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

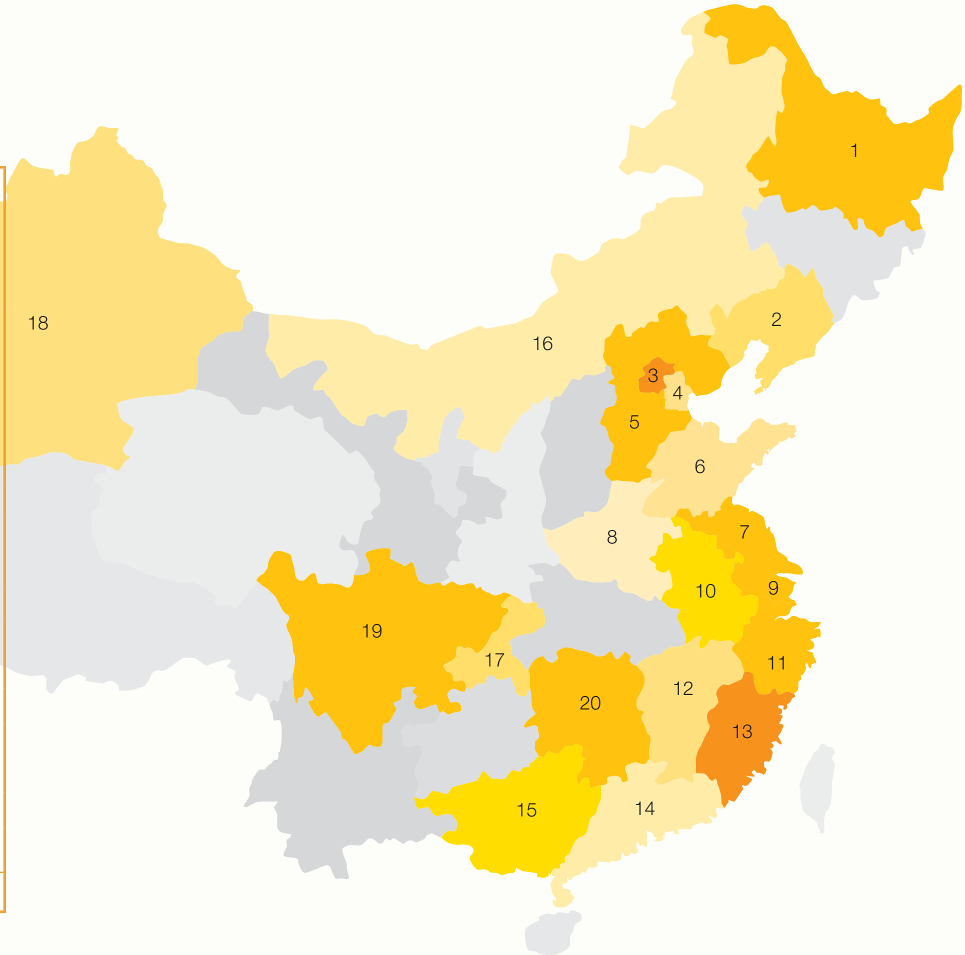
Annual Report 2007

LIANHUA

Stock Code: 0980

Corporate Profile

		Hypermarket (Number)	Supermarket (Number)	Convenience Store (Number)
1	Heilongjiang	4	1	0
2	Liaoning	4	1	292
3	Beijing	5	0	124
4	Tianjin	2	0	0
5	Hebei	2	2	0
6	Shandong	2	19	0
7	Jiangsu	20	365	7
8	Henan	4	4	0
9	Shanghai	22	881	1,213
10	Anhui	8	24	0
11	Zhejiang	24	274	244
12	Jiangxi	0	7	0
13	Fujian	1	3	0
14	Guangdong	3	2	0
15	Guangxi	7	128	0
16	Inner Mongolia	0	13	0
17	Chongqing	0	1	0
18	Xinjiang	0	1	0
19	Sichuan	3	4	0
20	Hunan	0	1	0
Total		**111**	**1,731**	**1,880**



Lianhua Supermarket Holdings Co., Ltd. (the "Lianhua Supermarket" or the "Company") commenced its business in Shanghai in 1991. Within seventeen years, it has developed into a retail chain operator with retail outlets covering the whole nation, offering a full range of products through direct operations, franchises, mergers and acquisitions. As at 31 December 2007, Lianhua Supermarket and its subsidiaries (the "Group") operated a total of 3,722 outlets (excluding those operated by the Company's associated companies) spanning in 20 provinces and municipalities across the nation. The Company continued to maintain its leading position in the People's Republic of China (the "PRC"), and is one of the largest retail supermarket operations in the PRC. The H shares of Lianhua Supermarket were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 27 June 2003 and is one of the first retail chain operators listed on the Stock Exchange.

The Group operate three main types of retail outlets, namely hypermarkets, supermarkets and convenience stores, catering for the diverse needs of consumers. The three retail forms continue to expand and develop under the brand names of "Century Mart", "Lianhua Supermarket" and "Lianhua Quik", respectively. In recent years, "Lianhua Supermarket" and "Lianhua Quik" were consecutively awarded one of the most prestigious and distinctive brand name awards in the PRC by the Franchise Committee of the PRC Retail Chain Operations Association.

Contents

Corporate Information

Directors

Executive Directors
Mr. Wang Zhi-gang *(Chairman)*
Mr. Liang Wei
Ms. Xu Ling-ling
Ms. Cai Lan-ying

Non-Executive Directors
Mr. Lu Ming-fang
Mr. Yao Fang
Mr. Koichi Narita
Mr. Wong Tak Hung
Mr. Hua Guo-ping

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

Board Committees

Audit Committee
Mr. Lee Kwok Ming, Don *(Chairman)*
Mr. Zhang Hui-ming
Mr. Xia Da-wei
Mr. Hua Guo-ping

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

Strategic Committee
Mr. Wang Zhi-gang *(Chairman)*
Mr. Lu Ming-fang
Mr. Koichi Narita
Mr. Zhang Hui-ming

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

Supervisors

Mr. Wang Long-sheng
Mr. Zhang Zeng-yong
Mr. Shen Bo

Joint Company Secretaries

Ms. Xu Ling-ling
Mr. Stephen Mok

Authorised Representatives

Mr. Liang Wei
Ms. Xu Ling-ling

International Auditors

PricewaterhouseCoopers

Legal Advisers to the Company

As to Hong Kong laws
Huen Wong & Co. in association with Fried, Frank, Harris, Shriver & Jacobson LLP

Investors and Media Relations Consultant

Christensen International (Hong Kong) Limited

Principal Bankers

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

Corporate Information

Registered Office

Registered and Place of Business in the PRC

11th to 15th Floors
1666 Sichuan (North) Road
Shanghai
The 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

207,000,000 H shares

Year-end Date

31 December

Results Announcements

Interim Results for 2007 was published on 16 August 2007
Annual Results for 2007 was published on 17 April 2008

Dividends

Interim Dividends: RMB0.06 per share
Proposed Final Dividends: RMB0.12 per share

2007 Annual General Meeting

To be convened at 10:00 a.m. on 20 June 2008 (Friday)

Major Achievements of the Year

January

The "Lianhua" logo of trademark was awarded as the "Most Valuable Trademark in the Service Sector in Shanghai（最具價值的上海服務商標）" by the Shanghai Trademark Association（上海商標協會）, the Well-known Trademark Certification Committee of Shanghai（上海市著名商標認定委員會）and Shanghai Commercial Association.

February

Lianhua Supermarket Logistic Distribution Center was named as the "Top 50 Most Competitive Logistic Enterprises of the PRC in 2006（2006年中國最具競爭力50强物流企業）" by National Development and Reform Commission ("NDRC") (國家發展和改革委員會), National Bureau of Statistics of China ("NBSC") (國家統計局) and China Federation of Logistics & Purchasing.

April

Lianhua Supermarket was ranked first in the "2006 Top 100 Fast-moving Consumer Goods Retail Chain Enterprises in China（2006年中國快速消費品連鎖企業百强排行榜）" published by the Ministry of Commerce of the PRC and China Chain Strore and Franchise Association for the tenth consecutive years.

April

Lianhua Supermarket and Lianhua Quik were awarded the "2007 Most Influential Franchised Brand in Shanghai".

Major Achievements of the Year

May

The "Lianhua" (retail supermarket chain) of the Company was recommended by Shanghai Renowned Branded Products Recommendation Committee（上海市名牌產品推薦委員會）as a renowned Shanghai brand in 2006.

June

The management book series of "The Way of Lianhua"（聯華之路）, with major contents in "human resources management, supermarket management, financial management, Lianhua Quik management and franchised operation management", was published by Shanghai SDX Joint Publishing Company.

July

The Tenth Meeting of the Second Board of Directors of the Company had considered and passed the resolution of appointment of Mr. Wang Zhi-gang to be the Chairman of the Board of the Company.

November

Yang Hao-yu, Shop Manager of Centurymart Wuhu Zhongshan Outlet, and Gu Hui-zhen, Shop Manager of Centurymart Hangzhou Yunhe Outlet, were awarded as "Golden Shop Manager for the year 2007" by the China Chain Store and Franchise Association.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Chairman's Statement

Chairman's Statement

Mr. Wang Zhi-gang

Dear Valued Shareholders,

During the year 2007, with the strong support from the shareholders, our customers and the community, coupled with the dedicated contributions of our staff of over 40,000, the Group continued to implement its strategies as planned. We recorded a turnover of approximately RMB18.09 billion, representing an increase of 10% as compared to the previous year. Profit attributable to shareholders totaled RMB268.30 million, representing a growth of 11.05% as compared to the previous year. Earnings per share were RMB0.43.

Lianhua Supermarket opened the first supermarket outlet in Shanghai in 1991. In 1992, the state started to open the commercial sector to foreign investments. At the end of 2004, in order to fulfill its promise to adopt upon access to WTO, the PRC Government had comprehensively opened its retail industry to foreign investments. In 2007, besides the first-tier cities, the competition of retail industry in second-tier and third-tier cities also became intensified. As a domestic retailer, Lianhua started off as a traditional supermarket and has experienced rapid developments and enormous changes of the retail industry in the PRC. It strode out of Shanghai and has expanded its business into 20 provinces and cities nationwide. We operate three main types of retail outlets with a total of over 3,000 outlets. In the face of intensifying competition in the market and ever changing consumer demand, Lianhua has adopted a stable approach in coping with the challenges in all aspects through continuous optimization of and proactive adjustments in its development and business strategies.

By adapting to the ever-changing consumer demand, our supermarket business has successfully transformed to high-end outlets in town centers. While establishing a new image of the Group, we had also paved a new road for the continuous development of our traditional supermarket business. In 2007, we extended the transformation of our business model to middle-to-low-end outlets and obtained encouraging results. After transformation, the average daily sales per outlet grew by 27% over last year. The success in supermarket business transformation has inspired us to develop other businesses within the Group. We continued to carry out in-depth re-structuring and adjustment of certain hypermarket outlets with obvious results improvements. For example, after re-structuring and adjustments, the sales performance of the Huashang outlet had achieved a growth of 20% as compared to the previous year. With the improved results in transformed outlets, the active transformation to adapt the changing market and consumer needs is the correct approach for the Group to achieve its continuous development.

Chairman's Statement

If we say "transformation" means an innovative and upgrading approach to our own business development model, then our centralized development strategy in the regions that we have entered is the peroration of our experience in retail development strategy which is suitable to the PRC market network layout in our nationwide development process. During the period under review, the Group opened 497 new outlets. For the year end of 2007, the total number of outlets reached 3,772, of which approximately 82% were opened in Jiangsu Province, Zhejiang Province and Shanghai. As one of the most dynamic economic zone in PRC, the Yangtze River Delta is also the region where Lianhua Supermarket has laid down a strong foothold. Irrespective of whether the outlets are operated directly or by franchisees, the outlets in these regions enjoy the rich merchandising resources, strong supply chain, bargaining power, reputable brand image and massive membership consumption spending together brought about by our economies of scale. Sales improvements and network development measures had achieved satisfactory results in those regions where Lianhua already had presence. For example, the number of outlets of our convenience stores in the renowned tourist city of Dalian reached 292. We have already established our reputable brand image in the city and increased the share of local convenience stores market steadily. In 2007, same store sales growth reached 9.79% in that region.

The Group will not leave the enhancement in its basic management capabilities behind. We will continue to strive for enhancing the efficiency of our supply chain, outlet operation and merchandise management. Through strengthening the application of information technology and management techniques in the Company, we will continue to promote internal control and management, workflow re-structuring, and improve our cash flow management capabilities, with the objective of creating a modernized and highly efficient retail enterprise. The Group believes that the enhancement of our basic management capabilities will become one of the driving forces in sustaining the performance growth of the Group.

Chairman's Statement

In 2007, by having a macro view over the living conditions of retail enterprises in the PRC, we are glad to see that we are positioned to benefit from the strong growth, supported by rapid development of the macro economy, continuous growth of disposable income of urban and rural residents, emergence of the middle class group, accelerated urbanization and the clear government policy to boost up consumer spending. At the same time, with the intense competition in the PRC's retail industry, the escalating commercial real estate prices across the nation, rising labour and energy costs have exerted increasing pressure in pushing up operating cost of retail enterprises. It is expected that these factors will continue to persist in 2008. Lianhua Supermarket will be facing various pressures from all directions and will be actively innovative and customer-oriented to accelerate our business transformation. Through strengthening our merchandising operation capabilities, improving and optimizing our operating system, enhancing our core capabilities, seizing business opportunities, we will prepare ourselves for the challenges in achieving sound and rapid development of our business.

The seventeen years of development in PRC market has given us valuable experience in operating and managing our business. We also gained in-depth knowledge in understanding the changing needs of retail markets and consumers. We have more than 3,000 outlets, over 40,000 staff, including a massive consumption support by over 6.5 million members, and a sophisticated logistic distribution system. The board ("Board") of directors ("Directors") of the Company believes that such an enormous resources will continue to drive the on-going development of the Group and lay a solid foundation in maximizing the value for our shareholders.

On behalf of the Board, I would like to express my gratitude to all our dedicated staff and wish to thank the continuous trust and support of all our customers, shareholders and business partners of the Group. At the same time, I would extend my sincere thanks to the members of the Board and senior management for their dedicated contributions to the Group.

On behalf of the Board

Wang Zhi-gang
Chairman

16 April 2008
Shanghai, the PRC


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Five Year
Financial Highlights

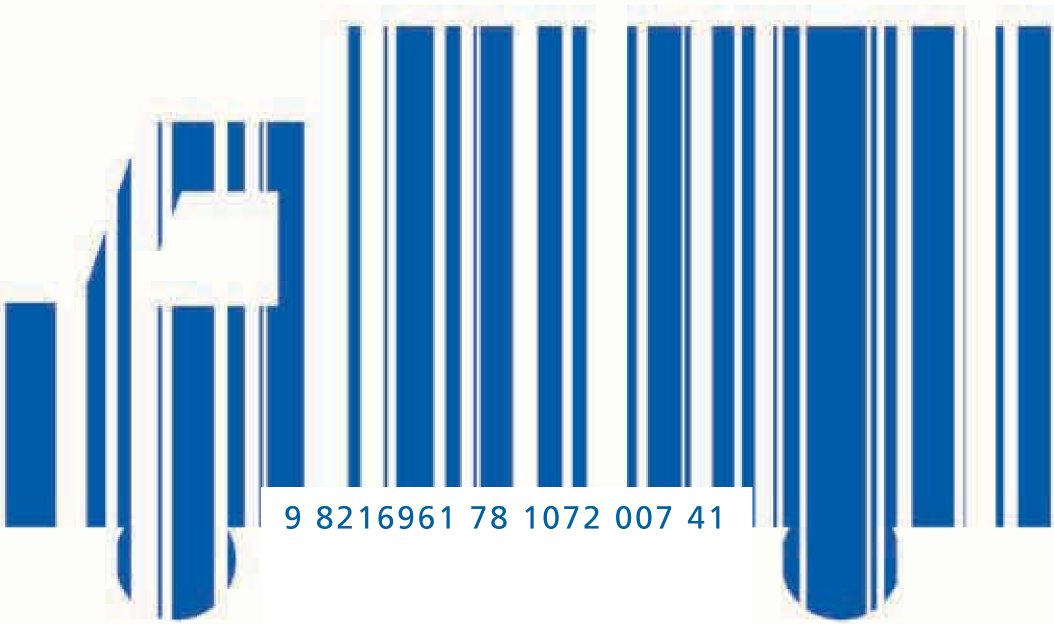
Five Year Financial Highlights

Unit: RMB'000	For the Year Ended 31 December 2007	2006	2005	2004	2003
Turnover	**18,086,857**	16,443,030	14,312,503	10,854,967	9,282,248
Hypermarkets	**9,846,161**	8,568,580	7,153,548	4,717,019	3,375,412
– Percentage to turnover (%)	**54.44**	52.11	49.98	43.45	36.36
Supermarkets	**6,560,466**	6,238,956	5,642,603	4,952,964	4,929,513
– Percentage to turnover (%)	**36.27**	37.94	39.42	45.63	53.11
Convenience stores	**1,524,042**	1,545,061	1,470,475	1,119,820	899,847
– Percentage to turnover (%)	**8.43**	9.40	10.27	10.32	9.69
Other businesses	**156,188**	90,433	45,877	65,164	77,476
– Percentage to turnover (%)	**0.86**	0.55	0.33	0.60	0.84
Gross profit	**2,348,636**	1,981,680	1,604,221	1,352,961	1,172,731
Gross profit margin (%)	**12.99**	12.05	11.21	12.46	12.63
Consolidated income margin (%) (note 1)	**25.47**	23.61	19.89	20.26	19.44
Operating profit	**417,294**	229,518	257,138	255,323	210,856
Operating profit margin (%)	**2.31**	1.40	1.80	2.35	2.27
Profit attributable to shareholders	**268,301**	241,599	239,677	215,540	163,623
Net profit margin (%)	**1.48**	1.47	1.67	1.99	1.76
Earnings per share (RMB)	**0.43**	0.39	0.39	0.36	0.33
Interim dividend per share (RMB)	**0.06**	0.06	0.06	0.05	0
Final dividend per share (RMB)	**0.12**	0.07	0.07	0.07	0.08

Five Year Financial Highlights

Unit: RMB'000	2007	2006	2005	2004	2003
	As at 31 December				
Net assets	**2,238,941**	2,051,500	1,890,761	1,728,349	1,279,190
Total assets	**11,542,454**	8,900,881	6,995,066	4,810,711	4,061,904
Total liabilities	**8,951,693**	6,576,062	4,879,855	2,861,594	2,562,978
Net cash flow	**2,549,758**	1,389,298	246,052	79,023	452,419
Average return on total assets (%)	**2.84**	3.38	4.47	5.40	4.73
Average return on net assets (%)	**12.51**	12.26	13.24	15.22	17.93
Gearing ratio (%) (note 2)	**—**	—	0.27	—	5.12
Liquidity ratio (times)	**0.88**	0.77	0.71	0.79	0.78
Turnover of trade payables (days)	**60**	62	61	62	59
Turnover of inventories (days)	**35**	36	31	29	30
Number of outlets	**3,722**	3,716	3,609	3,123	2,503

Notes:
1. Consolidated income margin = (Gross profit + Other income + Other revenues)/Turnover
2. Gearing ratio (%)= Loans/Total assets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Management Discussion and Analysis

Management Discussion and Analysis

Operating Environment

According to the report of the National Bureau of Statistics of China, in 2007, the economic growth in the PRC remained strong. The annual gross domestic product ("GDP") in the PRC reached RMB24,661.9 billion, representing a growth of 11.4% as compared to previous year. The PRC economy had sustained rapid growth of 10% or more for five consecutive years. The annual total retail sales of consumer goods were RMB8,921.0 billion, representing a 16.8% growth as compared to previous year with an increase of 3.1 percentage points. Of an 11.4% growth in GDP in 2007, 4.4 percentage points was attributable to consumer spending which, for the first time in 7 years, surpassed the contributions made by investment spending. In 2007, both the disposable income per capita of urban citizens and cash income per capita of peasants had exceeded the GDP growth rate and the annual disposable income per capita of urban citizens was RMB13,786, representing a growth of 17.2% as compared to previous year. Regardless of the pricing factors, the actual growth rate was 12.2%, an increase of 1.8%. Net income per capita of rural citizens was RMB4,140, a growth of 15.4% as compared to previous year. Regardless of the pricing factors, the actual growth rate was 9.5% with an increase of 2.1 percentage points.

In 2007, a series of macro-economic adjustment policies were introduced to regulate as well as facilitate the development of the retail industry in the PRC: the Outline of the Eleventh-Five-Year Plan promoted the "building up of a resources-saving and environmental-friendly society" slogan. Companies operating in the PRC have shifted their focus on energy saving, rational use of resources, environmental protection and sustainable development. The seventeenth plenary session of the National Congress of the Communist Party of China raised that the State shall foster the supervision on various aspects like environmental protection and food safety. The 2007 Central Economic Working Committee clearly stated that "expanding consumption" would be an important objective for the current and future economic work. Besides, the newly promulgated Law on Employment Contracts, Law on Property Right and the Administrative Measures for Fair Trade by the five ministries of the State Council in 2006 are put into force. All these measures will further regulate corporate operation management activities, and increase the corporate operation management costs indirectly. Distribution industries are undertaking more social responsibilities in various aspects in establishing a harmonious society, mitigating employment pressure, promoting regional co-ordination and development, protecting the safe and healthy consumption of the public.

