2010 annual general meeting of the Company.

Deloitte Touche Tohmatsu was re-appointed as the international auditor from the conclusion of the 2010 annual general meeting of the Company, i.e., 28 June 2011, to the conclusion of the 2011 annual general meeting of the Company.

## Significant litigation

During the period under review, the Company was not engaged in any significant litigation.

## Connected transactions

The following transactions of the Company constitute connected transactions and continuing connected transactions under Chapter 14A of the Listing Rules, mainly concerning:

## Continuing Connected Transactions – Lease Agreements

The lease agreement dated 30 September 2003 was entered into between Century Lianhua as the lessee and Shanghai Bailian Xijiao Shopping Centre Co., Ltd. ("Bailian Xijiao", 上海百聯西郊購物中心有限公司), formerly known as Shanghai Friendship Shopping Centre Development Co., Ltd. (上海友誼購物中心發展有限公司), as the lessor in respect of the leasing of No. 88, Xian Xia West Road, Chang Ning District, Shanghai, the PRC. The annual rent under this lease agreement for each of the three years ending 31 December 2011 is subject to an annual cap of RMB16,700,000, details of which are set out in the announcement of the Company dated 28 November 2008. Century Lianhua is a subsidiary of the Company and Bailian Xijiao is a subsidiary of Shanghai Friendship, a direct holding company of the Company and thus such transactions constitute continuing connected transactions of the Company.

The lease agreement dated 3 December 2002 and the supplemental lease agreement dated 31 December 2008 were entered into between Century Lianhua as the lessee and Homemart Decoration and Materials Co., Ltd. ("Homemart", 好美家裝潢建材有限公司) as the lessor in respect of the leasing of No. 645, Xie Tu Road, Lu Wan District, Shanghai, the PRC (the "Lease Transaction"). The annual rent (inclusive of management fee of RMB1,125,000 per year payable to Homemart) of the premises for the periods from 1 January 2009 to 25 July 2012, from 26 July 2012 to 25 July 2017 and from 26 July 2017 to 25 July 2022 are RMB3,150,000 per year, RMB3,307,500 per year and RMB3,472,875 per year, respectively, details of which are set out in the announcement of the Company dated 31 December 2008. On 16 April 2012, Century Lianhua, Homemart and Shanghai Century Lianhua Supermarket Luwan Co., Ltd. (上海世紀聯華超市盧灣有限公司) ("Century Lianhua Luwan Company", a wholly-owned subsidiary of Century Lianhua) entered into a supplementary agreement to agree that Century Lianhua Luwan Company was to replace Century Lianhua to undertake all the related rights and obligations of Century Lianhua under the Lease Transaction with effect from the date of registration with the business registration office. Since Homemart is a subsidiary of Shanghai Friendship, a direct holding company of the Company and thus such transactions constitute continuing connected transactions of the Company.

# Report of the Directors

The lease agreement dated 23 February 2004 and the supplemental lease agreement dated 26 June 2009 were entered into between Century Lianhua as the lessee and Homemart as the lessor in respect of the leasing of No. 1875, Ji Yang Lu, Pudong New District, Shanghai, the PRC. Pursuant to the supplemental lease agreement, the annual rent and management fees of the premises will be reduced from RMB6,300,000 to RMB6,090,000 from 1 July 2009, with the same increment percentage as agreed in the lease agreement dated 23 February 2004. The rent will be payable by Century Lianhua directly to Shanghai Di Lin Trading Company Limited ("Shanghai Di Lin", 上海荻林工貿有限公司), the landlord of the premises, instead of Homemart and the management fees will continue to be paid by Century Lianhua to Homemart and the specific amounts are as follows:

| | **Rent and management fees per quarter payable by Century Lianhua** (RMB) | **Rent per quarter payable by Century Lianhua to Shanghai Di Lin** (RMB) | **Management fees per quarter payable by Century Lianhua to Homemart** (RMB) |
|---|---|---|---|
| 1 July 2009 to 30 September 2010 | 1,522,500.00 | 706,250.00 | 816,250.00 |
| 1 October 2010 to 30 September 2012 | 1,598,625.00 | 706,250.00 | 892,375.00 |
| 1 October 2012 to 30 September 2013 | 1,598,625.00 | 739,062.50 | 859,562.50 |
| 1 October 2013 to 30 September 2016 | 1,678,556.30 | 739,062.50 | 939,493.80 |
| 1 October 2016 to 30 September 2017 | 1,762,484.10 | 739,062.50 | 1,023,421.60 |
| 1 October 2017 to 30 September 2019 | 1,762,484.10 | 773,515.60 | 988,968.40 |
| 1 October 2019 to 30 September 2022 | 1,850,608.30 | 773,515.60 | 1,077,092.60 |

Details of the above supplemental lease agreement are set out in the announcement of the Company dated 26 June 2009.

Given that each of the percentage ratios of the aggregate rent payable by Century Lianhua to Bailian Xijiao and Homemart under the aforementioned lease agreements is less than 5%, the above lease agreements are only subject to the reporting, annual review and announcement requirements but is exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

The lease agreement dated 15 September 2006 was entered into between Century Lianhua as the lessee and Shanghai Bailian Central Shopping Plaza Co., Ltd. ("Bailian Central", 上海百聯中環購物廣場有限公司), formerly known as Shanghai Bailian De Hong Shopping Mall Co., Ltd. (上海百聯德泓購物中心有限公司), as the lessor in respect of the leasing of portion of area located within Bailian Central Shopping Plaza at No.1288 Zhenguang Road, Shanghai, the PRC for a term from 21 December 2006 to 20 December 2026. The annual rent of the premises is RMB11,988,750 per year from the first year to the third year, and starting from the fourth year onwards, a 5% increment is calculated based on the previous three-year period for every three-year period thereafter, and the management fee of the premises is RMB3,011,250 per year, details of which are set out in the announcement of the Company dated 2 March 2009. Since Bailian Central is a subsidiary of Bailian Group, an holding company of the Company's substantial shareholder, Shanghai Friendship, and thus such transaction constitutes continuing connected transactions of the Company.

# Report of the Directors

The lease agreement dated 1 July 2010 was entered into between Century Lianhua as the lessee and Shanghai Bailian Nanqiao Shopping Centre Co., Ltd. (上海百聯南橋購物中心有限公司) ("Bailian Nanqiao") as the lessor in respect of the property located at room G41-B01-1-001 at B1 floor and a portion of area at first and second floors of Shanghai Bailian Nanqiao Shopping Centre, No. 228-288 Bai Qi Lu, Shanghai, the PRC. The maximum annual amount of the transaction payable by Century Lianhua under this lease agreement are set out as follows:

| Period | Maximum Amount (RMB) |
|---|---|
| From 1 January 2010 to 31 December 2010 (Note 1) | 1,410,000 |
| From 1 January 2011 to 31 December 2011 | 4,220,000 |
| From 1 January 2012 to 31 December 2012 | 4,220,000 |
| From 1 January 2013 to 31 December 2013 | 4,400,000 |
| From 1 January 2014 to 31 December 2014 | 4,400,000 |
| From 1 January 2015 to 31 December 2015 | 4,400,000 |
| From 1 January 2016 to 31 December 2016 | 4,580,000 |
| From 1 January 2017 to 31 December 2017 | 4,580,000 |
| From 1 January 2018 to 31 December 2018 | 4,580,000 |
| From 1 January 2019 to 31 December 2019 | 4,770,000 |
| From 1 January 2020 to 31 December 2020 | 4,770,000 |
| From 1 January 2021 to 31 December 2021 | 4,770,000 |
| From 1 January 2022 to 31 December 2022 | 4,970,000 |
| From 1 January 2023 to 31 December 2023 | 4,970,000 |
| From 1 January 2024 to 31 December 2024 | 4,970,000 |
| From 1 January 2025 to 31 December 2025 (Note 2) | 2,490,000 |

Note 1: The maximum amount of the transaction represents the amount of the transaction for the period after the end of the rent-free period, i.e., from 28 September 2010, to 31 December 2010.

Note 2: The maximum amount of the transaction represents the amount of the transaction from 1 January 2025 to the expiration of the term, i.e., 27 May 2025.

The relevant details are set out in the announcement of the Company dated 1 July 2010. Century Lianhua is a subsidiary of the Company, and Bailian Nanqiao is accounted and consolidated as a subsidiary of Bailian Group. As Bailian Group is the controlling shareholder of Shanghai Friendship (a substantial shareholder of the Company), such transactions constitute continuing connected transactions of the Company.

The lease agreement dated 1 July 2010 was entered into between Century Lianhua as the lessee and Shanghai Bailian Jinshan Shopping Centre Co., Ltd. ("Bailian Jinshan", 上海百聯金山購物中心有限公司), formerly known as Shanghai Jinshan Baibei Shopping Centre Co., Ltd. (上海金山百倍購物中心有限公司), as the lessor in respect of the property located at room 1-101 at B1 floor and rooms 1-102 & 1-103 at the first floor of Shanghai Jinshan Baibei Shopping Centre, No.18 West Wei Qing Lu, Shanghai, the PRC. The maximum annual amount of the transaction payable by Century Lianhua under this lease agreement are set out as follows:

| Period | Maximum Amount (RMB) |
|---|---|
| From 1 January 2010 to 31 December 2010 (Note 1) | 2,410,000 |
| From 1 January 2011 to 31 December 2011 | 7,230,000 |
| From 1 January 2012 to 31 December 2012 | 7,230,000 |
| From 1 January 2013 to 31 December 2013 | 7,540,000 |
| From 1 January 2014 to 31 December 2014 | 7,540,000 |
| From 1 January 2015 to 31 December 2015 | 7,540,000 |
| From 1 January 2016 to 31 December 2016 | 7,870,000 |
| From 1 January 2017 to 31 December 2017 | 7,870,000 |
| From 1 January 2018 to 31 December 2018 | 7,870,000 |
| From 1 January 2019 to 31 December 2019 | 8,220,000 |
| From 1 January 2020 to 31 December 2020 | 8,220,000 |
| From 1 January 2021 to 31 December 2021 | 8,220,000 |
| From 1 January 2022 to 31 December 2022 | 8,580,000 |
| From 1 January 2023 to 31 December 2023 | 8,580,000 |
| From 1 January 2024 to 31 December 2024 | 8,580,000 |
| From 1 January 2025 to 31 December 2025 (Note 2) | 3,580,000 |

Note 1: The maximum amount of the transaction represent the amount of the transaction for the period after the end of the rent-free period, i.e., from 28 September 2010 to 31 December 2010.

Note 2: The maximum amount of the transaction represent the amount of the transaction from 1 January 2025 to the expiration of the term, i.e., 27 April 2025.

The relevant details are set out in the announcement of the Company dated 1 July 2010. Century Lianhua is a subsidiary of the Company, and Bailian Jinshan is accounted and consolidated as a subsidiary of Bailian Group. As Bailian Group is the controlling shareholder of Shanghai Friendship (a substantial shareholder of the Company), such transactions constitute continuing connected transactions of the Company.

# Report of the Directors

Given that each of the applicable percentage ratios in respect of the aggregated annual rent and management fee payable by Century Lianhua to Bailian Group and its subsidiaries under the aforementioned lease agreements is below 5%, the above lease agreements are only subject to the reporting, annual review and announcement requirements but is exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

## Continuing Connected Transactions – Framework Agreements between the Company and Bailian Group from 2010 to 2012

On 23 December 2009, the Company entered into a framework agreement with Bailian Group in respect of each of the various transactions from 2010 to 2012, including transactions of supply of goods, logistic services, smart cards arrangement, sale and purchase of mobile phones and supply of resources, respectively. Specific details are as follows:

| Agreement | Transaction Particulars | Principal Terms | Annual Cap |
|---|---|---|---|
| Supply of goods framework agreement | Bailian Group and/or its subsidiaries agreed to supply various kinds of goods, including but not limited to dried meat products, electrical appliances, electrical components, sports products, cosmetic and sanitary products and other household articles, for sale in the sales outlets of the Company | The pricing for the supply of goods under the supply of goods framework agreement is determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties with reference to the market price of such goods from time to time. Such transactions will be conducted in the ordinary and usual course of business of the Company, on normal commercial terms and on terms not less favourable to the Company than terms provided by independent third parties. | According to the supply of goods framework agreement dated 23 December 2009 and the supplemental supply of goods framework agreement dated 15 July 2011, the maximum aggregate annual amount of the transactions under the supply of goods framework agreement for each of the three years ended 31 December 2012 are RMB140.00 million, RMB268.00 million and RMB321.60 million, respectively. |

# Report of the Directors

| Agreement | Transaction Particulars | Principal Terms | Annual Cap |
|---|---|---|---|
| | The parties will enter into individual supply of goods contracts setting out specific terms including the specific goods to be supplied, the price, the payment terms and schedules and other terms of delivery of goods. Such terms will be consistent with the principles and the terms of the supply of goods framework agreement. | Bailian Group and/or its subsidiaries shall pay sales rebates to the Company for the actual sale of the goods by Bailian Group and/or its subsidiaries to the Company under the supply of goods framework Agreement. Such sales rebates to be paid by Bailian Group and/or its subsidiaries to the Company is determined principally by arm's length commercial negotiations between the parties according to the principles of fairness and reasonableness between the relevant parties with reference to the policy of determining sales rebates in the market. However, in any event, such sales rebates shall not be less than 1% of the actual sales figures of such particular type of goods to be supplied by Bailian Group and/or its subsidiaries to the Company under the supply of goods framework agreement. There is no maximum amount nor percentage of sales rebate under the supply of goods framework agreement.<br><br>Depending on the type of goods purchased and the practice of the particular subsidiary of Bailian Group, the actual payment for the sale of the goods under the supply of goods framework agreement is to be made on a monthly or agreed period basis (which period shall be determined by the market practice of the payment period of such particular type of goods purchased and shall not be less favourable than those provided by independent third parties). Detailed terms shall be determined in the particular contract entered into between both parties. In the event that such payment is made on an agreed period basis, such payment term shall not be less than 15 days from the date of delivery of such goods. | |

# Report of the Directors

| Agreement | Transaction Particulars | Principal Terms | Annual Cap |
|---|---|---|---|
| Logistic services agreement | Pursuant to the logistic services agreement, Bailian Group and its subsidiaries agreed to provide logistic and distribution services, including services of in-town distribution, allocation and return of goods, out-town distribution and warehouse management, to the Company. | The fee for the provision of logistic services under the logistic services agreement is determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties with reference to the market fee of the provision of such services from time to time. Such transactions will be conducted in the ordinary and usual course of business of the Company, on normal commercial terms and on terms not less favourable to the Company than terms provided by independent third parties.<br><br>The fee payable by the Company to Bailian Group for the provision of logistic services is to be made by cash on a monthly or quarterly basis (as the case maybe depending on the type of logistic services provided and the practice of the particular subsidiary of Bailian Group). | According to the logistic services agreement dated 23 December 2009 and the supplemental logistic services agreement signed on 19 November 2010, the maximum amount of the transactions under the logistic services agreement for each of the three years ended 31 December 2012 are increased to RMB18 million, RMB23.40 million and RMB30.42 million, respectively. |
| Smart cards arrangement agreement | Each of the Company and Bailian Group has its own smart cards system which enables its customers to make purchases by using smart cards with prepaid values. Pursuant to the smart cards arrangement agreement, the parties agreed to accept all payments of purchases from the customers by using the smart cards of the other party within their respective sales networks. Each party shall charge the other party service fee according to the percentage ranging from 0.5% to 3% of such amount of the transactions which are attributable to the other party.<br><br>The relevant subsidiaries of the parties will enter into individual smart cards arrangement contracts setting out specific terms for the arrangement, including the technologies and system required, settlement arrangements and the fees and charges. Such terms will be consistent with the principles and the terms of the smart cards arrangement agreement. | The fee for the smart cards arrangement under the smart cards arrangement agreement is determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties with reference to the market price of such arrangement from time to time. Such transactions will be conducted in the ordinary and usual course of business of the Company, on normal commercial terms and on terms not less favourable to the Company than terms provided by independent third parties.<br><br>The fee payable under the smart cards arrangement agreement is to be made by cash on a monthly basis. | According to the smart cards arrangement agreement dated 23 December 2009, the maximum fee payable by Bailian Group to the Company for each of the three years ended 31 December 2012 are RMB40 million, RMB48 million and RMB57.6 million, respectively. According to the supplemental smart cards arrangement agreement dated 19 November 2010, the maximum fee payable by the Company to Bailian Group for each of the three years ended 31 December 2012 are increased to RMB30.60 million, RMB39.78 million and RMB51.72 million, respectively. |

# Report of the Directors

| Agreement | Transaction Particulars | Principal Terms | Annual Cap |
|---|---|---|---|
| Sale and purchase of mobile phones agreement | Pursuant to the sale and of mobile phones agreement, Bailian Group and the Company agreed to purchase mobile phones from the suppliers together on an aggregated basis in order to obtain better procurement terms. | The payment for the purchase of the mobile phones shall be made by the parties separately to the suppliers, regardless of individual purchase or joint purchase. However, in the event that a supplier refuses to handle the payments by both parties in a separate manner, the party with higher volume of purchase may make payment to the supplier for all purchases and then issue a separate value-added tax invoice to the other party based on the same terms and conditions offered by the supplier. If there is any sales rebate from the suppliers, the party responsible for making the payment to the suppliers shall provide the other party with the sales rebate in proportion to their respective actual purchase volume.<br><br>The fee payable under the sale and purchase of mobile phones agreement is to be made by cash on a monthly or quarterly basis (as the case maybe depending on the type of mobile phone purchased and the practice of the particular subsidiary of Bailian Group). | According to the sale and purchase of mobile phones agreement dated 23 December 2009, the maximum aggregate annual amount of the transactions under the sale and purchase of mobile phones agreement for each of the three years ending 31 December 2012 are RMB8 million, RMB12 million and RMB16 million, respectively. |
| Supply of resources agreement | Bailian Group agreed to supply various kinds of resources, including office utilities, electrical appliances, facilities, industrial products, raw materials and components parts for the day-to-day operation of the Company. | The pricing for the supply of resources under the supply of resources agreement is determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties with reference to the market price of such resources from time to time. Such transactions will be conducted in the ordinary and usual course of business of the Company, on normal commercial terms and on terms not less favourable to the Company than terms provided by independent third parties.<br><br>Depending on the type of resources purchased and the practice of the particular subsidiary of Bailian Group, the fee payable under the supply of resources agreement is to be made by cash on a monthly, quarterly basis or agreed period basis (which period shall be determined by the market practice of the payment period of such particular type of resources purchased and shall not be less favourable than those provided by independent third parties). | According to the supply of resources agreement dated 23 December 2009, the maximum aggregate annual amount of the transactions under the supply of resources agreement for each of the three years ended 31 December 2012 are RMB20 million, RMB24 million and RMB28.8 million, respectively. |

The parties will enter into individual contracts in respect of the transactions of supply of goods, logistic services, smart cards arrangement, sale and purchase of mobile phones and supply of resources. Such terms will be consistent with the principles and the terms of each of the supply of goods framework agreement, the logistic services agreement, the smart cards arrangement agreement, the sale and purchase of mobile phones agreement or the supply of resources agreement.

# Report of the Directors

As each of the percentage ratios in respect of the respective aggregate annual amount of the transactions of the abovementioned framework agreements from 2010 to 2012 entered between the Company and Bailian Group is less than 5%, the abovementioned framework agreements are only subject to the reporting, annual review and announcement requirements but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules. Please refer to the announcements of the Company dated 23 December 2009, 19 November 2010 and 15 July 2011, respectively for relevant details.

