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

Stock Code: 0980

Annual Report 2008

Lianhua Supermarket Holdings Co., Ltd. (the "Lianhua Supermarket" or the "Company") commenced its business in Shanghai in 1991. For over eighteen years, through direct operations, franchises, merger and acquisitions, it has developed into a nationwide chain retail operator with a full range of retail segments. As at 31 December 2008, Lianhua Supermarket and its subsidiaries (the "Group") operated a total of 3,872 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 fast moving consumer goods chain in the People's Republic of China (the "PRC") enterprises. 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 segments of retail outlets, namely hypermarkets, supermarkets and convenience stores, catering for the diverse needs of consumers. The three retail segments 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.

Total of **3,872** outlets spanning in 20 provinces and municipalities across the nation.

Province / Municipality	Hypermarket	Supermarket	Convenience Store
Heilongjiang	4		
Liaoning	4	1	297
Beijing	5	1	125
Tianjin	2		
Hebei	2	2	
Shandong	2	19	
Jiangsu	22	328	8
Henan	5	4	
Shanghai	28	952	1,276
Anhui	9	24	
Zhejiang	31	277	251
Jiangxi		7	
Fujian	1	1	
Guangdong	3	2	
Guangxi	6	150	
Inner Mongolia		14	
Chongqing		1	
Xinjiang		1	
Sichuan	3	3	
Hunan		1	

Hypermarket *Supermarket* *Convenience Store*

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

As to PRC laws
Grandall Legal Group (Shanghai)

Investors and Media Relations Consultant

Christensen International Limited

Principal Bankers

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

Corporate Information
(continued)

Registered and Business Office

Registered Office in the PRC
11th to 15th Floors
1666 Sichuan (North) Road
Shanghai
The PRC

Place of Business in the PRC
5th to 13th Floors
No. 1258 Zhen Guang Road
Shanghai, PRC

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

Telephone
86 (21) 5262 9922

Fax
86 (21) 5279 7976

Company Website
www.lhok.com.cn

Shareholder's Enquiries

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

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

Share Information

Listing Place
The Stock Exchange of Hong Kong Limited

Listing Date
27 June 2003

SEHK Stock Code
980

Number of H shares Issued
207,000,000 H shares

Year-end Date
31 December

Results Announcements

Interim Results for 2008 was published on 13 August 2008
Annual Results for 2008 was published on 31 March 2009

Dividends

Interim Dividends: RMB0.10 (including tax) per share
Proposed Final Dividends: RMB0.15 (including tax) per share

2008 Annual General Meeting

To be convened at 10:00 a.m. on 27 May 2009 (Wednesday)

Major Achievements

January

The trademark logo of Lianhua Supermarket was recognized as the "Well-known Trademark of Shanghai (上海市著名商標)" by the Shanghai Administration of Industry and Commerce.

April

The "Franchise Business Award in China (中國特許獎)" was presented to Lianhua Supermarket by China Chain Store and Franchise Association.

Gu Hui-zhen, the shop manager of Yunhe outlet of Lianhua Supermarket (Zhejiang) Company (聯華超市浙江公司), was awarded as the "Outstanding Shop Manager in the Commercial Retail Business in China (全國商業零售業優秀店長)" by China General Chamber of Commerce.

May

Lianhua Supermarket was accredited with the "Advanced Entity in Internal Audit in Shanghai (上海市內部審計先進單位)" by Shanghai Municipal Audit Bureau.

June

At the celebration ceremony of Lianhua Supermarket for its 17th anniversary of establishment and 5th anniversary of listing in Hong Kong, an award was presented to Wang Ke-qiang, the general manager of the south-western region of Century Lianhua and his team, named "Lian Hua Spirit (聯華魂)", for their outstanding contributions. Fifteen "Awards for Innovative Achievements (自主創新成果獎)" were also awarded by Lianhua Supermarket. In addition, a ceremony of technique impartation from masters to their apprentices in respect of operational skills was held, and certificates were also presented to the representatives of "Senior Staff" and "Honorary Staff" of the Group.

Major Achievements
(continued)

June

Lianhua Supermarket was named as "The Enterprise with Outstanding Contribution in the Establishment of Harmonious Business Environment in China of the Third Session (第三屆全國構建和諧商業杰出貢獻企業)" by China Commercial Enterprise Management Association, and Liang Wei, the general manager, was awarded as the "Entrepreneur for its Achievement in Leading the Business Reform and Development in China (引領中國商業改革發展功勛企業家)".

September

Lianhua Supermarket was recognized as the "Advanced Entity in Implementing Comprehensive Quality Management (推行全面質量管理先進單位)" by Shanghai Quality Association.

Lianhua Supermarket was accredited with the "Advanced Entity in Energy Conservation in Shanghai (上海市節能先進單位)" in 2007.

November

Lianhua Supermarket was awarded as the "Outstanding Award in Management Mode in China 2008 (2008年中國管理模式傑出獎)".

The chilled meat brand, "Lianhua Tianyuan", was jointly awarded as the "Top Ten Innovation Awards in the Business Entities in Shanghai 2007 (2007年度上海商業十大創新獎)" by Shanghai Business Information Centre (上海市商業信息中心), Shanghai Marketing Association (上海市市場學會) and Shanghai Business Daily.

Lianhua Supermarket was awarded as the "Outstanding Entity in Corporate Culture in China in the 30th Anniversary of the Policy of Reform and Opening (改革開放30周年全國企業文化優秀單位)" by China Corporate Culture Institute.

November

Cai Lan-ying, the vice general manager of Lianhua Supermarket, the party committee secretary and chairman of Lianhua Zhejiang Company (聯華浙江公司) was awarded the honorary certificate of the "Outstanding Contribution Award in the Chain Industry (連鎖業突出貢獻獎)" by Zhejiang Chain Store and Franchise Association (浙江省連鎖經營協會).

Wang Zhao and Yao Yang-hong from Century Lianhua were awarded as "Golden Store Manager for the year 2008" by China Chain Store and Franchise Association.

Chairman's Statement


"I love to buy household necessities
in Lianhua every week!"

Chairman's Statement

Chairman
Mr. Wang Zhi-gang

"In 2008, the Group continued to enhance its basic operation capabilities while insisting on the planned development strategy. As such, it recorded steady growth in turnover and profit attributable to shareholders."

Dear Valued Shareholders,

I am pleased to present the annual results of Lianhua Supermarket Holdings Co., Ltd. (the "Company") for the year ended 31 December 2008 to our shareholders.