As stimulated by various factors such as accelerated growth in income per capita, the policy of expanding consumption demand in force and the 2008 Olympics, the Group believes that the factor of consumer spending will play a more important role in driving the economic growth in 2008.

Business Review

Results Overview

In 2007, the Group maintained the strategy of "Development, Transformation and Enhancement". We continued to improve our operation capabilities with a steady growth in all financial indicators. In 2007, we recorded a turnover of RMB18.09 billion, representing a growth of 10% as compared to previous year. Gross profit accounted for RMB2.35 billion, representing a growth of 18.52% as compared to previous year. Gross profit margin accounted for at 12.99%, an increase of 0.94 percentage point as compared to previous year. Consolidated income margin reached 25.47%, representing an increase of 1.86 percentage points as compared to previous year. Operating profit accounted for RMB0.42 billion, representing a growth of 81.81% as compared to previous year.

Pursuant to the principle of conservatism, during the year, impairment provisions were made by the Group in respect of its long-term assets based on the accounting principles. Excluding the impairment provisions and the one-off expenditure for closure of certain outlets, the results of hypermarkets and supermarkets had attained satisfactory growth.

During the period under review, the hypermarket business of the Group recorded a turnover of RMB9,846.16 million, representing approximately 54.44% of the Group's turnover and a growth of approximately 14.91% as compared to approximately RMB8,568.58 million last year. Segment operating profit was approximately RMB5.21 million.

	2007	2006
Gross profit margin (%)	11.09	9.25
Consolidated income margin (%)	24.23	23.23
Operating profit margin (%)	0.05	-0.54

During the period under review, the supermarket business of the Group had recorded a turnover of RMB6,560.47 million, representing approximately 36.27% of the Group's turnover and a growth of approximately 5.15% as compared to last year of approximately RMB6,238.96 million. Segment operating profit was approximately RMB231.22 million.

	2007	2006
Gross profit margin (%)	15.09	14.81
Consolidated income margin (%)	23.51	22.66
Operating profit margin (%)	3.52	3.43

During the period under review, the convenience stores business of the Group had recorded a turnover of RMB1,524.04 million, representing approximately 8.43% of the Group's turnover and a drop of approximately 1.36% as compared to last year of approximately RMB1,545.06 million. Segment operating profit was approximately RMB44.73 million. Year-on-year growth was approximately 50%, which was mainly due to the disposition of all the outlets in Guangzhou region and recorded a one-off income.

	2007	2006
Gross profit margin (%)	15.47	16.32
Consolidated income margin (%)	24.84	25.06
Operating profit margin (%)	2.93	1.92

Management Discussion and Analysis

Substantial increase in same outlet sales growth, robust performance in new outlets

During the period under review, benefiting from the "Strong Outlet" strategy implemented by the Group, i.e. revamping the existing outlets, optimizing merchandise structure and improving store operation and management standard, the same outlet sales had recorded substantial growth. The overall same outlet sales growth of the Group was 10.45%, of which hypermarket business was 10.6%, supermarket business 10.84% and convenience stores business 7.14%, hitting record high since our listing.

During the period under review, the new outlets achieved robust performance. Learning from the past experience in opening new outlets, we simplified the outlet opening process, imposed stringent control on site selection, conducted in-depth analysis and study of consumption condition and purchasing power in the commercial area in determining the market position of our merchandise, conducting follow up analysis of the operating results of newly-opened outlets and implanted adjustment and optimization measures according to operating conditions. During the period under review, the operating results of most of our 13 newly-opened hypermarket stores outperformed than the expected. It is expected that certain stores will generate profits in the first year of operation.

Accelerating the transformation, expanding the scope of transformation

Based on the experience of the transformation of supermarket outlets over last few years, the scope of transformation was expanding vigorously at faster pace by differentiating the operating position, aiming at satisfying the demand of the target customers. During the period under review, the transformation of middle-end outlets which are positioned to serve the community continued to achieve fabulous results. The daily average sales of 82 transformed stores achieved a growth of approximately 27%. As at 31 December 2007, the 176 outlets in our supermarkets business that had already been transformed, and together with the newly opened outlets since 2006, representing approximately 40% of the directly operated stores in such business segment, had brought steady growth to that business segment.

During the period under review, the Group used the transformed outlets as pilot testing platform to promote our category management concept, which provides objective data analysis for transformed outlets. Category management is a customer-oriented concept, under which, based on an analysis of the target customers' awareness and satisfaction of the environment, merchandise and services of the outlets, we will give advices to the outlets on the customers' most favorable category of merchandise, the display of goods and the environment of the outlets. With respect to the category management of the Group's Shijiaqiao Pilot Outlet, through understanding the proportion of the number of male to that of female customers, their income level and occupation, we obtained the important information regarding the living standard, preferences and needs of the target customers of that outlet. We then stocked up certain categories of merchandise and revamped the outlet based on such information. Even for the design of DM that are distributed to customers, we also run into details in selecting DM paper thickness, merchandise selection and typesetting. With such transformation, the daily average sales of the Shijiaqiao Outlet was increased by 62% as compared to previous year.

Steady expansion of retail network, increase in market share in the Yangtze River Delta region

As at 31 December 2007	Hypermarkets	Supermarkets	Convenience stores	Total
Direct operation	111	572	955	1,638
Franchise operation	—	1,159	925	2,084
Total for the Group	111	1,731	1,880	3,722

During the period under review, the Group maintained a steady pace in expanding its retail and commercial network. We opened up large number of new outlets in the Yangtze River Delta where the market scale has been established and was ready for business operation. We opened 497 outlets during the year and the network has a total of 3,722 outlets, among which the new hypermarket outlets are all located in Eastern China. As at 31 December 2007, 3,050 outlets of the Group, are located in the Yangtze River Delta, representing 82% of the total outlets of the Group, of which approximately 59% of 111 hypermarket outlets, approximately 88% of 1,731 supermarket outlets and approximately 78% of 1,880 convenience store outlets are located in this key developing region.

Geographic Locations

	No. of outlets	Percentage
Yangtze River Delta: Shanghai, Zhejiang, Jiangsu	3,050	82%
Eastern China: Shanghai, Zhejiang, Jiangsu, Shandong, Anhui, Jiangxi, Fujian	3,114	84%
Northern China: Beijing, Tianjin, Henan, Hebei, Inner Mongolia	156	4%
North-eastern China: Liaoning, Heilongjiang	302	8%
Southern China: Guangdong, Guangxi	140	3.7%
Other regions: Sichuan, Chongqing, Xinjiang, Hunan	10	0.3%

During the period under review, the Group opened 446 franchised outlets. As at 31 December 2007, the number of franchised outlets had reached 2,084, representing approximately 56% of the total outlets of the Group. About 88% of the franchised outlets are located in the Yangtze River Delta, sharing much more operating, logistic and distribution and information resources in this region.

During the period under review, due to the expiration of the tenancy of some outlets, urban redevelopment and relocation and expiration of franchise contracts, the number of franchised outlets reduced. In order to enhance the competitiveness of the existing outlets, the Group conducted a review on the outlets with unsatisfactory results of operation. The franchise contracts were eliminated for those franchised stores which failed to fulfill the term and conditions of franchise.

Continue to promote membership development

As at 31 December 2007, the total number of members exceeded 6.5 million. Members are an important resource of the Group as they are the most loyal customer group of the Group. During the period under review, the members' consumption represented 48.65% of the sales of the Group, a growth of 31.3% as compared to 2006.

Management Discussion and Analysis

Continuous improvement, on-going enhancement in supply chain efficiency

During the period under review, the Group actively promoted the local procurement of fresh merchandise. Our merchandisers closely monitored the categories of merchandise and the plantation and procurement process accordingly to the standards on fresh merchandise procurement of the Company. We also utilized our own distribution capability or entered into production and distribution co-operation contracts with the local agricultural by-product distribution centers to distribute agricultural products directly to the markets from the farms. Such measures not only maintained the merchandise quality, but also improved the distribution efficiency of fresh merchandise and reduced its costs. For example, in Zhejiang region, there were 92 co-operative bases in 2007, covering 476 types of merchandise. The total purchase volume of merchandise from local bases was 43,335 tonnes.

The Group understands the importance of logistic distribution in the establishment of its supply chain. In order to cope with the needs of different business segments and the in-depth development in the Yangtze River Delta, during the period under review, the Group stepped up its effort to plan the establishment of our logistic distribution center to serve our outlets both in the Yangtze River Delta and Eastern China. Currently, we have already completed the procedures of site selection and signing of letter of intent.

Increasing income and lowering expenditure, stringent cost control

During the period under review, in coping with the mounting pressure of our main operating costs, including leasing cost, labor cost and utilities, the Group maintained its strategies in increasing income and lowering expenditure with stringent cost control. Besides striving for performance improvement, we also devoted our efforts to further strengthening our ability in controlling cost, and conducted the research on expenditure control as a specific important project which was implemented in all areas. We enhanced our labor productivity by improving workflow and increasing equipment utilization by strengthening our supervision on projects, equipment maintenance and adequate utilization of existing assets; we also reduced the management costs and take precautions against operating risks by strengthening our internal control.

Reasonable use of cash, obtaining sound profitability

During the period under review, leveraging on the sufficient cash flow from operating activities, the Group planned the cash management appropriately. We selected those financial products with low risks and high liquidity and obtained satisfactory returns under the guidance of stringent risk control.

Treating People as Valuable Resources, promoting human resources management and development

While pursuing on-going development, the Group also aimed at achieving its objective of “Treating People as Valuable Resources”, allowing our dedicated and highly efficient staff to share the success of the Company. During the period under review, we increased the salaries of front-line employees, actively promoting the pro-active culture of the Group. Meanwhile, the Group devoted its efforts to the development and management of human resources, continued to improving our remuneration system and promoted new measures in professional position management. For example, for skilled labors responsible for handling fresh food, the requirement on skills is high and there is a shortage in supply of such labours in the market. Therefore, the Group adopted technical grading assessment programs for positions in meat category, cooked food and roasting and baking functions. By establishing 9 technical grades with clear standards in each level, we carried out assessments for technical staff under this position and salaries are determined in accordance with the assessment results in respective grades. This program had effectively revealed the impartiality of our remuneration system, which is encouraging to our employees.

Business of Associated Companies

During the year under review, Shanghai Carhua Supermarket Company Limited ("Shanghai Carhua") opened 1 new hypermarket. As at 31 December 2007, Shanghai Carhua operated a total of 12 hypermarkets in Shanghai.

For the year ended 31 December 2007, the Group's share of results of associates was approximately RMB130.48 million, accounting for approximately 48.6% of the Group' s profit attributable to the Company's shareholders.

Financial Review

Liquidity and financial resources

For 2007, the capital source of the Group were mainly cash inflow generated from operations. As at 31 December 2007, the Group had non-current assets of approximately RMB3,726.17 million. Such non-current assets mainly comprised of construction in progress, property, plant and equipment and land use rights of approximately RMB3,039.12 million, intangible assets of approximately RMB193.94 million investments in associates of approximately RMB394.05 million and available-for-sale financial assets, deferred tax assets and other non-current assets of approximately RMB99.05 million.

As at 31 December 2007, the Group had net current liabilities of approximately RMB1,065.31 million. Current assets mainly comprised of bank balances and cash of approximately RMB5,022.28 million, inventories of approximately RMB1,926.46 million, trade receivables, deposits, prepayments and other receivables of approximately RMB631.1 million, available-for-sale financial assets of RMB120 million financial assets at fair value through profit or loss of RMB116.42 million and amounts due from associates of approximately RMB0.03 million. Current liabilities mainly comprised of trade payables, other payables, accruals and coupon liabilities of approximately RMB8,711.28 million, amount due to holding company of RMB39 million, amounts due to associates of RMB7.87 million, amounts due to other related parties of RMB41.63 million and taxation payable of approximately RMB81.82 million.

For the year ended 31 December 2007, the turnover period of the Group's trade payables was 60 days. Inventory turnover period was 35 days for the period.

During the year under review, the Group did not use any financial instrument for hedging purposes and the Group did not have any hedging instrument outstanding as at 31 December 2007.

Capital structure

As at 31 December 2007, the Group's cash and cash equivalents were mainly held in Renminbi and the Group had no bank borrowings.

During the year under review, the Group had been in a net cash inflow status. The Group is engaged in retail chain business. Since the sales peak season for the Group is the fourth quarter of the year, the cash flow at year end is relatively sufficient. The Group considers that the reasonable management of the cash flow will enable reduction in capital costs.

Details of pledged assets of the Group

As at 31 December 2007, the Group did not pledge any of its assets.

Management Discussion and Analysis

Exposure to foreign exchange risk

Most of the income and expenditures of the Group are denominated in Renminbi. During the year under review, the Group had not experienced any material difficulties or negative effects on its operations or liquidity as a result of fluctuation in currency exchange rates. The Group has not entered into any agreements or purchased any financial instruments to hedge the foreign exchange risks of the Group. The Directors believe that the Group would have sufficient foreign exchange resources to meet its foreign exchange requirements.

Contingent liabilities

As at 31 December 2007, the Group did not have any significant contingent liability.

Material acquisitions and disposals

For the year under review, the Group did not have any material acquisitions and disposals.

Employment and training

As at 31 December 2007, the Group had a total of 46,525 employees, representing a decrease of 284 employees during the year under review. Total staff costs amounted to RMB1,179.49 million. Remuneration for the Group's employees was determined on the basis of their performance, experience and the then practice in the industry. Apart from basic salary, welfare allowances and performance bonus, the Group also provides its fulltime employees with housing welfare, medical allowance and other subsidies and periodic medical check-up. The Group also contributes to the retirement benefit schemes organized by the government and makes monthly contributions for its employees to these schemes in accordance with the policies of the PRC.

In accordance with its operational performance, the Group further optimized the remuneration package for its employees and established the normal salary increment mechanism in line with market rate so as to share the Group's achievement on its development and operation with the employees. The Group increased staff salaries during the period under review.

While actively responding to market changes and maintaining positive growth of the results of the Group, the Group also focuses on the continuous optimization of its manpower resources system. The Group promotes the cultivation of talented personnel through the establishment of talents cultivation system, performance assessment management system, personnel training and development system, and salary and distribution incentive mechanism. Through internal training and external recruitment in 2007, the Group cultivated a group of staff with middle to high management calibre, the human resources support essential to the development, transformation and enhancement of the Group. Since August 2007, the Group started to formulate the position capability quality model of management staff, promoting the standardization of and regulating the recruitment, training and assessment of management positions. The Group has established talents cultivation and retaining funds and strengthened the efforts in cultivating and retaining talents to respond to market competitions and meet the demands for talents arising from the development of the Group.

Strategies and plans

In 2008, with opportunities and challenges, the Group will maintain the planned development strategy to promote the transformation process in full gear. By improving the quality of development, operation and management, we also aim at facilitating the further enhancement of the overall operation efficiency of the Company in achieving sound and fast development of our business.

The Group will continue with the development strategy of regional centralization. We will continue to focus on the development in the area of Yangtze River Delta, paying extea attention to the network resources of different market segments in city center districts, planned new districts and rural districts and town centers; and develop the markets both vertically and horizontally. For other markets where we already have presence, the Group will select well-performed network for further development. We will continue to implement the development workflow of prime network, focus on the research and development of our positioning and network re-assessment so as the ensure our development quality.

The Group will continue to promote the dual development of direct operation and franchising, and implement the synchronized development strategy of the three business segments in hypermarkets, supermarkets and convenience stores. Our main development strategy is to strengthen our direct operation business in supermarkets and convenience stores and expand the scale of franchised operation. We will focus on the development of our franchised supporting system, enhancing the on- going operating capabilities of the franchised business and strengthening our market share.

The Group will continue to maintain its direction of market segmentation, promote the “Strong Outlet” strategy, on-going improvement, consolidation and upgrading of existing outlets. We will continue to focus on customer needs, promote the transformation work in different market segments, and review and conclude the successful transformation experience. With regard to hypermarkets, we shall strengthen the operation of branded merchandise and explore the business model of mini mart. Our standardized supermarket business will establish fresh merchandise under our own brand name with special features and set up a healthy, safe and quality market image. For convenience stores, we will expand the food development and provide faster and more convenient services to our consumers.

The Group will continue to strengthen its operation capabilities for commodity as well as its merchandising strategy. We will strive for establishing a commodity management model with the ability to continue optimizing merchandise structure and to meet the requirements of the transformation business model. We will strengthen our regional centralized procurement and centralized distribution according to the characteristics of the geographic location of merchandise resources for improving the allocation efficiency of merchandise resources. We shall establish a procurement management system on the principle of procurement according to the need and based on the categorizing procurement and bulk procurement. We shall expand the procurement channels and enlarge its original resources. The Group will leverage on the advantages of our widely spreading network to procure superior merchandise from all over the world to enrich the merchandise collection in our outlets. We shall adapt ourselves to the trends of high-end consumption behavior, product diversification, broaden our vision in merchandise operation, expand our product categories, and strengthen the operation by introducing new models of small household electrical appliances, books and magazines, imported food, automobile accessories and branded accessories. We shall also strengthen the development momentum of merchandise under our own brand, improve the quality of new merchandise and develop new selling points. We will establish a pricing indicator and price management system based on product category, positioning and market information, improve gross margin, and enhance the profitability of our principal business. We will maintain a good co-operative relationship with our suppliers as before to enhance the growth of the business.

The Group will continue to devote itself to enhancing its basic management capability. We will promote the establishment of standardized operation and management system and the improvement of workflow. We shall accelerate our logistic network establishment in the Yangtze River Delta according to the Group's strategy and begin to set up a large-scale logistic hub in Shanghai as soon as possible. We shall also promote the application of automatic stock replenishment technology, enhance the accuracy and satisfaction level of outlet re-ordering, improve merchandise turnover, enhance operation quality, strengthen our cash flow management, open up diversified investment channels and improve the capability of our capital appreciation.

The Group pursues the strategy of "Treating People as Valuable Resources" and shall continue to maintain our "performance- and efficiency-oriented" corporate culture. We will establish an open and impartial talent assessment and retaining system, strengthen the training and retaining of talents, and based on the staff capability quality model to establish a scientific remuneration and assessment system. We will further perfect our training program, combining both internal and external trainings. At the same time, we will pay extra attention to our training and establish an assessment mechanism to evaluate the training quality.

Profiles of Directors, Supervisors and Senior Management

Executive Directors

Wang Zhi-gang

Mr. Wang Zhi-gang, 51, a senior economist, is the Chairman of the Board of the Company. Mr. Wang is responsible for the overall operation and management of the Group and the formulation of the development strategies of various businesses. Mr. Wang graduated from Remin University of China (中國人民大學) and holds a Bachelor's degree in economics. He graduated from Fudan University (復旦大學) and holds a Master's degree in administration and management. Mr. Wang had held various positions in the past, including 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 (Group) Co., Ltd. (上海百聯集團股份有限公司). He is currently the vice president of Brilliance (Group) Co., Ltd. (百聯集團有限公司). In 1984, Mr. Wang was awarded as Shanghai Outstanding Young Entrepreneur by The People's Government of Shanghai municipality. Mr. Wang joined the Group in June 2007 and was appointed as the Chairman of the Board of the Company since 2007.

Liang Wei

Mr. Liang Wei, 57, a senior economist, is the general manager of the Company. Mr. Liang is responsible for the operation and management of the Group. He graduated from Heilongjiang Business School (黑龍江商學院) in 1982 with a Bachelor's degree in business and economics. 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 since 2000, he has been appointed the general manager of the Company. Mr. Liang has over 20 years' experience in managing different aspects of commercial enterprises. Mr. Liang was awarded as "The Third Session of National Commercial Excellent Venture Entrepreneur" by the China Commercial Enterprise Management Association in 2004, and the title of "2003 Top Ten Outstanding People in the National Commercial Service Industry" by the China General Chamber of Commerce. In 2005, he was named as "Yangtze Delta Market Promotion Influential Person of 2005" (2005長江三角市場營銷風雲人物).

Xu Ling-ling

Ms. Xu Ling-ling, 49, 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 responsible for the overall financial 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 (上海社會科學研究院) in 2001, majoring in business administration. She graduated from Tong Ji University (同濟大學) in 2006, with an EMBA in business management. From 1975 to 1983, Ms. Xu was a supervisor 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 and was promoted to chief financial officer in 1997, 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.

Profiles of Directors, Supervisors and Senior Management

Cai Lan-ying

Ms. Cai Lan-ying, 55, a senior economist, is a deputy general manager of the Company and the chairman of the board of Lianhua Huashang Group Co., Ltd (聯 華 華 商 集 團 有 限 公 司) (the "Hangzhou Lianhua Huashang"), responsible for the overall operation and management of the 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. Ms. Cai has more than 30 years' experience in the retail industry. She was a founding member of Hangzhou Huashang Group Co. Ltd. (杭 州 華 商 集 團 有 限 公 司) and served as the post of 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" in 1990. She was also awarded the prize "Outstanding Operator with Prominent Contribution in Business and Trading Enterprises of Hangzhou in 2004" in March 2005.

Non-Executive Directors

Lu Ming-fang

Mr. Lu Ming-fang, 50, a senior economist, is the deputy chairman of the board of the Company. Mr. Lu graduated from Fudan University in 1996 with a Master's degree in economics with majoring in economics. He obtained a Master's degree in accounting from the Chinese University of Hong Kong in 2004. Mr. Lu has previously worked for Shanghai Industrial Investment (Holdings) Company Limited (the "SIIC") as deputy general manager of the asset management department, director and standing deputy general manager of the Board of Shanghai Industrial Asset Management Company Limited (the "SIAMCL"), director and general manager of Shanghai Industrial United Limited (上 海 實 業 聯 合 集 團 股 份 有 限 公 司) , assistant president and general manager of planning and finance division and the vice president of SIIC and the chief executive of Shanghai Industrial Holdings Limited (the "SIHL"). He currently acts as the executive director of SIIC and SIHL as well as chairman of Shanghai Industrial Pharmaceutical Investment Co., Ltd. (the "Shanghai Industrial Pharmaceutical") Mr. Lu joined the Group in April 1997.