## Connected Transactions – New Lease Agreements

Shanghai Century Lianhua Yuqiao Shopping Centre Ltd. ("Lianhua Yuqiao", 上海世紀聯華御橋購物廣場有限公司) as the lessor and Shanghai Bailian, being merged into Shanghai Friendship, as the lessee entered into a lease agreement in respect of the property located at the first to third floors of Century Lianhua Yuqiao Shopping Centre, No. 2420 Hu Nan Road, Pudong New District, Shanghai, the PRC. The maximum annual amount of the transactions payable by Shanghai Bailian under this lease agreement are set out as follows:

| Period | Maximum Amount (RMB) |
|---|---|
| For each of the three years from 1 January 2012 to 31 December 2014 | 13,000,000 |
| For each of the three years from 1 January 2015 to 31 December 2017 | 20,000,000 |
| For each of the three years from 1 January 2018 to 31 December 2020 | 27,000,000 |
| For each of the three years from 1 January 2021 to 31 December 2023 | 33,000,000 |
| For each of the three years from 1 January 2024 to 31 December 2026 | 46,000,000 |

The relevant details are set out in the announcement of the Company dated 15 July 2011. Lianhua Yuqiao is a subsidiary of the Company, and Shanghai Bailian is a subsidiary of Bailian Group. As Bailian Group is the controlling shareholder of Shanghai Friendship (a substantial shareholder of the Company), such transactions constitute continuing connected transactions of the Company. Given that each of the applicable percentage ratios in respect of the aggregated annual rent and management fees under the lease agreement is below 5%, the lease agreement is only subject to the reporting, annual review and announcement requirements but is exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The independent non-executive Directors have reviewed the above transactions and confirmed that the transactions have been entered into are:

(1) in the ordinary and usual course of business of the Group;

(2) on normal commercial terms (to the extent that there are comparable transactions) or if there are no comparable transaction to determine whether they are on normal commercial terms, on terms not less favourable to the Group than terms provided by or to (if applicable) independent third parties and conducted during the year under review; and

(3) in accordance with the respective agreements and on fair and reasonable terms and in the interests of the shareholders of the Company as a whole.

The auditors of the Company have reviewed the above transactions and given written notice to the Board to confirm that the above transactions:

(1) have been approved by the Board;

(2) have been conducted in accordance with the relevant agreements;

(3) were in accordance with the pricing policies of the Company; and

(4) did not exceed the respective cap for each transaction.

By order of the Board

**Ma Xin-sheng**
*Chairman*

21 March 2012
Shanghai, the PRC

# Report of Corporate Governance

The Group fully acknowledges its obligations to its shareholders and investors. Since its listing in 2003, the Company has been in strict compliance with the relevant requirements of the applicable laws, regulations and rules of domestic or overseas securities regulatory authorities and has been committed to improving the transparency of its corporate governance and the quality of information disclosure. The Group also attaches great importance on communication with its shareholders and investors and strives to ensure the timeliness, completeness and accuracy of its information disclosure to its shareholders and investors and to the protection of the interests of investors. The Board has strictly complied with the principles of corporate governance and is dedicated to improving the management quality of the Company and the standard of corporate governance continually in order to protect and enhance value for shareholders. To this end, the Company has adopted the principles in the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 to the Listing Rules since 1 January 2005 with an aim to enhance the quality of corporate governance of the Group. Such adoption was reflected in the Company's Articles of Association, internal rules and regulations and the corporate governance implementation practices.

The Board is pleased to confirm that save and except the Company's practice relating to the Directors' retirement rotation as set out below, the Company has complied with all the code provisions of the Code during the period under review and none of the Directors is aware of any information that would reasonably indicate that the Company is not or was at any time during the period under review in compliance with the code provisions of the Code.

## Board

During the period under review, the Board consists of 12 Directors, five of whom are executive Directors and four of whom are non-executive Directors including the chairman of the Board and three of whom are independent non-executive Directors. Profiles and particulars of the chairman of the Company and other Directors are set out under the section headed Profiles of Directors, Supervisors and Senior Management in this report. As approved by an ordinary resolution at the annual general meeting on 28 June 2011, the fourth session of the Board was established and the term of office of each Director (including non-executive Directors) is three years, which will expire on the date of conclusion of 2013 annual general meeting of the Company. Corresponding to the term of office, all executive Directors have entered into service contracts, which are valid for a term of 3 years and renewable subject to the applicable laws. The names of Directors referred herein are members of the fourth session of the Board.

The principal responsibilities of the Board include:

– to formulate overall strategies, monitor operating and financial performance and determine proper policies to manage risks exposures arising in the course of achieving the Group's strategic goals;

– to be responsible for the internal control system of the company and overseeing and reviewing its efficiency;

– to be ultimately responsible for the preparation of accounts of the Company and to assess the Company's performance, financial position and prospects in a balanced, clear and comprehensible manner during the preparation of the quarterly, interim and annual reports of the Company, other price-sensitive announcements issued and the financial information disclosed under the Listing Rules, reports submitted to the regulatory authorities and information disclosed under legal requirements;

# Report of Corporate Governance

– the executive Directors/officers in charge of various aspects of the operations of the Company are responsible for the day-to-day management of business of the Company. The Board is responsible for the policies, financial and shareholders' affairs affecting the overall strategy of the Company, including financial statements, dividends policies, material changes in accounting policies, annual operating budget, material contracts, financing arrangements, major investments and risk management policies;

– the management has received clear directions and instructions in respect of their authorities, particularly in relation to the matters such as the circumstances under which they should report to the Board and seeking the Board's approval prior to making any decision or entering into any undertaking on behalf of the Company; and

– to review its responsibilities functions and authorities delegated to the executive directors/officers on a regular basis and to ensure such arrangements are appropriate.

The Board held four meetings during the year. Attendance record of the Directors (including attendance by proxy) is as follows:

**Executive Directors** **5**

| **Name** | **Attendance** |
|---|---|
| Mr. Hua Guo-ping | 4/4 |
| Mr. Liang Wei (Note 1) | 4/4 |
| Ms. Xu Ling-ling | 4/4 |
| Ms. Cai Lan-ying | 4/4 |
| Ms. Tang Qi | 4/4 |

**Non-executive Directors** **4**

| **Name** | **Attendance** |
|---|---|
| Mr. Ma Xin-sheng *(Chairman)* | 4/4 |
| Mr. Xu Bo (Note 2) | 4/4 |
| Mr. Kazuyasu Misu | 4/4 |
| Mr. Wong Tak Hung | 4/4 |

**Independent Non-executive Directors** **3**

| **Name** | **Attendance** |
|---|---|
| Mr. Xia Da-wei | 4/4 |
| Mr. Lee Kwok Ming, Don | 4/4 |
| Mr. Zhang Hui-ming | 4/4 |

Note 1: Mr. Liang Wei resigned from the office of executive Director of the Company on 21 March 2012.

Note 2: Mr. Xu Bo resigned from the office of non-executive Director of the Company on 16 January 2012. The Board elected Mr. Wang Zhi-gang as the new non-executive Director of the Company on the same date.

In addition to the above-mentioned regular Board meetings during the year, the Board would also hold meetings whenever Board's decision on any specific matter was required. All Directors will receive the notice of meeting, detailed agenda of the meeting and the relevant information at least 14 days prior to the meeting.

The members of the Board fully acknowledge their own duties and obligations in treating all shareholders on an equal basis and protecting the interests of all investors. The Company ensures that documents and information relating to the businesses of the Group are provided to Board members on a timely basis. The independent non-executive Directors perform their duties in compliance with relevant laws and regulations and safeguard the interests of the Company and its shareholders as a whole. The Company has received confirmation letters from each of the independent non-executive Directors in respect of their independence pursuant to Rule 3.13 of the Listing Rules.

Provision A4.2 of the Code requires that every director (including those appointed for a specific term) of a listed issuer shall be subject to retirement by rotation at least once every three years. The Articles of Association of the Company provides that each Director shall be appointed at the general meeting of the Company and for a term of not more than three years and shall be reappointed upon being re-elected as the Directors. Having taken into account of the continuity of the implementation of the Company's operation and management policies, the Articles of Association contains no express provision for the mechanism of Directors' retirement by rotation thus deviating from the aforementioned provision of the Code.

To the best knowledge of the Board, no relationship (including financial, business, family or other material, relevant relationship(s)) exist between members of the Board.

# Report of Corporate Governance

## Duties of the Board and the management of the Company

The positions of Chairman and Manager (equivalent to "chief executive officer" under the Listing Rules) of the Company are assumed by Mr. Ma Xin-sheng and Mr. Hua Guo-ping, respectively, which complies with the requirement of Provision A.2.1 of the Code requiring that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Chairman leads the Board and is responsible for approving and supervising the policies and strategies of the Group, approving annual budget and business plan, assessing the performance of the Company and supervising the work of the management of the Company. The Manager is responsible for the day-to-day operations of the Group and leads the management of the Company to exercise the powers conferred by the Articles of Association and delegated by the Board.

The Manager of the Company reports to the Board and performs the following duties:

(1) takes charge of the production, operation and management affairs and implementation of the resolutions of the Board;

(2) implement the annual business plans and investment plans of the Company;

(3) formulates the organizational structure plan of the Company;

(4) formulates the basic management system of the Company;

(5) formulates the basic rules of the Company;

(6) makes recommendations in respect of the appointment or removal of deputy manager and financial officer;

(7) appoints or removes management personnel except those required to be appointed or removed by the Board;

(8) personally (or appoints a deputy manager to) convenes and chairs the management meetings to be attended by the manager, deputy manager and other members of senior management;

(9) determines matters of the Company relating to the reward or punishment, promotion or demotion, pay-rise or pay-cut, recruitment, employment, removal and dismissal of staff; and

(10) exercises other powers conferred by the Articles of Association or delegated by the Board.

## Board Committees

The Board established the first session of Board Committees in 2003, including (1) the Remuneration and Appraisal Committee which establishes and determines the Company's reward and appraisal system; (2) the Strategic Committee which conducts consultation, survey, research and assessment on the Company's future investment strategies, and to enhances the Company's core competitiveness; (3) the Nomination Committee which optimizes the composition of the Board and the management of the Company; and (4) the Audit Committee which reviews the financial reporting procedures, internal control system and the completeness of financial reports of the Company.

As approved by ordinary resolutions at the annual general meeting on 28 June 2011, the fourth session of the Board was established. On the same day, the Board established the fourth session of the Board Committees in accordance with the requirements of the Code. The fourth session of the Audit Committee comprised Mr. Lee Kwok Ming, Don, Mr. Xia Da-wei and Mr. Zhang Hui-ming and was chaired by Mr. Lee Kwok Ming, Don. The fourth session of the Remuneration and Appraisal Committee of the Company comprised Mr. Xia Da-wei, Mr. Zhang Hui-ming and Mr. Hua Guo-ping and was chaired by Mr. Xia Da-wei. The fourth session of the Strategic Committee of the Company comprised Mr. Hua Gou-ping, Mr. Ma Xin-sheng, Mr. Kazuyasu Misu and Mr. Zhang Hui-ming and was chaired by Mr. Hua Gou-ping. The fourth session of the Nomination Committee of the Company comprised Mr. Zhang Hui-ming, Mr. Xia Da-wei and Mr. Hua Guo-ping and was chaired by Mr. Zhang Hui-ming. The Board has authorised the committees to formulate their respective terms of reference.

To further enhance the independence of the Board Committees, written terms of reference of each of the committees had been formulated under the authorization of the Board.

# Report of Corporate Governance

**Audit Committee**

The Board passed a resolution on 28 June 2011 to establish the fourth session of the Audit Committee. The Board confirms that each member of the Audit Committee has extensive business experience and the Audit Committee has a desirable mix of operational, accounting and financial expertise. The primary duties, roles and functions of the Audit Committee of the Company are to review the financial reporting procedures, internal control system and completeness of financial reports of the Company. The Audit Committee holds meetings on a regular basis to review the financial and other information to be reported to the shareholders, internal control system, risk management and the effectiveness and objectivity of audit procedures. The Audit Committee is also responsible for the relationship between the Board and the auditors of the Company with respect to any matters falling into its terms of reference and for making recommendations regarding the appointment, re-appointment and removal of external auditors, and approval of the relevant terms of engagement and reviewing the independence and objectivity of the auditors.

During the period under review, the Audit Committee held three meetings and performed major work including review of annual and interim financial reports, internal control, continuing connected transactions and maintaining proper relationship between the Group and external and internal auditors etc.

The Audit Committee of the Company held a meeting on 25 February 2011 to review and discuss matters such as the internal control of the Group, financial reports, remuneration and reappointment of domestic and international auditors and continuing connected transactions for 2010, including the review of the Company's annual financial report prepared in accordance with the Hong Kong Financial Reporting Standards (the "HKFRS"). The Audit Committee was of the view that the annual financial report of the Group for the year 2010 had complied with the accounting standards and requirements of the Stock Exchange and the relevant laws and had made adequate disclosures. The Audit Committee also conducted a review on the internal control system of the Company and its subsidiaries and was of the view that the Company had an effective internal control system. The Audit Committee was of the view that domestic and international auditor of the Company had carried out their work with professionalism and independence, and agreed to make recommendations to the Board in respect of their remuneration for 2010 and suggested to re-appoint the domestic and international auditors for 2011. The Audit Committee confirmed that the continuing connected transactions of the Company in 2010 did not exceed their respective caps.

The Group's chief financial officer, auditors and internal auditors also attended the meeting to address queries raised by the Audit Committee.

The Audit Committee of the Company held a meeting on 28 June 2011, and considered and unanimously agreed to elect Mr Lee Kwok Ming, Don as chairman of the fourth session of the Audit Committee.

The Audit Committee of the Company held a meeting on 29 July 2011 to review and discuss with the management the matters such as internal controls and interim financial report, including review of the Company's condensed interim report prepared in accordance with the HKFRSs. The Audit Committee was of the view that the Group's interim financial report for the six months ended 30 June 2011 had complied with the applicable accounting standards, requirements of the Stock Exchange and legal requirements, and had made adequate disclosures. In relation to its review of the Company's internal control, the Audit Committee concluded that the Company's internal control system was effective.

The Group's chief financial officer, auditors and internal auditors also attended the meeting to address queries raised by the Audit Committee.

Set out below is the attendance record of the meetings of the Audit Committee in 2011:

| Name | 25 February 2011 | 28 June 2011 | 29 July 2011 |
|---|---|---|---|
| *Independent Non-executive Directors* | | | |
| Mr. Lee Kwok Ming, Don *(chairman)* | Present | Present | Present |
| Mr. Zhang Hui-ming | Present | Present | Present |
| Mr. Xia Da-wei | Present | Present | Present |

**Remuneration and Appraisal Committee**

On 28 June 2011, the Board passed a resolution to establish the fourth session of the Remuneration and Appraisal Committee. The primary duties, roles and functions of the Remuneration and Appraisal Committee are to advise the Board on the overall remuneration policy and framework of the Directors and senior management and makes recommendations for a set of proper and transparent procedures for formulating such policy. The Remuneration and Appraisal Committee ensures that none of the Directors or any of their associates is involved in the determination of their own remuneration. The Remuneration and Appraisal Committee also ensures that effective policies and procedures are followed in respect of incentives provided to the Directors and

# Report of Corporate Governance

senior management of the company. The Remuneration and Appraisal Committee currently comprises three members, including two independent non-executive Directors (including the Chairman) and one executive Director.

During the period under review, the Remuneration and Appraisal Committee held two meetings and performed major work including assessing the performance of executive Directors and senior management of the Company and reviewing and approving compensation payable to them etc.

The Remuneration and Appraisal Committee held a meeting on 29 January 2011. Having taken into account the factors including, but not limited to, the remuneration paid by comparable companies, amount of time required to be spent by the Director and the Director's duties, remuneration packages of other positions within the Group and performance-based remuneration, the Committee determined the remuneration package of all executive Directors and approved the remuneration to five executive Directors, two Supervisors, the senior management formed by deputy general managers and assistants to general manager for 2010.

The Remuneration and Appraisal Committee of the Company held a meeting on 28 June 2011, and all members unanimously agreed to elect Mr Xia Da-wei as chairman of the fourth session of the Remuneration and Appraisal Committee.

Set out below is the attendance record of the meetings of the Remuneration and Appraisal Committee in 2011:

| **Name** | **29 January 2011** | **28 June 2011** |
|---|---|---|
| *Independent Non-executive Directors* | | |
| Mr. Xia Da-wei *(chairman)* | Present | Present |
| Mr. Zhang Hui-ming | Present | Present |
| *Executive Director* | | |
| Mr. Hua Guo-ping | Present | Present |

**Nomination Committee**

On 28 June 2011, the Board passed a resolution to establish the fourth session of the Nomination Committee. The primary duties, roles and functions of the Nomination Committee are to advise the Board on the size and composition of the Board based on the business condition, scale of assets and shareholding structure of the Company, to study and advise the Board on the selection criteria and procedures of Directors and managers, to extensively seek qualified candidates for directorship and managerial positions, and to review candidates for directorship, managerial position or other senior management posts which should be submitted to the Board for approval and make recommendations. The Nomination Committee currently comprises three members, including two independent non-executive Directors (including the Chairman) and one executive Director.

During the period under review, the Nomination Committee held two meetings and performed major work including reviewing, commenting and making recommendation to the Board on the candidates for directors and other senior management etc.

The Nomination Committee of the Company held a meeting on 25 February 2011, and discussed the candidates for the Directors of the fourth session of the Board and the nomination of the Company Secretary. In view of the expiry of the term of the third session of the Board upon on the date of the conclusion of the 2010 annual general meeting, and the fact that Shanghai Friendship, a shareholder of the Company, recommended Mr. Liang Wei, Ms. Xu Ling-ling, Ms. Cai Lan-ying and Mr. Tang Qi as candidates for executive Directors of the fourth session of the Board; Bailian Investment, a shareholder of the Company, recommended Mr. Ma Xin-sheng and Mr. Xu Bo as candidates for non-executive Directors of the fourth session of the Board; Mitsubishi Corporation, a shareholder of the Company, recommended Mr. Kazuyasu Misu as a candidate for non-executive Director of the fourth session of the Board; Wong Sun Hing Investment Co., Ltd., a shareholder of the Company, recommended Mr. Wong Tak Hung as a candidate for non-executive Director of the fourth session of the Board; Shanghai Liding Investment Company Limited, a shareholder of the Company, recommended Mr. Hua Guo-ping as a candidate for executive Director of the fourth session of the Board; and the office of the general manager of the Company recommended Mr. Xia Da-wei, Mr. Lee Kwok Ming, Don and Mr. Zhang Hui-ming as candidates for independent non-executive Directors of the fourth session of the Board, the Nomination Committee of the Company agreed to recommend to the Board the above persons as candidates for Directors of the fourth session of the Board. At the same time, as the Stock Exchange had earlier confirmed that Ms. Xu Ling-ling would be qualified to take up the office of Company Secretary independently, and Mr. Stephen Mok intended to resign from the office of Joint Company Secretary of the Company, the Nomination Committee of the Company agreed to recommend to the Board for Ms. Xu Ling-ling to take up the office of the Company Secretary of the Company, and recommended that Ms. Xu Ling-ling and Mr. Stephen Mok would no longer serve as Joint Company Secretaries of the Company.

# Report of Corporate Governance

The Nomination Committee of the Company held a meeting on 28 June 2011, considered and unanimously agreed to elect Mr. Zhang Hui-ming as chairman of the fourth session of the Nomination Committee.

Set out below is the attendance record of the meetings of the Nomination Committee in 2011:

| Name | 25 February 2011 | 28 June 2011 |
|---|---|---|
| *Independent Non-executive Directors* | | |
| Mr. Zhang Hui-ming *(chairman)* | Present | Present |
| Mr. Xia Da-wei | Present | Present |
| *Executive Director* | | |
| Mr. Hua Guo-ping | Present | Present |

## Directors' and auditors' responsibilities for the accounts

The Directors hereby confirm their responsibilities for the preparation of the accounts of the Company. The Directors confirm that the preparation of the financial statements of the Company for the year complied with the relevant laws and applicable accounting standards and that the Company would publish the financial statements of the Company on timely basis. The responsibilities of external auditors to the shareholders are set out on page 68.

## Compliance with Model Code for Securities Transactions by Directors in Appendix 10 of the Listing Rules

The Company has adopted the Model Code for Securities Transactions by Directors (the "Model Code") as set out in Appendix 10 to the Listing Rules as code of conduct for securities transactions by all Directors of the Company. After making specific enquiries to the Directors, the Board is pleased to confirm that all the Directors have fully complied with the provisions under the Model Code during the year ended 31 December 2011.