Looking back, dramatic change in the economic environment in the year of 2008 put the operation and risk management of retail enterprises under test. The uncertainties in the macro economy brought challenges to the steady growth of our results. These uncertainties include the slowdown of China's economic growth, which in turn, was induced by the global financial crisis. Other destabilizing factors such as the slump in major consumer product prices, the downward-tapering in consumer price index towards the end of the year from the high at the beginning, the deteriorating consumer confidence as a result of the fluctuation in capital market, consumers' lower expectation about future income also took their toll. In 2008, the Group continued to enhance its basic operation capabilities while insisting on the planned development strategy. As such, it recorded steady growth in turnover and profit attributable to shareholders.

In 2008, the turnover of the Group reached RMB20,702.44 million, representing a growth of 14.46% as compared to the previous year with same store sales growth reaching 8.3%. Under the keen competition, the Group managed to secure the steady growth in gross profit margin by optimizing merchandise mix, introducing new merchandise and an excellent price management and control in a proactive manner. The Group's overall gross profit margin increased to 13.55%, or 0.56 percentage points higher as compared to the previous year. Profit attributable to shareholders increased by 44.7% to RMB388.34 million as compared to 2007. Earnings per share was RMB0.62 and net profit margin was 1.88%.

2008 Review: Steady operation demonstrating growth potential

The Group's remarkable performance was a strong evidence that it has adopted a correct "Strong Outlet Strategy", which strives to strengthen basic operation capabilities, optimize merchandise mix, improve both the supply chain system and service quality in order to enhance core competitiveness.

In 2008, the Group continued its steady development and opened 464 new outlets. The retail network of the Group has reached a total of 3,872 outlets. Its three major retail formats: hypermarkets, supermarkets and convenience stores recorded positive development while its operating model, which is built upon the synchronized expansion of directly-operated stores and franchised outlets, fit in the country's urban demographic structure and so catered well to consumer demands, thus enabling us to develop more flexibly and cope better with risks.

The development of retail enterprises depends on expansion in scale and, most importantly, the continuous improvement and enhancement of management capability. With intensifying market competition and continuous expansion of the scale of our outlets, we need to review our own operation on an ongoing basis and improve the whole supply chain in catering to our customers' needs: With an aim to lower merchandise out-of-stock rate, we

continued to explore the implementation and innovation of automatic replenishment technology. In 2008, the automatic replenishment system was further extended and promoted in the Group, which improved merchandise sufficiency rate. With advanced technological equipment, comprehensive workflow management, we have more effective control over

Chairman's Statement
(continued)

key sections. The established information systems plays an important role in saving communication cost among cross-region and multifaceted-business enterprises, implementing centralized management and achieving economies of scale. The Group has been committed to establishing and improving a comprehensive information systems, which include headquarter management system, distribution centre system, outlet system, POS system, enquiry and analysis

system. We continuously improved and expanded such systems according to the requirements of the developments of our own business. The establishment of the information systems has provided an excellent platform for better inventory management, price management and supplier management.

With its 3,872 outlets, the network of Lianhua Supermarket has now covered more communities and commercial areas which has shortened the distance in space between Lianhua Supermarket and its customers. While consistently addressing customers' demands, Lianhua Supermarket will ultimately eliminate the distance from its customers. From the perspective of our customers, we adopted a category management concept in various sections such as procurement and outlet operations to lead our customers to pick up and purchase suitable products more effectively. Taking into account customers' perception, we strived to improve customers' shopping experiences by maintaining clean floors, smiling faces and providing prompt settlement services. Taking into consideration the customers' demand, our procurement staff selected local specialities from different places and held a "National Special Merchandise Festival" to give customers an opportunity to try delicacies from various places. The Group also promoted procurement from places of origin including supply of tasty red Fuji apples from Shandong and lychees from Guangzhou at competitive prices. In our continuous pursuit of improvements in operation, our outlets have become "good neighbours" of consumers.

The steady growth of turnover and results with a mature development of the membership system have provided the Group with sufficient cash flow. In 2008, the net cash inflow of the Group from operating activities amounted to RMB1,597.91 million. The strong cash flow was a significant benefit for the Group's development, which allowed us to remain confident in capturing market opportunities without haste and provided us with solid support to buy up merchandise resources, expand our retail network and implement various strategies.

Adhering to the belief of "Without even making small steps, one cannot walk a thousand miles" and our attitude of diligence and perseverance, Lianhua Supermarket's comprehensive strength is further forged during its step-by-step progression while the potential for steady growth is also witnessed.

Prospect: Make incessant headways with high aspirations

In 2009, The negative impact of financial crisis will still exist. The uncertainties of economic development will put the strength of enterprises under even severer test. A weaker consumer sentiment may affect the growth of the retail sector. Against the financial crisis, the Group will continue to implement its "Strong Outlet Strategy" and pursue quality development by focusing on enhancing operation capabilities and the supporting systems. We will also emphasize risk control and ensure sufficient cash flow. Meanwhile, the Group will fully utilize its existing network resources to actively seize the opportunities brought about by the government policies of stimulating consumption and boosting domestic demand. By doing so, we will be able to turn crisis into opportunities. In face of an increasingly competitive environment, the Group will adhere to its strategy of differentiating itself, improving its merchandise mix and services, and strengthening the risk resistance capabilities.

I would like to thank the Board, the management and all our staff for their hard work and dedication. I would also like to thank the shareholders and our business associates for their strong support to the Group.

On behalf of the Board

Wang Zhi-gang
Chairman

30 March 2009
Shanghai, the PRC

Five Years Financial Highlights

"I enjoy so much to choose my favourite snack in Lianhua with Mom everytime!"

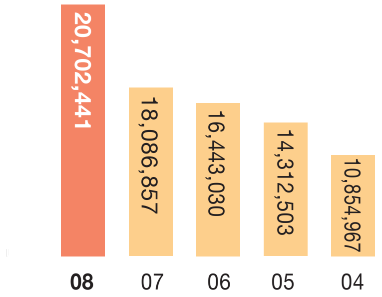
Five Years Financial Highlights

For the Year Ended 31 December

Unit: RMB'000	2008	2007	2006	2005	2004
Turnover	**20,702,441**	18,086,857	16,443,030	14,312,503	10,854,967
Hypermarkets	**11,910,715**	9,846,161	8,568,580	7,153,548	4,717,019
– Percentage to turnover (%)	**57.53**	54.44	52.11	49.98	43.45
Supermarkets	**7,045,981**	6,560,466	6,238,956	5,642,603	4,952,964
– Percentage to turnover (%)	**34.03**	36.27	37.94	39.42	45.63
Convenience stores	**1,591,675**	1,524,042	1,545,061	1,470,475	1,119,820
– Percentage to turnover (%)	**7.69**	8.43	9.40	10.27	10.32
Other businesses	**154,070**	156,188	90,433	45,877	65,164
– Percentage to turnover (%)	**0.75**	0.86	0.55	0.33	0.60
Gross profit	**2,805,780**	2,348,636	1,981,680	1,604,221	1,352,961
Gross profit margin (%)	**13.55**	12.99	12.05	11.21	12.46
Consolidated income margin (%) (note 1)	**23.86**	25.47	23.61	19.89	20.26
Operating profit	**359,236**	417,294	229,518	257,138	255,323
Operating profit margin (%)	**1.74**	2.31	1.40	1.80	2.35
Profit attributable to shareholders	**388,341**	268,301	241,599	239,677	215,540
Net profit margin (%)	**1.88**	1.48	1.47	1.67	1.99
Earning per share (RMB)	**0.62**	0.43	0.39	0.39	0.36
Interim dividend per share (RMB)	**0.10**	0.06	0.06	0.06	0.05
Final dividend per share (RMB)	**0.15**	0.12	0.07	0.07	0.07