Yao fang

Mr. Yao Fang, 38, an economist graduated from the Chinese University of Hong Kong with a master's degree of business administration. Mr. Yao has held various positions in different organizations including the Shanghai branch of the Bank of Communications, Shanghai Wanguo Holdings Ltd. (currently known as Shenyin & Wanguo Securities Co., Ltd.). He joined SIIC. in April 1996. He has served as vice general manager and general manager of SIAMCL and general manager of SIIC Management (Shanghai) Ltd. (上 實 管 理（上 海）有 限 公 司) From February 2005 until now, he has acted as the director and general manager of Shanghai Industrial Pharmaceutical. From May 2003 to the present, he has been acting as the executive director of SIHL. From January 2004 to April 2007, he acted as the vice chairman of the board of directors of Bright Dairy and Food Co., Ltd (光 明 乳 業 股 份 有 限 公 司). From February 2006 to August 2007, he served as the non-executive director of Semiconductor Manufacturing International Corporation. Mr. Yao Fang was the director of Shanghai Industrial Development Co., Ltd. whose term was expired in November 2006. Mr. Yao joined the Group in June 2007.

Koichi Narita

Mr. Koichi Narita, 54, graduated from Keio University (慶 應 義 塾 大 學) in Japan in 1977 with a Bachelor's degree in law. Mr. Koichi Narita joined Mitsubishi Corporation in 1977 and has been workign in the food products sector. He has nearly 30 years of experience in the food industry and is currently the department head of the food products division and acted as an executive director of Mitsubishi Corporation in April 2008. He joined the Group in June 2006.

Wong Tak Hung

Mr. Wong Tak Hung, 56, is the president of Wong Sun Heng 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. Mr. Wong joined the Group in April 1997, and he has over 30 years of business experience.

Hua Guo-ping

Mr. Hua Guo-ping, 45, graduated from Tongji University 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 SIAMCL as deputy general manager. In 2000, he was the deputy general manager of Shanghai Industrial United Limited. From 2001, he has been the managing director of Shanghai Industrial United (Group) Commercial Network Development Co., Ltd. (上海實業聯合商務網絡有限公司). 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) Company Limited 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.

Independent Non-executive Directors

Lee Kwok Ming, Don

Mr. Lee Kwok Ming, Don, 50, is the financial controller and qualified accountant of Stella International Holdings Ltd ("Stella"), which is listed on the Stock Exchange of Hong Kong Limited. He is a fellow of the Hong Kong Institute of Certified Public Accountants and an associate of the Chartered Institute of Management Accountants in the United Kingdom. He holds a Master's degree of Science in business administration from the University of Bath. 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.

Zhang Hui-ming

Mr. Zhang Hui-ming, 51, is the head of the Enterprise Research Institute 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 mentor for the doctorate programme on enterprise theory and practice. Professor Zhang has published six books and over 200 research papers in various national magazines. He is an independent director of Shanghai Tyre & Rubber Co., Ltd. He joined the Group in January 2003.

Profiles of Directors, Supervisors and Senior Management

Xia Da-wei

Mr. Xia Da-wei, 55, is a mentor for doctorate candidate, the President of Shanghai National Accounting Institute and vice chairman of the Chinese Industrial Economic Association, part-time researcher of China Center for Economic Studies of the School of Economics of Fudan University, 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. He joined the Group in September 2004.

Supervisors

Wang Long-sheng

Mr. Wang Long-sheng, 55, 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) (the "Homemart") and Shanghai Friendship Group Incorporated Company (the "Shanghai Friendship"). Mr. Wang was appointed as the general manager of Shanghai Friendship in January 2006. Mr. Wang was appointed as a director of Shanghai Joint Stock Company and Securities Research Committee (上海股份制與證券研究會) in March 2001. He joined the Group in December 2001.

Zhang Zeng-yong

Mr. Zhang Zeng-yong, 58, is a deputy secretary of the party committee and the chairman of the labour union of the Company. Mr. Zhang graduated from China Labour College (中國工運學院) in 1984, majoring in labour movement foundation studies. He graduated from the Graduate School of the Shanghai Academy of Social Sciences with a Master's degree in business administration in 2002. Mr. Zhang served as the vice president of the labour union of the previous Commerce Second Department of Shanghai Municipal from 1979 to 1992, and then the president of the labour union of Shanghai D&F Commercial Society (上海內外聯綜合商社) from 1992 to 1997. Since November 1997, Mr. Zhang has been serving as a deputy secretary of the party committee of the Company.

Shen Bo

Mr. Shen Bo, 34, a certified public accountant and intermediate accountant. Mr. Shen graduated from Shanghai Institute of Construction Materials (上海建材學院) in July 1996 with a Bachelor's degree in Economics and graduated from the Chinese University of Hong Kong in 2007 with a Master's degree in professional accounting. He has been the deputy manager of the financial department of Shanghai Jinling Company Limited (上海金陵股份有限公司), and the financial controller of Shanghai Jinling Taike Information Technology Development Company Limited (上海金陵泰克信息科技發展股份有限公司) and project manager of the investment division of Northeast Securities Co., Ltd (東北證券有限責任公司). He joined Shanghai Industrial United Limited in April 2001 and has served as the deputy head of financial department, head of financial department and deputy financial controller of the Company. He currently acts as the financial controller in Shanghai Industrial Pharmaceutical Investment Co., Ltd. Mr. Shen joined the Company in May 2004.

Profiles of Directors, Supervisors and Senior Management

Joint Company Secretaries

Xu Ling-ling

Please refer to profiles of Executive Directors (Page 27).

Stephen Mok

Mr. Stephen Mok, 42, is the joint secretary of the Company and a partner of Huen Wong & Co. in association with Fried, Frank, Harris, Shriver & Jacobson LLP. He was admitted to practise as a solicitor in New South Wales, Australia in 1989, and in England and Wales and Hong Kong in 1992. Mr. Mok specialises in general commercial and corporate finance transactions, including advising enterprises and financial institutions in relation to listing on the Stock Exchange, merger and acquisition, corporate restructuring, joint ventures, and advising on legal compliance with Hong Kong securities matters. Mr. Mok is also an independent non-executive director of Shandong Xinhua Pharmaceutical Co., Ltd. and the company secretary of Chengdu Cable.

Senior Management

Cai Li-ren

Mr. Cai Li-ren, 59, a senior economist, is a deputy general manager of the Company and general manager of Lianhua Quik Stores Co., Ltd (上 海 聯 華 快 客 華 便 利 有 司) (the "Quik Convenience"). He is responsible for the operation and management of the Group's convenience store business. Mr. Cai graduated from the Night Division of Shanghai Normal University (上海師範大學夜大學) in 1987, with a Bachelor's degree majoring in mathematics management. Mr. Cai has over 30 years' experience in retail industry. He joined the Company in 1992 as a retail outlet development manager. He served as assistant general manager in November 1994 and deputy general manager in January 1996. He has been appointed as the general manager of Quik Convenience since 2002.

Fang Jin-ping

Ms. Fang Jin-ping, 51, is a deputy general manager of the Company and the executive general manager of Shanghai Century Lianhua Supermarket Development Company Limited (世紀聯華發展有限公司) (the "Century Lianhua"), responsible for the daily operation of Century Lianhua. Ms. Fang graduated from Shanghai TV University (上海電視大學) in 1990, with a degree in corporate management. She then graduated from the Graduate School of Shanghai Academy of Social Sciences in 2002, majoring in business administration. Ms. Fang has over 20 years' experience in commercial trading and retail industry. Ms. Fang joined the Group in 1992 and was promoted to assistant to general manager and the manager of the sales planning division of the Group in 1996. She promoted to a deputy general manager of the Group in 1997, responsible for the merchandise management division and live and fresh produce management division. From 1998 to March 2003, Ms. Fang was responsible for the operation and management of the Group's supermarket business. In March 2003, Ms. Fang was appointed as the chief of the asset management division of the Company and was appointed executive general manager of Century Lianhua in January 2007. Ms. Fang has been accredited as Quality Officer of Shanghai (上 海 市 質 量 標 兵) in 1997 and Labour's Role Model of Shanghai (上海市勞動模範) in 1997.

Profiles of Directors, Supervisors and Senior Management

Jin Guang-wei

Mr. Jin Guang-wei, 53, a senior economist, is a deputy general manager of the Company as well as the chairman of the board and general manager of Shanghai Lianhua Supermarket Development Co., Ltd. (上海聯華超級市場發展有限公司) (the "Lianhua Super Market"). Mr. Jin has extensive experience in the retail industry. He is responsible for the merchandise management division and the management of live and fresh produce. Mr. Jin graduated from the Graduate School of East China Normal University in 1997, majoring in international corporate management. He joined the Group in 1998 as a division chief of the live and fresh produce management division of the Group and promoted to deputy general manager of the Company in 2000. In 2004, he also acted as the general manager of Lianhua Super Market.

Shi Wei

Mr. Shi Wei, 53, is a deputy general manager of the Company and the division chief of the franchise management division of the Group. He is responsible for the management of the Group's supermarket franchise stores operations. Mr. Shi graduated from Shanghai Second Polytechnic University in 1993, majoring in engineering management and trading specialization. Mr. Shi has over 26 years' experience in commercial trading. Between 1996 and 1999, he worked for Shanghai Friendship Group Incorporated Company as deputy supervisor of the general manager's office and later as deputy head of personnel department and supervisor of information technology centre. Mr. Shi joined the Company in 1999 as an assistant to the general manager and was appointed deputy general manager of the Company and division chief of the franchise management division in 2001.

Dao Shu-rong

Mr. Dao Shu-rong, 53, a senior economist, is a deputy general manager and the controller of the human resources management of the Company. He is responsible for the management of the Group's human resources. He 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. Mr. Dao has more than 30 years' experience in business and human resources administration. In 1996, he 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 promoted to assistant to the general manager in 1999. He was appointed as the deputy general manager and division chief of the human resources division of the Company in 2001.

Liu Fu-sheng

Liu Fu-sheng, 53, an economist, is a deputy general manager of the Company and chief of the fresh produce management division and the logistics and distribution management division. He is responsible for fresh produce operation and logistics and distribution. Mr. Liu joined the Company in 1991. He was the deputy manager of the first supermarket of the Company. He worked as the manager of the business and purchase divisions of Lianhua Supermarket in September 1993. He was appointed as the general manager of Shanghai Lianhua Yongchang Co., Ltd (上海聯華永昌超市有限公司) in December 1998. From September 2001 to August 2004, he acted as the chief of the live and fresh produce management division of the Company. He was appointed as the assistant to the general manager of the Company and chief of logistics and distributon management dvision in August 2005. He was appointed as the deputy general manager in December 2005.

Lianhua Supermarket Holdings Co., Ltd.

34.03%	21.17%	6.74%	2.82%	1.96%	33.28%
Shanghai Friendship Group Incorporated Company	Shanghai Industrial United (Group) Commercial Network Development Company Limited	Mitsubishi Corporation	Wong Sun Hing Investment Company Limited	Shanghai Liding Investment Company Limited	Public

Report of the Directors

The Board is pleased to present to the shareholders its report together with the audited accounts of the Company for the year ended 31 December 2007.

Principal activities

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

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

	2007 Percentage	2006 Percentage
Purchases		
Largest supplier	4.43	4.29
Five largest suppliers	10.15	9.18
Sales		
Largest customer	0.11	5.60
Five largest customers	0.24	5.84

During the year ended 31 December 2007, 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 had 5% or more of 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 2007, the Company's principal subsidiaries are Century Lianhua, Lianhua Quik, Hangzhou Lianhua Huashang, Lianhua Supermarket (Jiangsu) Co., Ltd, Lianhua Supermarket Distribution Co., Ltd (the "Lianhua Supermarket Distribution"), Shanghai Lianhua Live and Fresh Food Processing and Distribution Co., Ltd. and Lianhua E-business Co., Ltd (which were all incorporated in the PRC).

As at 31 December 2007, the Company's principal associated company is Shanghai Carhua.

Please refer to note 40 to the accounts 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 2007 are set out in the consolidated profit and loss account on page 61 of the annual report.

The financial condition of the Group and of the Company as at 31 December 2007 is set out in the consolidated balance sheet and the balance sheet respectively on pages 62 to 65 of the annual report.

The cash flow of the Group for the year ended 31 December 2007 is set out in the consolidated cash flow statement on page 67 of the annual report.

Dividends Distribution

Pursuant to the consolidated accounts of the Group for the year 2007 prepared in accordance with the Hong Kong Financial Reporting Standards (the "HKFRS") and audited by PricewaterhouseCoopers, profit distributable to shareholders of the Company was RMB705.49 million. Pursuant to the consolidated accounts of the Group for the year 2007 prepared in accordance with the Accounting Standards of the PRC and audited by Shanghai Certified Public Accountants, profit distributable to shareholders of the Company was RMB513.75 million.

Pursuant to the articles of association of the company (hereinafter "Articles of Association"), profit after tax of the Company available for distribution shall be the lower of profits distributable to shareholders of the Company as set out in two accounts mentioned above. Accordingly, the distributable profit of the Company for the year 2007 was RMB513.75 million.

The Board recommends to distribute a final dividend of RMB0.12 per ordinary share of the Company in cash for the year ended 31 December 2007. The distribution proposal will be implemented subject to consideration and approval at the Company's annual general meeting of 2007.

The Board meeting held on 15 August 2007 declared the distribution of an interim dividend of RMB0.06 per ordinary share of the Company as of 30 June 2007. Such interim dividend to shareholders of the Company had been fully paid.

If the proposed distribution of final dividend is approved at the annual general meeting of 2007, the total amount of dividends distributed by the Company in 2007 would be RMB0.18.

The final dividend will be distributed to shareholders of H shares of the Company whose names appear on the Company's register of members at 4:30 p.m. on Tuesday, 20 May 2008. The register of H shares members of the Company will be closed from Wednesday, 21 May 2008 to Friday, 20 June 2008 (both days inclusive) during which period no transfer of H shares will be effected. In order to qualify for the final dividend, the holders of H shares must lodge their share certificates together with the relevant share transfer documents with Computershare Hong Kong Investor Services Limited at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Tuesday, 20 May 2008.

The dividends to be distributed will be denominated and declared in Renminbi. Distribution to the domestic shareholders of the Company will be made in Renminbi, while distribution to the holders of unlisted foreign shares of the Company will be made in relevant foreign currencies and the distribution to holders 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 distribution date.

Reserves

During the year under review, shareholders' equity of the Group increased from approximately RMB2,051.50 million to approximately RMB2,238.94 million.

Details of the movements in reserves during the year are set out in note 32 to the accounts of this annual report.

Fixed assets

Movements of fixed assets during the year are set out in note 16 to the accounts of the annual report.

Bank loans, overdrafts and other borrowings

As at 31 December 2007, the Group had no bank borrowings.

Capitalized interest

During the year under review, no interest of construction in progress has been capitalized.

Listing of shares and changes

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

The Company offered 34,500,000 new H shares on 4 October 2004. Accordingly, the total number of shares of the Company in issue was 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.

As the Company did not implement any new issue plan during the year under review, there was no change in its share capital.

Information on the performance of H shares of the Group in 2007:

Highest trading price per H share during the year	HK$14.66
Lowest trading price per H share during the year	HK$10.20
Total turnover volume of H shares during the year	180 million shares
Closing price per H share as at 31 December 2007	HK$10.50

Public float

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

Share capital

As at 31 December 2007, the classes and number of shares of the Company are as follows:

Class of shares	**No. of issued shares** ('000 shares)	**Percentage** (%)
Domestic shares	355,543	57.16
Attributable to:		
Shanghai Friendship Group Incorporated Company	211,640	34.03
Shanghai Industrial United (Group) Commercial Network Development Co., Ltd.	131,683	21.17
Shanghai Liding Investment Company Limited	12,220	1.96
Unlisted foreign shares	59,457	9.56
Attributable to:		
Mitsubishi Corporation	41,900	6.74
Wong Sun Heng Investment Co., Ltd.	17,557	2.82
H shares	207,000	33.28
Total	622,000	100

Number of shareholders

As at 31 December 2007, details of shareholders as recorded in the Register of Members of the Company are as follows:

Total number of shareholders	24
Holders of domestic shares	3
Holders of unlisted foreign shares	2
Holders of H shares	19

Legal status of unlisted foreign shares

Set out below is the summary of legal opinions given by Grandall Legal Group on the rights attached to unlisted foreign shares (the "Unlisted Foreign Shares"). Although the Mandatory Provisions for Articles of Association of Companies to be Listed Overseas (the "Mandatory Provisions") provides for 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), 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 for under the existing PRC laws or regulations. However, the Company's creation of and the subsistence of Unlisted Foreign Shares do 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 Legal Group advised that until new laws or regulations are introduced in this aspect, holders of the Unlisted Foreign Shares shall enjoy the same ranking as holders of domestic shares of the Company ("Domestic Shares") (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.

No provision is made for the settlement of disputes between holders of Unlisted Foreign Shares and holders of Domestic Shares in the Mandatory Provisions or 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 the arbitration of their dispute, either party may bring suit in a competent PRC court.

According to the requirements under Clause 163 of the Mandatory Provisions and Clause 194 of 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 equally applicable to disputes between holders of H Shares and holders of Unlisted Foreign Shares.

As advised by Grandall Legal Group, the conversion of Unlisted Foreign Shares into new H Shares is subject to satisfaction of the following conditions:

(a) the expiry of a period of three years from the date on which the Company was converted from a limited company into a joint stock limited company;

(b) approvals from the original approval authority or authorities in the PRC for the establishment of the Company being obtained by holders of Unlisted Foreign Shares for the conversion of Unlisted Foreign Shares into H Shares after expiry of the three year restriction period for the transfer of Unlisted Foreign Shares (in the case of the Company, the three-year restriction period has ended on 18 December 2004 as prescribed by Article 147 of the Company Law of the PRC);

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

(d) approval being granted by the Stock Exchange for listing of and permission to deal in the new H Shares converted from the Unlisted Foreign Shares;

(e) approval being 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) in full compliance with relevant PRC laws, rules, regulations and policies governing companies incorporated in the PRC and seeking permission for share listing 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 and Supervisors of the Company

As at 31 December 2007, none of the directors, chief executive or supervisors of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)) (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 or short positions which they are taken 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 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") set out in Appendix 10 of the Listing Rules.

As at 31 December 2007, Mr. Hua Guo-ping, Mr. Wang Long-sheng, Mr. Zhang Zeng-yong, Mr. Lu Ming-fang and Mr. Yao Fang are directors, supervisors or employees of Shanghai Friendship, Shanghai Industrial Pharmaceutical, SIHL and/or SIIC. As disclosed below, these companies had interests in the shares of the Company as at 31 December 2007 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 2007, the following persons (not being a director, chief executive 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 voting rights of the Company (%)	Approximate percentage of voting rights of domestic shares/unlisted foreign shares (%)	Approximate percentage of voting rights of H shares (%)
Shanghai Friendship	domestic	211,640,000	34.03% (Note 3)	51.00%	—
Shanghai Industrial United (Group) Commercial Network Development Company Limited	domestic	131,683,000	21.17% (Note 1)	31.73%	—
Shanghai Hua Rui Investment Co. Ltd.	domestic	131,683,000	21.17% (Note 1)	31.73%	—
Shanghai Industrial Pharmaceutical	domestic	131,683,000	21.17% (Notes 1,4 and 5)	31.73%	—
Shanghai Industrial YKB Limited	domestic	131,683,000	21.17% (Note 1)	31.73%	—
SIHL	domestic	131,683,000	21.17% (Notes 1,2,4 and 5)	31.73%	—
Shanghai Investment Holdings Limited	domestic	131,683,000	21.17% (Note 2)	31.73%	—
SIIC Capital (B.V.I.) Limited	domestic	131,683,000	21.17% (Note 2)	31.73%	—
SIIC CM Development Limited	domestic	131,683,000	21.17% (Note 2)	31.73%	—

Name of shareholders	Class of shares	No. of domestic shares/ unlisted foreign shares/ H shares	Approximate percentage of voting rights of the Company (%)	Approximate percentage of voting rights of domestic shares/unlisted foreign shares (%)	Approximate percentage of voting rights of H shares (%)
SIIC	domestic	131,683,000	21.17% (Notes 2 and 4)	31.73%	—
Mitsubishi Corporation	unlisted foreign shares	41,900,000	6.74%	10.10%	—
Arisaig Partners (Mauritius) Limited	H shares	43,610,000(L)	7.01%(L) (Notes 6)	—	21.07%(L)
Arisaig Greater China Fund Limited	H Shares	43,610,000	7.01%(L) (Notes 6)	—	21.07%
Cooper Lindsay William Ernest	H Shares	43,610,000	7.01%(L) (Notes 6)	—	21.07%
Absolute Asia Asset Management Limited (formerly known as IXIS Asset Management Asia Ltd)	H shares	21,152,000(L)	3.40%(L)	—	10.22%(L)
The Hamon Investment Group Pte Limited	H shares	20,611,000(L)	3.31%(L)	—	9.96%(L)
Mellon Financial Corporation	H shares	14,499,000(L)	2.33%(L)	—	7.00%(L)
Matthews International Capital Management, LLC	H shares	12,541,000(L)	2.00%(L)	—	6.01%(L)
Aberdeen Asset Management Plc and its Associates (together "The Group") on Behalf of Accounts Managed by the Group	H shares	12,420,000(L)	2.00%(L)	—	6.01%(L)

Report of the Directors

Name of shareholders	Class of shares	No. of domestic shares/ unlisted foreign shares/ H shares	Approximate percentage of voting rights of the Company (%)	Approximate percentage of voting rights of domestic shares/unlisted foreign shares (%)	Approximate percentage of voting rights of H shares (%)
Government of Singapore Investment Corporation Pte Ltd	H shares	12,338,300(L)	1.98%(L)	—	5.96%(L)
JPMorgan Chase & Co.	H shares	12,119,000(L) 12,019,000(P)	1.95%(L) 1.93%(P)	—	5.85%(L) 5.81%(P)
Julius Baer Investment Management LLC	H shares	10,984,000(L)	1.77%(L)	—	5.31%(L)
AMIRAL GESTION through his funds “Sextant Autour du Monde” and “Sextant PEA”	H shares	10,598,000(L)	1.70%(L)	—	5.12%(L)
Fidelity International Limited	H shares	10,432,000(L)	1.68%(L)	—	5.04%(L)

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

Notes:

1. As at 31 December 2007, SIHL beneficially owned 100% interests in Shanghai Industrial YKB Limited (“YKB”) whilst YKB owned 43.62% interests in Shanghai Industrial Pharmaceutical. Shanghai Industrial Pharmaceutical beneficially owned 100% interests in Shanghai Hua Rui Investment Co. Ltd. (“Shanghai Hua Rui”). Shanghai Industrial Pharmaceutical and Shanghai Hua Rui held 72.62% and 27.38% interests, respectively, in Shanghai Industrial United (Group) Commercial Network Development Company Limited (“SH United Commercial”). Accordingly, SIHL, YKB, Shanghai Industrial Pharmaceutical and Shanghai Hua Rui are deemed to have the discloseable interests in shares of the Company above.