## Remuneration of auditors

The Audit Committee of the Company is responsible for considering the appointment of auditors and reviewing their remuneration. For the year under review, RMB5,154 thousand was payable by the Company to the external auditors (including the PRC and international auditors) as service charge for their audit and due diligence consultancy services. For the year under review, the external international auditors had not provided any non-auditing service to the Company.

## Internal control

The Board is solely responsible for ensuring that the internal control system of the Group is stable and efficient. The Group's internal control system comprises defined management structure and related authorities, so as to facilitate the Group to achieve its business objectives, to safeguard its assets against any unauthorised usage or handling, to ensure proper keeping of accounting records and to provide reliable financial information for internal use or external distribution, as well as to ensure compliance with relevant laws and regulations. The purpose of the afore-mentioned internal control system is to provide reasonable, but not absolute, assurance that there are no material misrepresentations or omissions, and to manage, but not to eliminate at all, malfunctions of the operating system and risks that the Group may not achieve its goals.

The Board, through the Company's Audit Committee, reviews the internal control systems of the Company and its subsidiaries on an semi-annual basis to ensure its effectiveness. Discussions cover all material control aspects, including financial control, operating control, compliance control and risk management. The Board has conducted a review of the effectiveness of the internal control system of the Group for 2011 and confirms that the internal control system of the Group is effective.

## Organizational structure

The Group has established an organizational structure, which sets out the relevant operating policies and procedures, duties and authorities.

## Authorities and controls

Executive Directors and senior management have been authorized to deal with relevant matters in respect of corporate strategies, policies and contractual liabilities. Budget controls and the budgets for operation of the financial reporting systems are formulated by relevant departments and are subject to review by Directors in charge before implementation. The Group has formulated relevant procedures to assess, review and approve significant capital and recurrent expenses, while operating results will be compared against the budgets and reported to executive Directors on a regular basis.

## Training on internal control

Directors and senior management have participated in internal control training programmes provided by the Group, which are designed to equip them with proper and full knowledge on internal control, and provide guidance to them to apply internal control systems on a consistent basis.

# Report of Corporate Governance

## Accounting system management

The Group has put in place a comprehensive accounting management system, so as to provide the management with indicators to evaluate its financial and operating performance and financial information for reporting and disclosure purposes. Any deviation from expected objectives will be analysed and explained, or the expected objectives will be amended correspondingly in line with the change in business.

The Group has set up appropriate internal control procedures to ensure comprehensive, proper and timely recording of accounting and management information, which will be reviewed and inspected on a regular basis to ensure the financial statements are prepared in accordance with generally accepted accounting principles, accounting policies of the Group and applicable laws and regulations.

## Internal audit

In order to assess the efficiency of the internal control system in a more effective manner, the internal audit department of the Company inspected, supervised and evaluated the disclosure of financial information, operations and internal controls of the Group and its associated companies on a regular basis and whenever required based on the potential risks and significance of the internal control systems of various businesses and procedures of the Group, with the aims to ensure the transparency of the Company in respect of information disclosure, operating efficiency and the effectiveness of its corporate control mechanisms, as well as to provide an objective opinion and advice in the form of an audit report. Internal audit staff shall be entitled to full access of all information of the Group and to make enquiries with relevant staff. The manager of the audit department shall directly report to the chairman of the Board on the results and advice of such work.

The Company has put in place the systems and procedures to identify, measure, manage and control risks, including legal, credit, market, centralisation, operation, environment, behavior and other risks which may affect the development of the Company.

## Continuing operation

During the relevant year, there are no material events or conditions that may affect the operation of the Group as an on going concern.

## Investor relations

The Company reports to the shareholders on the corporate information of the Group on a timely and accurate basis. Printed copies of the 2010 annual report and 2011 interim report have been sent to all shareholders.

The Company places great emphasis on communication with shareholders and investors of the Company and the improvement of the Company's transparency. As such, a dedicated department has been set up and designated officers are assigned to handle relations with investors and analysts. During the period under review, the Company received 127 batches of fund managers and analysts and patiently answered their relevant inquiries. Site visits to stores were arranged for them so as to enhance their understanding of the Company's operation and also its latest business developments. The Company made disclosures in a careful, true, accurate, complete and timely manner in strict accordance with applicable laws and regulations, the Articles of Association and the Listing Rules; at the same time, the Company places great emphasis on collecting and analyzing various comments and recommendations from analysts and investors on the Company's operation, which will be compiled into reports regularly and adopted selectively in its operation. The Company has set up a website, allowing investors to access updates on the Company's particulars, statutory announcements, management and recent operating affairs. All published annual reports, interim reports, circulars and announcements since its listing are included in the "Investors Relations" section of the website. The Company persistently adheres to its information disclosure principle of honesty and integrity and actively initiates communications with various parties. In particular, it held seminars, press conferences and one-on-one investor meetings following the announcement of interim and annual results and decisions on major investments. The Company also participates in a series of investor activities and conducts one-on-one communication with investors on a regular basis.

# Report of the Supervisory Committee

Dear shareholders,

During the period under review, all members of the Supervisory Committee had complied with the applicable requirements of the Company Law of the People's Republic of China and Articles of Association of the Company, adhered to the principle of integrity and performed their supervisory duties in good faith to protect the interests of the shareholders and the Group.

During the period under review, as a company listed on the Stock Exchange, the Company encountered higher requirement standards on governance imposed continuously by the Listing Rules, the Code on Corporate Governance Practices and the internal control policy. As such, the Supervisory Committee focused its efforts on the following three aspects: (1) to further improve the corporate governance structure; (2) to urge the Company and its Board to provide an open, fair, impartial and transparent environment for its investors in strict compliance with the Listing Rules; and (3) to monitor the major operating activities of the Group and remind the Board and the Group to avoid significant operational risks.

During the period under review, the Supervisory Committee held four meetings. On 9 March 2011, the third session of the Supervisory Committee held a meeting, at which the Supervisory Committee objectively evaluated the Group's business operation for the year in 2010, and was fully satisfied with the work done by the Group in 2010, including the Group's development plan, network expansion, improvement of the internal control systems and conduct of connected transactions. The Supervisory Committee also received reports on the financial position of the Group for 2010 and discussed and adopted the report of the Supervisory Committee for 2010. On 29 April 2011, the third session of the Supervisory Committee of the Company reviewed the increase of the annual caps of the transactions under supply of goods framework agreement between the Group and Bailian Group for 2011 to 2012, and confirmed the aforesaid continuing connected transactions were made in the ordinary course of the Company's business and on normal commercial terms, and the terms were fair and reasonable and in the interest of the Company's shareholders as a whole. On 28 June 2011, the fourth session of the Supervisory Committee of the Company considered and unanimously agreed to elect Mr. Chen Jian-jun as chairman of the fourth session of the Supervisory Committee. On 10 August 2011, the Supervisory Committee held a meeting regarding the operating conditions of the first half of the year ended 30 June 2011 and received reports from the management relating to the financial condition of the first half of 2011.

During the period under review, the Supervisory Committee reviewed the financial system, annual financial reporting and internal auditing reporting of the Group, and of the view that the information as included in the Group's financial budget, final accounts, annual report and interim report are true and reliable, and the audit opinion issued by the auditors are objective and fair.

During the period under review, the Supervisory Committee conducted supervision on the operating activities of the Group with respect to the financial control, operation control, compliance control and risk management, and considered that the Group had established an improved internal control system, and has achieved significant progress in formulating and implementing internal workflow, effectively contained various corporate operating risks. The Group has performed its duties in accordance with the laws and regulations of the State, the Articles of Association and the workflow.

The Supervisory Committee conducted supervision on the due diligence of the Directors of the Group, managers and the execution of resolutions in general meetings. The Supervisory Committee considered that the Directors and the management had duly performed their duties in accordance with the resolutions of general meetings. None of the Directors and other management of the Group have been found to be in breach of the laws and regulations and the Articles of Association or involved in acts detrimental to the interests of the Group and shareholders during the execution of their duties.

The Supervisory Committee conducted a review on the Group's operating activities such as mergers and acquisitions and disposal of assets. The Supervisory Committee considered that the consideration for the Group's merger and acquisition and assets disposal activities were fair and reasonable. It was not aware of any insiders' dealings or any event detrimental to the interests of shareholders, in particular the interests of minority shareholders.

The Supervisory Committee conducted a review on the Group's connected transactions for the period under review which were subject to conditional waivers. It confirmed that such connected transactions had complied with legal and statutory procedures and the transactions were conducted on fair commercial terms and in line with the financial policies of the Group and the transaction amounts were within their respective caps.

# Report of the Supervisory Committee

The Supervisory Committee considers that the third and fourth sessions of the Board of the Company have formulated and implemented the operating strategies for the development of the Group in accordance with the operation objectives as determined in the general meetings since its inauguration. Against the backdrop of keen competitive in the domestic retail market, the Board has made proper decisions according to the operating environment, sought expansion aggressively and conducted operations prudently. At the same time, the Supervisory Committee considered that each Director in the Board had performed their duties in a diligent and responsible manner. The Supervisory Committee also appreciated the Board and management for their persistent efforts in improving various internal control systems of the Group according to the requirements applicable to public companies.

As more and more retail chains are seeking to get listed in Hong Kong, international investors will maintain their interests in the potential of retail businesses in the PRC. Good corporate governance and open and fair disclosures of information will facilitate the Group in building up a good corporate image in the international capital market. As such, the Group will continue to improve its work and systems. In the coming year, the Supervisory Committee will diligently discharge its responsibilities to protect and ensure maximization of the interests of the Group and its shareholders.

# Independent Auditor's Report

**TO THE SHAREHOLDERS OF LIANHUA SUPERMARKET HOLDINGS CO., LTD.**

*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*

We have audited the consolidated financial statements of Lianhua Supermarket Holdings Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 69 to 140, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated and company statements of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
21 March 2012

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

| | NOTES | 2011<br>RMB'000 | 2010<br>RMB'000<br>(restated)<br>(note 2) |
|---|---|---|---|
| Turnover | 6 | **27,520,176** | 25,905,344 |
| Cost of sales | | **(23,563,736)** | (22,292,378) |
| Gross profit | | **3,956,440** | 3,612,966 |
| Other revenue | 6 | **2,523,310** | 2,417,087 |
| Other income | 8 | **595,704** | 447,601 |
| Selling and distribution expenses | | **(5,498,318)** | (4,976,611) |
| Administrative expenses | | **(672,614)** | (648,208) |
| Other operating expenses | | **(75,100)** | (77,633) |
| Finance costs | | **(49)** | – |
| Operating profit | | **829,373** | 775,202 |
| Share of profits of associates | | **142,578** | 178,826 |
| Profit before taxation | 10 | **971,951** | 954,028 |
| Taxation | 9 | **(258,258)** | (243,596) |
| Profit and total comprehensive income for the year | | **713,693** | 710,432 |
| Profit and total comprehensive income for the year attributable to: | | | |
| Owners of the Company | | **626,726** | 622,415 |
| Non-controlling interests | | **86,967** | 88,017 |
| | | **713,693** | 710,432 |
| Earnings per share – basic and diluted | 13 | **RMB0.56** | RMB0.56 |

# Consolidated Statement of Financial Position

At 31 December 2011

| | NOTES | 31/12/2011<br>RMB'000 | 31/12/2010<br>RMB'000<br>(restated)<br>(note 2) | 1/1/2010<br>RMB'000<br>(restated)<br>(note 2) |
|---|---|---|---|---|
| Non-current assets | | | | |
| Property, plant and equipment | 14 | **3,337,975** | 2,883,016 | 3,031,698 |
| Construction in progress | 15 | **67,765** | 220,730 | 86,921 |
| Land use rights | 16 | **304,559** | 249,419 | 254,717 |
| Intangible assets | 17 | **186,863** | 177,615 | 183,917 |
| Deposit for acquisition of property, plant and equipment | | **300,000** | – | – |
| Interests in associates | 19 | **517,087** | 503,567 | 449,885 |
| Available-for-sale financial assets | 20 | **252,808** | 167,158 | 31,271 |
| Held-to-maturity financial assets | 21 | **238,365** | 377,295 | 377,615 |
| Term deposits | 30 | | | |
| – restricted | | **1,893,500** | 293,000 | – |
| – unrestricted | | **850,000** | 1,200,000 | 480,000 |
| Prepaid rental | 23 | **134,750** | 108,193 | 138,481 |
| Deferred tax assets | 38 | **142,213** | 121,360 | 105,224 |
| Other non-current assets | 22 | **23,131** | 24,654 | 25,839 |
| | | **8,249,016** | 6,326,007 | 5,165,568 |
| Current assets | | | | |
| Inventories | 24 | **3,420,822** | 2,787,111 | 2,461,484 |
| Trade receivables | 25 | **86,056** | 117,672 | 74,571 |
| Deposits, prepayments and other receivables | 26 | **884,861** | 601,429 | 489,749 |
| Amounts due from fellow subsidiaries | 27 | **10,810** | 8,092 | – |
| Amounts due from associates | 29 | **129** | 29 | 34 |
| Available-for-sale financial assets | 20 | **237,975** | 500,000 | 610,900 |
| Held-to-maturity financial assets | 21 | **145,191** | 45,777 | 97,873 |
| Financial assets at fair value through profit or loss | 28 | **–** | 204,089 | 1,874 |
| Term deposits | 30 | | | |
| – restricted | | **1,087,700** | 1,621,400 | 1,219,800 |
| – unrestricted | | **625,000** | 660,000 | 1,110,000 |
| Cash and cash equivalents | 31 | **5,566,371** | 5,581,234 | 4,192,026 |
| | | **12,064,915** | 12,126,833 | 10,258,311 |
| Total assets | | **20,313,931** | 18,452,840 | 15,423,879 |

# Consolidated Statement of Financial Position

At 31 December 2011
(continued)

| | NOTES | 31/12/2011 RMB'000 | 31/12/2010 RMB'000 (restated) (note 2) | 1/1/2010 RMB'000 (restated) (note 2) |
|---|---|---|---|---|
| Capital and reserves | | | | |
| Share capital | 37 | **1,119,600** | 622,000 | 622,000 |
| Reserves | | **2,194,309** | 2,273,700 | 1,844,105 |
| Equity attributable to owners of the Company | | **3,313,909** | 2,895,700 | 2,466,105 |
| Non-controlling interests | | **307,737** | 329,101 | 464,847 |
| Total equity | | **3,621,646** | 3,224,801 | 2,930,952 |
| Non-current liabilities | | | | |
| Deferred tax liabilities | 38 | **47,261** | 49,318 | 51,375 |
| Current liabilities | | | | |
| Trade payables | 32 | **4,419,446** | 4,156,708 | 3,492,455 |
| Bank borrowing | 33 | **2,000** | – | – |
| Other payables and accruals | 34 | **2,204,370** | 1,871,658 | 1,773,505 |
| Dividend payable to non-controlling interest of subsidiaries | | **–** | 203,569 | – |
| Coupon liabilities | 35 | **9,756,029** | 8,707,200 | 6,944,234 |
| Deferred income | | **15,517** | 21,260 | 30,388 |
| Amounts due to associates | 29 | **13,014** | 5,399 | 4,791 |
| Amount due to ultimate holding company | | **–** | – | 10,023 |
| Amounts due to fellow subsidiaries | 36 | **72,630** | 105,172 | 93,696 |
| Taxation payable | | **162,018** | 107,755 | 92,460 |
| | | **16,645,024** | 15,178,721 | 12,441,552 |
| Total liabilities | | **16,692,285** | 15,228,039 | 12,492,927 |
| Total equity and liabilities | | **20,313,931** | 18,452,840 | 15,423,879 |
| Net current liabilities | | **(4,580,109)** | (3,051,888) | (2,183,241) |
| Total assets less current liabilities | | **3,668,907** | 3,274,119 | 2,982,327 |

The consolidated financial statements on pages 69 to 140 were approved and authorised for issue by the Board of Directors on 21 March 2012 and are signed on its behalf by:

**Ma Xin-sheng**
*DIRECTOR*

**Xu Ling-ling**
*DIRECTOR*

# Statement of Financial Position

At 31 December 2011

| | NOTES | 31/12/2011<br>RMB'000 | 31/12/2010<br>RMB'000 |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 14 | **255,631** | 260,183 |
| Construction in progress | 15 | **4,369** | 8,488 |
| Land use rights | 16 | **30,960** | 31,889 |
| Intangible assets | 17 | **16,080** | 7,240 |
| Investments in subsidiaries | 18 | **1,434,756** | 1,326,863 |
| Interests in associates | 19 | **209,123** | 192,871 |
| Available-for-sale financial assets | 20 | **220,185** | 134,535 |
| Held-to-maturity financial assets | 21 | **238,365** | 377,295 |
| Term deposits | 30 | | |
| – restricted | | **10,000** | 10,000 |
| – unrestricted | | **550,000** | 170,000 |
| Deferred tax assets | 38 | **7,196** | 8,730 |
| Other non-current assets | 22 | **3,174** | 3,361 |
| | | **2,979,839** | 2,531,455 |
| Current assets | | | |
| Inventories | 24 | **452,669** | 407,026 |
| Trade receivables | 25 | **117** | 5 |
| Deposits, prepayments and other receivables | 26 | **70,707** | 47,908 |
| Dividend receivable | | **–** | 276,831 |
| Amounts due from subsidiaries | 18 | **6,107,210** | 5,187,662 |
| Amounts due from associates | 29 | **129** | 29 |
| Available-for-sale financial assets | 20 | **133,033** | 500,000 |
| Held-to-maturity financial assets | 21 | **145,191** | 40,085 |
| Financial assets at fair value through profit or loss | 28 | **–** | 30 |
| Term deposits | | | |
| – unrestricted | 30 | **170,000** | 120,000 |
| Cash and cash equivalents | 31 | **583,666** | 624,705 |
| | | **7,662,722** | 7,204,281 |
| Total assets | | **10,642,561** | 9,735,736 |

# Statement of Financial Position

At 31 December 2011
(continued)

| | NOTES | 31/12/2011 RMB'000 | 31/12/2010 RMB'000 |
|---|---|---|---|
| Capital and reserves | | | |
| Share capital | 37 | **1,119,600** | 622,000 |
| Reserves | | **2,333,933** | 2,362,210 |
| Total equity | | **3,453,533** | 2,984,210 |
| Current liabilities | | | |
| Trade payables | 32 | **2,516,802** | 2,044,338 |
| Other payables and accruals | 34 | **72,164** | 131,698 |
| Coupon liabilities | 35 | **3,658,996** | 3,567,162 |
| Amounts due to subsidiaries | 18 | **882,027** | 989,107 |
| Amounts due to associates | 29 | **13,014** | 5,399 |
| Amounts due to fellow subsidiaries | 36 | **35,244** | 13,822 |
| Taxation payable | | **10,781** | – |
| | | **7,189,028** | 6,751,526 |
| Total liabilities | | **7,189,028** | 6,751,526 |
| Total equity and liabilities | | **10,642,561** | 9,735,736 |
| Net current assets | | **473,694** | 452,755 |
| Total assets less current liabilities | | **3,453,533** | 2,984,210 |