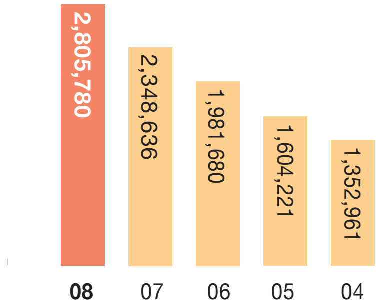
Turnover

For the Year Ended 31 December



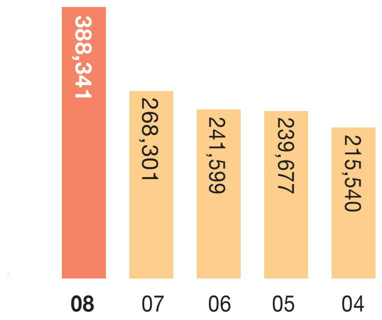
Gross Profit

For the Year Ended 31 December



Profit attributable to shareholders

For the Year Ended 31 December



Five Years Financial Highlights
(continued)

As at 31 December

Unit: RMB'000	2008	2007	2006	2005	2004
Net assets	**2,490,442**	2,238,941	2,051,500	1,890,761	1,728,349
Total assets	**13,701,336**	11,542,454	8,900,881	6,995,066	4,810,711
Total liabilities	**10,810,752**	8,951,693	6,576,062	4,879,855	2,861,594
Net cash flow	**(1,695,962)**	2,549,758	1,389,298	246,052	79,023
Average return on total assets (%)	**2.28**	2.84	3.38	4.47	5.40
Average return on net assets (%)	**16.42**	12.51	12.26	13.24	15.22
Gearing ratio (%) (note 2)	**–**	–	–	0.27	–
Liquidity ratio (times)	**0.91**	0.88	0.77	0.71	0.79
Turnover of trade payables (days)	**56**	60	62	61	62
Turnover of inventories (days)	**37**	35	36	31	29
Number of outlets	**3,872**	3,722	3,716	3,609	3,123

Notes:

1. Consolidated income margin (%) = (Gross profit + Other income + Other revenues)/Turnover
2. Gearing ratio (%) = Loans/Total assets

Management Discussion & Analysis

"we are dedicated to providing convenient access to our customers with quality products and services everyday!"

Management Discussion & Analysis

Operating Environment

According to the statistics published by the National Bureau of Statistics of China, the growth in GDP in China was 9% in 2008 and the growth in Consumer Price Index ("CPI") reached 5.9%, which was a record-high over the past 12 years. The annual total retail sales of consumer goods reached RMB10,848.8 billion, representing a growth of 21.6% as compared to previous year with a growth of 4.8 percentage points. The annual disposable income per capita of urban citizens was RMB15,781. Excluding the pricing factors, the actual growth was 8.4%, down 4 percentage points as compared to the growth rate of 12.2% in 2007.

The actual impact of the global financial crisis on the economy gradually came into view: from the second half of 2008, the economic growth obviously slowed down and the annual economic growth was the slowest among the past seven years. Residents' expectation on the future income became pessimistic due to the drop in stock markets and property markets, and the reduction in the profitability of enterprises. Financial crisis has hit various industries severely. Consumers' confidence was negatively affected by the unemployment crisis and the pressure on income increase. The Consumer Confidence Index published by the National Bureau of Statistics of China decreased to 87.3 in December 2008 from 94.5 in July 2008.

Although the financial crisis will exert enormous pressure on the growth of the retail industry in the short term, the Group remains optimistic about the long term prospect of the industry. Firstly, with a view to stimulating the economy, the central and local governments have already put in place a series of measures to stimulate consumption growth, such as distributing consumption vouchers, "providing subsidies to farmers in purchasing electrical appliances" and supporting "supermarkets to open outlets in rural areas" under the "marketing project for ten thousand villages and a thousand rural areas". It is believed that these measures will play a part in stimulating consumer spending. Secondly, China's urbanization process will not be slowed down and the consumer market capacity will continue to grow. Thirdly, with China's economy growing rapidly for years, resident income has increased significantly and will continue to rise, particularly in certain developed cities. Therefore, the demand for the quality of products will not

be given up by consumers, and the consumption concept of stressing the importance of quality and safety is gradually taking root. Fourthly, the generation borned during the 80's who has brand new consumption attitude and purchasing power is becoming the dominant consumer group in China. This group, comprising baby boomers, forms many new families, which, to a large extent, become the new force for the growth of consumption. The Group believes that opportunities and challenges co-exist and China's retail industry still have the room and ability to grow steadily.

Financial Review

Growth in turnover and consolidated income

In 2008, the Group recorded a turnover of RMB20.70 billion, representing a growth of 14.46% as compared with that of 2007, and same store sales growth reached 8.3%. Turnover increased steadily due to the prominent effect of continuous improvement in operation and the excellent performance of new outlets. As a result of dropping prices, shrinking consumption and the effects of other factors, the same store sales growth rate slowed down in the second half of the year.

During the year, the gross profit grew steadily and increased to RMB2,805.78 million, an increase of 19.46% as compared to that of previous year. The gross profit margin increased steadily by 0.56 percentage point to 13.55% due to the Group's continuous improvement in its product mix and good pricing strategy. The consolidated income reached RMB4,939.05 million with a consolidated income margin of 23.86%, which is a well-maintained level.

Note:

1. Consolidated income = Gross profit + Other revenues + Other income

Cost and net profit

In 2008, the Group was still under the pressure of rising operating cost. Its overall cost ratio slightly increased by 0.55 percentage point as compared to that of the previous year, of which the ratio of labour cost increased by 0.85 percentage point due to the external factors, while the ratio of utility expenses, depreciation and amortization all decreased.