2. As at 31 December 2007, SIIC, through its wholly-owned subsidiaries, namely Shanghai Investment Holdings Limited (“Shanghai Investment”), SIIC Capital (B.V.I.) Limited (“SIIC Capital”) , SIIC Trading Company Limited (“SIIC Trading”), SIIC CM Development Ltd. (“SIIC CM Development”) and SIIC Treasury (B.V.I.) Limited (“SIIC Treasury”) directly owned an aggregate of 51.06% interests in SIHL. Thus, SIIC, Shanghai Investment, SIIC Capital, SIIC Trading, SIIC CM Development and SIIC Treasury are deemed to have the discloseable interests in shares of the Company above.

3. As at 31 December 2007, Mr. Hua Guo-ping, a non-executive director of the Company, was an executive director of Shanghai Friendship. Mr. Wang Long-sheng , a supervisor of the Company, was an executive director and general manager of Shanghai Friendship. Mr. Zhang Zeng-yong, a supervisor of the Company, was a supervisor of Shanghai Friendship.

4. As at 31 December 2007, Mr. Lu Ming-fang, a non-executive director of the Company, was also a chairman of the board of directors of Shanghai Industrial Pharmaceutical, and an executive director of SIHL and SIIC. Mr. Yao Fang, a non-executive director of the Company, was also a vice president of SIIC, an executive director of SIHL, and a director and president of Shanghai Industrial Pharmaceutical.

5. As at 31 December 2007, Mr. Lu Ming-fang, a non-executive director of the Company, beneficially owned 23,400 shares in Shanghai Industrial Pharmaceutical. Mr. Lu also beneficially owned 1,822,000 ordinary shares and 480,000 share options in SIHL, which entitle him to subscribe for a total of 480,000 ordinary shares at an exercise price of HK$14.89 per share during the period from 2 March 2006 to 1 March 2009. Mr. Yao Fang, a non-executive director of the Company, beneficially owned 180,000 ordinary shares in SIHL.

6. Arisaig Partners (Maritius) Ltd is a fund managing institute of Arisaig Greater China Fund Limited, Arisaig Partners (Maritius) is indirectly held by Cooper Lindsay William Ernest.

Save as disclosed above, the directors are not aware of any persons holding any interests or short positions in 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 2007.

Ultimate controlling shareholder

On 11 August 2004, Shanghai Friendship Group Incorporated Company, the controlling shareholder of the Company, announced that pursuant to the approval document Guo Zi Chan Quan【2004】No.556 of the State Council, the Shanghai Friendship Group Incorporated Company, a State-owned enterprise and former holder of State-owned shares of the Company, had transferred the State-owned shares it held in the Company, representing 6.08% of the total capital, to Bailian (Group) Company Limited. Pursuant to document Hu Guo Zi Wei【2003】No. 300, the Shanghai Friendship Group Incorporated Company, the State-owned enterprise and former holder of State-owned shares of the Company, had transferred 52% of the shares it held in Shanghai Friendship Fuxing (Holdings) Company Limited, the major shareholder of the Company, to Bailian (Group) Company Limited. The administrative procedures for the approval stated above had been completed. Bailian (Group) Company Limited became the ultimate controlling shareholder of Shanghai Friendship Group Incorporated Company. Accordingly, Bailian (Group) Company Limited also became the ultimate controlling shareholder of the Company. The Directors consider that this change will not have any material effect on the daily operations of the Company.

During the year, save as disclosed herein, no member of the Group has entered into any material contracts with Balian (Group) Company Limited or its subsidiaries nor Bailian has any contracts with the members of the Group in providing any service.

Pre-emptive rights

There are no provisions under the Articles of Association requiring the Company to offer preemptive 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, being 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 listed securities of the Company.

Share capital interests attributable to the Directors and Supervisors

As at 31 December 2007, none of the Directors, Supervisors or senior management of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of the SFO) which are 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 for Securities Transactions by Directors of Listed Issuers under the Listing Rules.

Directors and Supervisors

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

Executive Directors:

Mr. Wang Zhi-gang *(Chairman)*
Mr. Liang Wei
Ms. Xu Ling-ling
Ms. Cai Lan-ying

Non-executive Directors:

Mr. Lu Ming-fang
Mr. Yao fang
Mr. Koichi Narita
Mr. Wong Tak Hung
Mr. Hua Guo-ping

Independent Non-executive Directors:

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

Supervisors:

Mr. Wang Long-sheng
Mr. Zhang Zeng-yong
Mr. Shen Bo

Details of the profile of the Directors, Supervisors and senior management of the Company are set out on pages 27 to 32.

Directors' and Supervisors' service contracts

The Company has entered into service contract with each of the executive Directors on 8 June 2005, terms of which correspond to their respective term of office as Director for a period of 3 years and renewable subject to applicable laws.

Directors' and Supervisors' interests in contracts

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

Interest in shares or bonds acquired by the Directors and Supervisors

During the year, no arrangement was entered by the Company or its subsidiaries which enables 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 year were senior management members of the Company. Details of their remuneration are set out in note 15 to the accounts in this annual report.

Retirement schemes

In accordance with applicable laws and regulations in the PRC, all employees of the Group participate in various defined contribution retirement schemes organized by the relevant municipal and provincial governments of the PRC, under which the Group and the employees are required to make monthly contributions to these schemes at a particular percentage of the employees' salaries during the relevant periods.

Change of auditors

During the past three years, there had not been any change of the international auditors of the Company. The accounts for the year 2007, which was compiled by the Company in accordance with the Hong Kong Financial Reporting Standards, was audited by the auditors of the Company, PricewaterhouseCoopers. The Board will propose at the annual general meeting for the reappointment of PricewaterhouseCoopers as the international auditors of the Company.

Significant litigation

During the year, the Company was not engaged in any significant litigation.

Report of the Directors

Qualified accountant

Subject to Rule 3.24 of the Listing Rules, the Company is required to employ a qualified accountant on a full-time basis, who must be a fellow or associate member of the Hong Kong Institute of Certified Public Accountants ("HKICPA") or a similar body of accountants recognized by it for exemptions from membership examination of the HKICPA. Ms. Xu Ling-ling ("Ms. Xu"), being the chief financial officer of the Company, meets all the requirements set out in Rule 3.24 of the Listing Rules save for the requirement of being a fellow or associate of the HKICPA or a similar body of accountants recognized by it for exemptions from membership examination of the HKICPA. The Company has appointed Mr. Chan Wai Leung ("Mr. Chan"), a Certified Public Accountant of the HKICPA, to assist Ms. Xu in discharging her duties as the Qualified Accountant. The Stock Exchange has granted to the Company a conditional waiver from compliance with Rule 3.24 of the Listing Rules for a period of 3 years commencing from 7 January 2005.

Connected transaction

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

Connected Transaction Entered into During The Period Under Review — Acquisition of Lianhua Supermarket Distribution

In order to strengthen the Company's overall management on its core businesses and thus facilitating its implementation of its overall development strategy, on 30 March 2007, the Company and Shanghai Xin Wan Rong Engineering Technology Company ("Xin Wan Rong"), entered into equity transfer agreement in respect of an acquisition of 20% equity interest in Lianhua Supermarket Distribution by the Company from Xin Wan Rong. The consideration for the equity transfer is RMB2,800,000. Upon completion of the equity transfer agreement, 90% and 10% of the equity interest in Lianhua Supermarket Distribution would be owned by the Company and its subsidiary, respectively. As at 30 March 2007, Xin Wan Rong was the substantial shareholder of Lianhua Supermarket Distribution, which is a subsidiary of the Company. Xin Wan Rong is therefore a connected person of the Company under the Listing Rules and the equity transfer constitutes a connected transaction of the Company. Given that each of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) is less than 2.5%, the transaction is only subject to the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules. The Company has discharged its obligations of reporting and announcement requirements.

Continuing Connected Transactions — Rental Agreement

The rental agreement entered into between Century Lianhua as the lessee and Shanghai Friendship Shopping Center Development Co., Ltd. (hereinafter referred to as "SFSC") as the lessor in respect of No. 88, Xian Xia West Road, Chang Ning District, Shanghai, PRC.

The rental agreement entered into between Century Lianhua as the lessee and Homemart as the lessor in respect of No. 645, Xie Tu Road, Lu Wan District, Shanghai, PRC.

The rental agreement entered into between Century Lianhua as the lessee and Homemart as the lessor in respect of No. 1875, Ji Yang Road, Pudong New District, Shanghai, PRC.

Given that each of the percentage ratios of the aggregate rental payment payable by Century Lianhua to SFSC and Homemart under the aforementioned leasing agreements is less than 2.5%, the above leasing agreements are only subject to the reporting and announcement requirements under Rule 14A.45 to 14A.47 of the Listing Rules and is exempt from the independent shareholders' approval requirement.

Continuing Connected Transaction — Merchandise Agreement

The Merchandise agreement between the Company as the vendor and Quik Convenience as the purchaser.

Given that each of the assets ratio, revenue ratio and consideration ratio of the estimated aggregate annual amount of sales to Lianhua Quik by the Company under the merchandise agreement for the three years ending 31 December 2008 exceeds 2.5%, the Company has discharged its obligation for announcement and the transactions have been passed by the independent shareholders of the Company at the extraordinary general meeting of the Company held on 13 December 2005. The annual cap of the amount of sales to Lianhua Quik by the Company for this year is RMB615,310,000.

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

(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 not sufficient comparable transactions to determine whether they are on normal commercial terms, on terms not less favourable to the Group than terms available to or from (as appropriate) independent third parties; and

(3) in accordance with the respective governing arrangements and on terms that are fair and reasonable and in the interests of the independent shareholders of the Company as a whole.

The auditors of the Company have carried out certain agreed-upon procedures on the above transactions and reported their findings to the Board that the above transactions:

(1) have been approved by the Board;

(2) on a sample basis, have been entered into in accordance with the relevant governing agreements;

(3) on a sample basis, were in accordance with the pricing policies of the Company; and

(4) were conducted within the respective cap for each transaction.

By order of the Board

Wang Zhi-gang
Chairman

16 April 2008
Shanghai, the PRC

Report on Corporate Governance

The Company 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 Company also attaches great importance on communication with its shareholders and strives to ensure the timeliness, completeness and accuracy of its information disclosure to its shareholders and investors and to the protection 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 the aim of enhancing 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 the Code as set out in Appendix 14 to the Listing Rules for the period under review and, save as set out below, none of the Directors is aware of any information that would reasonably indicate that the Company is not or was not for any time of the period under review in compliance with the Code. Details of the deviation are set out as follows:

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 for a term of not more than 3 years and is eligible for re-election. 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 and thus deviating from the aforementioned provision of the Code.

Board

The Board consists of 12 Directors, four of whom are executive Directors including the chairman of the Board and five of whom are non-executive Directors. The Company has increased the number of independent non-executive Directors to at least three in accordance with the requirements of the Listing Rules. 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. As approved by an ordinary resolution of the annual general meeting on 8 June 2005, the second session of the Board was established and the term of service of each Director (including non-executive Directors) is three years, which will expire on the date of annual general meeting of the Company to be held in the year 2008. Corresponding to the term of service, 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 second 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 oversee and review the Company's internal control system;

– 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 way in respect of the quarterly, interim and annual reports of the Company, other price-sensitive announcements and disclosure of financial information pursuant to the Listing Rules, reports submitted to the regulatory authorities and information disclosure pursuant to legal requirements;

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

– the management has received clear guidelines and instructions in respect of their authorities, especially under all circumstances to report to the Board and to seek the Board's approval prior to making any decision or entering into any commitment on behalf of the Company; and

– to review the responsibilities 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 **4**

Name	Attendance
Mr. Wang Zhi-gang *(chairman)*	3/4
Mr. Liang Wei	4/4
Ms. Xu Ling-ling	4/4
Ms. Cai Lan-ying	4/4

Non-executive Directors **5**

Name	Attendance
Mr. Lu Ming-fang	4/4
Mr. Yao Fang	3/4
Mr. Koichi Narita	4/4
Mr. Wong Tak Hung	4/4
Mr. Hua Guo-ping	4/4

Independent Non-executive Directors **3**

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

Report on Corporate Governance

Note:

Mr. Wang Zhi-gang and Mr. Yao Fang were appointed respectively as executive Director and non-executive Director of the Company at the general meeting of the Company held on 28 June 2007. As such, each of them did not attend the Board meeting held on 18 April 2007 in his capacity as a Director.

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 is required. All Directors will receive the meeting notice, detailed agenda of the meeting and the relevant information within a reasonable period 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 Director 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 3 years, and subject to re-election. 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 and thus deviating from the aforementioned provision of the Code.

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. Wang Zhi-gang and Mr. Liang Wei, 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 overseeing and approving the policies and strategies of the Group, approving annual budget and business plan, assessing the performance of the Company and overseeing 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 power 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) oversees production, operation and management affairs and implementation of the resolutions of the Board;

(2) oversees the implementation of 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 controller;

(7) handles the appointment or removal of 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.

Professional Committees

The Board established the first session of professional committees in 2003, including (1) the Remuneration and Appraisal Committee to establish and determine the Company's reward and appraisal system; (2) the Strategic Committee to conduct consultation, survey, research and assessment on the Company's future investment strategies, and to enhance the Company's core competitiveness; (3) the Nomination Committee to optimize the composition of the Board and the management of the Company; and (4) the Audit Committee to review the financial reporting procedures, internal control system and the completeness of financial reports of the Company.

As approved by an ordinary resolution of the annual general meeting on 8 June 2005, the second session of the Board was established. On the same day, the Board established the second session of the four professional committees in accordance with the requirements of the Code. The second session of the Audit Committee comprised of Mr. Lee Kwok Ming, Don, Mr. Zhang Hui-ming, Mr. Xia Da-wei and Mr. Hua Guo-ping and is chaired by Mr. Lee Kwok Ming, Don. The second session of the Remuneration and Appraisal Committee of the Company comprised of Mr. Xia Da-wei, Mr. Zhang Hui-ming and Mr. Hua Guo-ping and is chaired by Mr. Xia Da-wei. The second session of the Strategic Committee of the Company comprised of Mr. Wang Zong-nan, Mr. Lu Ming-fang, Mr. Tsunao Kijima and Mr. Zhang Hui-ming and is chaired by Mr. Wang Zong-nan. The second session of the Nomination Committee of the Company comprised Mr. Xia Da-wei, Mr. Zhang Hui-ming and Mr. Hua Guo-ping and is chaired by Mr. Xia Da-wei. The Board has authorized the committees to formulate their respective terms of reference.

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

Audit Committee

The Board of the Company passed a resolution on 8 June 2005 to establish the second 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/or financial expertise. The primary duties of the Audit Committee 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.

The Audit Committee of the Company held a meeting on 11 April 2007 to review and discussed on matters such as the internal controls of the Company, financial reports, remuneration and reappointment of domestic and overseas auditing firms and continuing connected transactions for 2006, 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 2006 complied with the accounting standards and requirements of the Stock Exchange and the relevant laws and contained sufficient 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 is of the view that its domestic and overseas auditing firms have carried out their work with professionalism and independence, and agrees to recommend to the Board their remuneration for 2006 and suggests to re-appoint its domestic and overseas auditing firms for 2007. The Audit Committee confirms that the continuing connected transactions of the Company in 2006 did not exceed the respective caps as approved by the waivers granted by the Stock Exchange, and thus are not subject to the requirements in respect to reporting, announcement and approval by independent shareholders under the Listing Rules.

The Group's financial controller, auditors and internal auditors were present at the meeting to address queries raised by the Audit Committee.

The Audit Committee of the Company held a meeting on 10 August 2007 and to review and discuss with the management about matters such as internal controls, interim financial report and continuing connected transactions up to 30 June 2007, including review of the Company's condensed interim accounts prepared in accordance with the HKFRSs. The Audit Committee is of the view that the Group's interim financial report for the year complies with the applicable accounting standards, requirements of the Stock Exchange and legal requirements, and has provided adequate disclosure. In relation to its review of the Company's internal controls, the Audit Committee concluded that the Company's internal control system is efficient.

The Group's financial controller, auditors and internal auditors were present at 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 2007:

Name	11 April 2007	10 August 2007
Independent Non-executive Directors		
Mr. Lee Kwok Ming, Don *(chairman)*	Present	Present
Mr. Zhang Hui-ming	Present	Present
Mr. Xia Da-wei	Present	Absent
Non-executive Director		
Mr. Hua Guo-ping	Present	Present

Remuneration and Appraisal Committee

On 8 June 2005, the Board passed a resolution for the election and establishment of the second session of the Remuneration and Appraisal Committee. The Remuneration and Appraisal Committee advises 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 the Directors' remuneration. The Remuneration and Appraisal Committee also ensures that effective policies and procedures are being followed in respect of incentives provided to the Directors and senior management of the Company. The Remuneration and Appraisal Committee comprises of three members, including two independent non-executive Directors (including the Chairman) and one non-executive Director.

The Remuneration and Appraisal Committee held a meeting on 14 February 2007. Having taken into account the factors including, but not limited to, the remuneration level paid by similar 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 individual performance, the Committee determined the remuneration package of all executive Directors and approved the remuneration to three executive Directors, one Supervisor and six senior management for 2006.

The Remuneration and Appraisal Committee held a meeting on 14 April 2007. Having taken into account the factors including, but not limited to, the remuneration level paid by similar 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 individual performance, the Committee determined the remuneration policy and structure of all executive Directors for 2007 and thereafter.

Set out below is the attendance record of the Remuneration and Appraisal Committee meeting in 2007:

Name	**14 February 2007**	**14 April 2007**
Independent Non-executive Directors		
Mr. Xia Da-wei *(chairman)*	Present	Present
Mr. Zhang Hui-ming	Present	Present
Non-executive Director		
Mr. Hua Guo-ping	Present	Present

Nomination Committee

As approved by an ordinary resolution of the annual general meeting on 8 June 2005, the second session of the Nomination Committee was elected and established. The primary duties of the Nomination Committee are to advise the Board on the size and composition of the Board with regard to the operating positions, 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 and advise on the candidates for directorship, managerial position or other senior management posts subject to approval of the Board. The Nomination Committee comprises of three members, including two independent non-executive Directors (including the Chairman) and one non-executive Director.

Report on Corporate Governance

The Nomination Committee of the Company held a meeting on 30 April 2007. Since Mr. Wang Zong-nan ceased to be the Executive Director and the Chairman because of job posting, according to the recommendation by Shanghai Friendship Group Incorporated Company, the Nomination Committee of the Company nominated Mr. Wang Zhi-gang to be an executive director. Since Mr. Shi Zu-qi ceased to be the Non-executive Director because of job posting, according to the recommendation by Shanghai Industrial United (Group) Commercial Network Development Company Limited, the Nomination Committee of the Company nominated Mr. Yao Fang to be a non-executive director.

The Nomination Committee of the Company held a meeting on 14 August 2007. Since Mr. Wang Zong-nan ceased to be the Executive Director at the conclusion of the annual general meeting of 2006, the Nomination Committee of the Company proposed to the Board the nomination of Mr. Wang Zhi-gang to become a member of the Company's second session of the Strategic Committee.

The Nomination Committee of the Company held a meeting on 21 September 2007. Since Mr. Wang Zong-nan ceased to be the Executive Director at the conclusion of the annual general meeting of 2006, and at the same time ceased to be the Director and the Chairman of the Company's associate — Shanghai Carhua Supermarket Company Limited ("Shanghai Carhua"), the Nomination Committee of the Company proposed to Shanghai Carhua the nomination of Mr. Wang Zhi-gang to be a director of Shanghai Carhua.