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

| | Attributable to owners of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 (note a) | Capital reserve RMB'000 (note b) | Other reserve RMB'000 (note d) | Statutory common reserve fund RMB'000 (note c) | Retained profits RMB'000 | Total attributable to owners of the Company RMB'000 | Non-controlling interests RMB'000 | Total RMB'000 |
| At 31 December 2009 and 1 January 2010 as previously reported | 622,000 | 755,953 | (204,464) | 214,711 | 1,075,084 | 2,463,284 | 464,790 | 2,928,074 |
| Adjustments in respect of the acquisition of Tengzhou (note e) | – | – | 9,800 | – | (6,979) | 2,821 | 57 | 2,878 |
| At 31 December 2009 and 1 January 2010 as restated | 622,000 | 755,953 | (194,664) | 214,711 | 1,068,105 | 2,466,105 | 464,847 | 2,930,952 |
| Profit for the year (restated) | – | – | – | – | 622,415 | 622,415 | 88,017 | 710,432 |
| Profit appropriations | – | – | – | 85,781 | (85,781) | – | – | – |
| Dividends paid/payable to non-controlling interests | – | – | – | – | – | – | (227,683) | (227,683) |
| 2009 final dividend (note 12) | – | – | – | – | (99,520) | (99,520) | – | (99,520) |
| 2010 interim dividend (note 12) | – | – | – | – | (93,300) | (93,300) | – | (93,300) |
| Equity interest contributed by non-controlling shareholder of a subsidiary | – | – | – | – | – | – | 3,920 | 3,920 |
| At 31 December 2010 (restated) | 622,000 | 755,953 | (194,664) | 300,492 | 1,411,919 | 2,895,700 | 329,101 | 3,224,801 |

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2011
(continued)

| | Attributable to owners of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 (note a) | Capital reserve RMB'000 (note b) | Other reserve RMB'000 | Statutory common reserve fund RMB'000 (note c) | Retained profits RMB'000 | Total attributable to owners of the Company RMB'000 | Non-controlling interests RMB'000 | Total RMB'000 |
| At 31 December 2010 and 1 January 2011 (restated) – continued | 622,000 | 755,953 | (194,664) | 300,492 | 1,411,919 | 2,895,700 | 329,101 | 3,224,801 |
| Bonus issue by capitalisation of capital reserve (note 37) | 497,600 | (497,600) | – | – | – | – | – | – |
| Profit for the year | – | – | – | – | 626,726 | 626,726 | 86,967 | 713,693 |
| Profit appropriations | – | – | – | 65,439 | (65,439) | – | – | – |
| Dividends paid to non-controlling interests | – | – | – | – | – | – | (41,574) | (41,574) |
| 2010 final dividend (note 12) | – | – | – | – | (111,960) | (111,960) | – | (111,960) |
| 2011 interim dividend (note 12) | – | – | – | – | (89,568) | (89,568) | – | (89,568) |
| Deemed distribution to Bailian Group (note 2) | – | – | (4,282) | – | – | (4,282) | – | (4,282) |
| Closure of subsidiaries | – | – | – | – | – | – | (986) | (986) |
| Acquisition of additional equity interests in subsidiaries | – | – | (2,707) | – | – | (2,707) | (65,771) | (68,478) |
| **At 31 December 2011** | 1,119,600 | 258,353 | (201,653) | 365,931 | 1,771,678 | 3,313,909 | 307,737 | 3,621,646 |

Notes:

(a) On 28 June 2011, the shareholders of the Company passed a resolution approving the increase in the registered share capital of the Company from RMB622,000,000 to RMB1,119,600,000 by way of capitalisation of the Company's capital reserve amounting to RMB497,600,000 on the basis of 8 bonus shares to be issued for every 10 shares held by such shareholders (the "Bonus Issue"). On 11 August 2011, the Bonus Issue was approved by the relevant authorities in the People's Republic of China ("PRC") and accordingly the Bonus Issue became effective in September 2011.

(b) Capital reserve of the Company and the Group mainly represents premium arising from issue of H shares net of share issuance expenses.

(c) Pursuant to the relevant PRC regulations and the Articles of Association of the subsidiary companies within the Group, each of the subsidiary companies within the Group is required to transfer 10% of its profit, as determined under the PRC accounting regulations, to statutory common reserve fund until the fund aggregates to 50% of its registered capital. The transfer to this reserve must be made before distribution of dividends to shareholders.

The statutory common reserve fund shall only be used to offset previous years' losses, to expand its operations, or to increase its capital. The statutory common reserve fund may be converted into share capital, provided the balance of the reserve fund after such conversion is not less than 25% of the registered capital.

(d) The other reserve of the Group as at 1 January 2010 mainly represents the financial impact of adopting merger accounting to account for acquisition of Hualian Supermarket Holdings Company Limited and its subsidiaries during the year ended 31 December 2009 and of the fair value difference of a subsidiary's net assets arising from a business combination during the year ended 31 December 2005 in relation to the Company's original equity interest of the subsidiary.

(e) The amounts represent the financial impact of adopting merger accounting to account for acquisition of Shanghai Hualian Supermarket Tengzhou Limited (the "Tengzhou") as of 31 December 2009, details of which are summarised in note 2.

# Statement of Changes in Equity

For the year ended 31 December 2011

| | Share capital RMB'000 | Capital reserve RMB'000 | Other reserve RMB'000 | Statutory common reserve fund RMB'000 | Retained profits RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| At 31 December 2009 and 1 January 2010 | 622,000 | 755,953 | 3,595 | 214,711 | 767,116 | 2,363,375 |
| Profit for the year | – | – | – | – | 813,655 | 813,655 |
| Profit appropriations | – | – | – | 85,781 | (85,781) | – |
| 2009 final dividend (note 12) | – | – | – | – | (99,520) | (99,520) |
| 2010 interim dividend (note 12) | – | – | – | – | (93,300) | (93,300) |
| At 31 December 2010 | 622,000 | 755,953 | 3,595 | 300,492 | 1,302,170 | 2,984,210 |

| | **Share capital RMB'000** | **Capital reserve RMB'000** | **Other reserve RMB'000** | **Statutory common reserve fund RMB'000** | **Retained profits RMB'000** | **Total RMB'000** |
|---|---|---|---|---|---|---|
| At 31 December 2010 and 1 January 2011 | **622,000** | **755,953** | **3,595** | **300,492** | **1,302,170** | **2,984,210** |
| Bonus issue by capitalisation of capital reserve (note 37) | **497,600** | **(497,600)** | – | – | – | – |
| Profit for the year | – | – | – | – | **670,851** | **670,851** |
| Profit appropriations | – | – | – | **65,439** | **(65,439)** | – |
| 2010 final dividend (note 12) | – | – | – | – | **(111,960)** | **(111,960)** |
| 2011 interim dividend (note 12) | – | – | – | – | **(89,568)** | **(89,568)** |
| **At 31 December 2011** | **1,119,600** | **258,353** | **3,595** | **365,931** | **1,706,054** | **3,453,533** |

The amount of the Company's retained profits available for distribution to shareholders as at 31 December 2011 amounted to RMB1,706,054,000 (2010: RMB1,302,170,000).

# Consolidated Statement of Cash Flows

For the year ended 31 December 2011

| | NOTE | 2011 RMB'000 | 2010 RMB'000 (restated) |
|---|---|---|---|
| Profit before taxation | | **971,951** | 954,028 |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | | **529,734** | 517,964 |
| Amortisation of land use rights | | **4,814** | 5,262 |
| Amortisation of intangible assets | | **10,232** | 18,204 |
| Amortisation of other non-current assets | | **1,523** | 1,185 |
| Loss on disposal of property, plant and equipment | | **3,554** | 5,511 |
| Gain on disposal of a subsidiary | 41 | **(41,619)** | – |
| Impairment loss on property, plant and equipment recognised | | **15,188** | 16,487 |
| Write-down of inventories | | **–** | 5,065 |
| Interest income from available-for-sale financial assets | | **(53,629)** | (22,855) |
| Interest income from held-to-maturity financial assets | | **(20,217)** | (26,307) |
| Share of results of associates | | **(142,578)** | (178,826) |
| Dividend from unlisted equity investments | | **(25,081)** | (9,136) |
| (Reversal of) provision of allowance for doubtful debts | | **(2,612)** | 651 |
| Interest income | | **(302,129)** | (194,196) |
| Interest expense | | **49** | – |
| Operating profit before movements in working capital | | **949,180** | 1,093,037 |
| Increase in inventories | | **(633,711)** | (330,692) |
| Increase in trade and other receivables | | **(3,229)** | (139,081) |
| (Increase) decrease in prepaid rental | | **(168,826)** | 53,229 |
| (Increase) decrease in amounts due from associates | | **(100)** | 5 |
| Increase in amounts due from fellow subsidiaries | | **(2,718)** | (8,092) |
| (Decrease) increase in amounts due to fellow subsidiaries | | **(32,542)** | 11,476 |
| Decrease (increase) of financial assets at fair value through profit or loss | | **204,089** | (202,215) |
| Decrease in deferred income | | **(5,743)** | (9,128) |
| Increase in restricted term deposits | | **(1,066,800)** | (694,600) |
| Increase in trade and other payables | | **534,550** | 790,867 |
| Increase in coupon liabilities | | **1,048,829** | 1,762,876 |
| Increase in amounts due to associates | | **7,615** | 608 |
| Cash generated from operations | | **830,594** | 2,328,290 |
| Income taxes paid | | **(226,905)** | (246,494) |
| Interest received | | **189,030** | 153,430 |
| Interest paid | | **(49)** | – |
| Net cash from operating activities | | **792,670** | 2,235,226 |

# Consolidated Statement of Cash Flows

For the year ended 31 December 2011
(continued)

| | NOTE | 2011 RMB'000 | 2010 RMB'000 (restated) |
|---|---|---|---|
| Investing activities | | | |
| Purchase of property, plant and equipment and construction in progress | | **(809,832)** | (592,656) |
| Deposit paid for acquisition of property, plant and equipment | | **(300,000)** | – |
| Purchase of land use right | | **(60,121)** | (770) |
| Proceeds from disposal of land use right | | **167** | – |
| Proceeds from disposal of property, plant and equipment | | **15,752** | 39,196 |
| Purchase of intangible assets | | **(14,193)** | (11,902) |
| Disposal of a subsidiary | 41 | **50,235** | – |
| Purchase of available-for-sale financial assets | | **(998,000)** | (1,100,000) |
| Dividend from unlisted equity investments | | **25,081** | 2,111 |
| Capital investment in associates | | **(16,252)** | – |
| Proceeds on disposal of an associate | | **47** | – |
| Proceeds on redemption of available-for-sale financial assets | | **1,228,004** | 1,104,893 |
| Purchase of held-to-maturity financial assets | | **–** | (35,000) |
| Interest income from held-to-maturity financial assets | | **15,933** | 16,723 |
| Proceeds on redemption of held-to-maturity financial assets | | **43,800** | 97,000 |
| Dividends received from associates | | **145,263** | 125,113 |
| Decrease (increase) in unrestricted term deposits | | **385,000** | (270,000) |
| Net cash used in investing activities | | **(289,116)** | (625,292) |
| Financing activities | | | |
| New bank borrowing raised | | **2,000** | – |
| Dividends paid to owners of the Company | | **(201,528)** | (192,820) |
| Repayment of capital contributions to non-controlling shareholders | | **(986)** | (10,023) |
| Dividends paid to non-controlling shareholders | | **(245,143)** | (21,803) |
| Equity interest contributed by non-controlling shareholder of a subsidiary | | **–** | 3,920 |
| Cash consideration paid upon acquisition of Tengzhou | 2 | **(4,282)** | – |
| Acquisition of additional equity interests in subsidiaries | | **(68,478)** | – |
| Net cash used in financing activities | | **(518,417)** | (220,726) |
| (Decrease) increase in cash and cash equivalents | | **(14,863)** | 1,389,208 |
| Cash and cash equivalents at 1 January | | **5,581,234** | 4,192,026 |
| Cash and cash equivalents at 31 December | | **5,566,371** | 5,581,234 |
| Analysis of the balances of cash and cash equivalents: | | | |
| Bank balances and cash | | **5,566,371** | 5,581,234 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 1. PRINCIPAL ACTIVITIES

The principal activities of Lianhua Supermarket Holdings Co., Ltd. (the "Company") and its subsidiaries (collectively, the "Group") and its associates are the operation of chain stores including supermarkets, hypermarkets and convenience stores, primarily in the Eastern Region of the PRC. All the operating assets of the Group and its associates are located in the PRC.

The Company is a limited liability company incorporated in the PRC. The address of its registered office is Room 713, 7th Floor, No. 1258, Zhen Guang Road, Pu Tuo District, Shanghai, the PRC. The Company is listed on the main board of The Stock Exchange of Hong Kong Limited.

The directors of the Company consider that the Company's immediate holding company is Shanghai Friendship Group Incorporated, a company incorporated and listed on the Shanghai Stock Exchange, and the Company's ultimate holding company is Bailian Group Co., Ltd (the "Bailian Group"), a stated owned enterprise established in the PRC.

The consolidated financial statements are presented in Renminbi (the "RMB"), which is the same as the functional currency of the Company and its subsidiaries.

## 2. BASIS OF PRESENTATION

Pursuant to the resolution passed at the Directors' meeting on 15 April 2011, the Group acquired the equity interests in Tengzhou at a cash consideration of RMB4,282,000 (the "Acquisition of Tengzhou"). Tengzhou was previously owned directly by Bailian Group. As the Group and Tengzhou are under the common control of Bailian Group, the Acquisition of Tengzhou has been reflected in the consolidated financial statements using the principle of merger accounting as if they had been combined from the date when the combining entities first came under the control of Bailian Group. Accordingly, the consolidated assets and liabilities of Tengzhou have been accounted for in the consolidated financial statements of the Group at their existing book values from Bailian Group's perspective. No amount is recognised in respect of goodwill nor adjustment made in respect of differences between the fair values of Tengzhou's identifiable assets, liabilities and contingent liabilities and their carrying amounts. The consolidated statement of comprehensive income includes the results of Tengzhou from the earliest date presented or since the date when Tengzhou first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The Acquisition of Tengzhou was completed on 29 September 2011.

# Notes to the Consolidated Financial Statements

## 2. BASIS OF PRESENTATION (continued)

The effects of adopting merger accounting to account for the Acquisition of Tengzhou described above on the results of the Group for the current and prior years by line items presented in the consolidated statement of comprehensive income is as follows:

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Increase in turnover | 20,757 | 17,912 |
| Increase in cost of sales | (18,787) | (15,896) |
| Increase in other revenues | 1,812 | 1,712 |
| Increase in other income | 69 | 161 |
| Increase in selling and distribution expenses | (3,093) | (2,730) |
| Increase in administrative expenses | (515) | (1,384) |
| Increase in other operating expenses | (50) | – |
| Increase in (taxation) credit | (190) | 58 |
| Increase (decrease) in profit and total comprehensive income for the year | 3 | (167) |
| Increase (decrease) in profit and total comprehensive income for the year attributable to: | | |
| Owners of the Company | 3 | (164) |
| Non-controlling interests | – | (3) |
| | 3 | (167) |
| Increase (decrease) in earnings per share – basic and diluted | – | – |

The effect of Acquisition of Tengzhou described above on the financial positions of the Group as at 1 January 2010 and 31 December 2010 is as follows:

| | As at 1/1/2010 (originally stated) RMB'000 | Adjustments RMB'000 | As at 1/1/2010 (restated) RMB'000 | As at 31/12/2010 (originally stated) RMB'000 | Adjustments RMB'000 | As at 31/12/2010 (restated) RMB'000 |
|---|---|---|---|---|---|---|
| Property, plant and equipment | 3,031,153 | 545 | 3,031,698 | 2,882,638 | 378 | 2,883,016 |
| Deferred tax assets | 104,661 | 563 | 105,224 | 120,739 | 621 | 121,360 |
| Inventories | 2,459,506 | 1,978 | 2,461,484 | 2,785,242 | 1,869 | 2,787,111 |
| Trade receivables | 74,302 | 269 | 74,571 | 117,370 | 302 | 117,672 |
| Deposits, prepayments and other receivables | 487,723 | 2,026 | 489,749 | 598,851 | 2,578 | 601,429 |
| Cash and cash equivalents | 4,191,924 | 102 | 4,192,026 | 5,581,005 | 229 | 5,581,234 |
| Trade payables | (3,490,098) | (2,357) | (3,492,455) | (4,154,603) | (2,105) | (4,156,708) |
| Other payables and accruals | (1,773,257) | (248) | (1,773,505) | (1,870,587) | (1,071) | (1,871,658) |
| Coupon liabilities | (6,944,234) | – | (6,944,234) | (8,707,110) | (90) | (8,707,200) |
| | (1,858,320) | 2,878 | (1,855,442) | (2,646,455) | 2,711 | (2,643,744) |
| Total effects on equity | 2,928,074 | 2,878 | 2,930,952 | 3,222,090 | 2,711 | 3,224,801 |

# Notes to the Consolidated Financial Statements

## 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised Standards, Amendments and Interpretations ("New and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

| | |
|---|---|
| Amendments to HKFRSs | Improvements to HKFRSs issued in 2010 |
| HKAS 24 (as revised in 2009) | Related Party Disclosures |
| Amendments to HKAS 32 | Classification of Rights Issues |
| Amendments to HK(IFRIC) – Int 14 | Prepayments of a Minimum Funding Requirement |
| HK (IFRIC) – Int 19 | Extinguishing Financial Liabilities with Equity Instruments |

The Group has applied HKAS 24 Related Party Disclosure (as revised in 2009) for the first time in the current year. The application of HKAS 24 (as revised in 2009) has resulted in changes in related party disclosures.

The Group is a government-related entity as defined in HKAS 24 (as revised in 2009). HKAS 24 (as revised in 2009) provides a partial exemption from the disclosure requirements for government-related entities whilst the previous version of HKAS 24 did not contain specific exemption for government-related entities. Under HKAS 24 (as revised in 2009), the Group has been exempted from making the disclosures required by paragraph 18 of HKAS 24 (as revised in 2009) in relation to related party transactions and outstanding balances (including commitment) with (a) the government that has control, joint control or significant influence over the Group and (b) other entities that are controlled, jointly controlled, significantly influenced by the same government. Rather, in respect of these transactions and balances, HKAS 24 (as revised in 2009) requires the Group to disclose (a) the nature and amount of each individually significant transaction, and (b) a qualitative or quantitative indication of the extent of transactions that are collectively, but not individually, significant.

HKAS 24 (as revised in 2009) requires retrospective application. The application of HKAS 24 (as revised in 2009) has had no effect on the amounts recognised or recorded in the consolidated financial statements for the current and prior years. However, the related party disclosures set out in note 45 to the consolidated financial statements have been changed to reflect the application of HKAS 24 (as revised in 2009).

The adoption of the other new and revised HKFRSs had no effect on the consolidated financial statements of the Group for the current or prior years.

# Notes to the Consolidated Financial Statements

## 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

| | |
|---|---|
| Amendments to HKFRS 7 | Disclosures – Transfers of Financial Assets[1] |
| | Disclosures – Offsetting Financial Assets and Financial Liabilities[2] |
| | Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3] |
| HKFRS 9 | Financial Instruments[3] |
| HKFRS 10 | Consolidated Financial Statements[2] |
| HKFRS 11 | Joint Arrangements[2] |
| HKFRS 12 | Disclosure of Interests in Other Entities[2] |
| HKFRS 13 | Fair Value Measurement[2] |
| Amendments to HKAS 1 | Presentation of Items of Other Comprehensive Income[5] |
| Amendments to HKAS 12 | Deferred Tax – Recovery of Underlying Assets[4] |
| HKAS 19 (as revised in 2011) | Employee Benefits[2] |
| HKAS 27 (as revised in 2011) | Separate Financial Statements[2] |
| HKAS 28 (as revised in 2011) | Investments in Associates and Joint Ventures[2] |
| Amendments to HKAS 32 | Offsetting Financial Assets and Financial Liabilities[6] |
| HK(IFRIC) – Int 20 | Stripping Costs in the Production Phase of a Surface Mine[2] |

1 Effective for annual periods beginning on or after 1 July 2011.

2 Effective for annual periods beginning on or after 1 January 2013.

3 Effective for annual periods beginning on or after 1 January 2015.

4 Effective for annual periods beginning on or after 1 January 2012.

5 Effective for annual periods beginning on or after 1 July 2012.

6 Effective for annual periods beginning on or after 1 January 2014.

**HKFRS 9 Financial Instruments**

HKFRS 9 Financial Instruments (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 Financial Instruments (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

# Notes to the Consolidated Financial Statements

## 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

**HKFRS 9 Financial Instruments** (continued)

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors anticipate that HKFRS 9 will be adopted in the Group's consolidated financial statements for financial year ending 31 December 2015 and that the application of the new Standard may have a significant impact on amounts reported in respect of the Groups' financial assets and financial liabilities.