The operating profit reached RMB359.24 million, representing a decrease of 13.91% over that of 2007. Excluding non-recurring expenses and profit in both years, the actual growth was approximately 79.30% as compared to that of 2007.

The Group recorded a total net profit attributable to the Company's shareholders of RMB388.34 million, representing an increase of 44.74% over that of 2007. The growth of net profit resulted from the sharp growth in the profitability of core business and the advantage of decreased tax rate. In 2008, the net profit margin attributable to the Company's shareholders reached 1.88% and earnings per share reached RMB0.62.

Liquidity

In 2008, thanks to the solid growth in the business operation and the coupon issuing, the Group's net cash inflow from operating activities remained strong and reached RMB1,597.91 million, cash and bank balances as at the year-end amounted to RMB6,559.82 million. The sufficient cash flow provided good support to the operation capability for commodities and expansion of outlets. Also, while ensuring the liquidity and safety, the Group achieved good financial return through active treasury management.

For the year ended 31 December 2008, the turnover period of the Group's trade payables was 56 days. Inventory turnover period was approximately 37 days.

During the year, the Group did not use any financial instrument for hedging purposes and the Group did not issue any hedging instrument as at 31 December 2008.

Management Discussion & Analysis
(continued)

Growth in retail business

Hypermarket

During the year, the Group's hypermarkets recorded a turnover of RMB11,910.71 million, which accounted for approximately 57.53% of the Group's turnover, representing an increase of approximately 20.97%, and gross profit margin increased steadily to 11.83%. Same store sales growth reached 7.80%. Segment operating profit was approximately RMB118.66 million, representing an increase of RMB113.45 million over that of 2007. The operating profit margin rose by 0.95 percentage point as compared with that of 2007 and the profitability of hypermarkets improved significantly.

	2008	2007
Gross Profit Margin (%)	11.83	11.09
Consolidated Income Margin (%)	23.04	24.23
Operating Profit Margin (%)	1.00	0.05

Supermarket

During the year, the Group's supermarkets recorded a turnover of approximately RMB7,045.98 million, which accounted for approximately 34.03% of the Group's turnover, representing an increase of 7.40% over that of the previous year, and gross profit margin increased to 15.83% on a stable basis. Same store sales growth reached 9.50%. Segment operating profit was approximately RMB269.12 million. The continuous transformation of supermarkets outlets brought the steady growth of profitability of the segment.

	2008	2007
Gross Profit Margin (%)	15.83	15.09
Consolidated Income Margin (%)	24.13	23.51
Operating Profit Margin (%)	3.82	3.52

Convenience Stores

During the year, the Group's convenience stores recorded a turnover of approximately RMB1,591.67 million, which accounted for approximately 7.69% of the Group's turnover, representing an increase of approximately 4.44% over that of the previous year. Gross profit margin increased slightly to 15.58%. Same stores sales growth reached 6.90%. Segment operating profit was approximately RMB26.57 million, representing a stable 8.82% increase over that of 2007, if one-off income on the disposal of Guangzhou Lianhua Quik Stores Co., Ltd in 2007 is excluded.

	2008	2007
Gross Profit Margin (%)	15.58	15.47
Consolidated Income Margin (%)	23.22	24.84
Operating Profit Margin (%)	1.67	2.93

Capital structure

As at 31 December 2008, the Group's cash and bank balances were mainly held in Renminbi and the Group had no bank borrowings.

During the period under review, equity attributable to shareholders of the Group increased from RMB2,238.94 million to RMB2,490.44 million, which was mainly due to net profit of 2008 amounting to RMB388.34 million and dividends distribution amounting to RMB136.84 million during the period under review.

Details of pledged assets of the Group

As at 31 December 2008, the Group did not pledge any of its assets.

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 be able to meet its foreign exchange requirements.

Share capital

As at 31 December 2008, the classes and number of shares of the Company are as follows:

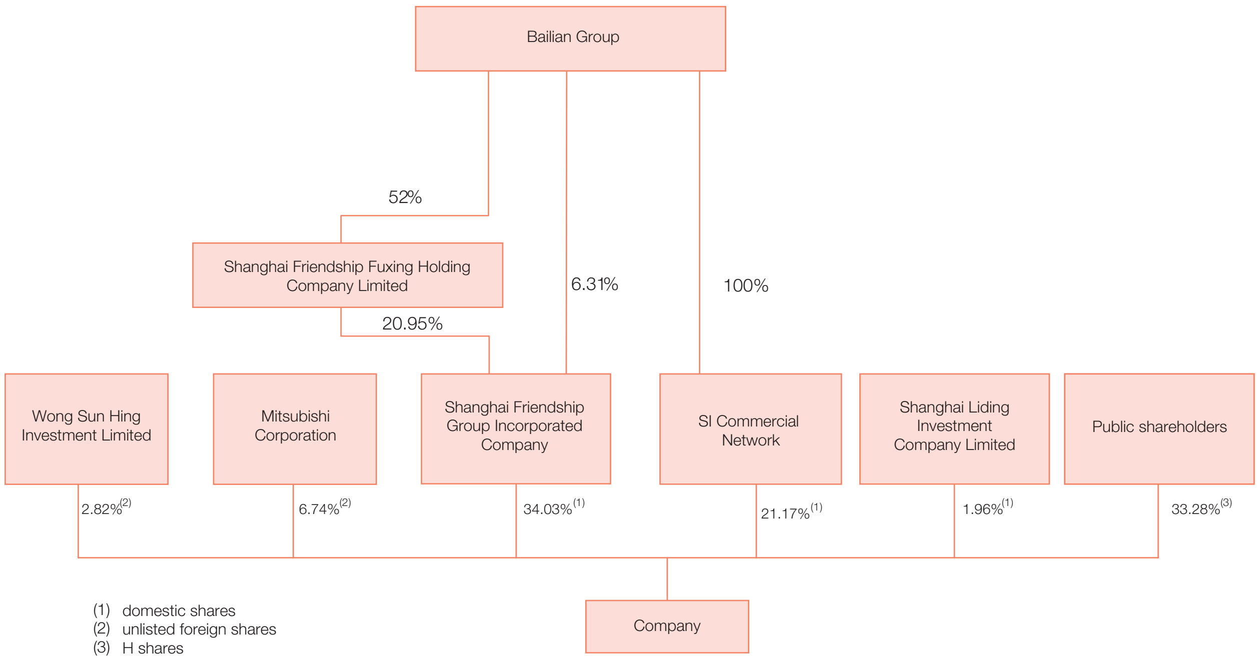
Class of shares	No. of issued shares	Percentage
Domestic shares	355,543,000	57.16
Unlisted foreign shares	59,457,000	9.56
H shares	207,000,000	33.28
Total	622,000,000	100.00

The Company was informed that two shareholders of Shanghai Industrial United (Group) Commercial Network Development Company Limited ("SI Commercial Network"), namely Shanghai Industrial Pharmaceutical Investment Co., Ltd. ("Shanghai Industrial Pharmaceutical") and Shanghai Hua Rui Investment Co., Ltd. ("Shanghai Hua Rui"), entered into an equity transfer agreement (the "Equity Transfer Agreement") with Bailian Group Co., Ltd. ("Bailian Group") on 21 January 2009.