The Nomination Committee of the Company held a meeting on 28 November 2007. Since Ms. Xiao Ying-lin ceased to be the secretary of the Board of the Company, joint company secretary and authorized representative for personal reasons, the Nomination Committee of the Company nominated Ms. Xu Ling-ling, an Executive Director, to act as the secretary of the Board of the Company; nominated Ms. Xu Ling-ling, Executive Director, and Mr. Stephen Mok to act as joint company secretaries of the Company and nominated Mr. Liang Wei, Executive Director, to act as the authorized representative of the Company.

Set out below is the attendance record of the Nomination Committee meeting in 2007:

Name	30 April 2007	14 August 2007	21 September 2007	28 November 2007
Independent Non-executive Directors				
Mr. Xia Da-wei *(Chairman)*	Present	Present	Present	Present
Mr. Zhang Hui-ming	Present	Present	Present	Present
Non-executive Director				
Mr. Hua Guo-ping	Present	Present	Present	Present

Directors' and auditors' responsibilities for the accounts

The Directors hereby confirm their responsibilities for preparing the accounts of the Company. The Directors confirm that the preparation of the financial statements of the Company 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 international auditors to the shareholders are set out on page 60.

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

The Company has adopted the Model Code for Securities Transactions by Directors ("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 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 period under review.

Remuneration of auditors

The Audit Committee is responsible for considering the appointment of external auditors and reviewing their remuneration. For the year under review, RMB5.95 million 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 of defined management structure and related authorizations, so as to facilitate the Group to achieve its business objectives, to safeguard its assets against any unauthorized 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 eliminating at all, malfunctions of 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 annual basis to ensure its effectiveness. Discussions cover all material control aspects, including financial controls, operating controls and risk management.

The Board has conducted a review of the effectiveness of internal control system of the Group and considers that it is effective.

Organizational Structure

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

Authorizations and Controls

Executive directors and senior management have been delegated the relevant authorizations in respect of corporate strategies, policies and contractual liabilities. Budget controls and financial reporting systems are set up by relevant departments and are subject to review by directors in charge. 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 Controls

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

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 expectation will be analyzed and explained, and appropriate steps will be taken to address issues where necessary.

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 way, the Company has established an internal audit department to inspect, supervise and evaluate 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 business and procedures of the Company, 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 full access to all information of the Company and to make enquiries with relevant staff. Audit manager 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, concentration, operation and management, environment, issues and other risks which may affect the development of the Company.

Continuing operation

During the relevant year, there are no uncertain event or condition that may materially affect the operation of Group on an on a going concern basis.

Investor relations

The Company reports to the shareholders regarding the corporate information of the Group on a timely and accurate basis. Printed copies of the 2006 annual report and 2007 interim report have been sent to all shareholders.

The Company places great emphasis on communication with shareholders and investors of the Company and improving the Company's transparency of information disclosure. As such, a dedicated department has been set up and designated officers are assigned to handle relations with investors and analysts. During the year under review, the Company received a total of approximately 200 fund managers and analysts and answered their inquiries. Site visits to stores, distribution centres, etc, were arranged for them so as to enhance their understanding of the Group's operation and also its latest business developments. The Company made disclosures in a faithful, true, accurate, complete and timely manner in strict accordance with applicable laws and regulations, Articles of Association and Listing Rules. At the same time, the Company places great importance in collecting and analyzing various comments and recommendations of analysts and investors on the Company's operations, which would be compiled into reports regularly and adopted selectively in its operations. 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 disclosure principle of honesty and integrity and actively initiates communications with various parties. In particular, it held corporate presentations, press conferences and one-on-one investor meetings following the announcement of interim and annual results and decisions to major investments. The Company also participates in a series of investor relation 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, 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, the Company gradually adapted to the requirements under the regulatory framework of the Listing Rules applicable to it as a listed company on the Stock Exchange. However, the Company also encountered higher requirement standards on governance and internal control imposed by the new Code on Corporate Governance Practices of the Listing Rules. As such, this session of the Supervisory Committee focused its efforts on the following three aspects: (1) to further improve the corporate governance structure; (2) to urge the Group 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 two meetings. On 18 April 2007, the second session of the Supervisory Committee held a meeting regarding the operations of the Group in 2006, at which the Supervisory Committee reviewed and satisfied with the works done by the Group, including the Group's development plan, network expansion and improvement of the internal control systems. The Supervisory Committee also received reports on the financial position of the Group for 2006 and discussed and adopted its report for 2006. On 15 August 2007, a meeting of the second session of the Supervisory Committee was held to discuss the operating conditions for the six months ended 30 June 2007 and received the relevant reports on the financial position of the Group for the six months ended 30 June 2007.

This session of the Supervisory Committee reviewed the financial system, financial reporting and internal auditing works 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 accountants are objective and fair.

This session of 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 has established an improved internal control system, and has achieved significant progress in formulating and implementing internal work process, effectively contained the various corporate operating risks. The Group has performed its activities in accordance with the laws and regulations of the State, the Articles of Association and the work process.

This session of the Supervisory Committee conducted supervision on the due diligence of the Directors, managers and the execution of resolutions in general meetings. The Supervisory Committee considered that the Directors and the management have 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 Company and shareholders during the execution of their duties.

Report of the Supervisory Committee

This session of the Supervisory Committee conducted a review on the Group's operating activities such as acquisitions and mergers and disposal of assets. The Supervisory Committee considered that the consideration for the Group's acquisition and merger and asset 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.

This session of the Supervisory Committee conducted a review on the Group's connected transactions, which were subject to conditional waivers. It confirmed that such connected transactions have complied with legal and statutory procedures and the transactions were conducted on fair commercial terms and in the line with the accounting policies of the Group and transaction amounts were within the cap of the waivers granted.

This session of the Supervisory Committee considers that the second session of the Board of the Group has 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, conducted operations prudently and sought expansion aggressively. The Supervisory Committee considered that each Director in the Board has performed their duties in a diligent and responsible manner. The Supervisory Committee also complemented the Board for their persistent efforts in improving the various internal management systems of the Group in response to the requirements applicable to public companies.

As more and more retail chains are seeking to be listed in Hong Kong, international investors will maintain their interests in the potential of retail businesses in the People's Republic of China. Good corporate governance, proactive 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 various internal operations and systems. In the coming year, the Supervisory Committee will diligently discharge its solemn 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 COMPANY LIMITED
(a joint stock limited company incorporated in the People's Republic of China with limited liability)

We have audited the consolidated accounts of Lianhua Supermarket Holdings Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 61 to 122, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated profit and loss account, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the accounts

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated accounts 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. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated accounts based on our audit and to report our opinion solely to you, as a body, 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 as to whether the accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the accounts 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 accounts.

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 accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 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.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 16 April 2008

Consolidated Profit and Loss Account

For the year ended 31 December 2007

	Note	**2007** **RMB'000**	2006 RMB'000
Turnover	6	**18,086,857**	16,443,030
Cost of sales	8	**(15,738,221)**	(14,461,350)
Gross profit		**2,348,636**	1,981,680
Other revenues	6	**1,619,536**	1,710,838
Other income	7	**638,132**	189,926
Distribution costs	8	**(3,462,317)**	(3,304,704)
Administrative expenses	8	**(363,519)**	(287,686)
Other operating expenses	8	**(363,174)**	(60,536)
Operating profit		**417,294**	229,518
Finance income		**38,818**	26,781
Finance costs		**(1,133)**	(1,951)
Finance income — net	9	**37,685**	24,830
Share of results of associates	21	**130,475**	113,597
Profit before taxation		**585,454**	367,945
Taxation	11	**(204,805)**	(104,221)
Profit for the year		**380,649**	263,724
Attributable to:			
Company's shareholders	12	**268,301**	241,599
Minority interests		**112,348**	22,125
		380,649	263,724
Dividends			
— Interim	13	**37,320**	37,320
— Final	13	**74,640**	43,540
Basic and diluted earnings per share for profit attributable to Company's shareholders	14	**RMB0.43**	RMB0.39

The notes on pages 68 to 122 are an integral part of these consolidated accounts.

Consolidated Balance Sheet

As at 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	16	**2,583,134**	2,724,568
Construction in progress	17	**171,561**	353,155
Land use rights	18	**284,429**	198,316
Intangible assets	19	**193,941**	198,622
Investments in associates	21	**394,051**	328,622
Available-for-sale financial assets	22	**26,158**	9,446
Deferred tax assets	35	**44,672**	38,448
Other non-current assets	23	**28,220**	43,285
		3,726,166	3,894,462
Current assets			
Inventories	24	**1,926,462**	1,616,371
Trade receivables	25	**34,633**	45,242
Deposits, prepayments and other receivables	26	**596,462**	735,229
Amounts due from associates	27	**34**	945
Available-for-sale financial assets	22	**120,000**	30,000
Financial assets at fair value through profit or loss	29	**116,420**	78,252
Non-current assets classified as held for sale	7(a)	**—**	27,861
Bank balances and cash	30	**5,022,277**	2,472,519
		7,816,288	5,006,419
Total assets		**11,542,454**	8,900,881

Consolidated Balance Sheet (continued)

As at 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
EQUITY			
Equity attributable to the Company's shareholders			
Share capital	31	**622,000**	622,000
Reserves			
— Proposed final dividend	32	**74,640**	43,540
— Others	32	**1,542,301**	1,385,960
		2,238,941	2,051,500
Minority interests		**351,820**	273,319
Total equity		**2,590,761**	2,324,819
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	35	**70,097**	77,604
Current liabilities			
Trade payables	33	**2,815,286**	2,564,728
Other payables and accruals	34	**1,113,454**	840,059
Coupon liabilities		**4,782,538**	2,987,005
Amounts due to associates	27	**7,865**	2,007
Amount due to holding company	28	**39,000**	39,000
Amounts due to other related parties	28	**41,632**	—
Taxation payable		**81,821**	40,507
Dividends payable	13	**—**	1,053
Liabilities directly associated with non-current assets classified as held for sale	7(a)	**—**	24,099
		8,881,596	6,498,458
Total liabilities		**8,951,693**	6,576,062
Total equity and liabilities		**11,542,454**	8,900,881
Net current liabilities		**(1,065,308)**	(1,492,039)
Total assets less current liabilities		**2,660,858**	2,402,423

Wang Zhi-gang
Director

Liang Wei
Director

Xu Ling-ling
Director

The notes on pages 68 to 122 are an integral part of these consolidated accounts.

Balance Sheet

As at 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	16	**260,675**	193,263
Construction in progress	17	**—**	155,054
Land use rights	18	**101,883**	36,533
Intangible assets	19	**7,792**	10,689
Investments in subsidiaries	20	**911,215**	948,599
Investments in associates	21	**186,121**	186,121
Available-for-sale financial assets	22	**4,535**	4,535
Deferred tax assets	35	**438**	284
Other non-current assets	23	**3,925**	4,113
		1,476,584	1,539,191
Current assets			
Inventories	24	**216,546**	151,101
Trade receivables	25	**2,944**	1,788
Deposits, prepayments and other receivables	26	**54,286**	174,626
Amounts due from subsidiaries	20	**2,268,664**	2,039,967
Amounts due from associates	27	**34**	1,546
Available-for-sale financial assets	22	**120,000**	30,000
Financial assets at fair value through profit or loss	29	**—**	7,263
Bank balances and cash	30	**1,364,690**	1,067,355
		4,027,164	3,473,646
Total assets		**5,503,748**	5,012,837

Balance Sheet (continued)

As at 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
EQUITY			
Equity attributable to the Company's shareholders			
Share capital	31	**622,000**	622,000
Reserves			
— Proposed final dividend	32	**74,640**	43,540
— Others	32	**1,424,507**	1,268,559
Total equity		**2,121,147**	1,934,099
LIABILITIES			
Current liabilities			
Trade payables	33	**1,429,469**	1,168,775
Other payables and accruals	34	**160,997**	117,614
Coupon liabilities		**1,027,224**	570,555
Amounts due to subsidiaries	20	**766,326**	1,211,787
Amounts due to associates	27	**—**	1,105
Taxation payable		**(1,415)**	7,849
Dividends payable	13	**—**	1,053
Total liabilities		**3,382,601**	3,078,738
Total equity and liabilities		**5,503,748**	5,012,837
Net current assets		**644,563**	394,908
Total assets less current liabilities		**2,121,147**	1,934,099

Wang Zhi-gang
Director

Liang Wei
Director

Xu Ling-ling
Director

The notes on pages 68 to 122 are an integral part of these consolidated accounts.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

		Attributable to Company's shareholders				Minority interests	Total equity
		Share capital	Other reserves	Retained earnings	Total		
	Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2007		**622,000**	**998,714**	**430,786**	**2,051,500**	**273,319**	**2,324,819**
Profit for the year		**—**	**—**	**268,301**	**268,301**	**112,348**	**380,649**
Profit appropriations		**—**	**30,461**	**(30,461)**	**—**	**—**	**—**
Acquisition of additional equity interests in a subsidiary		**—**	**—**	**—**	**—**	**(2,000)**	**(2,000)**
Disposal of a subsidiary		**—**	**—**	**—**	**—**	**(805)**	**(805)**
Transfer back to retained earnings	32(b)	**—**	**(117,728)**	**117,728**	**—**	**—**	**—**
2006 final dividend	13	**—**	**—**	**(43,540)**	**(43,540)**	**(31,042)**	**(74,582)**
2007 interim dividend	13	**—**	**—**	**(37,320)**	**(37,320)**	**—**	**(37,320)**
		—	**(87,267)**	**274,708**	**187,441**	**78,501**	**265,942**
Balance at 31 December 2007		**622,000**	**911,447**	**705,494**	**2,238,941**	**351,820**	**2,590,761**
Balance at 1 January 2006		622,000	955,761	313,000	1,890,761	224,450	2,115,211
Profit for the year		—	—	241,599	241,599	22,125	263,724
Profit appropriations		—	42,953	(42,953)	—	—	—
Acquisition of additional equity interests in subsidiaries		—	—	—	—	7,529	7,529
Acquisition of additional equity interests in an associate		—	—	—	—	38,005	38,005
Disposal of a subsidiary		—	—	—	—	(150)	(150)
2005 final dividend		—	—	(43,540)	(43,540)	(18,640)	(62,180)
2006 interim dividend		—	—	(37,320)	(37,320)	—	(37,320)
		—	42,953	117,786	160,739	48,869	209,608
Balance at 31 December 2006		622,000	998,714	430,786	2,051,500	273,319	2,324,819

The notes on pages 68 to 122 are an integral part of these consolidated accounts.

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
Cash flows from operating activities			
Cash generated from operations	36	**3,198,847**	1,838,982
Interest paid		**(1,133)**	(1,951)
PRC income tax paid		**(177,222)**	(114,908)
Net cash inflow from operating activities		**3,020,492**	1,722,123
Cash flows from investing activities			
Payments for property, plant and equipment and construction in progress		**(463,578)**	(821,653)
Payments for land use rights		**(291)**	(259)
Proceeds from disposal of property, plant and equipment		**2,020**	21,367
Proceeds from disposal of land use rights		**10,390**	—
Payments for intangible assets		**(2,652)**	(9,584)
Proceeds from disposal of other non-current assets		**—**	8,500
Interest received		**38,818**	26,781
Reclassification of an associate to a subsidiary upon acquisition of additional interest		**—**	541,092
Acquisition of a subsidiary		**—**	(6,692)
Acquisition of additional equity interests in subsidiaries		**(2,856)**	(3,699)
Increase in available-for-sale financial assets		**(91,010)**	(30,000)
Proceeds from sale of available-for-sale financial assets		**13,250**	8,929
Payment for disposal of a subsidiary		**—**	(150)
Proceeds from disposal of an associate		**41,889**	1,030
Proceeds from disposal of a subsidiary		**32,000**	—
Dividends received from associates		**65,046**	86,190
Net cash outflow from investing activities		**(356,974)**	(178,148)
Cash flows from financing activities			
Repayments of bank borrowings		**—**	(18,910)
Dividends paid		**(81,913)**	(117,127)
Repayment of capital contributions to minority shareholders		**(805)**	—
Dividends paid to minority shareholders		**(31,042)**	(18,640)
Net cash outflow from financing activities		**(113,760)**	(154,677)
Net Increase in cash and cash equivalents		**2,549,758**	1,389,298
Cash and cash equivalents at beginning of the year		**2,472,519**	1,083,221
Cash and cash equivalents at end of the year		**5,022,277**	2,472,519
Comprising:			
Bank balances and cash at end of the year		**5,022,277**	2,472,519

The notes on pages 68 to 122 are an integral part of these consolidated accounts.

Notes to the Accounts

For the year ended 31 December 2007

1. Principal activities

The principal activities of Lianhua Supermarket Holdings Company Limited (the "Company") and its subsidiaries (collectively, the "Group") and its associates are the operation of a chain of supermarkets, hypermarkets and convenience stores, primarily in the Eastern Region of the People's Republic of China (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 11th to 15th Floors, 1666 Sichuan (North) Road, Shanghai, the PRC. The Company is listed on the main board of The Stock Exchange of Hong Kong Limited.

2. Summary of significant accounting policies

(a) Basis of preparation

The consolidated accounts have been prepared in accordance with Hong Kong Financial Reporting Standards (the "HKFRS"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, financial assets and financial liabilities are generally stated at fair value.

The preparation of accounts in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated accounts, are disclosed in Note 4.

In 2007, the Group adopted the following new standards, amendments and interpretation of HKFRS, which are effective in 2007 and relevant to the Group's operations.

- HKFRS 7 "Financial instruments: Disclosures", and the complementary amendment to HKAS 1 "Presentation of financial statements — Capital disclosures". The new standard and amendment introduce new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments, or the disclosures relating to taxation and trade and other payables.

- HK(IFRIC)-Int 10 "Interim financial reporting and impairment". This interpretation prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This interpretation does not have any significant impact on the Group's consolidated accounts.

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Certain new standards, amendments and interpretations to existing standards of HKFRS have been published but are not yet effective for the annual period beginning on 1 January 2007 and have not been early adopted by the Group. Those that are relevant to the Group's operations are as follows:

- HKAS 1 (Revised) "Presentation of Financial Statements" (effective for annual periods beginning on or after 1 January 2009). HKAS 1 (Revised) requires all owner changes in equity to be presented in a statement of changes in equity. All comprehensive income is presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). It requires presenting a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when there are retrospective adjustments or reclassification adjustments. However, it does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRS. The Group will apply HKAS 1 (Revised) from 1 January 2009, but it is not expected to have any significant impact on the Group's consolidated accounts.

- HKFRS 8 "Operating Segments" (effective for annual periods beginning on or after 1 January 2009). HKFRS 8 replaces HKAS 14 and requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1 January 2009. The adoption of the standard is not expected to have any significant impact on the Group's consolidated accounts.

- HK(IFRIC)-Int 13 "Customer Loyalty Programmes" (effective for annual periods beginning on or after 1 July 2008). HK(IRFIC)-Int 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The Group will apply HK(IFRIC)-Int 13 from 1 January 2009, but it is not expected to have any significant impact on the Group's consolidated accounts.

- HKAS 23 (Amendment) "Borrowing Costs" (effective for annual periods beginning or after 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply HKAS 23 (Amended) from 1 January 2009, but it is not expected to have any significant impact on the Group's consolidated accounts.

Notes to the Accounts

For the year ended 31 December 2007

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

- HKAS 27 (Revised) "Consolidated and Separate Financial Statements" (effective from annual periods beginning on or after 1 July 2009). The amendment requires non-controlling interests (i.e. minority interests) to be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity. When control of a subsidiary is lost, the assets and liabilities and related equity components of the former subsidiary are derecognised. Any gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost. The Group will apply HKAS 27 (Revised) from 1 January 2010. The adoption of the standard is not expected to have significant impact on the Group's consolidated accounts as currently no material transaction with minority interest is anticipated.

- HKFRS 3 (Revised) "Business Combinations" (effective for business combinations with acquisition date on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The amendment may bring more transactions into acquisition accounting as combinations by contract alone and combinations of mutual entities are brought into the scope of the standard and the definition of a business has been amended slightly. It now states that the elements are "capable of being conducted" rather than "are conducted and managed". It requires considerations (including contingent consideration), each identifiable asset and liability to be measured at its acquisition-date fair value, except leases and insurance contracts, reacquired right, indemnification assets as well as some assets and liabilities required to be measured in accordance with other HKFRS. They are income taxes, employee benefits, share-based payment and non-current assets held for sale and discontinued operations. Any non-controlling interest in an acquiree is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. The Group will apply HKFRS 3 (Revised) from 1 January 2010. The adoption of the standard is not expected to have significant impact on the Group's consolidated accounts as currently no material business combination activities are anticipated.

The Group has assessed the other recently published new standards, amendments and interpretations to existing standards of HKFRS, which are not yet effective for the annual period beginning on 1 January 2007, and concluded that they are not relevant to the Group's operations. These are set out as follows:

- HK(IFRIC)-Int 11 "HKFRS 2 — Group and Treasury Share Transactions" (effective for annual periods beginning on or after 1 March 2007).

- HK(IFRIC)-Int 12 "Service Concession Arrangements" (effective for annual periods beginning on or after 1 January 2008).

- HK(IFRIC)-Int 14 "HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" (effective for annual periods beginning on or after 1 January 2008).

2. Summary of significant accounting policies (continued)

(b) Consolidation

The consolidated accounts include the accounts of the Company and all its subsidiaries made up to 31 December.

(i) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit and loss account.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated profit and loss account. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

2. Summary of significant accounting policies (continued)

(b) Consolidation (continued)

(iii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investments in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the profit and loss account, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses in associates are recognised in the consolidated profit and loss account.

In the Company's balance sheet the investments in associates are stated at cost less provision for impairment losses. The results of associates are accounted for by the Company on the basis of dividend received and receivable.