**HKFRS 13 Fair Value Measurement**

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 Financial Instruments: Disclosures will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

**Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income**

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

The directors of the Company anticipate that the other new and revised Standards, Amendments or Interpretation will have no material impact on the consolidated financial statements.

# Notes to the Consolidated Financial Statements

## 4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

**Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

***Changes in the Group's ownership interest in existing subsidiaries***

Changes in the Group's ownership interest in a subsidiary that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognise as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

# Notes to the Consolidated Financial Statements

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Merger accounting for business combination involving entities under common control**

The consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

**Goodwill**

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses, if any, and is presented as an intangible asset.

For the purposes of impairment testing, goodwill is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated statement of comprehensive income. An impairment loss for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

# Notes to the Consolidated Financial Statements

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Interests in associates**

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost as adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group' consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

**Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from sale of goods are recognised when goods are delivered and title has passed.

Sales of goods that result in award credits for customers, under the Group's customer loyalty incentive program, are accounted for as multiple element revenue transactions and the fair value of the consideration received or receivable is allocated between the goods sold and the award credits granted. The consideration allocated to the award credits is measured by reference to their fair value, based on the amount for which the award credits could be sold separately. Such consideration is not recognised as revenue at the time of the initial sale transaction – but is deferred and recognised as revenue when the award credits are redeemed and the Group's obligations have been fulfilled.

# Notes to the Consolidated Financial Statements

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Revenue recognition** (continued)

Service income is recognised when services are provided.

Income from suppliers includes promotion and store display income, income from leasing of merchandise storage space, delivery income and information system service income, which are recognised according to the contract terms and as services are provided.

Income from leasing of shop premises is recognised on a straight-line basis over the lease periods.

Royalty income from franchise stores is recognised on an accrual basis in accordance with the terms of the agreement.

Commission income from coupon redemption in other retailers is recognised according to agreement terms and as coupons are redeemed.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income is recognised when the right to receive payment is established.

**Property, plant and equipment**

Property, plant and equipment including land and buildings held for use in the supply of goods or services, or for administrative purposes are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress includes property, plant and equipment in the course of construction for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

# Notes to the Consolidated Financial Statements

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

***The Group as lessor***

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

***The Group as lessee***

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

**Leasehold land and building**

All land in the PRC is state-owned or collectively-owned and no individual land ownership right exists. The Group acquired the rights to use certain land. The premiums paid for such rights are treated as prepayments for operating leases and recorded as land use rights, which are amortised over the respective period of the lease using the straight-line method.

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases and amortised over the lease term on a straight-line basis.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

# Notes to the Consolidated Financial Statements

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Government grants**

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

**Retirement benefit costs**

Payments to state-managed retirement benefit scheme are charged as an expense when employees have rendered service entitling them to the contributions.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable differences arising on investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

# Notes to the Consolidated Financial Statements

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Taxation** (continued)

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

**Intangible assets**

***Intangible assets acquired separately***

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effective of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period of the consolidated statement of comprehensive income when the asset is derecognised.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

**Financial instruments**

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

***Financial assets***

The Group's financial assets are classified into one of the four categories, including loans and receivables, available-for-sale investments, held-to-maturity investments and financial assets at fair value through profit or loss ("FVTPL"). The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial instruments** (continued)

***Financial assets*** (continued)

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets designed as at FVTPL, of which interest income is included in net gains or losses.

*Financial assets at fair value through profit or loss*

Financial assets at FVTPL has two subcategories, including financial assets held for trading and those designated as at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

# Notes to the Consolidated Financial Statements

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial instruments** (continued)

***Financial assets*** (continued)

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from ultimate holding company/fellow subsidiaries/subsidiaries/associates, term deposits, and cash and cash equivalents) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

*Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. The Group classifies investment in government bonds and cooperation bonds as held-to-maturity investments. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments. The Group designated investment on legal person share, unlisted equity investments, unlisted managed investment funds and unlisted investments as available-for-sale financial assets.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see accounting policy on impairment loss on financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment loss on financial assets below).

*Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

# Notes to the Consolidated Financial Statements

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial instruments** (continued)

***Financial assets*** (continued)

*Impairment of financial assets* (continued)

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables and other receivables, assets that are assessed not to be impaired individually are in addition assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimate future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed through profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in investment revaluation reserve. For available-for-sale debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

# Notes to the Consolidated Financial Statements

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial instruments** (continued)

***Financial liabilities and equity instruments***

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

*Financial liabilities*

Financial liabilities (including trade and other payables, amounts due to ultimate holding company/associates/fellow subsidiaries/subsidiaries, and bank borrowing) are subsequently measured at amortised cost, using the effective interest method.

***Derecognition***

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Group derecognises financial liability when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Provisions**

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

**Impairment losses on non-current assets other than financial assets,deferred tax assets and goodwill (see the accounting policy in respect of financial assets, deferred tax assets and goodwill above)**

At the end of the reporting period, the Group reviews the carrying amounts of its non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

## 5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

# Notes to the Consolidated Financial Statements

## 5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

**Key sources of estimation uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

***Deferred taxation***

Deferred tax assets relating to certain tax losses and deductible temporary differences are not recognised as management considers it is probable that future taxable profit will not be available against which the tax losses and deductible temporary differences can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred assets and income tax expenses in the periods in which such estimate is changed.

***Estimated impairment of goodwill***

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 4. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

***Useful lives and residual values of property, plant and equipment***

The Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The Group will increase the depreciation charge where useful lives are less than previously estimated lives, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

***Net realisable value of inventories***

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less all estimated costs of completion and costs necessary to make the sale. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles. The Group will reassess the estimations by the end of the reporting period.

***Estimated impairment of non-financial assets other than goodwill***

The Group follows HKAS 36 to determine whether non-financial assets (other than goodwill stated in paragraph "Estimated impairment of goodwill") have suffered any impairment. The recoverable amount of an asset is determined based on the higher of the asset's fair value less costs to sell and value in use. The value in use calculations require the use of estimates.

***Estimated store closure provision***

The Group follows HKAS 37 to recognise store closure provision. Provisions are recognised when the Group has a constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Store closure provision comprises mainly lease termination penalties and employee compensations. The determination of provision requires the use of estimates.

# Notes to the Consolidated Financial Statements

## 6. TURNOVER AND OTHER REVENUE

The Group is principally engaged in operation of chain stores including supermarkets, hypermarkets and convenience stores. Revenue recognised during the year is as follows:

| | 2011<br>RMB'000 | 2010<br>RMB'000<br>(restated) |
|---|---|---|
| Turnover | | |
| Sales of merchandise | **27,520,176** | 25,905,344 |
| Other revenue | | |
| Income from suppliers | **1,913,641** | 1,816,097 |
| Gross rental income from leasing of shop premises | **496,966** | 480,945 |
| Royalty income from franchised stores | **58,913** | 66,526 |
| Commission income from coupon redemption in other retailers | **53,790** | 53,519 |
| | **2,523,310** | 2,417,087 |
| Total revenue | **30,043,486** | 28,322,431 |

## 7. SEGMENT INFORMATION

Information reported to the Group's General Manager, who is the chief operating decision maker of the Group for the purposes of resource allocation and assessment of performance, is focused on the three main operations of the Group which are identified in accordance with the business nature and the size of the operations. This basis is also consistent with the basis of organisation in the Group, where management has organised the Group surrounding these three main operations. Accordingly the reportable and operating segments of the Group are as follows:

- Hypermarkets chain operation
- Supermarkets chain operation
- Convenience stores chain operation
- Other operations

There are no significant sales or other transactions between the segments. Other operations of the Group mainly comprise sales of merchandise to wholesalers; provision of logistic services for wholesale business; and sales through internet. All other operations of the Group are aggregated when the information is reported to the Group's General Manager.

For the comparative purpose, the financial information of Tengzhou has been included in the segment information for the year ended 31 December 2010.

# Notes to the Consolidated Financial Statements

## 7. SEGMENT INFORMATION (continued)

The following is an analysis of the Group's revenue (include turnover and other revenues) and results by operating segment for the years under review:

| | Segment revenue | | Segment results | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **RMB'000** | RMB'000 (restated) | **RMB'000** | RMB'000 (restated) |
| Hypermarkets | **17,655,962** | 16,055,573 | **352,728** | 330,820 |
| Supermarkets | **10,400,556** | 10,190,300 | **359,200** | 351,088 |
| Convenience stores | **1,866,298** | 1,870,978 | **14,420** | 40,007 |
| Other operations | **120,670** | 205,580 | **97,094** | 102,741 |
| | **30,043,486** | 28,322,431 | **823,442** | 824,656 |

A reconciliation of total segments results to consolidated profit before taxation is provided as follows:

| | **2011** | 2010 |
|---|---|---|
| | **RMB'000** | RMB'000 (restated) |
| Segment results | **823,442** | 824,656 |
| Interest income | **74,294** | 22,919 |
| Unallocated income | **67,802** | 47,779 |
| Unallocated expenses | **(136,165)** | (120,152) |
| Share of profits of associates | **142,578** | 178,826 |
| Consolidated profit before taxation | **971,951** | 954,028 |

All of the segment revenue reported above is from external customers.

All of the Group's revenue and segment results is attributable to customers in the PRC.

Segment results did not include share of profits of associates, allocation of headquarter income and expenses (including certain interest income relating to funds managed centrally). This is the measure reported to the Group's general manager for the purposes of resource allocation and assessment of segment performance.

# Notes to the Consolidated Financial Statements

## 7. SEGMENT INFORMATION (continued)

The following is an analysis of the Group's assets by operating segment:

| | 31/12/2011 RMB'000 | 31/12/2010 RMB'000 (restated) |
|---|---|---|
| Segment assets | | |
| – Hypermarkets | **10,766,439** | 9,603,936 |
| – Supermarkets | **6,200,622** | 5,642,358 |
| – Convenience Stores | **390,816** | 314,422 |
| – Other operations | **269,076** | 175,673 |
| Total segment assets | **17,626,953** | 15,736,389 |
| Investments in associates | **517,087** | 503,567 |
| Other unallocated assets | **2,169,891** | 2,212,884 |
| Total assets | **20,313,931** | 18,452,840 |

Other unallocated assets mainly comprise certain financial assets, cash and cash equivalents managed centrally by headquarter and deferred tax assets.

**Other segment information**
**2011**

| | Hypermarkets RMB'000 | Supermarkets RMB'000 | Convenience stores RMB'000 | Other operations RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| Amounts included in the measure of segment results or segment assets: | | | | | |
| Addition to non-current assets (note) | 1,002,573 | 254,939 | 23,975 | 473 | 1,281,960 |
| Depreciation | 252,540 | 243,406 | 19,466 | 14,322 | 529,734 |
| Amortisation | 2,804 | 8,093 | 772 | 4,900 | 16,569 |
| Impairment losses on property, plant and equipment | 9,292 | 5,516 | 380 | – | 15,188 |
| Loss (gain) on disposal of property, plant and equipment | (2,300) | 8,241 | (2,645) | 258 | 3,554 |
| Interest income | 145,088 | 49,876 | 296 | 32,575 | 227,835 |
| Finance costs | – | – | – | 49 | 49 |

Note: Addition to non-current assets include the additions of property, plant and equipment, construction in progress, land use rights, intangible assets and deposit for acquisition of property, plant and equipment.

# Notes to the Consolidated Financial Statements

## 7. SEGMENT INFORMATION (continued)

**Other segment information** (continued)

2010

| | Hypermarkets RMB'000 | Supermarkets RMB'000 (restated) | Convenience stores RMB'000 | Other operations RMB'000 | Total RMB'000 (restated) |
|---|---|---|---|---|---|
| Amounts included in the measure of segment results or segment assets: | | | | | |
| Addition to non-current assets | 351,619 | 202,534 | 22,239 | 443 | 576,835 |
| Depreciation | 331,823 | 149,382 | 22,621 | 14,138 | 517,964 |
| Amortisation | 13,458 | 5,861 | 929 | 4,403 | 24,651 |
| Impairment losses on property, plant and equipment | 6,525 | 7,012 | 2,950 | – | 16,487 |
| Loss (gain) on disposal of property, plant and equipment | 4,257 | 690 | 577 | (13) | 5,511 |
| Interest income | 61,965 | 66,596 | 205 | 42,511 | 171,277 |

**Geographical information**

The Group's operations and non-current assets are substantially located in the PRC. Revenues from external customers are substantially derived from customers located in the PRC. Therefore, no analysis of geographical information is presented.

**Information about major customers**

None of the revenue from customers of the corresponding years contributed over 10% of the total sales of the Group.

# Notes to the Consolidated Financial Statements

## 8. OTHER INCOME

| | 2011<br>RMB'000 | 2010<br>RMB'000<br>(restated) |
|---|---|---|
| Interest income on cash and term deposits | **302,129** | 194,196 |
| Government subsidies (note) | **51,957** | 48,118 |
| Gain on disposal of fair value gain on financial assets at fair value through profit or loss | **4,857** | 31,250 |
| Interest income from available-for-sale financial assets | **53,629** | 22,855 |
| Interest income from held-to-maturity financial assets | **20,217** | 26,307 |
| Gain on disposal of a subsidiary (note 41) | **41,619** | – |
| Compensation for relocation | **–** | 7,941 |
| Dividend from unlisted equity investments | **25,081** | 9,136 |
| Salvage sales | **32,890** | 27,279 |
| Others | **63,325** | 80,519 |
| Total | **595,704** | 447,601 |

Note: The Group received subsidies from the PRC local government to encourage the operations of certain companies in the Group.

## 9. TAXATION

| | 2011<br>RMB'000 | 2010<br>RMB'000<br>(restated) |
|---|---|---|
| PRC income tax | | |
| – Current taxation | **281,168** | 261,789 |
| – Deferred taxation (note 38) | **(22,910)** | (18,193) |
| | **258,258** | 243,596 |

No provision for Hong Kong profits tax has been made as the Group has no estimated assessable profits subject to Hong Kong profits tax.

# Notes to the Consolidated Financial Statements

## 9. TAXATION (continued)

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the EIT tax rate is 25% from 1 January 2008 onwards. During the year, certain subsidiaries are taxed at preferential rate of 15% to 24% (2010: 15% to 22%).

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | RMB'000 | % | RMB'000 (restated) | % |
| Profit before tax | **971,951** | | 954,028 | |
| Tax at the PRC statutory income tax rate of 25% (2010: 25%) | **242,988** | **25.0** | 238,507 | 25.0 |
| Tax effect of share of profit of associates | **(35,645)** | **(3.7)** | (44,707) | (4.7) |
| Tax effect of expenses not deductible for tax purpose | **9,853** | **1.0** | 12,885 | 1.4 |
| Tax effect of income not taxable for tax purpose | **(18,030)** | **(1.9)** | (18,596) | (1.9) |
| Tax effect of tax losses not recognised | **92,943** | **9.6** | 76,760 | 8.0 |
| (Utilisation of previously) unrecognised deductible temporary differences | **(25,748)** | **(2.6)** | 5,216 | 0.5 |
| Utilisation of tax losses previously not recognised | **(7,671)** | **(0.8)** | (18,988) | (2.0) |
| Effect of tax exemptions and preferential tax rates granted to certain PRC subsidiaries | **(432)** | **–** | (7,481) | (0.8) |
| Tax charge and effective tax rate for the year | **258,258** | **26.6** | 243,596 | 25.5 |

# Notes to the Consolidated Financial Statements

## 10. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging (crediting):

| | 2011 RMB'000 | 2010 RMB'000 (restated) |
|---|---|---|
| Amortisation and depreciation | | |
| Amortisation of other non-current assets (note 22) | **1,523** | 1,185 |
| Amortisation of intangible assets (note 17) | **10,232** | 18,204 |
| Amortisation of land use rights (note 16) | **4,814** | 5,262 |
| Depreciation of property, plant and equipment (note 14) | **529,734** | 517,964 |
| Total amortisation and depreciation | **546,303** | 542,615 |
| Share of profits of associates | | |
| Share of profit before taxation | **(190,990)** | (238,784) |
| Share of taxation | **48,412** | 59,958 |
| | **(142,578)** | (178,826) |
| Auditors' remuneration | **5,154** | 5,697 |
| Loss on disposal of property, plant and equipment | **3,554** | 5,511 |
| Impairment loss on property, plant and equipment recognised (included in other operating expenses) | **15,188** | 16,487 |
| Director's remuneration (note 11) | **13,217** | 12,710 |
| Salaries, wages and other employee benefits of other staff | **2,212,354** | 1,811,643 |
| Retirement benefit scheme contribution of other staff (note 44) | **222,574** | 190,829 |
| Total staff costs | **2,448,145** | 2,015,182 |
| (Reversal) provision of allowance for doubtful debts of trade and other receivables | **(2,612)** | 651 |
| Cost of inventories recognised as expenses | **23,563,736** | 22,292,378 |

# Notes to the Consolidated Financial Statements

## 11. DIRECTORS', SUPERVISORS' AND EMPLOYEES' REMUNERATION

### (a) Directors' emoluments

The remuneration of each Director for the year ended 31 December 2011 is set out below:

| Name of Director | Fees | Basic salaries, allowances and benefits in kind | Discretionary bonuses | Retirement benefit costs | Medical benefits | 2011 | 2010 |
|---|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 (note) | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Executive/Non-executive Directors: | | | | | | | |
| Mr. Hua Guo-ping | – | 277 | 610 | 44 | 16 | **947** | 1,506 |
| Mr. Liang Wei | – | 325 | 839 | 40 | 15 | **1,219** | 1,488 |
| Ms. Xu Ling-ling | – | 277 | 785 | 44 | 16 | **1,122** | 1,488 |
| Ms. Cai Lan-ying | – | 277 | 8,120 | 70 | 11 | **8,478** | 6,745 |
| Mr. Tang Qi | – | 277 | 664 | 44 | 16 | **1,001** | 1,123 |
| Mr. Ma Xin-sheng | – | – | – | – | – | **–** | – |
| Mr. Xu Bo | – | – | – | – | – | **–** | – |
| Mr. Kazuyasu Misu | – | – | – | – | – | **–** | – |
| Mr. Wong Tak Hung | – | – | – | – | – | **–** | – |
| Independent non-executive Directors: | | | | | | | |
| Mr. Lee Kwok Ming, Don | 150 | – | – | – | – | **150** | 120 |
| Mr. Zhang Hui Ming | 150 | – | – | – | – | **150** | 120 |
| Mr. Xia Da Wei | 150 | – | – | – | – | **150** | 120 |
| **2011** | **450** | **1,433** | **11,018** | **242** | **74** | **13,217** | |
| 2010 | 360 | 1,441 | 10,608 | 231 | 70 | | 12,710 |

Note: The discretionary bonus is determined based on the record of growth of the Group's annual result.

None of the Directors waived any emoluments during the years ended 31 December 2011 and 2010.

# Notes to the Consolidated Financial Statements

## 11. DIRECTORS', SUPERVISORS' AND EMPLOYEES' REMUNERATION (continued)

### (b) Supervisory committee members' emoluments

The remuneration of each supervisor for the year ended 31 December 2011 is set out below:

| Name of Director | Fees RMB'000 | Basic salaries, allowances and benefits in kind RMB'000 | Discretionary bonuses RMB'000 (note) | Retirement benefit costs RMB'000 | Medical benefits RMB'000 | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|---|---|---|---|
| Mr. Chen Jian-jun | – | 277 | 610 | 44 | 16 | **947** | 1,156 |
| Mr. Wang Long-sheng | – | – | – | – | – | **–** | – |
| Mr. Dao Shu-rong | – | 277 | 683 | 44 | 16 | **1,020** | 1,226 |
| **2011** | **–** | **554** | **1,293** | **88** | **32** | **1,967** | |
| 2010 | – | 554 | 1,716 | 82 | 30 | | 2,382 |

Note: The discretionary bonus is determined based on the record of growth of the Group's annual result.

None of the Supervisors waived any emoluments during the years ended 31 December 2011 and 2010.