SI Commercial Network owns 131,683,000 domestic shares of the Company, representing approximately 21.17% of the equity interest in the Company. Pursuant to the Equity Transfer Agreement, Shanghai Industrial Pharmaceutical and Shanghai Hua Rui conditionally agreed to transfer approximately 72.62% and 27.38% equity interest of SI Commercial Network, respectively, to Bailian Group at the considerations of RMB766.75 million and RMB289.10 million, respectively. The Company was informed that the equity transfers were completed as at the date of this announcement. Please refer to the announcement of the Company dated 21 January 2009 for details.

Management Discussion & Analysis
(continued)

Shareholding structure of the Company after completion of the Equity Transfer Agreement



Contingent liabilities

As at 31 December 2008, the Group did not have any significant contingent liability.

Operating Review

Our prudent development strategy enabled us to strengthen our edges on an ongoing basis

As a cross-region and multi-formats chain supermarket enterprise, the Group continues to seek better location and open new outlets to make shopping more convenient for customers. In recent years, the Group has maintained a steady pace of opening about 400 outlets every year, and continued to explore potential markets and shopping channels for consumers. The synchronized development of our three major businesses, namely, hypermarkets, supermarkets and convenience stores, has provided consumers with convenience and flexibility in shopping due to the availability of choices in terms of time and place. In 2008, the Group opened 464 outlets. As at the end of the year, the Group had a total of 3,872 outlets, spanning across 20 provinces and municipalities under the direct supervision of the Central Government, and 84% of our outlets are located in Eastern China area.

Centralization in regional development is the Group's strategy for network development, which adapts to China's actual situation – dispersed markets with a weak supply chain system. Centralized development in focused regions facilitates economies of scale: in Shanghai and Hangzhou City, the Group have the largest number of outlets in relation to our 3 major formats in the local markets. The Yangtze Delta region with these two cities as the core is where our major operation lies. The strong logistics distribution and information systems provide support to our further development in this region. The Convenience Store in Dalian is another typical example of development in focused regions with which have already achieved economies of scale and witnessed a promising growth prospect by opening outlets in focused areas and upgrading their operations constantly: in 2008, the growth of same store sales exceeded 10%.

The Group's store expansion considers both focus and coverage of the network, thus enhances the enterprise's risk resistance capability. Despite the macro-environment of economic slowdown and shrinking consumption, the Group still see opportunities: the State policy of "subsidizing farmers' purchase of electrical appliances" and supporting "supermarkets' move to open outlets in rural areas" under the "marketing project for ten thousand villages and a thousand rural areas" have brought new opportunities to the Group's outlets operating in the second and third tier markets, as well as our franchising business to develop in the rural markets. Although the convenience stores in business districts will be affected directly by sluggish business operations and the resulting weaker consumption power of customers, the balanced distribution of the Group's outlets in residential and tourism areas has reduced the overall impact of the negative factors on our businesses.

Our chain supermarket management experience accumulated over the years and the excellent brand reputation established throughout the years have continuously attracted new franchisees. The franchised outlets are mainly located in rural counties and second and third tier cities. With urbanization taking place in recent years, these regions have witnessed a rapid increase in consumption power and market capacity. Capitalizing on the edges of our franchisees, the Group have established a development model outside city centres. The Group endeavour to achieve a win-win situation with our franchisees in our joint development and treat them as targets that we serve. In the "Franchisee Briefing Session" held on every Wednesday, the professional personnel of the Group prepared promotional materials such as videos and pictures for individuals and enterprises which are interested in joining the Group. We also answered their questions and addressed their concerns. Through the professional information system "Home for Franchisees", the merchandise information can also be disclosed and the orders and reconciliations can be made on the internet. In 2008, the Quik Convenience Store opened its 1,000th franchised outlet. During the year under review, the number of new franchised outlets of the supermarket and convenience store reached 178 and 218 respectively.

As at 31 December 2008	Hypermarkets	Supermarkets	Convenience stores
Direct operation	127	546	934
Franchise operation	–	1,242	1,023
Total	127	1,788	1,957

Improving operation brought good results which underpinned a solid foundation for long-term development

It is well said that "any high building must be supported by a solid base". In the fierce market competition, the Group understand that our healthy and long-term development relies on continuous improvement, as well as innovation, of operational capability. Hence, the Group always stress the improvement in our basic capacity and key sections of operation. Ongoing pursuit of innovations in technologies and business models is the key to strengthening the competitiveness of our local retail entities. Since 2007, the Group has been applying the "Strong Outlet" strategy by emphasizing the incessant upgrade of all fundamental functions, such as supply chain system, information system, workflow restructuring and site management in store.

With the focus on demands of outlets, or actually the needs of consumers, the "Strong Outlet" strategy is carried out by upgrading the automatic stock replenishment technology with lower out-of-stock rate. By using a B2B platform, we implemented an improvement plan for key suppliers which gained increase in order adequacy rate. Besides, the planning for new distribution centers was made based on imported advanced technologies as well as practical experience, in order to achieve a high volume distribution with efficiency in Yangtze River Delta. In respect of merchandise management and outlet operation, we adopted and implemented a category management concept for a better operation in merchandise business.

As impacted by the macroeconomic environment and the relevant regulations, operating costs of most corporates rose inevitably. As such, the Group continued to seek cost control through increasing the utilization rate of the resources. As to the labour cost, our staff's working efficiency was enhanced by providing training to improve their operational skills. Meanwhile, by improving the work schedule, we endeavored to implement flexible work time in the outlets with an aim of reducing the overtime work and controlling the increase in labour costs to a reasonable extent. The Group made every effort to reduce the utility charges by improving the electrical equipment and employing energy-saving equipment. Although there was an upward pressure on the labour costs as a result of relevant policies in 2008, the proportion of both utility charges and depreciation and amortization charges to turnover decreased. The Group's overall cost ratio increased slightly by 0.55 percentage point due to the sustainable and effective cost control measures.