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, property, plant and equipment, inventories, receivables and operating cash, and mainly exclude certain corporate bank balances and cash, investments in associates, deferred tax assets, amounts due from related parties, available-for-sale financial assets and financial assets at fair value through profit or loss. Segment liabilities comprise operating liabilities and exclude items such as taxation and borrowings. Capital expenditure comprises additions to property, plant and equipment and construction in progress, land use rights, intangible assets and other non-current assets, including additions resulting from acquisitions through purchases of subsidiaries.

No geographical segment information by location of assets is presented as all of the Group's assets and capital expenditure are located or incurred in the PRC. No analysis of turnover by location is presented as the Group sells merchandise to customers in the PRC.

2. Summary of significant accounting policies (continued)

(d) Property, plant and equipment

Property, plant and equipment, comprising buildings, leasehold improvements, transportation vehicles and equipment, and operating and office equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the profit and loss account during the financial period in which they are incurred.

Property, plant and equipment are depreciated at rates sufficient to write off their cost less accumulated impairment losses to their estimated residual values over their estimated useful lives on a straight-line basis. The estimated useful lives and residual values, as a percentage of the cost, are as follows:

	Estimated useful lives	**Estimated residual values**
Buildings	25 to 40 years	5 to 10%
Leasehold improvements	5 to 8 years or the remaining term of any non-renewable lease, whichever is shorter	—
Transportation vehicles and equipment	5 to 8 years	5 to 10%
Operating and office equipment	5 to 8 years	5 to 10%

The useful lives and residual values of the assets are reviewed and adjusted if appropriate at each balance sheet date.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(e) Land use rights

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

(f) Construction-in-progress

Construction-in-progress represents stores and storage facilities under construction, computer networks and equipment being installed or renovation works in progress and is stated at cost. Cost comprises development and construction expenditure incurred and interest and other direct costs attributable to the development less any accumulated impairment losses. No depreciation is provided on construction in progress. On completion, the relevant assets are transferred to property, plant and equipment or intangible assets, where appropriate, at cost less accumulated impairment losses.

2. Summary of significant accounting policies (continued)

(g) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary or associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates and is tested for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(ii) Software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised using the straight-line method over their estimated useful lives (three to five years).

(h) Impairment of investments in subsidiaries, associates and non-financial assets

Assets that have an indefinite useful life or have not yet been available for use are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(i) Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

2. Summary of significant accounting policies (continued)

(i) Financial assets (continued)

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are classified as 'trade and other receivables' in the balance sheet (Note 2(l)).

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of financial assets are recognised on trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the profit and loss account. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category including interest and dividend income, are presented in the profit and loss account within "other income" and "other operating expenses" respectively in the period in which they arise. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the profit and loss account. Interest on available-for-sale securities calculated using the effective interest method is recognised in the profit and loss account. Dividends on available-for-sale equity instruments are recognised in the profit and loss account when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

2. Summary of significant accounting policies (continued)

(i) Financial assets (continued)

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the profit and loss account — is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account. Impairment testing of trade and other receivables is described in Note 2(l).

(j) Non-current assets (or disposal group) held for sale

Non-current assets (or disposal group) are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use.

(k) Inventories

Inventories comprise merchandise purchased for resale and are stated at the lower of cost and net realisable value. Cost of merchandise, representing its purchase cost, is calculated either on the first-in, first-out basis for hypermarkets or on the weighted average basis for supermarkets and convenience stores. Net realisable value of merchandise is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(l) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade and other receivables are impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the profit and loss account. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited in the profit and loss account.

(m) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks.

(n) Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2. Summary of significant accounting policies (continued)

(o) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(p) Current and deferred taxation

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated accounts. However, the deferred taxation is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred taxation is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(q) Employee retirement benefits

The Group contributes on a monthly basis to various retirement benefit plans organised by relevant municipal and provincial governments in the PRC. The municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

2. Summary of significant accounting policies (continued)

(r) Provisions

Provisions are recognised when the Group has a present legal or 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 has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(s) Coupon liabilities

Coupon liabilities are recorded as liabilities when coupons are sold. Coupons surrendered in exchange for products of the Group during the year are recognised as sales and transferred to the profit and loss account using the coupon sales value. Certain coupons surrendered in exchange for products or services in other retailers which have agreements with the Group are settled and paid to these retailers periodically after deducting the Group's commission based on the agreements. Coupons liabilities are classified as current liabilities at the end of the year.

(t) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(u) Pre-operating expenses

The cost of start-up activities, including organisational costs and new store openings, are expensed as incurred.

2. Summary of significant accounting policies (continued)

(v) Government grants

A government grant is recognised when there is a reasonable assurance that the Group will comply with the conditions attaching with it and that the grant will be received.

Grants relating to income are deferred and recognised in the profit and loss account over the period necessary to match them with the costs they are intended to compensate.

(w) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(x) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates, and discounts and after elimination of sales within the Group. Revenue is recognised as follows:

(i) Revenue from the sale of merchandise is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the merchandise are delivered to customers and title has passed.

(ii) Promotion and store display income, income from leasing of merchandise storage space, delivery income from suppliers and information system service income are recognised according to contract terms and as services are provided.

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

(iv) Royalty income from franchise stores is recognised on an accrual basis.

(v) Commission income from the Group's coupon redemption in other retailers is recognised according to agreement terms and as coupons are surrendered.

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

(y) Operating leases (as the lessee)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the profit and loss account on a straight-line basis over the period of the lease.

(z) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's accounts in the period in which the dividends are approved by the Company's shareholders.

3. Financial risk management

(a) Financial risks

The Group's business activities expose it to a variety of financial risks: market risk (including currency risk, price risk and cash flow and fair value interest rate risk), credit risk, and liquidity risk. The Group's overall risk management program focus on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

(i) Foreign currency risk

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

(ii) Price risk

The Group is exposed to price changes of investments in equity securities, which are classified as financial assets at fair value through profit or loss and available-for-sale financial assets. The investments classified as financial assets at fair value through profit or loss are listed while available-for-sale financial assets are unlisted securities held for their long-term growth potentials.

The Group's investments in listed equity securities and funds are included in either one of the following four indexes: Shanghai Stock Exchange A Share Index ("SSE A Share"), Shanghai Stock Exchange Fund Index ("SSE Fund"), Shenzhen Stock Exchange A Share Index ("SZSE A Share") and Shenzhen Stock Exchange Fund Index ("SZSE Fund"). The Group adopts a prudent strategy in investment in quality listed equity securities and funds and maintains a diversified portfolio of funds and equity securities of listed enterprises in different industries. The Group also minimizes its exposure to price fluctuations through subscription for initial public offerings of equity securities of quality companies. The Group's trading decision is made based on the performance of individual securities and funds with reference to market index and the Group's cashflow requirements.

The Group monitors its price risk of its unlisted equity investments and legal person shares regularly based on the information available to the Group and reassesses periodically that the investment decision is aligned with the Group's strategy. Given the amount of investment is not material to the Group, the Group believes the price risk exposure associated with such investments is insignificant.

3. Financial risk management (continued)

(a) Financial risks (continued)

(ii) Price risk (continued)

The table below summarizes the impact of increases/decreases of the above indexes on the Group's post-tax profit for the year. The analysis is based on the assumption that the indexes had increased/decreased by 10% with all other variables held constant and all the Group's equity instruments moved according to the historical correlation with the index:

	Impact on post tax profit	
Index	**2007**	2006
	RMB'000	RMB'000
SSE A Share	**5,722**	1,877
SSE Fund	**919**	693
SZSE A Share	**227**	440
SZSE Fund	**1,383**	1,017

(iii) Cash flow and fair value interest rate risk

Other than cash deposits at the banks and certain available-for-sale financial assets, the Group has no other significant interest-bearing assets. Therefore the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group does not anticipate significant impact to interest-bearing assets would be resulted from the changes in interest rates, as the Group expects the interest rates of bank deposits in the PRC wil not be changed significantly.

The Group's investment in money market investment products, which is classified as available-for-sale financial assets, is offered by high-credit-quality financial institutions and the return is not expected to change significantly.

(iv) Credit risk

Majority of the Group's sales are settled mainly in cash or in check by its customers on delivery of goods. The carrying amounts of the bank balances, trade receivables, deposits and other receivables after deducting the provision for doubtful debts best represent the maximum credit exposure of the Group.

The Group maintains substantially most of its bank balances and cash in interest bearing accounts in several nationwide and regional renowned financial institutions in PRC without significant credit risk. As at 31 December 2007, the five largest bank deposit balances accounted for 69.5% of total bank balances and cash of the Group (2006: 59.6%). Management does not expect any losses from non-performance of these financial institutions.

Notes to the Accounts

For the year ended 31 December 2007

3. Financial risk management (continued)

(a) Financial risks (continued)

(iv) Credit risk (continued)

Trade receivables are due from regular institutional customers with an appropriate financial strength. Rental deposits are placed with various landlords in the PRC and are due upon the expiry of the tenancy agreements and handover of the leased premises. The Group did not experience any significant defaults by the debtors and landlords.

(v) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group's objective is to maintain an adequate level of cash and bank balances and investments in highly liquid securities.

The table below analyses the Group's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are contractual undiscounted cash flows.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
As at at 31 December 2007					
Trade payables	**2,815,286**	**—**	**—**	**—**	**2,815,286**
Other payables and accruals	**1,049,324**	**36,206**	**27,924**	**—**	**1,113,454**
Amounts due to associates	**7,865**	**—**	**—**	**—**	**7,865**
Amount due to holding company	**39,000**	**—**	**—**	**—**	**39,000**
Amounts due to other related parties	**41,632**	**—**	**—**	**—**	**41,632**
	3,953,107	**36,206**	**27,924**	**—**	**4,017,237**
As at at 31 December 2006					
Trade payables	2,564,728	—	—	—	2,564,728
Other payables and accruals	806,646	33,413	—	—	840,059
Amounts due to associates	2,007	—	—	—	2,007
Amount due to holding company	39,000	—	—	—	39,000
	3,412,381	33,413	—	—	3,445,794

3. Financial risk management (continued)

(b) Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. The carrying value less impairment provision of trade receivables and payables are a reasonable approximation of their fair values.

(c) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors capital on the basis of "the equity attributable to the Company's shareholders" as shown in the consolidated balance sheet. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. The Group's strategy is to maintain a solid capital base to support the operations and development of its business in the long term.

4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2(g). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

(b) Useful lives of property, plant and equipment

The Group determines the estimated lives 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. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles.

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.

Notes to the Accounts

For the year ended 31 December 2007

4. Critical accounting estimates and judgements (continued)

(c) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated selling expenses. 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 balance sheet date.

(d) 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 above 4(a)) 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.

(e) Estimated store closure provision

The Group follows HKAS 37 to recognise store closure provision. Provision 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 has been reliably estimated. Store closure provision comprises mainly lease termination penalties and employee compensations. The determination of provision requires the use of estimates.

5. Segment information

No geographical segment analysis is presented as all assets and operations of the Group are located in the PRC.

The principal operation of the Group is organised into three main business segments:

- Supermarkets chain operation
- Hypermarkets chain operation
- Convenience stores chain operation

There are no significant sales or other transactions between the business segments.

Other operations of the Group mainly comprise sales of merchandise to wholesalers; provision of logistic services for wholesale business; and sales through internet.

5. Segment information (continued)

The segment results for the year ended 31 December 2007 are as follows:

	Super-markets RMB'000	Hyper-markets RMB'000	Convenience stores RMB'000	Other operations RMB'000	Group RMB'000
2007					
Segment revenue	7,017,433	10,856,490	1,642,917	189,553	19,706,393
Including sales of merchandise to franchised stores at cost	503,434	—	398,806	—	902,240
Segment results	184,344	(242,722)	44,729	4,024	(9,625)
Other income					518,225
Unallocated costs					(91,306)
Operating profit					417,294
Finance income					38,818
Finance costs					(1,133)
Finance income — net					37,685
Share of results of associates					130,475
Profit before taxation					585,454
Taxation					(204,805)
Profit for the year					380,649
Other segment items are as follows:					
Capital expenditure	104,318	334,759	9,525	17,919	466,521
Depreciation charge	142,700	257,665	31,779	20,227	452,371
Amortisation charge	8,449	15,671	1,235	6,409	31,764
Impairment charge	23,539	105,729	—	—	129,268
Loss on disposal of property, plant and equipment	33,156	81,119	3,436	563	118,274
Loss on disposal of other non-current assets	1,500	8,381	—	—	9,881
Store closure expenses and provision	7,269	58,270	—	32,189	97,728

5. Segment information (continued)

The segment results for the year ended 31 December 2006 are as follows:

	Super-markets RMB'000	Hyper-markets RMB'000	Convenience stores RMB'000	Other operations RMB'000	Group RMB'000
2006					
Segment revenue	6,690,088	9,696,195	1,676,675	90,910	18,153,868
Including sales of merchandise to					
— an associate at retail price less 1%	434,595	487,223	—	—	921,818
— franchised stores at cost	404,918	—	347,384	—	752,302
Segment results	209,206	(55,313)	29,741	13,145	196,779
Other income					80,694
Unallocated costs					(47,955)
Operating profit					229,518
Finance income					26,781
Finance costs					(1,951)
Finance income — net					24,830
Share of results of associates					113,597
Profit before taxation					367,945
Taxation					(104,221)
Profit for the year					263,724

Other segment items are as follows:

	Super-markets RMB'000	Hyper-markets RMB'000	Convenience stores RMB'000	Other operations RMB'000	Group RMB'000
Capital expenditure	350,867	456,771	17,830	26,887	852,355
Depreciation charge	131,362	279,178	37,972	18,023	466,535
Amortisation charge	9,236	9,810	1,448	3,683	24,177
Loss on disposal of property, plant and equipment	3,984	48,474	196	146	52,800
Store closure expenses and provision	—	3,623	—	—	3,623

5. Segment information (continued)

The segment assets and liabilities at 31 December 2007 are as follows:

	Supermarkets RMB'000	Hypermarkets RMB'000	Convenience stores RMB'000	Other operations RMB'000	Group RMB'000
Segment assets	**3,771,095**	**5,408,794**	**326,735**	**67,126**	**9,573,750**
Investments in associates					**394,051**
Unallocated assets					**1,574,653**
Total assets					**11,542,454**
Segment liabilities	**3,333,846**	**5,240,715**	**261,368**	**35,093**	**8,871,022**
Unallocated liabilities					**80,671**
Total liabilities					**8,951,693**

The segment assets and liabilities at 31 December 2006 are as follows:

	Supermarkets RMB'000	Hypermarkets RMB'000	Convenience stores RMB'000	Other operations RMB'000	Group RMB'000
Segment assets	2,062,353	4,820,727	373,049	26,499	7,282,628
Investments in associates					328,622
Unallocated assets					1,289,631
Total assets					8,900,881
Segment liabilities	1,826,238	4,328,916	309,917	24,632	6,489,703
Unallocated liabilities					86,359
Total liabilities					6,576,062

Unallocated costs represent corporate expenses.

Segment assets consist primarily of property, plant and equipment, land use rights, intangible assets, inventories, receivables and operating cash. They mainly exclude certain corporate bank balances and cash, investments in associates, deferred tax assets, amounts due from related parties, available-for-sale financial assets and financial assets at fair value through profit or loss.

Segment liabilities comprise operating liabilities. They exclude items such as taxation and borrowings.

Capital expenditure comprises additions to property, plant and equipment, construction in progress, land use rights, intangible assets and other non-current assets, including additions resulting from acquisitions through purchases of subsidiaries.

6. Turnover and other revenues

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

	2007 RMB'000	2006 RMB'000
Turnover		
Sales of merchandise	**18,086,857**	16,443,030
Other revenues		
Income from suppliers		
— Promotion and store display income	**1,183,600**	1,288,630
— Merchandise storage and delivery income	**37,886**	60,601
— Information system service income	**6,955**	5,948
Gross rental income from leasing of shop premises	**312,905**	317,094
Royalty income from franchised stores	**42,429**	34,628
Commission income from coupon redemption in other retailers	**35,761**	3,937
	1,619,536	1,710,838
Total revenues	**19,706,393**	18,153,868

7. Other income

	2007 RMB'000	2006 RMB'000
Government subsidies	**22,150**	18,631
Gain on trading of financial assets at fair value through profit or loss	**435,976**	20,791
Fair value gain (unrealised) on financial assets at fair value through profit or loss	**72,268**	13,517
Gain on disposal of available-for-sale financial assets	**9,981**	4,498
Gain on disposal of a subsidiary (Note a)	**20,309**	—
Gain on disposal of an associate	**—**	41,889
Gain on disposal of land use rights	**8,930**	—
Gain on disposal of other non-current assets	**—**	4,801
Compensation on store relocation and lease termination	**8,316**	26,961
Salvage sales	**37,107**	36,506
Others	**23,095**	22,332
	638,132	189,926

7. Other income (continued)

Note:

(a) On 22 December 2006, the Group entered into an agreement with Guangdong Sai Yi Convenience Stores Ltd. to sell its entire equity interest in Guangzhou Lianhua Quik Stores Co., Ltd. at a consideration of RMB32,000,000 which was completed in March 2007. The disposal resulted in a gain of RMB20,309,000. The assets and liabilities of the subsidiary as at 31 December 2006 had been included as non-current assets classified as held for sale and liabilities directly associated with non-current assets classified as held for sale respectively in the consolidated balance sheet as at 31 December 2006.

8. Expenses by nature

	2007 RMB'000	2006 RMB'000
Cost of merchandise	15,738,221	14,461,350
Amortisation of other non-current assets	1,987	2,646
Amortisation of software (Note 19)	19,806	13,938
Amortisation of land use rights (Note 18)	9,971	7,593
Auditors' remuneration	5,950	4,446
Depreciation of property, plant and equipment (Note 16)	452,371	466,535
Loss on disposal of property, plant and equipment	118,274	52,800
Loss on disposal of land use rights	—	13
Loss on disposal of other non-current assets	9,881	—
Operating lease rental in respect of land and buildings	994,695	792,676
Outgoings for income from leasing of shop premises	117,546	130,851
Staff costs (Note 10)	1,179,486	1,057,599
Pre-operating expenses	8,518	14,034
Utility expenses	405,302	389,300
Advertising and promotion costs	49,616	95,749
Other store operating expenses	380,321	326,517
Impairment of property, plant and equipment (Note 16)	106,012	—
Impairment of other non-current assets	3,197	—
Impairment of goodwill (Note 19)	20,059	—
Store closure expenses and provision (Note a)	97,728	3,623
Other expenses	208,290	294,606
Total cost of sales, distribution costs, administrative expenses and other operating expenses	19,927,231	18,114,276

Note:

(a) The store closure expenses and provision for 2007 consist primarily of the compensation for early termination of lease contract of RMB66,198,000, write-off of non-recoverable assets of RMB21,500,000, staff dismissal compensation of RMB7,854,000 and other miscellaneous items of RMB2,176,000.

Notes to the Accounts

For the year ended 31 December 2007

9. Finance income and costs

	2007 RMB'000	2006 RMB'000
Interest income	**38,818**	26,781
Interest expenses	**(1,133)**	(1,951)
Net finance income	**37,685**	24,830

10. Staff costs

Staff costs, including Directors' emoluments, are analysed as follows:

	2007 RMB'000	2006 RMB'000
Salaries and wages	**846,072**	738,636
Retirement benefit costs — defined contribution plans (Note)	**91,317**	93,221
Medical benefits and other welfare expenses	**242,097**	225,742
	1,179,486	1,057,599

Note:

In accordance with the rules and regulations in the PRC, the employees of the Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries, subject to a ceiling, during the year.

The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired employees payable under the plans described above. Contributions to these plans are expensed as incurred and other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post retirement benefits of its employees. The assets of these plans are held separately from those of the Group in independently administered funds managed by the PRC government.

11. Taxation

Hong Kong profits tax has not been provided for as the Group has no estimated assessable profits subject to Hong Kong profits tax.

PRC income tax for 2007 is calculated based on the statutory income tax rate of 33% (2006: 33%) of the assessable income of the Group except for certain subsidiaries which are taxed at preferential rates ranging from 0% to 15% (2006: 0% to 15%) based on the relevant PRC tax rules and regulations.

11. Taxation (continued)

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the PRC (the "new CIT Law"). The new CIT Law reduces the corporate income tax rate for domestic enterprises and foreign invested enterprises from 33% to 25% with effect from 1 January 2008. In addition, preferential rates being enjoyed by some subsidiaries will increase to 25%. As a result of the new CIT Law, net deferred tax liabilities of approximately RMB9,098,000 has been released and credited to the consolidated profit and loss account for the year ended 31 December 2007.

Further interpretations may be issued by the State Council, as and when the State Council announces the additional interpretations, the Group will assess their impact, if any, and this change in accounting estimation will be accounted for prospectively.

The amount of taxation charged/(credited) to the consolidated profit and loss account represents:

	2007 **RMB'000**	2006 RMB'000
PRC income tax — current taxation	**218,536**	115,409
Deferred income tax (Note 35)	**(13,731)**	(11,188)
	204,805	104,221

The taxation on the Group's profit before taxation (excluding share of results of associates) differs from the theoretical amount that would arise using the statutory taxation rate of PRC income tax as follows:

	2007 **RMB'000**	2006 RMB'000
Profit before taxation	**585,454**	367,945
Less: Share of results of associates	**(130,475)**	(113,597)
	454,979	254,348
Calculated at a taxation rate of 33%	**150,143**	83,935
Effect of preferential tax rates on the income of certain subsidiaries	**(17,053)**	(16,797)
Income not subject to tax	**(4,899)**	(14,726)
Expenses not deductible for taxation purpose	**6,105**	2,396
Utilisation of previously unrecognised tax losses	**(3,719)**	(37)
Tax losses for which no deferred tax asset was recognised	**83,326**	49,450
Impact of tax rate change on deferred tax	**(9,098)**	—
Taxation charge	**204,805**	104,221

Notes to the Accounts

For the year ended 31 December 2007

12. Profit attributable to Company's shareholders

The profit attributable to Company's shareholders for the year ended 31 December 2007 is dealt with in the Company's accounts to the extent of RMB267,908,000 (2006: RMB276,531,000).