# Notes to the Consolidated Financial Statements

## 11. DIRECTORS', SUPERVISORS' AND EMPLOYEES' REMUNERATION (continued)

### (c) Five highest paid individuals

All five individuals whose emoluments were the highest in the Group during the year were executives of the Group. Except for Ms. Cai Lan-ying (2010: Ms. Cai Lan-ying) who is the director of the Company, none of them was a Director or Supervisor of the Company. The emoluments of these five highest paid individuals are as follows:

| | **2011** | 2010 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Basic salaries, allowances and benefits-in-kind | **1,393** | 1,393 |
| Discretionary bonuses | **33,291** | 26,205 |
| Retirement benefit costs | **336** | 336 |
| Medical benefits | **52** | 52 |
| | **35,072** | 27,986 |

The emoluments fell within the following band:

| | **Number** | |
|---|---|---|
| | **2011** | 2010 |
| HK$5,500,001 – HK$6,000,000 | – | 2 |
| HK$6,000,001 – HK$6,500,000 | – | 1 |
| HK$6,500,001 – HK$7,000,000 | – | – |
| HK$7,000,001 – HK$7,500,000 | **2** | 1 |
| HK$7,500,001 – HK$8,000,000 | – | 1 |
| HK$8,000,001 – HK$8,500,000 | **1** | – |
| HK$8,500,001 – HK$9,000,000 | – | – |
| HK$9,000,001 – HK$9,500,000 | – | – |
| HK$9,500,001 – HK$10,000,000 | **1** | – |
| HK$10,000,001 – HK$10,500,000 | **1** | – |

**(d)** During the year, no emoluments were paid by the Group to any of the Directors, Supervisors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

# Notes to the Consolidated Financial Statements

## 12. DIVIDEND

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Dividend recognised as distribution during the year: | | |
| 2011 interim dividend RMB0.08 (2010: 2010 interim dividend RMB0.15) per share paid | **89,568** | 93,300 |
| 2010 final dividend RMB0.18 (2010: 2009 final dividend RMB0.16) per share paid | **111,960** | 99,520 |
| | **201,528** | 192,820 |

At a meeting held on 21 March 2012, the Directors proposed a final dividend of RMB0.12 (2010: RMB0.18) per share with the share number of 1,119,600,000 (2010: 622,000,000) for the year ended 31 December 2011, totalling RMB134,352,000 (2010: RMB111,960,000). The proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings in the year ending 31 December 2012 upon approval by the shareholders at the forthcoming Annual General Meeting.

## 13. EARNING PER SHARE

The calculation of the basic and diluted earning per share is based on the following data:

| | 2011 | 2010 (restated) |
|---|---|---|
| ***Earnings*** | | |
| Profit for the year attributable to owners of the Company (RMB'000) | **626,726** | 622,415 |
| | | (restated) |
| ***Number of shares (note)*** | | |
| Weighted average number of ordinary shares for the purpose of calculation of basic and diluted earnings per share | **1,119,600,000** | 1,119,600,000 |

Note: For the year 2010, the number of ordinary shares for purpose of basic and diluted earning per share has been adjusted retrospectively for the Bonus Issue completed in September 2011 (see note 37).

# Notes to the Consolidated Financial Statements

## 14. PROPERTY, PLANT AND EQUIPMENT

| Group | Land and buildings RMB'000 | Leasehold improvements RMB'000 | Transportation vehicles and equipment RMB'000 | Operating and office equipment RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| COST | | | | | |
| At 1 January 2010 (restated) | 1,702,439 | 1,953,190 | 249,763 | 1,507,307 | 5,412,699 |
| Additions | – | 192,370 | 32,881 | 179,111 | 404,362 |
| Transfer from construction in progress | – | 23,841 | – | 2,273 | 26,114 |
| Disposals | (2,207) | (159,992) | (18,408) | (169,764) | (350,371) |
| At 31 December 2010 (restated) | 1,700,232 | 2,009,409 | 264,236 | 1,518,927 | 5,492,804 |
| Additions | 120,703 | 283,009 | 31,190 | 293,345 | 728,247 |
| Transfer from construction in progress | 263,052 | 58,658 | – | 5,367 | 327,077 |
| Disposal of a subsidiary (note 41) | (44,779) | – | – | – | (44,779) |
| Disposals | (1,140) | (145,703) | (13,406) | (134,693) | (294,942) |
| **At 31 December 2011** | **2,038,068** | **2,205,373** | **282,020** | **1,682,946** | **6,208,407** |
| DEPRECIATION | | | | | |
| At 1 January 2010 (restated) | 259,495 | 1,142,036 | 120,795 | 783,279 | 2,305,605 |
| Provided for the year | 56,396 | 246,653 | 27,472 | 187,443 | 517,964 |
| Eliminated on disposals | (883) | (152,346) | (14,392) | (127,513) | (295,134) |
| At 31 December 2010 (restated) | 315,008 | 1,236,343 | 133,875 | 843,209 | 2,528,435 |
| Provided for the year | 61,718 | 254,637 | 27,074 | 186,305 | 529,734 |
| Eliminated on disposals | (695) | (136,130) | (11,188) | (99,170) | (247,183) |
| **At 31 December 2011** | **376,031** | **1,354,850** | **149,761** | **930,344** | **2,810,986** |
| IMPAIRMENT | | | | | |
| At 1 January 2010 (restated) | – | 38,768 | 1,512 | 35,116 | 75,396 |
| Provided for the year | – | 5,572 | – | 10,915 | 16,487 |
| Eliminated on disposals | – | (4,656) | – | (5,874) | (10,530) |
| At 31 December 2010 (restated) | – | 39,684 | 1,512 | 40,157 | 81,353 |
| Provided for the year | – | 7,937 | – | 7,251 | 15,188 |
| Eliminated on disposals | – | (13,241) | – | (23,854) | (37,095) |
| **At 31 December 2011** | **–** | **34,380** | **1,512** | **23,554** | **59,446** |
| CARRYING VALUES | | | | | |
| **At 31 December 2011** | **1,662,037** | **816,143** | **130,747** | **729,048** | **3,337,975** |
| At 31 December 2010 (restated) | 1,385,224 | 733,382 | 128,849 | 635,561 | 2,883,016 |
| At 1 January 2010 (restated) | 1,442,944 | 772,386 | 127,456 | 688,912 | 3,031,698 |

# Notes to the Consolidated Financial Statements

## 14. PROPERTY, PLANT AND EQUIPMENT (continued)

Notes:

(a) An impairment loss of RMB15,188,000 (2010: RMB16,487,000) on certain items of property plant and equipment has been recognised during the year mainly due to loss making of certain hypermarkets and supermarkets.

(b) Amongst the depreciation expense of RMB529,734,000 (2010: RMB517,964,000), RMB493,509,000 (2010: RMB482,948,000) and RMB36,225,000 (2010: RMB35,016,000) were included in selling and distribution expenses and administrative expenses respectively.

(c) As of 31 December 2011, the Group have not obtained building ownership certificates for certain buildings with carrying amount of RMB186,872,000 (2010: RMB193,631,000).

| Company | Land and buildings RMB'000 | Leasehold improvements RMB'000 | Transportation vehicles and equipment RMB'000 | Operating and office equipment RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| COST | | | | | |
| At 1 January 2010 | 290,902 | – | 5,902 | 27,584 | 324,388 |
| Additions | – | 690 | 1,063 | 4,906 | 6,659 |
| Transfer from construction in progress | – | 2,049 | – | 2,273 | 4,322 |
| Disposals | – | (1,870) | (288) | (2,358) | (4,516) |
| At 31 December 2010 | 290,902 | 869 | 6,677 | 32,405 | 330,853 |
| Additions | – | – | 1,717 | 7,636 | 9,353 |
| Disposals | – | – | (1,558) | (2,420) | (3,978) |
| **At 31 December 2011** | **290,902** | **869** | **6,836** | **37,621** | **336,228** |
| DEPRECIATION | | | | | |
| At 1 January 2010 | 44,052 | – | 2,907 | 13,389 | 60,348 |
| Provided for the year | 6,088 | 1,935 | 891 | 4,847 | 13,761 |
| Eliminated on disposals | – | (1,870) | (231) | (1,338) | (3,439) |
| At 31 December 2010 | 50,140 | 65 | 3,567 | 16,898 | 70,670 |
| Provided for the year | 6,980 | 174 | 767 | 4,828 | 12,749 |
| Eliminated on disposals | – | – | (848) | (1,974) | (2,822) |
| **At 31 December 2011** | **57,120** | **239** | **3,486** | **19,752** | **80,597** |
| CARRYING VALUES | | | | | |
| **At 31 December 2011** | **233,782** | **630** | **3,350** | **17,869** | **255,631** |
| At 31 December 2010 | 240,762 | 804 | 3,110 | 15,507 | 260,183 |

# Notes to the Consolidated Financial Statements

## 14. PROPERTY, PLANT AND EQUIPMENT (continued)

The above items of property, plant and equipment are depreciated, taking into account their residual value, on a straight-line basis as follows:

| | |
|---|---|
| Land and buildings | 25 – 40 years |
| Leasehold improvements | 5 – 8 years or the remaining term of any lease, whichever is shorter |
| Transportation, vehicles and equipment | 5 – 8 years |
| Operating and office equipment | 3 – 8 years |

## 15. CONSTRUCTION IN PROGRESS

| **Group** | **Construction in progress RMB'000** |
|---|---|
| At 1 January 2010 | 86,921 |
| Additions | 159,923 |
| Transfer to property, plant and equipment (note 14) | (26,114) |
| At 31 December 2010 | 220,730 |
| Additions | 179,399 |
| Transfer to property, plant and equipment (note 14) | (327,077) |
| Transfer to intangible assets (note 17) | (5,287) |
| **At 31 December 2011** | **67,765** |

| **Company** | **RMB'000** |
|---|---|
| At 1 January 2010 | 7,702 |
| Additions | 5,108 |
| Transfer to property, plant and equipment (note 14) | (4,322) |
| At 31 December 2010 | 8,488 |
| Additions | 777 |
| Transfer to intangible assets (note 17) | (4,896) |
| **At 31 December 2011** | **4,369** |

# Notes to the Consolidated Financial Statements

## 16. LAND USE RIGHTS

| Group | Land use rights RMB'000 |
|---|---|
| COST | |
| At 1 January 2010 | 297,980 |
| Additions | 770 |
| At 31 December 2010 | 298,750 |
| Additions | 60,121 |
| Disposals | (176) |
| **At 31 December 2011** | **358,695** |
| AMORTISATION | |
| At 1 January 2010 | 38,807 |
| Charge for the year | 5,262 |
| At 31 December 2010 | 44,069 |
| Charge for the year | 4,814 |
| Eliminated on disposals | (14) |
| **At 31 December 2011** | **48,869** |
| CARRYING VALUES | |
| **At 31 December 2011** | **309,826** |
| At 31 December 2010 | 254,681 |

| | **31/12/2011 RMB'000** | 31/12/2010 RMB'000 |
|---|---|---|
| Analysed for reporting purposes as: | | |
| Non-current portion | **304,559** | 249,419 |
| Current portion to be charged to the profit or loss next year included in deposits, prepayments and other receivables (note 26) | **5,267** | 5,262 |
| Total | **309,826** | 254,681 |

Notes:

(a) In relation to the amortisation charge for the year of RMB4,814,000 (2010: RMB5,262,000), RMB2,189,000 (2010: RMB2,636,000) and RMB2,625,000 (2010: RMB2,626,000) were included in selling and distribution expenses and administrative expenses respectively.

(b) As of 31 December 2011, the Group have not obtained land use right certificate for certain land with carrying amount of RMB117,551,000 (2010: RMB57,430,000).

# Notes to the Consolidated Financial Statements

## 16. LAND USE RIGHTS (continued)

| Company | Land use rights RMB'000 |
|---|---|
| COST | |
| At 1 January 2010, 31 December 2010 and 31 December 2011 | 43,035 |
| AMORTISATION | |
| At 1 January 2010 | 9,288 |
| Charge for the year | 929 |
| At 31 December 2010 | 10,217 |
| Charge for the year | 929 |
| **At 31 December 2011** | **11,146** |
| CARRYING VALUES | |
| **At 31 December 2011** | **31,889** |
| At 31 December 2010 | 32,818 |

| | **31/12/2011 RMB'000** | 31/12/2010 RMB'000 |
|---|---|---|
| Analysed for reporting purposes as: | | |
| Non-current portion | **30,960** | 31,889 |
| Current portion to be charged to the profit or loss next year included in deposits, prepayments and other receivables (note 26) | **929** | 929 |
| | **31,889** | 32,818 |

The Group's interests in land use rights represent prepaid operating lease payment for land in the PRC with land use right period ranging from 35 to 50 years.

# Notes to the Consolidated Financial Statements

## 17. INTANGIBLE ASSETS

| Group | Software RMB'000 | Goodwill RMB'000 | Total RMB'000 |
|---|---|---|---|
| COST | | | |
| At 1 January 2010 | 120,842 | 172,000 | 292,842 |
| Additions | 11,902 | – | 11,902 |
| Disposals | (743) | – | (743) |
| At 31 December 2010 | 132,001 | 172,000 | 304,001 |
| Additions | 14,193 | – | 14,193 |
| Transfer from construction in progress (note 15) | 5,287 | – | 5,287 |
| Disposals | (1,277) | – | (1,277) |
| **At 31 December 2011** | **150,204** | **172,000** | **322,204** |
| AMORTISATION AND IMPAIRMENT | | | |
| At 1 January 2010 | 88,866 | 20,059 | 108,925 |
| Charge for the year | 18,204 | – | 18,204 |
| Eliminated on disposals | (743) | – | (743) |
| At 31 December 2010 | 106,327 | 20,059 | 126,386 |
| Charge for the year | 10,232 | – | 10,232 |
| Eliminated on disposals | (1,277) | – | (1,277) |
| **At 31 December 2011** | **115,282** | **20,059** | **135,341** |
| CARRYING VALUES | | | |
| **At 31 December 2011** | **34,922** | **151,941** | **186,863** |
| At 31 December 2010 | 25,674 | 151,941 | 177,615 |

Notes:

(a) The impairment loss on goodwill relates to an impairment loss of RMB20,059,000 recognised in 2007 which arose in hypermarket cash-generating units in Hebei provincial area following a decision to close down certain unprofitable hypermarket stores in that area.

(b) In relation to the amortisation charge for the year of RMB10,232,000 (2010:RMB18,204,000), RMB5,402,000 (2010: RMB11,682,000) and RMB4,830,000 (2010: RMB6,522,000) were included in selling and distribution expenses and administrative expenses respectively.

(c) The above software has definite useful lives, and is amortised on a straight-line basis over the periods of 5 years.

# Notes to the Consolidated Financial Statements

## 17. INTANGIBLE ASSETS (continued)

**Impairment tests for goodwill**

Goodwill is allocated to the groups of cash-generating units identified according to the operating segments. A segment level summary of the goodwill is presented below.

| | 31/12/2011 RMB'000 | 31/12/2010 RMB'000 |
|---|---|---|
| Supermarkets | **101,731** | 101,731 |
| Hypermarkets | **45,944** | 45,944 |
| Others | **4,266** | 4,266 |
| | **151,941** | 151,941 |

The recoverable amounts of the groups of cash-generating units are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rate and growth rate. These calculations are based on cash flow forecasts prepared by the Group, which is derived from the one year financial budgets and extrapolated for the following 15 years using an estimated growth rate of 0% to 10% and a pre-tax discount rate of 9% (2010: 9%). This pre-tax discount rate is equivalent to a post-tax discount rate of 7% (2010: 7%). The growth rate used does not exceed the average long-term growth rate for the relevant markets. The management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of each of the groups of cash-generating units to exceed the aggregate recoverable amount of each of the relevant groups of cash-generating units.

| **Company** | **Software RMB'000** |
|---|---|
| COST | |
| At 1 January 2010 | 16,828 |
| Additions | 6,656 |
| Disposals | (922) |
| At 31 December 2010 | 22,562 |
| Additions | 7,727 |
| Transfer from construction in progress | 4,896 |
| **At 31 December 2011** | **35,185** |
| AMORTISATION | |
| At 1 January 2010 | 12,962 |
| Charge for the year | 3,282 |
| Disposals | (922) |
| At 31 December 2010 | 15,322 |
| Charge for the year | 3,783 |
| **At 31 December 2011** | **19,105** |
| CARRYING VALUES | |
| **At 31 December 2011** | **16,080** |
| At 31 December 2010 | 7,240 |

# Notes to the Consolidated Financial Statements

## 18. INVESTMENTS IN SUBSIDIARIES/BALANCES WITH SUBSIDIARIES

| Company | 31/12/2011 RMB'000 | 31/12/2010 RMB'000 |
|---|---|---|
| Unlisted equity investments, at cost | **1,514,346** | 1,406,453 |
| Less: Impairment losses | **(79,590)** | (79,590) |
| | **1,434,756** | 1,326,863 |

Particulars of the Company's principal subsidiaries at 31 December 2011 are set out in note 46.

Balances with subsidiaries are trade in nature, unsecured, interest free and repayable, with credit terms ranging from 30 to 60 days. As at 31 December 2011, balances with subsidiaries are all aged within 60 days.

## 19. INTERESTS IN ASSOCIATES

| Group | 31/12/2011 RMB'000 | 31/12/2010 RMB'000 |
|---|---|---|
| Unlisted equity investments, at cost | **209,952** | 194,060 |
| Share of post-acquisition profits, net of dividends received | **307,135** | 309,507 |
| | **517,087** | 503,567 |

| Company | 31/12/2011 RMB'000 | 31/12/2010 RMB'000 |
|---|---|---|
| Unlisted equity investments, at cost | **209,123** | 192,871 |

Interests in associates as at 31 December 2011 include goodwill of RMB6,787,000 (2010: RMB6,787,000).

Particulars of the Company's principal associates at 31 December 2011 and 2010 are set out in note 46.

# Notes to the Consolidated Financial Statements

## 19. INTERESTS IN ASSOCIATES (continued)

The summarised financial information in respect of the Group's associates is set out below:

| Group | 31/12/2011 RMB'000 | 31/12/2010 RMB'000 |
|---|---|---|
| Total assets | **4,805,540** | 4,463,337 |
| Total liabilities | **3,279,543** | 3,047,330 |
| Net assets | **1,525,997** | 1,416,007 |
| Group's share of net assets of associates | **510,300** | 496,780 |

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Revenue | **9,418,298** | 8,890,659 |
| Profit for the year | **414,160** | 486,219 |
| Group's share of profits of associates for the year | **142,578** | 178,826 |

## 20. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| Group | 31/12/2011 RMB'000 | 31/12/2010 RMB'000 |
|---|---|---|
| *Non-current* | | |
| Legal person shares (note a) | **1,112** | 1,112 |
| Unlisted equity investments (note b) | **36,046** | 36,046 |
| Unlisted managed investment funds (note c) | **215,650** | 130,000 |
| | **252,808** | 167,158 |
| *Current* | | |
| Unlisted investments (note d) | **104,942** | 450,000 |
| Unlisted managed investment funds (note c) | **133,033** | 50,000 |
| | **237,975** | 500,000 |
| Total | **490,783** | 667,158 |

# Notes to the Consolidated Financial Statements

## 20. AVAILABLE-FOR-SALE FINANCIAL ASSETS (continued)

| **Company** | **31/12/2011** | 31/12/2010 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| *Non-current* | | |
| Legal person shares (note a) | **1,112** | 1,112 |
| Unlisted equity investments (note b) | **3,423** | 3,423 |
| Unlisted managed investment funds (note c) | **215,650** | 130,000 |
| | **220,185** | 134,535 |
| *Current* | | |
| Unlisted investments (note d) | – | 450,000 |
| Unlisted managed investment funds (note c) | **133,033** | 50,000 |
| | **133,033** | 500,000 |
| Total | **353,218** | 634,535 |

Notes:

(a) These represent investments in legal person shares of certain PRC listed companies, which carry restrictions on trading in stock exchange. The legal person shares are measured at fair value at the end of the reporting period.