The year of 2008 was a year of improvement and innovation for the Group. The accumulated management experience and innovative system strengthened the Group's belief that internal upgrade would facilitate our operational efficiency, cost saving and quality service. The Group would finally become a reliable life partner to our customers in their daily life which will serve as the foundation for our foothold in the market as well as our ability to cope with challenges.

Be aware of the changes in customers' needs to improve their shopping experiences

Supermarket chain is a traditional yet modern business. The Group needs to keep up with the changes in its customers' needs in order to better organize its merchandise to satisfy their daily needs. The Group also needs to extend the scope of its services to enhance our customers' shopping experiences.

In 2008, capitalizing on our nationwide presence, the Group sought out local specialties in different places and subsequently introduced them to customers. Two "Special Chinese Food Festivals ("中華特色美食節")" were held respectively. Over 500 types of local specialties were served in the festivals, which enabled our customers to "taste different foods in one go". On one hand, Shanghai customers tried Lipu Taros from Guangxi and hotpots originated in Sichuan. On the other hand, the northerners tried "Niu Pi Tang", a renowned candy from Yangzhou and pastries from Fu Zi Miao in Nanjing. While providing a wide range of fresh choices for our customers, we noticed that the differentiating operation had brought an increase in our revenue as well as positive feedbacks from our customers. Under the circumstances of the economic slowdown and deteriorating consumer sentiment, the Group pay more and closer attention to the change of the consumption trend: in 2008, the Group selectively bought out the merchandise in the market, and then selling them in good quality to our customers for low price. The Group procured fruits and vegetables from the places of origin to ensure the quality and price of such daily necessities.

The year of 2008 was the fifth year of the transformation of our supermarket business. Having gone through continuous explorations, the Group achieved a better defined positioning in the supermarket sector. In Shanghai, Zhejiang and Guangxi, the Group has transformed 215 supermarkets in a more precise way according to commercial zones and communities where they belonged. Such supermarkets included the high-ended "Premier Foods Market (超級生活館)" and those which has concepts of "fresh", "convenient" or emphasis on food are adjacent to communities to better serve the needs of the target customers. Moreover, with our belief "Lianhua is right there for you" in mind, the Group kept upgrading the quality of our service as well as got closer with our customers: the concept behind our outlets is about getting integrated in communities and enhancing communication with the residential committees. The Group also extended our care to the elderly by providing them with home delivery service. Our high-ended outlets also had English-speaking staff to serve foreign customers.

In 2008, four "upgraded" Lianhua Quik stores were unveiled in Shanghai. The "upgraded" Lianhua Quik not only had facelift but also got successfully transformed into small multi-functional outlets where customer could easily repay debts on credit cards at "financial path (金融通道)". Customers could also download games, add value to mobile phones and take photo through self-service facilities there. All the value-added services extended the concept of traditional retail service. The convenience stores' advantageous network has its additional value and changes its function in customers' daily life. Not only do we sell merchandise, we also provide a number of services for the customers to satisfy their needs in daily life.

Enhance the internal control and risk management to ensure the effective implementation of the corporate strategy

The internal control and risk management is the guarantee of the implementation of our strategy. Today, under the unforeseeable economic circumstances with risks emerging suddenly, improvement in the internal control and risk management is critical for an enterprise to survive. The Group has been dedicated to building a comprehensive internal management system by instilling in the staff the awareness of internal control at all levels. We put emphasis on system review together with process rationalization and carried out risk assessment for projects to ensure effective risk control.

As regards the control of investment risk, the Group established a complete network development procedure and enforce the accreditation on the store by investment management committee. The Group also issued outlet positioning reports and risk evaluation reports so as to provide the strongest guarantee on store quality and minimize investment risk. Due to the cross-region and multi-formats nature of the Group, the Group centralised its capital management. Under the premise of emphasizing the safety and liquidity of cash, the Group rigorously controlled investment risk and focused on hedging and appreciation in cash management.

Responsibilities create value. We actively fulfilled our social responsibilities

In face of a series of contingent events in 2008, the Group tried its best to fulfill its social responsibilities. The staff of the Group actively gave donations on their own initiatives to the disaster area in "512" Wenchuan Earthquake in Sichuan. The hypermarket in Deyang, Sichuan was the first retailer to resume operation in the area. It was also actively involved in the earthquake relief work and distributed food and daily necessities to the residents affected by the earthquake. After the State promulgation of the "order of charging fees for plastic bags to discourage their use", our outlets actively organized a series of activities promoting environmental protection concepts to consumers, such as the activity of "accepting the redemption of a recycled bag with 50 bonus points and the award of additional bonus points to members who bring their own shopping bags" In this way, we set an example by taking part in environmental protection. In the milk powder incident, the Group also shouldered the social responsibility of receiving returned goods from consumers. As an end supplier providing consumers with food and daily necessities, the Group is aware of our huge responsibility in quality supervision, and we endeavour to guarantee the quality and safety of our merchandise through stringent management. We have put in place stringent operation procedures for staff to follow from their procurement operations to the on-site management of hypermarkets. The Group believes that responsibilities create value, and responsible enterprise behaviour is crucial to the realization of strategic objectives, including enhancing innovation capability, staff quality and enterprise reputation.

Employees are the Most Precious Asset of the Enterprise

Retail industry is a labor intensive industry. From our retail outlets, logistic distribution center to our negotiation with suppliers, close to 50 thousand employees are the ones delivering services and merchandise for our customers on behalf of Lianhua Supermarket. While creating a harmony inside the enterprise and taking care of employees, the Group believes that in our Company, the individuals are able to strengthen their abilities along with our growth. While we achieve a better result, our employees can also develop their careers, which are the greatest rewards to their diligence at work. In 2008, the Group held "Skill Contest" for several times in order to cultivate an atmosphere for enhancing individuals' abilities, taking care of each other and taking initiatives in various business segments and departments. Furthermore, the Group's professional training team set up a training scheme, by which the employees could receive trainings and gain knowledge in different aspects including professional skills, psychology, work discipline, body health etc.

Business of Associated Companies

During the year under review, Shanghai Carhua Supermarket Company Limited ("Shanghai Carhua") opened 7 new hypermarkets. As at 31 December 2008, Shanghai Carhua operated a total of 19 hypermarkets in Shanghai.

For the twelve months ended 31 December 2008, the Group's share of results of associates was approximately RMB149.48 million. The associates developed their businesses steadily.

Material Acquisitions and Disposals

For the year ended 31 December 2008, the Group did not have any material acquisitions and disposals.