13. Dividends

	2007	2006
	RMB'000	RMB'000
Interim dividend, approved, of RMB0.06 (2006: RMB0.06) per share	**37,320**	37,320
Final dividend, proposed, of RMB0.12 (2006: RMB0.07) per share	**74,640**	43,540
	111,960	80,860

At a meeting held on 15 August 2007, the Directors declared an interim dividend of RMB0.06 per share which was within the limit authorised by the Company's shareholders during the Annual General Meeting for the year 2006 held on 28 June 2007.

At a meeting held on 16 April 2008, the Directors proposed a final dividend of RMB0.12 per share for 2007 (2006: RMB0.07 per share). This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2008 upon approval by the shareholders at the forthcoming Annual General Meeting.

14. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to Company's shareholders by the weighted average number of ordinary shares in issue during the year.

	2007	2006
Profit attributable to Company's shareholders (RMB'000)	**268,301**	241,599
Weighted average number of ordinary shares in issue (thousands)	**622,000**	622,000
Basic earnings per share	**RMB0.43**	RMB0.39

As there were no dilutive options and other dilutive potential shares in issue during both periods presented, diluted earnings per share is the same as basic earnings per share.

15. Directors' and senior management's emoluments

(a) Directors' emoluments

The remuneration of each Director for the year ended 31 December 2007 is set out below:

Name of Director	Fees	Basic salaries, allowances and benefits in kind	Discretionary bonuses	Retirement benefit costs	Medical benefits	2007 Total	2006 Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive/Non-executive Directors:							
Mr. Liang Wei	—	289	548	28	11	876	580
Ms. Xu Ling-ling	—	238	483	28	11	760	510
Ms. Cai Lan-ying	—	238	2,493	28	11	2,770	1,651
Mr. Wang Zhi-gang	—	—	—	—	—	—	—
Mr. Lu Ming-fang	—	—	—	—	—	—	—
Mr. Yao Fang	—	—	—	—	—	—	—
Mr. Koichi Narita	—	—	—	—	—	—	—
Mr. Wong Tak Hung	—	—	—	—	—	—	—
Mr. Hua Guo-ping	—	—	—	—	—	—	—
Independent non-executive Directors:							
Mr. Lee Kwok Ming,Don	100	—	—	—	—	100	100
Mr. Zhang Hui Ming	100	—	—	—	—	100	100
Mr. Xia Da Wei	100	—	—	—	—	100	100
2007	**300**	**765**	**3,524**	**84**	**33**	**4,706**	3,041
2006	300	763	1,882	69	27		

None of the Directors waived any emoluments during the year.

(b) Supervisory committee members' emoluments

The aggregate amounts of emoluments paid and payable to the Supervisors of the Company during the year are as follows:

	2007	2006
	RMB'000	RMB'000
Basic salaries, allowances and benefits-in-kind	**238**	211
Discretionary bonuses	**465**	236
Retirement benefit costs	**28**	23
Medical benefits	**11**	9
	742	479

15. Directors' and senior management's emoluments (continued)

(b) Supervisory committee members' emoluments (continued)

The emoluments fell within the following band:

	Number of Supervisors	
	2007	2006
Nil — HK$1,000,000	**3**	3

None of the Supervisors waived any emoluments during the year.

(c) Five highest paid individuals

All individuals whose emoluments were the highest in the Group during the year were executives of the Group. Except for one individual, none of them was a Director or Supervisor of the Company. The emoluments of these five highest paid individuals are as follows:

	2007	2006
	RMB'000	RMB'000
Basic salaries, allowances and benefits-in-kind	**1,354**	1,494
Discretionary bonuses	**10,221**	5,428
Retirement benefit costs	**292**	117
Medical benefits	**38**	43
	11,905	7,082

The emoluments fell within the following band:

	Number of Individuals	
	2007	2006
HK$1,000,001 — HK$1,500,000	**—**	3
HK$1,500,001 — HK$2,000,000	**2**	2
HK$2,000,001 — HK$2,500,000	**2**	—
HK$2,500,001 — HK$3,000,000	**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.

16. Property, plant and equipment

Group	Buildings	Leasehold improvements	Transportation vehicles and equipment	Operating and office equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2006					
Cost	1,040,661	1,195,961	124,495	1,519,140	3,880,257
Accumulated depreciation	(86,198)	(434,930)	(38,678)	(555,772)	(1,115,578)
Net book value	954,463	761,031	85,817	963,368	2,764,679
Year ended 31 December 2006					
Opening net book amount	954,463	761,031	85,817	963,368	2,764,679
Additions	17,069	240,038	30,084	183,876	471,067
Transfer from construction in progress (Note 17)	216	32,118	—	4,083	36,417
Acquisition of subsidiaries	—	56	235	3,350	3,641
Disposals	(8,295)	(36,040)	(5,231)	(24,601)	(74,167)
Depreciation (Note 8)	(39,427)	(199,392)	(21,855)	(205,861)	(466,535)
Reclassification	—	—	46,567	(46,567)	—
Transfer to non-current assets classified as held for sale	—	(4,190)	(154)	(6,190)	(10,534)
Closing net book amount	924,026	793,621	135,463	871,458	2,724,568
At 31 December 2006					
Cost	1,024,835	1,370,104	199,015	1,557,357	4,151,311
Accumulated depreciation	(100,809)	(576,483)	(63,552)	(685,899)	(1,426,743)
Net book value	924,026	793,621	135,463	871,458	2,724,568
Year ended 31 December 2007					
Opening net book amount	924,026	793,621	135,463	871,458	2,724,568
Additions	38,095	204,518	22,202	138,670	403,485
Transfer from construction in progress (Note 17)	107,113	7,914	25	18,706	133,758
Disposals	(24,981)	(27,689)	(3,995)	(63,629)	(120,294)
Depreciation (Note 8)	(39,092)	(205,441)	(22,749)	(185,089)	(452,371)
Impairment charge (Note 8)	—	(68,826)	(1,512)	(35,674)	(106,012)
Closing net book amount	1,005,161	704,097	129,434	744,442	2,583,134
At 31 December 2007					
Cost	1,137,294	1,432,840	205,416	1,449,150	4,224,700
Accumulated depreciation	(132,133)	(659,917)	(74,470)	(669,034)	(1,535,554)
Accumulated impairment charge	—	(68,826)	(1,512)	(35,674)	(106,012)
Net book value	1,005,161	704,097	129,434	744,442	2,583,134

16. Property, plant and equipment (continued)

Note:

(a) Impairment charge of RMB106,012,000 (2006: nil) has been included in other operating expenses in the consolidated profit and loss account. The impairment charge of property, plant and equipment arose from certain unprofitable hypermarket and supermarket stores.

(b) Depreciation of RMB418,531,000 (2006: RMB434,893,000) and RMB33,840,000 (2006: RMB31,642,000) have been included in distribution costs and administrative expenses, respectively in the consolidated profit and loss account.

Company	**Buildings**	**Leasehold improvements**	**Transportation vehicles and equipment**	**Operating and office equipment**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2006					
Cost	103,054	146,541	6,988	217,679	474,262
Accumulated depreciation	(23,204)	(112,325)	(2,905)	(152,500)	(290,934)
Net book value	79,850	34,216	4,083	65,179	183,328
Year ended 31 December 2006					
Opening net book amount	79,850	34,216	4,083	65,179	183,328
Additions	—	34,665	1,274	17,494	53,433
Transfer from construction in progress (Note 17)	132	—	—	530	662
Disposals	—	(2)	(416)	(3,744)	(4,162)
Depreciation	(2,953)	(16,682)	(693)	(19,670)	(39,998)
Closing net book amount	77,029	52,197	4,248	59,789	193,263
At 31 December 2006					
Cost	103,186	175,300	6,470	213,871	498,827
Accumulated depreciation	(26,157)	(123,103)	(2,222)	(154,082)	(305,564)
Net book value	77,029	52,197	4,248	59,789	193,263
Year ended 31 December 2007					
Opening net book amount	77,029	52,197	4,248	59,789	193,263
Additions	—	7,428	590	8,096	16,114
Transfer from construction in progress (Note 17)	98,170	—	—	6,318	104,488
Disposals	—	(1,222)	(389)	(11,882)	(13,493)
Depreciation	(4,175)	(15,747)	(720)	(19,055)	(39,697)
Closing net book amount	171,024	42,656	3,729	43,266	260,675
At 31 December 2007					
Cost	201,356	162,060	5,284	112,739	481,439
Accumulated depreciation	(30,332)	(119,404)	(1,555)	(69,473)	(220,764)
Net book value	171,024	42,656	3,729	43,266	260,675

17. Construction in progress

Group

	RMB'000
At 1 January 2006	23,614
Additions	350,586
Acquisition of a subsidiary	17,158
Transfer to property, plant and equipment (Note 16)	(36,417)
Transfer to intangible assets (Note 19)	(1,786)
At 31 December 2006	353,155
Additions	60,093
Transfer to property, plant and equipment (Note 16)	(133,758)
Transfer to land use rights (Note 18)	(76,253)
Transfer to intangible assets (Note 19)	(31,676)
At 31 December 2007	**171,561**

Company

	RMB'000
At 1 January 2006	2,297
Additions	155,205
Transfer to property, plant and equipment (Note 16)	(662)
Transfer to intangible assets (Note 19)	(1,786)
At 31 December 2006	155,054
Additions	17,549
Transfer to property, plant and equipment (Note 16)	(104,488)
Transfer to land use rights (Note 18)	(68,039)
Transfer to intangible assets (Note 19)	(76)
At 31 December 2007	**—**

18. Land use rights

The Group's interests in land use rights represent prepaid operating lease payments and their net book value are analysed as follows:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Net book value, at 1 January	**198,316**	205,663	**36,533**	37,462
Additions	**21,291**	259	**—**	—
Transfer from construction in progress (Note 17)	**76,253**	—	**68,039**	—
Amortisation (Note 8)	**(9,971)**	(7,593)	**(2,689)**	(929)
Disposal	**(1,460)**	(13)	**—**	—
Net book value, at 31 December	**284,429**	198,316	**101,883**	36,533

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
In PRC held on:				
Lease of over 50 years	**1,540**	1,569	**—**	—
Leases of between 10 to 50 years	**282,889**	196,747	**101,883**	36,533
	284,429	198,316	**101,883**	36,533

19. Intangible assets

Group

	Software	**Goodwill**	**Total**
	RMB'000	RMB'000	RMB'000
At 1 January 2006			
Cost	55,586	159,419	215,005
Accumulated amortisation	(17,703)	—	(17,703)
Net book value	37,883	159,419	197,302
Opening net book amount at 1 January 2006	37,883	159,419	197,302
Additions	9,584	—	9,584
Transfer from construction in progress	1,786	—	1,786
Acquisition of subsidiaries	60	2,305	2,365
Acquisition of additional equity interests in subsidiaries	—	1,523	1,523
Amortisation charge	(13,938)	—	(13,938)
Closing net book amount at 31 December 2006	35,375	163,247	198,622
At 31 December 2006			
Cost	66,819	163,247	230,066
Accumulated amortisation	(31,444)	—	(31,444)
Net book value	35,375	163,247	198,622
Opening net book amount at 1 January 2007	35,375	163,247	198,622
Additions	2,652	—	2,652
Transfer from construction in progress (Note 17)	31,676	—	31,676
Acquisition of additional equity interests in a subsidiary	—	856	856
Amortisation charge (Note 8)	(19,806)	—	(19,806)
Impairment charge (Note 8)	—	(20,059)	(20,059)
Closing net book amount at 31 December 2007	**49,897**	**144,044**	**193,941**
At 31 December 2007			
Cost	**101,147**	**164,103**	**265,250**
Accumulated amortisation	**(51,250)**	**—**	**(51,250)**
Accumulated impairment charge	**—**	**(20,059)**	**(20,059)**
Net book value	**49,897**	**144,044**	**193,941**

Notes to the Accounts

For the year ended 31 December 2007

19. Intangible assets (continued)

Note:

(a) **Impairment charge of RMB20,059,000 (2006: nil) has been included in other operating expenses in the consolidated profit and loss account. The impairment charge of goodwill arose in hypermarket cash-generating units (CGUs) in Hebei provincial area following a decision to close down certain unprofitable hypermarket stores in that area.**

(b) **Amortisation of RMB14,263,000 (2006: RMB7,946,000) and RMB5,543,000 (2006: RMB5,992,000) have been included in distribution costs and administrative expenses, respectively in the consolidated profit and loss account.**

(c) **Impairment tests for goodwill**

Goodwill is allocated to the Group's CGUs identified according to business segment and location of operation. A segment level summary of the goodwill is presented below.

	2007 **RMB'000**	2006 RMB'000
Supermarkets	**94,939**	94,939
Hypermarkets	**45,944**	66,003
Others	**3,161**	2,305
	144,044	163,247

The recoverable amounts of the 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 5% to 8% and a pre-tax discount rate of 10% (2006: 9%). This pre-tax discount rate is equivalent to a post-tax discount rate of 7% (2006: 6%). The growth rate used does not exceed the average long-term growth rate for the relevant markets.

19. Intangible assets (continued)

Company

	Software RMB'000
At 1 January 2006	
Cost	7,809
Accumulated amortisation	(2,081)
Net book value	5,728
Opening net book amount at 1 January 2006	5,728
Additions	5,231
Transfer from construction in progress	1,786
Amortisation charge	(2,056)
Closing net book amount at 31 December 2006	10,689
At 31 December 2006	
Cost	14,826
Accumulated amortisation	(4,137)
Net book value	10,689
Opening net book amount at 1 January 2007	10,689
Additions	—
Transfer from construction in progress (Note 17)	76
Amortisation charge	(2,973)
Closing net book amount at 31 December 2007	7,792
At 31 December 2007	
Cost	14,902
Accumulated amortisation	(7,110)
Net book value	7,792

20. Investments in subsidiaries/Balances with subsidiaries

Company

	2007 RMB'000	2006 RMB'000
Unlisted equity investments, at cost	**1,003,705**	971,599
Less: Provision for impairment losses	**(92,490)**	(23,000)
	911,215	948,599

Particulars of the Company's principal subsidiaries at 31 December 2007 are set out in Note 40 to the accounts.

Balances with subsidiaries are unsecured, interest free and repayable on demand.

21. Investments in associates

Group

	2007 RMB'000	2006 RMB'000
Share of net assets including goodwill	**394,051**	328,622
Unlisted equity investments, at cost	**187,310**	187,310

Company	**2007 RMB'000**	2006 RMB'000
Unlisted equity investments, at cost	**186,121**	186,121
Less: Provision for impairment losses	**—**	—
	186,121	186,121

Investments in associates as at 31 December 2007 include goodwill of RMB6,787,000 (2006:RMB6,787,000).

Particulars of the Company's principal associates at 31 December 2007 are set out in Note 40 to the accounts.

(a) Movement of investments in associates is as follows:

Group

	2007 RMB'000	2006 RMB'000
Balance at beginning of the year	**328,622**	335,261
Share of profits less losses of associates	**130,475**	113,597
— Profit before taxation	**193,749**	164,109
— Taxation	**(63,274)**	(50,512)
Addition arising from acquisition of additional interest in an associate	**—**	1,000
Dividends received	**(65,046)**	(86,190)
Disposals	**—**	(1,030)
Reclassification as a subsidiary on acquisition of additional interest in an associate	**—**	(34,016)
Balance at end of the year	**394,051**	328,622

21. Investments in associates (continued)

(b) The Group's share of turnover, profit for the year and assets and liabilities of associates, which are included in the consolidated profit and loss account and balance sheet using equity method, are as follows:

Name	Assets	Liabilities	Net assets	Revenues	Profit/ (Loss)	% Interest held
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
2007						
Shanghai Carhua Supermarket Co., Ltd.	821,207	501,581	319,626	2,028,173	124,357	45
Tianjin Yishang Development Co., Ltd.	340,219	286,493	53,726	318,347	4,262	20
Others	27,522	13,610	13,912	64,434	1,856	
	1,188,948	801,684	387,264	2,410,954	130,475	
2006						
Shanghai Carhua Supermarket Co., Ltd.	693,750	434,206	259,544	1,738,987	97,015	45
Tianjin Yishang Development Co., Ltd.	329,628	280,164	49,464	302,054	5,408	20
Others (i)	27,707	14,880	12,827	526,226	11,174	
	1,051,085	729,250	321,835	2,567,267	113,597	

Note:

(i) The revenues and profit of "Others" for the year ended 31 December 2006 included those of Shanghai Lianhua E-business Co., Ltd. ("Lianhua E-Business") before the Group's acquisition of Lianhua E-Business and it became a subsidiary on 2 November 2006.

22. Available-for-sale financial assets

Group

	2007	2006
	RMB'000	RMB'000
Non-current		
Legal person shares (i)	**1,112**	2,141
Unlisted equity investments (ii)	**25,046**	7,305
	26,158	9,446
Current		
Unlisted money market investment (iii)	**120,000**	30,000
Total	**146,158**	39,446

Company

	2007	2006
	RMB'000	RMB'000
Non-current		
Legal person shares (i)	**1,112**	1,112
Unlisted equity investments (ii)	**3,423**	3,423
	4,535	4,535
Current		
Unlisted money market investment (iii)	**120,000**	30,000
Total	**124,535**	34,535

(i) These represent investments in legal person shares of certain PRC listed companies.

(ii) These represent investments in certain unlisted companies in the PRC.

(iii) This represents funds placed with bank for money market investments. Based on the terms, the funds will be repaid in next 12 months.

23. Other non-current assets

Other non-current assets of the Group and the Company include payments for obtaining the rights to use certain buildings, which may or may not have a specified period of time limit, and are being amortised over the shorter of the contract period or the estimated useful lives of the buildings. The carrying amount of other non-current assets of the Group has been reduced to its recoverable amount through recognition of an impairment loss of RMB3,197,000 (2006: nil). The impairment loss associated with other non-current assets of the Group has been included in other operating expenses in the consolidated profit and loss account.

24. Inventories

Group

	2007	2006
	RMB'000	RMB'000
Merchandise for resale	**1,906,172**	1,596,226
Provision for obsolescence	**(3,246)**	(3,509)
	1,902,926	1,592,717
Low value consumables	**23,536**	23,654
	1,926,462	1,616,371

Company

	2007	2006
	RMB'000	RMB'000
Merchandise for resale	**214,337**	149,168
Provision for obsolescence	**(1,072)**	(746)
	213,265	148,422
Low value consumables	**3,281**	2,679
	216,546	151,101

The cost of inventories recognised as expense and included in cost of sales amounted to RMB15,738,221,000 (2006: RMB14,461,350,000).

Notes to the Accounts

For the year ended 31 December 2007

25. Trade receivables

The ageing analyses of the trade receivables, 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

	2007	2006
	RMB'000	RMB'000
Within 30 days	**29,555**	26,160
30–60 days	**1,575**	12,183
61–90 days	**3,155**	4,106
91 days–one year	**348**	2,793
	34,633	45,242

Trade receivables aged over 60 days are considered past due, but no balances have been impaired. These relate to a number of independent customers for whom there is no recent history of default.

All trade receivables of the Company at each balance sheet date were aged less than 30 days.

As at 31 December, the carrying amounts of trade receivables of the Group and the Company approximate their fair value.

26. Deposits, prepayments and other receivables

Group

	2007	2006
	RMB'000	RMB'000
Deposits and prepayments	**489,952**	580,446
Other receivables	**106,510**	74,730
Entrusted loan (i)	**—**	80,053
	596,462	735,229

Company

	2007	2006
	RMB'000	RMB'000
Deposits and prepayments	**52,358**	48,487
Other receivables	**1,928**	46,086
Entrusted loan (i)	**—**	80,053
	54,286	174,626

26. Deposits, prepayments and other receivables (continued)

(i) The entrusted loan balance as at 31 December 2006 represented the entrusted lending through a bank to a state-owned enterprise, at an interest of 3.6% per annum. The loan was repaid during 2007.

(ii) As at 31 December 2007, the fair value of the deposits and other receivables of the Group and the Company approximate their carrying amounts.

27. 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 range from 30 to 90 days. Such balances with associates are unsecured and interest free.

28. Amount due to holding company/Amounts due to other related parties

Amount due to holding company represents the balance due to Shanghai Friendship Group Incorporated Company, which is unsecured and bears interest at 2.85% per annum.

Amounts due to other related parties represents the balances due to the related companies controlled by the ultimate holding company in relation to the redemption of the coupons issued by the Group in retail outlets of these related parties. The balance is unsecured and interest free.

29. Financial assets at fair value through profit or loss

Group

	2007	2006
	RMB'000	RMB'000
Equity securities listed in the PRC held for trading, at market value	**116,420**	78,252

Company

	2007	2006
	RMB'000	RMB'000
Equity securities listed in the PRC held for trading, at market value	**–**	7,263

30. Bank balances and cash

All bank balances, which are mainly denominated in Renminbi, are 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.