(b) These represent investments in certain unlisted companies in the PRC. The unlisted equity investments are measured at cost less any identified impairment loss at the end of the reporting period.

(c) The investments represent funds placed into and managed by licensed trust companies in the PRC, and the licensed trust companies in turn placed the funds in corporations in the PRC (the "PRC Corporations"). The principal and interest of funds to the PRC Corporations by the licensed trust companies are (i) secured by listed or unlisted securities held by the PRC Corporations and (ii) guaranteed by related companies of the PRC Corporations. The investments carry an interest of 7.0% – 9.0% (2010: 7.0% – 7.8%) per annum.

(d) The investments are managed by licensed financial institutions in the PRC in accordance with entrusted agreements entered into between the concerned parties to principally invest in certain financial assets including notes or bonds issued and circulated in the PRC. The entrusted institutions undertake return of principal and a yield rate of 5.4% (2010: 2.0% – 4.2%) per annum upon maturity, which is stipulated to be one year. In February 2012, the Group has received proceeds with the amount of RMB105,430,000 on redemption of the investments on maturity.

# Notes to the Consolidated Financial Statements

## 21. HELD-TO-MATURITY FINANCIAL ASSETS

| **Group** | **31/12/2011** | 31/12/2010 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| *Non-current* | | |
| Unlisted government certificate bonds with fixed interest of 4.0% (2010:3.73%-5.74%) and maturity date of over one year from the end of financial reporting period – PRC | **35,920** | 174,850 |
| Listed corporate bond with fixed interest of 7.1% (2010:7.1%) and maturity date of over one year from the end of financial reporting period | **202,445** | 202,445 |
| | **238,365** | 377,295 |
| *Current* | | |
| Unlisted government certificate bonds with fixed interest of 3.73% (2010:2.6%-5.74%) and maturity date of less than one year from the end of financial reporting period – PRC | **145,191** | 45,777 |
| Total | **383,556** | 423,072 |

| **Company** | **31/12/2011** | 31/12/2010 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Non-current | | |
| Unlisted government certificate bonds with fixed interest of 4.0% (2010:3.73%-5.74%) and maturity date of over one year from the end of financial reporting period – PRC | **35,920** | 174,850 |
| Listed corporate bond with fixed interest of 7.1% (2010:7.1%) and maturity date of over one year from the end of financial reporting period | **202,445** | 202,445 |
| | **238,365** | 377,295 |
| *Current* | | |
| Unlisted government certificate bonds with fixed interest of 3.73% (2010:2.6%-5.74%) and maturity date of less than one year from the end of financial reporting period – PRC | **145,191** | 40,085 |
| Total | **383,556** | 417,380 |

The carrying amounts of the unlisted held-to-maturity financial assets of the Group and the Company approximate their fair value, which is determined in accordance with generally accepted pricing models based on discounted cash flow analysis. The carrying amounts of the listed held-to-maturity financial assets of the Group and the company approximate their fair value which is determined by quoted price in active market.

# Notes to the Consolidated Financial Statements

## 22. OTHER NON-CURRENT ASSETS

Other non-current assets of the Group and the Company include prepaid rental for the leasing of buildings from the government, and are being amortised over the shorter of the contract period or the estimated useful lives of the buildings.

Amongst the amortisation of RMB1,523,000 (2010: RMB1,185,000), RMB1,335,000 (2010: RMB997,000) and RMB188,000 (2010: RMB188,000) were included in selling and distribution expenses and administrative expenses respectively.

## 23. PREPAID RENTAL

Prepaid rental represents prepaid rental for store premises which will be charged to the statement of comprehensive income after 1 year. Prepaid lease payments which will be charged to the statement of comprehensive income within 1 year amounting to RMB365,572,000 (2010: RMB223,303,000) are included in prepayments in current assets (see note 26).

## 24. INVENTORIES

| **Group** | **31/12/2011**<br>**RMB'000** | 31/12/2010<br>RMB'000<br>(restated) | 1/1/2010<br>RMB'000<br>(restated) |
|---|---|---|---|
| Merchandise for resale | **3,406,886** | 2,775,158 | 2,441,871 |
| Write-down for obsolescence | **(4,582)** | (6,821) | (1,756) |
| | **3,402,304** | 2,768,337 | 2,440,115 |
| Low value consumables | **18,518** | 18,774 | 21,369 |
| | **3,420,822** | 2,787,111 | 2,461,484 |

| **Company** | **31/12/2011**<br>**RMB'000** | 31/12/2010<br>RMB'000 |
|---|---|---|
| Merchandise for resale | **450,661** | 405,114 |
| Low value consumables | **2,008** | 1,912 |
| | **452,669** | 407,026 |

# Notes to the Consolidated Financial Statements

## 25. TRADE RECEIVABLES

The ageing analysis of the trade receivables net of allowance for doubtful debts at the end of reporting period arising mainly from sales of merchandise to franchised stores and wholesalers and with credit terms ranging from 30 to 60 days are as follows:

| Group | 31/12/2011<br>RMB'000 | 31/12/2010<br>RMB'000<br>(restated) | 1/1/2010<br>RMB'000<br>(restated) |
|---|---|---|---|
| Within 30 days | **81,582** | 105,500 | 60,227 |
| 31 – 60 days | **698** | 1,196 | 14,082 |
| 61 – 90 days | **114** | 3,254 | 176 |
| 91 days – one year | **3,662** | 7,722 | 86 |
| | **86,056** | 117,672 | 74,571 |

Movement in the allowance for doubtful debts is as the follows:

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| 1 January | **12,162** | 12,275 |
| Amounts reversed during the year | **(2,469)** | (113) |
| 31 December | **9,693** | 12,162 |

| Company | 31/12/2011<br>RMB'000 | 31/12/2010<br>RMB'000 |
|---|---|---|
| Within 30 days | **117** | 5 |

The Group's trade receivables past due but not impaired relate to a number of independent customers for whom there is no recent history of default.

The carrying amounts of trade receivables of the Group and the Company approximate their fair value.

# Notes to the Consolidated Financial Statements

## 26. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

| **Group** | **31/12/2011** | 31/12/2010 | 1/1/2010 |
|---|---|---|---|
| | **RMB'000** | RMB'000 | RMB'000 |
| | | (restated) | (restated) |
| Land use right – current portion (note 16) | **5,267** | 5,262 | 4,456 |
| Prepaid rental | **365,572** | 223,303 | 240,152 |
| Deposits and other prepayments | **92,566** | 138,781 | 74,411 |
| Other receivables net of allowance for doubtful debts | **421,456** | 234,083 | 170,730 |
| | **884,861** | 601,429 | 489,749 |

Movement in the allowance for doubtful debts is as the follows:

| | **2011** | 2010 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| | | (restated) |
| 1 January | **7,232** | 6,468 |
| Impairment losses recognised on receivables | **–** | 764 |
| Amounts recovered during the year | **(143)** | – |
| 31 December | **7,089** | 7,232 |

| **Company** | **31/12/2011** | 31/12/2010 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Land use right – current portion (note 16) | **929** | 929 |
| Deposits and prepayments | **16,708** | 36,080 |
| Other receivables net of allowance for doubtful debts | **53,070** | 10,899 |
| | **70,707** | 47,908 |

## 27. AMOUNTS DUE FROM FELLOW SUBSIDIARIES

Amounts due from fellow subsidiaries are trade in nature, unsecured, interest free, with credit terms ranging from 30 to 60 days. As at 31 December 2011, balances of the amounts due from fellow subsidiaries are all aged within 60 days.

# Notes to the Consolidated Financial Statements

## 28. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| Group | 31/12/2011 | 31/12/2010 |
|---|---|---|
| | RMB'000 | RMB'000 |
| **Financial assets held for trading** | | |
| Equity securities listed in the PRC | – | 4,089 |
| Open ended money market funds | – | 200,000 |
| | – | 204,089 |

| Company | 31/12/2011 | 31/12/2010 |
|---|---|---|
| | RMB'000 | RMB'000 |
| **Financial assets held for trading** | | |
| Equity securities listed in the PRC held for trading, at market value | – | 30 |

## 29. AMOUNTS DUE FROM/TO ASSOCIATES

Amounts due from/to associates represent balances arising from expenses paid on behalf of certain associates and purchases of merchandise from associates respectively. Balances are all aged within 90 days and the credit terms of the trade balances range from 30 to 90 days. Such balances with associates are unsecured and interest free.

## 30. TERM DEPOSITS

All term deposits, which are denominated in Renminbi, are placed with banks in the PRC. The deposits in current assets are the deposits with maturity over 3 months but within 1 year. The deposits in non-current assets are those with maturity over 1 year but not exceeding 5 years.

As at 31 December 2011, term deposits of the Group included restricted deposits amounting to RMB2,981,200,000 (2010: RMB1,914,400,000). The restricted deposits represent deposits placed by a subsidiary with various banks which are held as security for coupon issued to customers and are not available for other use by the Group.

The effective interest rate on term deposits was ranged from 2.75% to 5.13% (2010: 2.25% to 5.13%) per annum. The carrying amounts of the term deposits of the Group and the Company approximate their fair value.

## 31. CASH AND CASH EQUIVALENTS

Cash and cash equivalents, which are all denominated in Renminbi, include cash on hand and cash placed with banks in the PRC. The remittance of these funds out of the PRC is subject to the exchange control restrictions imposed by the PRC government.

Bank balances carry interest at prevailing market rates ranging from 0.50% to 3.50% per annum for the year ended 31 December 2011 (2010: ranging from 0.36% to 2.79% per annum).

# Notes to the Consolidated Financial Statements

## 32. TRADE PAYABLES

The aged analysis of trade payables at the end of the reporting period, arising mainly from purchase of merchandise with credit terms ranging from 30 to 60 days, are as follows:

| Group | 31/12/2011<br>RMB'000 | 31/12/2010<br>RMB'000<br>(restated) | 1/1/2010<br>RMB'000<br>(restated) |
|---|---|---|---|
| Within 30 days | **2,547,329** | 2,345,761 | 2,984,705 |
| 31 – 60 days | **839,162** | 804,083 | 296,485 |
| 61 – 90 days | **365,848** | 370,184 | 104,145 |
| 91 days – one year | **667,107** | 636,680 | 107,120 |
| | **4,419,446** | 4,156,708 | 3,492,455 |

| Company | 31/12/2011<br>RMB'000 | 31/12/2010<br>RMB'000 |
|---|---|---|
| Within 30 days | **1,462,937** | 1,062,100 |
| 31 – 60 days | **473,021** | 504,993 |
| 61 – 90 days | **196,203** | 178,048 |
| 91 days – one year | **384,641** | 299,197 |
| | **2,516,802** | 2,044,338 |

## 33. BANK BORROWING

| | 31/12/2011<br>RMB'000 | 31/12/2010<br>RMB'000 |
|---|---|---|
| Bank loan, repayable within one year, unsecured, with interest rate of 7.5% per annum | **2,000** | – |

# Notes to the Consolidated Financial Statements

## 34. OTHER PAYABLES AND ACCRUALS

| Group | 31/12/2011<br>RMB'000 | 31/12/2010<br>RMB'000<br>(restated) | 1/1/2010<br>RMB'000<br>(restated) |
|---|---|---|---|
| Payroll, staff welfare and other staff cost payable | **310,248** | 292,240 | 258,634 |
| Value added tax and other payable | **316,387** | 266,466 | 237,294 |
| Rental payable | **546,454** | 432,547 | 356,764 |
| Deposits from lessees, franchisees and other third parties | **162,206** | 121,883 | 145,222 |
| Amount payable to other retailers upon customers' redemption of coupon issued by the Group | **49,325** | 210,087 | 138,801 |
| Prepayments from franchisees | **224,475** | 197,479 | 229,585 |
| Payables for acquisition of property plant and equipment | **221,205** | 142,982 | 171,353 |
| Store closure provision | **49,046** | 58,358 | 58,162 |
| Accruals | **108,398** | 46,957 | 41,543 |
| Advance from customers | **139,392** | 35,922 | 56,712 |
| Other miscellaneous payables | **77,234** | 66,737 | 79,435 |
| | **2,204,370** | 1,871,658 | 1,773,505 |

| Company | 31/12/2011<br>RMB'000 | 31/12/2010<br>RMB'000 |
|---|---|---|
| Payables for acquisition of property, plant and equipment | **18,301** | 61,048 |
| Accruals | **30,731** | 3,287 |
| Other miscellaneous payables | **23,132** | 67,363 |
| | **72,164** | 131,698 |

## 35. COUPON LIABILITIES

The Group incurs coupon liabilities when coupons are sold. Coupons redeemed in exchange for products of the Group during the year are recognised as sales in the consolidated statement of comprehensive income using the coupon sales value. Certain coupons redeemed in exchange for products or services of other retailers which have agreements with the Group are settled and paid to these retailers after deducting the Group's commission based on the agreements.

## 36. AMOUNTS DUE TO FELLOW SUBSIDIARIES

Amounts due to fellow subsidiaries are trade in nature, unsecured, interest free, with credit terms ranging from 30 to 60 days. As at 31 December 2011, balances of the amounts due to fellow subsidiaries are all aged within 60 days.

# Notes to the Consolidated Financial Statements

## 37. SHARE CAPITAL

| | Number of shares of RMB1.00 each | | Nominal value | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | | | **RMB'000** | RMB'000 |
| Registered, issued and fully paid | | | | |
| At 1 January | **622,000,000** | 622,000,000 | **622,000** | 622,000 |
| Increased in August 2011 | **497,600,000** | – | **497,600** | – |
| At 31 December | **1,119,600,000** | 622,000,000 | **1,119,600** | 622,000 |

The share capital of the Company as at 1 January 2010, 31 December 2010 and 2011 comprises:

| | Number of shares of RMB1.00 each | | Nominal value | |
|---|---|---|---|---|
| | **31/12/2011** | 1/1/2010 and 31/12/2010 | **31/12/2011** | 1/1/2010 and 31/12/2010 |
| | | | **RMB'000** | RMB'000 |
| Domestic shares | **639,977,400** | 355,543,000 | **639,977** | 355,543 |
| Unlisted foreign shares | **107,022,600** | 59,457,000 | **107,023** | 59,457 |
| H shares | **372,600,000** | 207,000,000 | **372,600** | 207,000 |
| | **1,119,600,000** | 622,000,000 | **1,119,600** | 622,000 |

On 28 June 2011, the shareholders of the Company passed a resolution approving the increase in the registered share capital of the Company from RMB622,000,000 to RMB1,119,600,000 by way of capitalisation of the Company's capital reserve amounting to RMB497,600,000 on the basis of 8 bonus shares to be issued for every 10 shares held by such shareholders. On 11 August 2011, the Bonus Issue was approved by the relevant authorities in the PRC and accordingly the Bonus Issue became effective in September 2011.

The H shares rank pari passu in all respects with the domestic shares and the unlisted foreign shares and rank equally for all dividends declared, paid or made except that all dividends in respect of H shares are to be paid by the Company in Hong Kong dollars and H shares may only be subscribed for by, and traded in Hong Kong dollars between, legal or natural persons of Hong Kong, Taiwan, Macau Special Administrative Region of the PRC or any country other than the PRC. The transfer of the domestic and unlisted foreign shares is subject to such restrictions as the PRC laws may impose from time to time.

# Notes to the Consolidated Financial Statements

## 38. DEFERRED TAXATION

The following is the analysis of the deferred tax balances for financial reporting purposes:

| Group | 31/12/2011 RMB'000 | 31/12/2010 RMB'000 (restated) | 1/1/2010 RMB'000 (restated) |
|---|---|---|---|
| Deferred tax assets | **142,213** | 121,360 | 105,224 |
| Deferred tax liabilities | **(47,261)** | (49,318) | (51,375) |
| | **94,952** | 72,042 | 53,849 |

| Company | 31/12/2011 RMB'000 | 31/12/2010 RMB'000 |
|---|---|---|
| Deferred tax assets | **7,196** | 8,730 |

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior years:

| Group | Fair value adjustments on buildings upon business combination RMB'000 | Pre-operating expenses RMB'000 | Bad debt and inventory provisions RMB'000 | Accrued expenses RMB'000 | Rental expenses RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| At 1 January 2010 (restated) | (51,375) | 576 | 5,125 | 18,426 | 81,097 | 53,849 |
| Credit (charge) to profit or loss | 2,057 | 672 | (147) | (4,157) | 19,768 | 18,193 |
| At 31 December 2010 (restated) | (49,318) | 1,248 | 4,978 | 14,269 | 100,865 | 72,042 |
| Credit (charge) to profit or loss | 2,057 | (854) | (653) | 4,672 | 17,688 | 22,910 |
| **At 31 December 2011** | **(47,261)** | **394** | **4,325** | **18,941** | **118,553** | **94,952** |

# Notes to the Consolidated Financial Statements

## 38. DEFERRED TAXATION (continued)

| Company | Deferred tax assets in respect of bad debt and accrued expenses RMB'000 |
|---|---|
| At 1 January 2010 | 20,177 |
| Charge to profit and loss | (11,447) |
| At 31 December 2010 | 8,730 |
| Charge to profit and loss | (1,534) |
| **At 31 December 2011** | **7,196** |

The Group has unutilised tax losses of approximately RMB746,879,000 (2010: RMB477,782,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unutilised tax losses due to the unpredictability of future profit streams. The unrecognised tax losses will expire as follows:

| Group | **31/12/2011 RMB'000** | 31/12/2010 RMB'000 |
|---|---|---|
| Year of expiry | | |
| 2011 | – | 54,714 |
| 2012 | **17,327** | 18,268 |
| 2013 | **50,074** | 51,788 |
| 2014 and afterwards | **679,478** | 353,012 |
| | **746,879** | 477,782 |

At the end of the reporting period, the Group has deductible temporary differences of RMB112,556,000 (2010: RMB215,548,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

# Notes to the Consolidated Financial Statements

## 39. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group generally represents equity attributable to owners of the Company, comprising issued share capital, various reserves and retained earnings, and bank borrowing.

The Group's objectives in managing capital are to safeguard the Group's ability to continue as a going concern, to fulfill the requirement of strategic capital expenditure, and to maintain an optimal capital structure to reduce the cost of capital, in order to provide returns to shareholders.

The management of the Group reviews the capital structure regularly. The Group considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through the payment of dividends, new share issues as well as raising of borrowings.

## 40. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

***Financial assets***

| **Group** | **31/12/2011 RMB'000** | 31/12/2010 RMB'000 (restated) | 1/1/2010 RMB'000 (restated) |
|---|---|---|---|
| Financial assets at fair value through profit or loss | – | 204,089 | 1,874 |
| Held-to-maturity investments | **383,556** | 423,072 | 475,488 |
| Available-for-sale financial assets | **490,783** | 667,158 | 642,171 |
| Loans and receivables (including cash and cash equivalents) | **10,541,022** | 9,715,510 | 7,247,161 |
| | **11,415,361** | 11,009,829 | 8,366,694 |

| **Company** | **31/12/2011 RMB'000** | 31/12/2010 RMB'000 |
|---|---|---|
| Financial assets at fair value through profit or loss | – | 30 |
| Held-to-maturity investments | **383,556** | 417,380 |
| Available-for-sale financial assets | **353,218** | 634,535 |
| Loans and receivables (including cash and cash equivalents) | **7,474,192** | 6,123,300 |
| | **8,210,966** | 7,175,245 |

# Notes to the Consolidated Financial Statements

## 40. FINANCIAL INSTRUMENTS (continued)

### (a) Categories of financial instruments (continued)

***Financial liabilities***

| **Group** | **31/12/2011 RMB'000** | 31/12/2010 RMB'000 (restated) | 1/1/2010 RMB'000 (restated) |
|---|---|---|---|
| Bank borrowing | **2,000** | – | – |
| Other financial liabilities, at amortised cost | **5,433,706** | 5,351,734 | 4,435,953 |
| | **5,435,706** | 5,351,734 | 4,435,953 |

| **Company** | **31/12/2011 RMB'000** | 31/12/2010 RMB'000 |
|---|---|---|
| Other financial liabilities, at amortised cost | **3,518,199** | 3,183,315 |

### (b) Financial risk management objectives and policies

The Group's and the Company's major financial instruments include available-for-sale financial assets, held-to-maturity financial assets, financial assets at fair value through profit or loss, bank borrowing, amounts due from/to fellow subsidiaries, amounts due from/to associates, amounts due from/to subsidiaries, trade and other receivables and trade and other payables, term deposits, cash and cash equivalents. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

***Currency risk***

The Group operates in the PRC and the transactions arising from its principal activities are primarily denominated in RMB which is the functional currency of the Company and its subsidiaries. Therefore, the Group and the Company are not exposed to significant foreign exchange risk.