Employment and Training

As at 31 December 2008, the Group had a total of 49,640 employees, representing an increase of 3,115 employees during the year under review. Total staff costs amounted to RMB1,526.05 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 full-time 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, 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. During the period under review, in order to enhance the operational skills of the frontline employees, nationwide competitions for operational skills were held and an allowance incentive system was implemented for the skilled workers. In addition, a mentorship system was established primarily for skilled workers. During the period under review, as examined by the Shanghai Labour Protection Bureau (上海市勞動保障局), the Group obtained the certification for qualifying occupational skills of skilful staff, which helped the Group to nurture skilful staff. During the period under review, the Group optimized the training to full-time and part-time trainers, with an aim to further facilitate and enhance the quality of staff training. During the period under review, the position capacity quality model of shop managers for the hypermarket segment, managers and management trainees of headquarters was formulated during the first quarter, which was then applied to the recruitment, training and assessment of the relevant positions. During the period under review, the Group has established talents cultivation and retaining funds as well as the Provisional Regulation on Human Resources Development and Cultivation and Retaining of Talents. It also 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 Plan

It is possible that the economy in 2009 is going to face even severe challenges. The recovery of customers' confidence relies on the stability of economic development and the maturity of the social insurance scheme. Facing the pressure brought by external uncertainty, the Group will strengthen our confidence and adopt positive attitude to face any challenges. While put customer's needs as priority, we will make more effort to improve our operational capability, optimize the internal management and enhance control of

Management Discussion & Analysis
(continued)

risk in the hope of seizing any opportunities in the crisis and maintain the consistent stable growth of our results as well as improving profitability.

The Group will continue to implement its prudent development strategy while keeping an eye on the market to swiftly seize any opportunity for growth. In line with our "Strong Outlet" strategy, we will focus on the enhancement of operating capability. We will speed up the application and promotion of category management technology so as to improve productivity of shelves through deciding merchandise mix according to the characteristic of market area. Also, we will promote and improve the automatic stock replenishment technology in order to develop a smooth merchandise circulation system so that the order satisfaction rate and the composition of inventory can be improved. The Group will pay more attention to the change of consumers' consumption trend and accordingly adjust the merchandise mix from time to time in order to help our customers live a better life during economic crisis. The Group will focus on the fresh produce business through a fine combination of procurement modes including procurement from places of origin, strategic co-operation with suppliers, market-oriented sourcing and merchandising tender so as to reduce our purchasing cost and develop a supply chain of fresh products which is stable in supply and consistency in quality. Moreover, we will strictly implement cost and capital expenditure budgeting so as to ensure sound cash position, and further improve energy saving capability via better usage of equipment. We will speed up the establishment of new logistics center and improvements in information system and focus on strengthening the support from supply chain system. With building up a scientific concepts of talents, the Group will focus on the enhancement of employee's capacities.

Profiles of Directors, Supervisors and Senior Management

Executive Directors

Wang Zhi-gang

Mr. Wang Zhi-gang, 52, 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) in 1982 and holds a Bachelor's degree in economics. He graduated from Fudan University (復旦大學) in 1991 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 Bailian 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, 58, 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. In 2008, he graduated from Shanghai National Accounting Institute with an EMBA, majoring in financial management. From 1982 to 1992, he worked in Shanghai Textile Company (上海紡織品公司) as a division chief and was responsible for business planning. From 1992 to 1994, he worked in Shanghai Union Trading Corporation (上海市內外聯合貿易公司) as a manager, responsible for foreign trade business. Mr. Liang joined the Group in November 1994. From 1994 to 1997, he was the deputy general manager of the Company, and 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 "National Commercial Excellent Venture Entrepreneur of The Third Session" 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). In the same year, Mr. Liang was awarded as the "National Commercial Excellent Venture Entrepreneur of The Fourth Session". In 2008, Mr. Liang was recognized as the "Shanghai Commercial Excellent Venture Entrepreneur", and accredited as the "Entrepreneur for its Achievement in Leading the Business Reform and Development in China" by the China Commercial Enterprise Management Association.

Xu Ling-ling

Ms. Xu Ling-ling, 50, 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. In 2007, Ms. Xu was elected as a representative of the 13th Session of the National People's Congress of Shanghai. She was awarded as the Labour's Role Model of Shanghai (上海市勞動模範) by the Ministry of Personnel and the Ministry of Commerce of the People's Republic of China in 2008.

Cai Lan-ying

Ms. Cai Lan-ying, 56, a senior economist, is a deputy general manager of the Company and the chairman of the board of Hangzhou Lianhua Huashang Group Co., Ltd (杭州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, 51, 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 chairman of Shanghai Medical Group, 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 March 1997.

Yao Fang

Mr. Yao Fang, 39, an economist and graduated from the Chinese University of Hong Kong with a master's degree of business administration in 1993. 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, general manager of SIIC Management (Shanghai) Ltd. (上實管理(上海)有限公司) and the chief executive of Shanghai Industrial Pharmaceutical. From February 2005 until now, he has acted as the director 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, 55, 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 working 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, 57, is the president of Wong Sun Hing Investment Co., Ltd. (王新興投資有限公司) From 1970 to 1978, Mr. Wong was the manager of Sun Hing Textile Factory (新興毛紡織造廠), and from 1978 to 1990, he was the managing director of Wong Sun Hing Company Limited (王新興有限公司). Since 1990, he has been the president of Wong Sun Hing Group. He has also been the chairman of Shenzhen Xin Xing Entrepreneurship Guarantee Company Limited (深圳新興創業擔保有限公司) since 2003 and he has been acting as the chairman of Guangzhou Wanling Properties Company Limited (廣州市萬菱置業有限公司) from 2004. Since 2005, he has also been acting as the chairman of Wanling Industrial (Guangdong) Company Limited (萬菱實業(廣東)有限公司). Mr. Wong joined the Group in April 1997, and he has over 30 years of business experience.

Hua Guo-ping

Mr. Hua Guo-ping, 46, 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 Co., Ltd. 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, 51, is the financial controller of Stella International Holdings Ltd ("Stella"), which is listed on the Stock Exchange. 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, 52, 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 Shanhai Meilin (Group) Company Limited (上海梅林(集團)股份有限公司). He joined the Group in January 2003.

Xia Da-wei

Mr. Xia Da-wei, 56, 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, 56, 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, 59, 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 and Shanghai National Accounting Institute with an EMBA majoring in financial management in 2002 and 2008 respectively. 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, 35, 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.

Joint Company Secretaries

Xu Ling-ling

Please refer to profiles of Executive Directors (Page 30).

Stephen Mok

Mr. Stephen Mok, 44, is the joint secretary of the Company and the principal of Stephen Mok & Co.. 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 the joint company secretary of Datang International Power Generation Co., Ltd. (a company listed on the Stock Exchange).

Senior Management

Fang Jin-ping

Ms. Fang Jin-ping, 52, 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.