Notes to the Accounts

For the year ended 31 December 2007

31. Share capital

	Number of shares at RMB 1.00 each	Nominal value RMB'000
Authorised	705,000,000	705,000
Registered, issued and fully paid		
At 31 December 2006 and 31 December 2007	622,000,000	622,000

The share capital of the Company as at 31 December 2007 and 2006 composed of:

	Number of shares at RMB1.00 each	Nominal value RMB'000
Domestic shares	355,543,000	355,543
Unlisted foreign shares	59,457,000	59,457
H shares	207,000,000	207,000
	622,000,000	622,000

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.

32. Reserves

Group

	Capital reserve RMB'000 (note (a))	Other reserves RMB'000	Statutory common reserve fund RMB'000 (note (b))	Statutory common welfare fund RMB'000 (note (c))	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2007	755,953	3,595	239,166	—	430,786	1,429,500
Profit for the year attributable to Company's shareholders	—	—	—	—	268,301	268,301
Profit appropriations	—	—	30,461	—	(30,461)	—
Transfer back to retained earnings	—	—	(117,728)	—	117,728	—
2006 final dividend	—	—	—	—	(43,540)	(43,540)
2007 interim dividend	—	—	—	—	(37,320)	(37,320)
Balance at 31 December 2007	**755,953**	**3,595**	**151,899**	**—**	**705,494**	**1,616,941**
Representing:						
Final dividend proposed					74,640	74,640
Others					630,854	1,542,301
					705,494	1,616,941
Balance at 1 January 2006	755,953	3,595	130,265	65,948	313,000	1,268,761
Transfer to statutory common reserve fund	—	—	65,948	(65,948)	—	—
Profit for the year attributable to Company's shareholders	—	—	—	—	241,599	241,599
Profit appropriations	—	—	42,953	—	(42,953)	—
2005 final dividend	—	—	—	—	(43,540)	(43,540)
2006 interim dividend	—	—	—	—	(37,320)	(37,320)
Balance at 31 December 2006	755,953	3,595	239,166	—	430,786	1,429,500
Representing:						
Final dividend proposed					43,540	43,540
Others					387,246	1,385,960
					430,786	1,429,500

Notes to the Accounts

For the year ended 31 December 2007

32. Reserves (continued)

Company

	Capital reserve RMB'000 (note (a))	Other reserves RMB'000	Statutory common reserve fund RMB'000 (note (b))	Statutory common welfare fund RMB'000 (note (c))	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2007	755,953	3,595	136,739	—	415,812	1,312,099
Profit for the year attributable to Company's shareholders	—	—	—	—	267,908	267,908
Profit appropriations	—	—	30,461	—	(30,461)	—
Transfer back to retained earnings	—	—	(15,301)	—	15,301	—
2006 final dividend	—	—	—	—	(43,540)	(43,540)
2007 interim dividend	—	—	—	—	(37,320)	(37,320)
Balance at 31 December 2007	**755,953**	**3,595**	**151,899**	**—**	**587,700**	**1,499,147**
Representing:						
Final dividend proposed					74,640	74,640
Others					513,060	1,424,507
					587,700	1,499,147
Balance at 1 January 2006	755,953	3,595	76,200	38,100	242,580	1,116,428
Transfer to statutory common reserve fund	—	—	38,100	(38,100)	—	—
Profit for the year attributable to Company's shareholders	—	—	—	—	276,531	276,531
Profit appropriations	—	—	22,439	—	(22,439)	—
2005 final dividend	—	—	—	—	(43,540)	(43,540)
2006 interim dividend	—	—	—	—	(37,320)	(37,320)
Balance at 31 December 2006	755,953	3,595	136,739	—	415,812	1,312,099
Representing:						
Final dividend proposed					43,540	43,540
Others					372,272	1,268,559
					415,812	1,312,099

Note:

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

32. Reserves (continued)

(b) Pursuant to the relevant PRC regulations and the Articles of Association of the companies within the Group, each of the 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 production operations, or to increase its capital. The statutory common reserve fund may be converted into the share capital, provided the balance of the reserve fund after such conversion is not less than 25% of the registered capital.

The Group adopted the Accounting Standards for Business Enterprises promulgated by the Ministry of Finance of PRC on 15 February 2006 (the "new PRC GAAP") since 1 January 2007. According to the relevant requirements under the new PRC GAAP, certain adjustments were made to the retained earnings in previous years for the preparation of the Group's statutory accounts for the year ended 31 December 2007 upon first-time adoption which also affected the previous 10% appropriations from retained earnings to the statutory common reserve fund. In addition, the new PRC GAAP no longer permits further appropriation to the statutory common reserve fund relating to the Group's share of subsidiaries' profits at the consolidated level and requires all such previous appropriations be reversed back to retained earnings. As such, an additional transfer has been made in the current year in these accounts in order to correspond with the aforementioned changes made to the statutory common reserve fund in the statutory accounts.

(c) According to the new Company Law of the PRC effective on 1 January 2006, appropriation of statutory common welfare fund was no longer required. Based on the relevant interpretations issued by the Ministry of Finance, the unutilised statutory common welfare fund were transferred to statutory common reserve fund in 2006.

33. Trade payables

The ageing analyses of the trade payables are as follows:

Group

	2007 **RMB'000**	2006 RMB'000
Within 30 days	**2,368,989**	1,484,922
30–60 days	**234,452**	744,957
61–90 days	**71,520**	189,425
91 days–one year	**140,325**	145,424
	2,815,286	2,564,728

Company

	2007 **RMB'000**	2006 RMB'000
Within 30 days	**1,246,500**	645,618
30–60 days	**40,900**	325,129
61–90 days	**21,013**	114,140
91 days–one year	**121,056**	83,888
	1,429,469	1,168,775

34. Other payables and accruals

Group

	2007 **RMB'000**	2006 RMB'000
Other payables	**912,973**	754,925
Store closure provision	**42,728**	—
Customers' advances	**117,354**	63,662
Accruals	**40,399**	21,472
	1,113,454	840,059

Company

	2007 **RMB'000**	2006 RMB'000
Other payables	**149,753**	114,701
Customers' advances	**10,325**	2,697
Accruals	**919**	216
	160,997	117,614

35. Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using the tax rates which are expected to be applied at the time of reversal of the temporary differences. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follow:

	Group		**Company**	
	2007 **RMB'000**	2006 RMB'000	**2007** **RMB'000**	2006 RMB'000
Deferred tax assets	**(44,672)**	(38,448)	**(438)**	(284)
Deferred tax liabilities	**70,097**	77,604	**—**	—
	25,425	39,156	**(438)**	(284)

35. Deferred taxation (continued)

The movement on the major deferred tax liabilities/(assets) accounts, without taking into consideration the offsetting of balances with the same tax jurisdiction is as follows:

Group

Deferred tax liabilities

	Fair value adjustments on buildings RMB'000	Fair value gain on financial assets at fair value through profit or loss RMB'000	Total RMB'000
At 1 January 2006	79,388	—	79,388
(Credited)/debited to consolidated profit and loss account	(2,716)	4,461	1,745
At 31 December 2006	76,672	4,461	81,133
(Credited)/debited to consolidated profit and loss account	(3,427)	14,769	11,342
Effect of tax rate change (Note 11)	(17,756)	(4,662)	(22,418)
At 31 December 2007	**55,489**	**14,568**	**70,057**

Deferred tax assets

	Pre-operating expenses RMB'000	Bad debt and inventory provisions RMB'000	Accrued expenses RMB'000	Fair value loss on financial assets at fair value through profit or loss RMB'000	Total RMB'000
At 1 January 2006	(12,610)	(2,737)	(8,750)	—	(24,097)
Acquisition of subsidiaries	—	(682)	—	(4,265)	(4,947)
(Credited)/debited to consolidated profit and loss account	874	188	(14,731)	736	(12,933)
At 31 December 2006	(11,736)	(3,231)	(23,481)	(3,529)	(41,977)
(Credited)/debited to consolidated profit and loss account	1,610	1,149	(22,263)	3,529	(15,975)
Effect of tax rate change (Note 11)	1,922	308	11,090	—	13,320
At 31 December 2007	**(8,204)**	**(1,774)**	**(34,654)**	**—**	**(44,632)**

35. Deferred taxation (continued)

Company

	Deferred tax assets in respect of bad debt and inventory provisions
	RMB'000
Balance at 1 January 2006	(322)
Debited to profit and loss account	38
At 31 December 2006	(284)
Credited to profit and loss account	(154)
At 31 December 2007	**(438)**

At 31 December 2007, deferred tax assets mainly in respect of certain temporary differences arising from tax losses carried forward amounting to RMB308,430,000 (2006: RMB271,783,000) have not been recognised in the accounts as, in the opinion of the Directors, it is uncertain that there will be sufficient future taxable profit to utilise these tax losses before their expiry, which are five years since incurred.

36. Notes to consolidated cash flow statement

Reconciliation of profit before taxation to cash generated from operations:

	2007	2006
	RMB'000	RMB'000
Profit before taxation	**585,454**	367,945
Adjustments for:		
Amortisation of intangible assets	**19,806**	13,938
Amortisation of other non-current assets	**1,987**	2,646
Amoritsation of land use rights	**9,971**	7,593
Depreciation of property, plant and equipment	**452,371**	466,535
Loss on disposal of property, plant and equipment	**118,274**	52,800
(Gain)/Loss on disposal of land use rights	**(8,930)**	13
Loss/(Gain) on disposal of other non-current assets	**9,881**	(4,801)
Impairment of property, plant and equipment	**106,012**	—
Impairment of other non-current assets	**3,197**	—
Impairment of goodwill	**20,059**	—
Gain on disposal of an associate	**—**	(41,889)
Gain on disposal of a subsidiary	**(20,309)**	—
Gain on disposal of available-for-sales financial assets	**(9,981)**	(4,498)
Fair value gain (unrealised) on financial assets at fair value through profit or loss	**(72,268)**	(13,517)
Share of results of associates	**(130,475)**	(113,597)
Interest income	**(38,818)**	(26,781)
Interest expense	**1,133**	1,951
Operating profit before working capital changes	**1,047,364**	708,338
Changes in working capital:		
Inventories	**(310,091)**	181,329
Trade and other receivables	**86,487**	(143,412)
Amounts due from associates	**911**	(82)
Financial assets at fair value through profit or loss	**15,129**	(26,841)
Trade and other payables	**516,024**	(628,181)
Coupon liabilities	**1,795,533**	2,217,605
Amounts due to associates and other related parties	**47,490**	(469,774)
Cash generated from operations	**3,198,847**	1,838,982

37. Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Given that the PRC government still owns a significant portion of the productive assets in the PRC despite the continuous reform of the government's structure, the majority of the Group's business activities had been conducted with enterprises directly or indirectly owned or controlled by the PRC government ("state-owned enterprise"). In accordance with HKAS 24, "Related Party Disclosures", state-owned enterprises and their subsidiaries, directly or indirectly controlled by the PRC government are also defined as related parties of the Group. In the normal course of its business, the Group enters into various transactions with one or more of such state-owned enterprises and their subsidiaries.

Apart from those disclosed under Notes 27 and 28, 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

	Note	**2007** **RMB'000**	2006 RMB'000
Sales to associates			
— Lianhua E-Business	(i)	**—**	921,818
Purchases from associates			
— Shanghai Lianhua Supermarket Food Co., Ltd. and Shanghai Gude Commercial Trading Co., Ltd.	(ii)	**29,287**	29,402
Decoration cost paid to Lianhua E-Business	(iii)	**—**	28,158
Rental expenses paid to subsidiaries of holding company	(iv)	**32,863**	18,914
Commission income received from related companies controlled by the ultimate holding company	(v)	**17,718**	—

Notes:

(i) Sales to Lianhua E-Business were recognised when customers presented coupons issued by Lianhua E-Business at the Group's stores in exchange for the Group's merchandises. These sales were set at retail prices less a discount of 1%. Such transactions have been eliminated in the consolidated accounts after the Group's acquisition of Lianhua E-Business since 2 November 2006.

(ii) The purchase price was determined with reference to the then prevailing market prices and the prices charged by those associates to third parties.

(iii) The decoration cost paid to Lianhua E-Business was determined with reference to the then prevailing market prices. Such transactions have been eliminated in the consolidated accounts after the Group's acquisition of Lianhua E-Business since 2 November 2006.

(iv) These represent rental expenses of certain hypermarkets paid to subsidiaries of Shanghai Friendship Group Incorporated Company, the holding company of the Group. The rentals were charged in accordance with the terms of the underlying agreements which were entered into with reference to the then prevailing market prices.

(v) The commission income was received from the related companies 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 1.5% to 2.5% of the sales made through the coupons in the retail outlets of these companies.

37. Related party transactions (continued)

(b) Related party balances with other state-owned enterprises

Included in the consolidated balance sheet were balances with other state-owned enterprises as follows:

	2007 RMB'000	2006 RMB'000
Current assets		
Deposits, prepayments and other receivables — entrusted loan	—	80,053
Current liabilities		
Accounts payable and other liabilities	234,882	248,901

All the above balances are unsecured, non-interest bearing and repayable within one year.

In addition, all cash at bank and bank borrowings of the Group at the balance sheet date are deposited at state-owned banks.

(c) Related party transactions with other state-owned enterprises

	2007 RMB'000	2006 RMB'000
Purchase of goods	2,659,332	2,971,663
Entrusted loan and interested received	—	81,299
Interest income received	38,818	26,781
Bank charges	15,191	10,294
Interest expenses	1,133	1,951

Related party transactions with other state-owned enterprises were conducted in the normal course of business at market rates.

(d) Key management compensation

	2007 RMB'000	2006 RMB'000
Salaries and other short-term employee benefits	10,073	7,533
Post-employment benefits	254	317
Other long-term benefits	254	119
	10,581	7,969

38. Commitments

(a) Capital commitments for property, plant and equipment and information system development

	2007	2006
	RMB'000	RMB'000
Contracted but not provided for	**305,769**	250,184

The capital commitments mainly represent commitments for construction of buildings, leasehold improvements and purchase of equipment.

(b) Commitments under operating leases

The Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2007	2006
	RMB'000	RMB'000
Not later than one year	**976,363**	837,645
Later than one year and not later than five years	**3,445,007**	3,119,485
Later than five years	**7,242,237**	6,841,330
	11,663,607	10,798,460

(c) Commitments for equity investments

As at 31 December 2007, the Group had a commitment to acquire the remaining equity interests of 25.39% (2006: 25.39%) in Hangzhou Lianhua Huashang Group Co., Ltd. held by third parties at a consideration of not less than RMB140,760,000.

39. Future operating lease arrangements

The Group had future aggregate minimum lease receipts under non-cancellable operating leases in respect of land and buildings as follows:

	2007	2006
	RMB'000	RMB'000
Not later than one year	**211,132**	168,323
Later than one year and not later than five years	**366,494**	270,281
Later than five years	**247,778**	184,949
	825,404	623,553

The minimum lease receipts as set out above mainly related to leasing of shop premises located at the Group's hypermarkets which are entered into primarily on a short-term or medium-term basis.

40. Particulars of major subsidiaries and associates

As at 31 December 2007, the Company held interest in the following major subsidiaries and associates, all of which are private limited liability companies established and operating in the PRC:

Company name	Date of establishment	Registered and fully paid capital RMB'000	Attributable equity interest held directly	Attributable equity interest held indirectly	Principal activities
(a) Subsidiaries					
Beijing Century Lianhua Supermarket Co., Ltd.	29 May 2003	2,000	80.00%	18.86%	Hypermarket
Fuzhou Century Lianhua Supermarket Co., Ltd.	1 July 2002	10,000	80.00%	18.86%	Hypermarket
Guangzhou Century Lianhua Supermarket Co., Ltd.	1 August 2002	16,000	80.00%	18.86%	Hypermarket
Shanghai Century Lianhua Supermarket Baoshan Co., Ltd.	28 June 2001	10,000	57.50%	30.06%	Hypermarket
Shanghai Century Lianhua Supermarket Hongkou Co., Ltd.	19 August 2003	3,000	83.67%	16.32%	Hypermarket
Shanghai Century Lianhua Supermarket Minhang Co., Ltd.	5 September 2002	5,000	80.00%(i)	18.86%	Hypermarket
Shanghai Century Lianhua Supermarket Nanhui Co., Ltd.	28 April 2004	10,000	49.00%	30.60%	Hypermarket
Shanghai Century Lianhua Supermarket Qingpu Co., Ltd.	7 August 2003	500	90.00%	9.89%	Hypermarket
Shanghai Century Lianhua Supermarket Xuhui Co., Ltd.	1 June 2001	500	100.00%(ii)	—	Hypermarket
Shenyang Century Lianhua Supermarket Co., Ltd.	26 May 2004	3,000	90.00%	9.89%	Hypermarket
Tianjin Yishang Lianhua Supermarket Co., Ltd.	1 September 2002	30,000	80.00%	—	Hypermarket

40. Particulars of major subsidiaries and associates (continued)

Company name	Date of establishment	Registered and fully paid capital RMB'000	Attributable equity interest held directly	Attributable equity interest held indirectly	Principal activities
(a) Subsidiaries (continued)					
Zhejiang Gongshu Century Lianhua Supermarket Co., Ltd.	29 August 2004	15,000	90.00%	9.89%	Hypermarket
Hangzhou Lianhua Huashang Group Co., Ltd.	1 June 2001	120,500	74.19%	—	Supermarket and hypermarket
Shanghai Century Lianhua Western Commercial Co., Ltd.	7 November 2001	5,000	15.00%	51.00%	Supermarket and hypermarket
Lianhua Supermarket Jiangsu Co., Ltd.	21 March 2003	50,000	85.00%	13.89%	Supermarket and hypermarket
Shanghai Lianhua Supermarket Fengxian Co., Ltd.	4 March 1997	3,000	55.00%	—	Supermarket
Shanghai Lianhua Supermarket Jiading Co., Ltd.	9 October 1996	3,290	81.76%	17.20%	Supermarket
Shanghai Lianhua Supermarket Jinshan Co., Ltd.	21 October 1996	10,410	80.79%	19.00%	Supermarket
Shanghai Lianhua Supermarket Nanhui Co., Ltd.	28 November 1996	11,000	60.00%	—	Supermarket
Shanghai Lianhua Xinxin Supermarket Co., Ltd.	22 April 1997	13,300	55.00%	—	Supermarket
Shanghai Lianhua Yongchang Supermarket Co., Ltd.	5 July 1999	35,000	60.00%	—	Supermarket
Shanghai Pudong Lianhua Supermarket Co., Ltd.	29 September 1997	5,000	60.00%	—	Supermarket

40. Particulars of major subsidiaries and associates (continued)

Company name	Date of establishment	Registered and fully paid capital RMB'000	Attributable equity interest held directly	Attributable equity interest held indirectly	Principal activities
(a) Subsidiaries (continued)					
Shanghai Songjiang Lianhua Supermarket Co., Ltd.	1 September 1998	5,350	63.00%	—	Supermarket
Lianhua Quik Stores Co., Ltd.	25 November 1997	63,000	70.00%	—	Convenience store
Shanghai Lianhua Commercial Trading Co., Ltd.	27 June 2001	3,000	30.00%	53.60%	Wholesaling
Shanghai Lianhua Supermarket Distribution Co., Ltd.	29 October 1998	5,000	90.00%	9.43%	Purchase and distribution
Lianhua Logistic Co., Ltd.	17 October 2007	50,000	100.00%	—	Purchase and distribution
Shanghai Lianhua Supermarket Jilin Purchase and Distribution Co., Ltd.	9 August 2000	1,000	51.00%	—	Purchase and distribution
Shanghai Lianhua Live and Fresh Food Processing and Distribution Co., Ltd.	29 December 1999	5,000	90.00%	—	Fresh food processing and distribution
Shanghai Century Lianhua Supermarket Development Co., Ltd.	24 November 1997	100,000	77.91%	16.39%	Hypermarket
Beijing Century Lianhua Qingcheng Supermarket Co.,Ltd.	23 November 2005	5,000	95.00%	4.94%	Hypermarket
Guangxi Lianhua Supermarket Joint Stock Co., Ltd.	18 November 2001	68,670	92.00%	2.59%	Supermarket and hypermarket
Shanghai Lianhua Supermarket Development Co., Ltd	8 April 2006	10,000	90%	9.43%	Supermarket
Shanghai Lianhua E-business Co., Ltd.	4 October 1995	55,000	57.27%	—	Trading

40. Particulars of major subsidiaries and associates (continued)

Company name	Date of establishment	Registered and fully paid capital RMB'000	Attributable equity interest held directly	Attributable equity interest held indirectly	Principal activities
(b) Associates					
Shanghai Carhua Supermarket Co., Ltd.	8 February 1995	341,824	45.00%	—	Hypermarket
Tianjin Yishang Development Co., Ltd.	27 October 1998	200,277	20.00%	—	Department stores

(i) The Group directly holds 29% of equity interest in the company while another owner holding an interest of 51% in this company has given up its rights and obligations to govern the financial and operating policies of the company and its share of profit and loss of the company to the Group with effect from 24 December 2002.

(ii) The Group directly holds 49% of equity interest in the company while the other owner holding the remaining 51% equity interest in this company has given up its rights and obligations to govern the financial and operating policies of the company and its share of profit and loss of the company to the Group with effect from 28 June 2002.

41. Controlling shareholder and ultimate holding company

The Directors regard Shanghai Friendship Group Incorporated, a company incorporated and listed in the PRC, as being the controlling shareholder.

The Directors regard Bailian Group Company Limited, a state-owned enterprise established in the PRC, as being the ultimate holding company.

42. Approval of accounts

The accounts were approved by the Board of Directors on 16 April 2008.

43. Comparative figures

For comparative figures, certain balances and amounts have been separately disclosed so as to conform to the current year presentation.

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