***Interest rate risk***

Other than bank balances including term deposits, held-to-maturity financial assets, certain available-for-sale financial assets and bank borrowing, the Group and the Company have no other significant interest-bearing assets and liabilities.

The Group's and the Company's cash flow interest rate risk exposure to changes in interest rates is mainly attributable to its bank balances. Bank balances at variable rates expose the Group and the Company to cash flow interest-rate risk. With all other variables held constant, if the average interest rate on bank balances subject to floating interest rate, held by the Group and the Company at the end of reporting period had been 10 basis (2010: 25 basis) point higher/lower, the Group's profit before tax would increase/decrease by approximately RMB10,023,000 (2010: RMB23,389,000) and the Company's profit before tax would increase/decrease by approximately RMB1,314,000 (2010: RMB2,312,000).

# Notes to the Consolidated Financial Statements

## 40. FINANCIAL INSTRUMENTS (continued)

### (b) Financial risk management objectives and policies (continued)

***Other price risk***

Financial assets at fair value through profit or loss at 31 December 2010 represented equity securities acquired upon initial public offering and open ended money market funds. As the Group had sold the securities on the first trading date and the open ended money market funds are profit-making funds with insignificant income impact to the Group, the Group believes the risk exposure associated with such investment is insignificant.

In management's opinion, the sensitivity of legal person shares which is classified as available-for-sale financial assets is insignificant to the Group.

***Credit risk***

Majority of the Group's and the Company's sales are settled mainly in cash or by cheques from its customers on delivery of goods. The carrying amounts of the bank balances, trade and other receivables, available-for-sale financial assets, held-to-maturity financial assets, financial assets at fair value through profit or loss, amounts due from subsidiaries/fellow subsidiaries/associates, after deducting the provision of impairment, if any, best represent the maximum credit exposure of the Group and the Company.

The Group and the Company maintain substantially most of its bank balances in interest bearing accounts in several nationwide and regional renowned financial institutions in the PRC without significant credit risk. As at 31 December 2011, balances with the five largest bank accounted for 65.9% of total bank balances of the Group (2010: 69.3%). As at 31 December 2011, balances with the five largest bank accounted for 79.4% of total bank balances of the Company (2010: 95.6%). The remaining bank balances of the Group and the Company are also held in high quality financial institutions and the management are of the opinion that there is no significant credit risk on such assets.

Trade receivables are due from regular institutional customers with an appropriate financial strength. The Group and the Company did not experience any significant defaults by the debtors and landlords.

The Group's and the Company's unlisted government certificate bonds which is classified as held-to-maturity financial assets are issued by Chinese government without significant credit risk. The Group's and the Company's listed corporate bond which is classified as held-to-maturity financial assets is issued by corporate with high credit rating and guaranteed by state-owned entities with high credit rating. The Group's and the Company's unlisted managed investment funds and unlisted investments which are classified as available-for-sale financial assets are issued by several nationwide and regional renowned financial institutions in the PRC without significant credit risk.

# Notes to the Consolidated Financial Statements

## 40. FINANCIAL INSTRUMENTS (continued)

### (b) Financial risk management objectives and policies (continued)

***Liquidity risk***

In the management of the liquidity risk, the Group and the Company monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's and the Company's operations and mitigate the effects of fluctuations in cash flows.

As of 31 December 2011, the Group has net current liabilities of RMB4.6 billion (2010: RMB3.1 billion). Taking into account of the cash flows from operations, the directors of the Company consider the liquidity risk is properly monitored.

The table below analyses the Group's and the Company's financial liabilities into relevant maturity groupings based on the earliest date on which the Group can be required to pay. The amounts disclosed in the table are contractual undiscounted cash flows.

**Group**

| Financial liabilities | Weighted average interest rate % | Less than 6 months RMB'000 | 6 months to 1 year RMB'000 | Over 1 year RMB'000 | Undiscounted cash flows RMB'000 | Carrying amount RMB'000 |
|---|---|---|---|---|---|---|
| **As at 31 December 2011** | | | | | | |
| Trade payables | **–** | **4,419,446** | **–** | **–** | **4,419,446** | **4,419,446** |
| Bank borrowing | **7.5** | **–** | **2,151** | **–** | **2,151** | **2,000** |
| Other payables and accruals | **–** | **928,616** | **–** | **–** | **928,616** | **928,616** |
| Amounts due to associates | **–** | **13,014** | **–** | **–** | **13,014** | **13,014** |
| Amounts due to fellow subsidiaries | **–** | **72,630** | **–** | **–** | **72,630** | **72,630** |
| | | **5,433,706** | **2,151** | **–** | **5,435,857** | **5,435,706** |
| As at 31 December 2010 | | | | | | |
| Trade payables | – | 4,156,708 | – | – | 4,156,708 | 4,156,708 |
| Other payables and accruals | – | 880,886 | – | – | 880,886 | 880,886 |
| Amounts due to associates | – | 5,399 | – | – | 5,399 | 5,399 |
| Dividend payable to non-controlling interest | – | 203,569 | – | – | 203,569 | 203,569 |
| Amounts due to fellow subsidiaries | – | 105,172 | – | – | 105,172 | 105,172 |
| | | 5,351,734 | – | – | 5,351,734 | 5,351,734 |

# Notes to the Consolidated Financial Statements

## 40. FINANCIAL INSTRUMENTS (continued)

### (b) Financial risk management objectives and policies (continued)

***Liquidity risk*** (continued)

**Company**

| Financial liabilities | Weighted average interest rate % | Less than 6 months RMB'000 | 6 months to 1 year RMB'000 | Over 1 year RMB'000 | Undiscounted cash flows RMB'000 | Carrying amount RMB'000 |
|---|---|---|---|---|---|---|
| **As at 31 December 2011** | | | | | | |
| Trade payables | – | **2,531,064** | – | – | **2,531,064** | **2,531,064** |
| Other payables and accruals | – | **71,112** | – | – | **71,112** | **71,112** |
| Amounts due to associates | – | **13,014** | – | – | **13,014** | **13,014** |
| Amounts due to fellow subsidiaries | – | **20,982** | – | – | **20,982** | **20,982** |
| Amounts due to subsidiaries | – | **882,027** | – | – | **882,027** | **882,027** |
| | | **3,518,199** | – | – | **3,518,199** | **3,518,199** |
| As at 31 December 2010 | | | | | | |
| Trade payables | – | 2,044,338 | – | – | 2,044,338 | 2,044,338 |
| Other payables and accruals | – | 130,649 | – | – | 130,649 | 130,649 |
| Amounts due to associates | – | 5,399 | – | – | 5,399 | 5,399 |
| Amounts due to fellow subsidiaries | – | 13,822 | – | – | 13,822 | 13,822 |
| Amounts due to subsidiaries | – | 989,107 | – | – | 989,107 | 989,107 |
| | | 3,183,315 | – | – | 3,183,315 | 3,183,315 |

# Notes to the Consolidated Financial Statements

## 40. FINANCIAL INSTRUMENTS (continued)

### (c) Fair value

The fair value of financial instruments traded in active markets (such as trading and certain available-for-sale securities) is based on quoted market prices at the end of the reporting period. The carrying value less impairment provision of receivables and payables are a reasonable approximation of their fair values.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There were no transfers between Level 1 and 2 in the current year.

| **Group** | **31/12/2011** | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000** |
| **Available-for-sale financial assets** | | | | |
| Legal person shares | – | 1,112 | – | 1,112 |

| **Group** | 31/12/2010 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Financial assets at FVTPL** | | | | |
| Non-derivative financial assets at fair value through profit and loss | 204,089 | – | – | 204,089 |
| **Available-for-sale financial assets** | | | | |
| Legal person shares | – | 1,112 | – | 1,112 |
| Total | 204,089 | 1,112 | – | 205,201 |

# Notes to the Consolidated Financial Statements

## 41. DISPOSAL OF A SUBSIDIARY

On 25 May 2011, the Group disposed of a subsidiary, Luoyang Lianhua Xinyu Real Estate Co., Ltd, at a cash consideration of RMB50,292,000. The transaction has been completed and the consideration has been received as of 31 December 2011. During the period from 1 January 2011 to 25 May 2011, the revenue and expenses of the subsidiary contributed to the Group are insignificant.

| | 25/5/2011<br>RMB'000 |
|---|---|
| *Analysis of assets and liabilities over which control was lost* | |
| **Current assets** | |
| Cash and cash equivalents | 57 |
| Trade and other receivables | 751 |
| **Non-current asset** | |
| Property, plant and equipment | 44,779 |
| **Current liability** | |
| Trade and other payables | (36,914) |
| Net assets disposed of | 8,673 |

| | 25/5/2011<br>RMB'000 |
|---|---|
| *Gain on disposal of a subsidiary* | |
| Consideration received | 50,292 |
| Net assets disposed of | (8,673) |
| Gain on disposal | 41,619 |
| *Net cash inflow on disposal of a subsidiary* | |
| Consideration received in cash and cash equivalents | 50,292 |
| Less: cash and cash equivalent balances disposed of | (57) |
| Net cash inflow on disposal of a subsidiary included in the investing activities of the consolidated statement of cash flows | 50,235 |

# Notes to the Consolidated Financial Statements

## 42. CAPITAL COMMITMENTS

| | 31/12/2011<br>RMB'000 | 31/12/2010<br>RMB'000 |
|---|---|---|
| Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment, construction of buildings and land use rights | **155,056** | 148,505 |

## 43. OPERATING LEASE

### (1) The Group as lessee

| | 31/12/2011<br>RMB'000 | 31/12/2010<br>RMB'000 |
|---|---|---|
| Minimum lease paid and recognised as an expense under operating leases during the year: | | |
| – Land and buildings | **1,528,145** | 1,434,256 |

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

| | 31/12/2011<br>RMB'000 | 31/12/2010<br>RMB'000<br>(restated) |
|---|---|---|
| Within one year | **1,346,413** | 1,042,371 |
| In the second to fifth years inclusive | **4,770,129** | 3,942,199 |
| Over five years | **8,441,395** | 7,852,179 |
| | **14,557,937** | 12,836,749 |

The minimum lease payments as set out above mainly relate to leasing of shop premises which are entered into primarily on a short-term or medium term basis.

The operating lease rental of certain shop premise with a fellow subsidiary is based on the higher of a minimum guaranteed rental or a sales level based rental.

# Notes to the Consolidated Financial Statements

## 43. OPERATING LEASE (continued)

### (2) The Group as lessor

The Group had aggregate minimum lease receipts under non-cancellable operating leases as follows:

| | **31/12/2011** | 31/12/2010 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Minimum lease received under operating leases in respect of shop premises during the year | **496,966** | 480,945 |

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

| | **31/12/2011** | 31/12/2010 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Within one year | **303,105** | 198,262 |
| In the second to fifth years inclusive | **337,921** | 287,624 |
| Over five years | **343,646** | 128,224 |
| | **984,672** | 614,110 |

The minimum lease receipts as set out above mainly relate to leasing of shop premises which are entered into primarily on a short-term or medium-term basis.

## 44. RETIREMENT BENEFIT PLANS

**Defined contribution plans**

The employees of the Group are members of a state-managed retirement benefit scheme operated by the PRC government. The Group is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to income of RMB222,574,000 (2010: RMB190,829,000) represents contributions payable to these schemes by the Group in respect of the current accounting period. As at 31 December 2011, the outstanding payable for the retirement benefits scheme amounted to RMB17,043,000 (31 December 2010: RMB14,795,000).

# Notes to the Consolidated Financial Statements

## 45. RELATED PARTY TRANSACTIONS

Apart from those disclosed under notes 2, 27, 29, 36 and 43, the Group entered into significant related party transactions during the year, which were carried out in the normal course of the Group's business, as follows:

### (a) Related party transactions

| | NOTES | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| Sales to fellow subsidiaries | | **9,295** | 3,569 |
| Purchases from associates | | | |
| – Shanghai Lianhua Supermarket, Food Co., Ltd., Shanghai Gude Commercial Trading Co., Ltd., Sanming Taige Information Technology Co., Ltd.and Shantou Lianhua South Purchase and Distribution Co., Ltd. | | **41,165** | 27,007 |
| Purchases from fellow subsidiaries | | **174,249** | 118,818 |
| Logistic expense paid to a fellow subsidiary | | **5,226** | 14,558 |
| Rental expenses and property management fee paid to fellow subsidiaries | (i) | **61,458** | 49,605 |
| Commission income received from fellow subsidiaries | (ii) | **6,471** | 8,710 |
| Commission charges arising from the usage of online trading system of a fellow subsidiary | | **–** | 311 |
| Commission income arising from the redemption of coupon liabilities with a fellow subsidiary | (iii) | **24,226** | 25,810 |
| Commission charges arising from the redemption of coupon liabilities with a fellow subsidiary | (iii) | **22,704** | 24,728 |

Fellow subsidiaries referred to above relate to other subsidiaries of Bailian Group.

Notes:

(i) These represent rental expenses and property management fee of certain hypermarkets paid to fellow subsidiaries. The rentals and fee were charged in accordance with the terms of the underlying agreements.

(ii) The commission income was received from fellow subsidiaries controlled by the ultimate holding company in relation to the redemption of the coupons issued by the Group in retail outlets of these related companies. The commissions were charged at rates ranging from 0.5% to 3% of the sales made through the coupons in the retail outlets of these companies.

(iii) According to the business agreement on the settlement of coupon liabilities entered into between a subsidiary of the Group and a fellow subsidiary controlled by the ultimate holding company, when the coupons issued by one party are redeemed in exchange for products or services to the retailers contracted by the other party or when the coupon liabilities are settled through the other party's network, a commission would be charged at a rate of 0.5% as agreed by the two parties, based on the gross transaction amount on a monthly basis. The gross transaction amount owed by each other and the related commission income/charge are settled on a net basis each month.

# Notes to the Consolidated Financial Statements

## 45. RELATED PARTY TRANSACTIONS (continued)

### (b) Transactions/balances with other government related entities in the PRC

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("government related entities"). In addition, the Group's ultimate holding company, Bailian Group Co., Ltd, is controlled by the PRC government. Apart from the transactions with fellow subsidiaries disclosed above, the Group has also entered into various transactions, including sales, purchase, and deposits placement, with other government related entities.

In view of the nature of the retail business operated by the Group, the directors are of the opinion that it is impracticable to identify the identity of the counterparties from the the sales of merchandise.

During the year, significant amount of the Group's purchase were from government related entities.

At the end of the reporting period, most of the the Group's deposits are placed with banks which are government related entities.

### (c) Key management compensation

The remuneration of directors and other members of key management during the year was as follows:

| | **2011**<br>**RMB'000** | 2010<br>RMB'000 |
|---|---|---|
| Salaries and other short-term employee benefits | **15,096** | 15,320 |
| Post-employment benefits | **372** | 355 |
| Other long-term benefits | **124** | 118 |
| | **15,592** | 15,793 |

The remuneration of key management is determined having regard to the performance of individuals and market trends.

# Notes to the Consolidated Financial Statements

## 46. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES

Details of the Company's principal subsidiaries and associates at 31 December 2011 and 31 December 2010 are as follows:

| Name of Entities | Date of establishment | Registered and fully paid capital RMB'000 | Proportion voting power &ownership interest held by the Company Directly 2011 % | Directly 2010 % | Indirectly 2011 % | Indirectly 2010 % | Principal activities |
|---|---|---|---|---|---|---|---|
| **(a) Subsidiaries** | | | | | | | |
| Shenyang Century Lianhua Supermarket Co., Ltd. | 26 May 2004 | 3,000 | **90.00** | 90.00 | **9.94** | 9.94 | Hypermarket |
| Tianjin Yishang Lianhua Supermarket Co., Ltd. | 1 September 2002 | 30,000 | **80.00** | 80.00 | **–** | – | Hypermarket |
| Shanghai Century Lianhua Supermarket Development Co., Ltd. | 24 November 1997 | 100,000 | **100.00** | 100.00 | **–** | – | Hypermarket |
| Hangzhou Lianhua Huashang Group Co., Ltd. | 1 June 2001 | 120,500 | **74.19** | 74.19 | **–** | – | Supermarket and hypermarket |
| Lianhua Supermarket Jiangsu Co., Ltd. | 21 March 2003 | 50,000 | **100.00** | 85.00 | **–** | 14.40 | Supermarket and hypermarket |
| Guangxi Lianhua Supermarket Joint Stock Co., Ltd. | 18 November 2001 | 68,670 | **95.00** | 92.00 | **–** | 2.59 | Supermarket and hypermarket |
| Shanghai Lianhua Supermarket Jiading Co., Ltd. | 9 October 1996 | 3,290 | **81.76** | 81.76 | **18.24** | 18.24 | Supermarket |
| Shanghai Lianhua Xinxin Supermarket Co., Ltd. | 22 April 1997 | 13,300 | **55.00** | 55.00 | **–** | – | Supermarket |
| Shanghai Lianhua Supermarket Development Co., Ltd. | 8 April 2006 | 10,000 | **100.00** | 100.00 | **–** | – | Supermarket |
| Lianhua Quik Stores Co., Ltd. | 25 November 1997 | 63,000 | **100.00** | 70.00 | **–** | – | Convenience store |
| Shanghai Lianhua Commercial Trading Co., Ltd. | 27 June 2001 | 3,000 | **30.00** | 30.00 | **65.00** | 56.45 | Wholesaling |
| Shanghai Lianhua Supermarket Distribution Co., Ltd. | 29 October 1998 | 5,000 | **90.00** | 90.00 | **10.00** | 10.00 | Purchase and distribution |
| Lianhua Logistic Co., Ltd. | 17 October 2007 | 50,000 | **100.00** | 100.00 | **–** | – | Purchase and distribution |
| Shanghai Lianhua Supermarket Jilin Purchase and Distribution Co., Ltd. | 9 August 2000 | 1,000 | **51.00** | 51.00 | **–** | – | Purchase and distribution |
| Shanghai Lianhua Live and Fresh Food Processing and Distribution Co., Ltd. | 29 December 1999 | 5,000 | **90.00** | 90.00 | **–** | – | Fresh food processing and distribution |
| Lianhua E-business Co., Ltd. | 4 October 1995 | 55,000 | **90.91** | 57.27 | **–** | – | Trading |
| Hualian Supermarket Holdings Company Limited | 15 August 2006 | 300,000 | **99.40** | 99.40 | **0.60** | 0.60 | Supermarket |
| Shanghai Bei Heng Investment Management Co., Ltd. | 27 October 2011 | 30,000 | **100.00** | – | **–** | – | Investment management |
| **(b) Associates** | | | | | | | |
| Shanghai Carhua Supermarket Co., Ltd. | 8 February 1995 | 387,136 | **45.00** | 45.00 | **–** | – | Hypermarket |
| Tianjin Yishang Friendship Holdings Co., Ltd. | 27 October 1998 | 220,277 | **20.00** | 20.00 | **–** | – | Department stores |

# Notes to the Consolidated Financial Statements

## 46. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Note:

The above table lists the subsidiaries and associates of the Group which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries and associates would, in the opinion of the directors, result in particulars of excessive length.

All of the subsidiaries and associates described above are limited liability companies established in the PRC.

## 47. AUTHORISATION FOR THE ISSUE OF THE ACCOUNTS

These consolidated financial statements were authorised for issue by the Company's Board of Directors on 21 March 2012.

联华超市股份有限公司
LIANHUA SUPERMARKET HOLDINGS CO., LTD.

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