Jin Guang-wei

Mr. Jin Guang-wei, 54, 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 and operating management of Lianhua Super Market. 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, 54, 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 20 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, 54, 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 served as the chief of human resources department 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, 54, 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 distribution management division in August 2005. He was appointed as the deputy general manager in December 2005.

Shareholding Structure

34.03%
Shanghai Friendship Group Incorporated Company

21.17%
Shanghai Industrial United (Group) Commercial Network Development Company Limited

6.74%
Mitsubishi Corporation

Lianhua Supermarket Holdings Co., Ltd

2.82%
Wong Sun Hing Investment Company Limited

1.96%
Shanghai Liding Investment Company Limited

33.28%
Public

Report of the Directors

The Board is pleased to present to the shareholders its report of the Company for the year ended 31 December 2008.

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:

	2008 Percentage	2007 Percentage
Purchases		
Largest supplier	**4.24**	4.43
Five largest suppliers	**10.43**	10.15
Sales		
Largest customer	**0.10**	0.11
Five largest customers	**0.22**	0.24

During the year ended 31 December 2008, to the best knowledge of the Directors, none of the Directors, the supervisors (“Supervisors”) of the Group, 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 2008, the Company’s principal subsidiaries are Century Lianhua, Shanghai Lianhua Quik Convenience Stores Company Limited (the “Quik Convenience”), 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 2008, the Company’s principal associated company is Shanghai Carhua.

Please refer to note 43 to the consolidated 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 2008 are set out in the consolidated profit and loss account on page 64 of the annual report.

The financial condition of the Group as at 31 December 2008 is set out in the consolidated balance sheet on pages 65 to 66 of the annual report.

The cash flow of the Group for the year ended 31 December 2008 is set out in the consolidated cash flow statement on page 70 of the annual report.

Dividends Distribution

Pursuant to the consolidated accounts of the Group for the year 2008 and audited by PricewaterhouseCoopers in accordance with the Hong Kong Financial Reporting Standards (the "HKFRS"), profit attributable to shareholders of the Company was RMB935.14 million. Pursuant to the consolidated accounts of the Group for the year 2008 prepared and audited by Shanghai Certified Public Accountants in accordance with the PRC Accounting Standards, profit attributable to shareholders of the Company was RMB748.05 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 the two accounts mentioned above. Accordingly, the attributable profit of the Company for the year 2008 was RMB748.05 million.

The Board recommends to distribute a final dividend of RMB0.15 (including tax) per ordinary share of the Company in cash for the year ended 31 December 2008. The distribution proposal will be presented at the Company's annual general meeting of 2008 for consideration and approval.

The Board meeting held on 12 August 2008 approved the distribution of an interim dividend of RMB0.10 (including tax) per ordinary share of the Company as of 30 June 2008. 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 2008, the total amount of dividends distributed by the Company in 2008 would be RMB0.25 (including tax).

The register of H shares members of the Company will be closed from Monday, 27 April 2009 to Wednesday, 27 May 2009 (both days inclusive) during which period no transfer of H shares will be effected. The final dividend will be distributed to the shareholders of H shares of the Company whose names appear on the Company's register of members on Monday, 27 April 2009. In order to qualify for the final dividend, holders of H shares must lodge their share certificates together with the relevant share transfer documents with Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Friday, 24 April 2009.

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

In accordance with the Law on Corporate Income Tax of the People's Republic of China and its implementation regulations which came into effect on 1 January 2008, the Company is required to withhold corporate income tax at the rate of 10% on behalf of the non-resident enterprise shareholders whose names appear on the H shares share register of members of the Company when distributing final dividends to them. Any H shares of the Company registered in the name of the non-individual registered shareholder, including HKSCC Nominees Limited, other nominees, trustees, or other organizations or groups, shall be treated as shares being held by a non-resident enterprise shareholder. As such, the corporate income tax shall be withheld from the dividend payable to such shareholders.

All investors should consider the preceding contents carefully. If any investor intends to change the identity of the holders in the shareholders register, please kindly enquire about the relevant procedures with your nominees or trustees. The Company has no responsibility and shall not be held responsible for confirming the identities of the shareholders. The Company will strictly comply with the law, and withhold and pay the corporate income tax on behalf of the relevant shareholders based on the H shares share register of members of the Company as at 27 April 2009. The Company will not accept any requests relating to any delay in confirming the identity of the shareholders or any errors in the identity of the shareholders.

Reserves

During the year under review, shareholders' equity of the Group increased from approximately RMB2,238.94 million to approximately RMB2,490.44 million.

Details of the movements in reserves during the year are set out in note 34 to the consolidated accounts of this annual report.

Fixed assets

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

Bank loans, overdrafts and other borrowings

As at 31 December 2008, 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 Company in 2008:

Highest trading price per H share during the year	HK$14.50
Lowest trading price per H share during the year	HK$7.54
Total turnover volume of H shares during the year	140 million shares
Closing price per H share as at 31 December 2008	HK$9.62

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 2008, 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 2008, details of shareholders as recorded in the Register of Members of the Company are as follows:

Total number of shareholders	21
Holders of domestic shares	3
Holders of unlisted foreign shares	2
Holders of H shares	16

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 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 one year from the date on which the Company was converted from a limited company into a joint stock limited company and listed on a stock exchange;

(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 transfer of Unlisted Foreign Shares into H shares;

(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 2008, none of the directors, chief executive and 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 Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

As at 31 December 2008, Mr. Hua Guo-ping, Mr. Wang Long-sheng, Mr. Zhang Zeng-yong, Mr. Lu Ming-fang and Mr. Yao Fang (the Directors and Supervisors of the Company) are directors, supervisors or employees of Shanghai Friendship Group Incorporated Company ("Shanghai Friendship"), Shanghai Industrial Pharmaceutical Investment Co., Ltd. ("Shanghai Industrial Pharmaceutical"), Shanghai Industrial Holdings Limited ("SIHL") and/or Shanghai Industrial Investment (Holdings) Company Limited ("SIIC"). As disclosed below, these companies had interests in the shares of the Company as at 31 December 2008 as recorded in the register required to be kept under section 336 of the SFO.

Substantial Shareholders of the Company

So far as the Directors are aware, as at 31 December 2008, 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 total voting rights of the Company	Approximate percentage of voting rights of domestic shares and unlisted foreign shares	Approximate percentage of voting rights of H shares
Shanghai Friendship	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 1,4and 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%	–
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%	–

Name of shareholders	Class of shares	No. of domestic shares/unlisted foreign shares/ H shares	Approximate percentage of total voting rights of the Company	Approximate percentage of voting rights of domestic shares and unlisted foreign shares	Approximate percentage of voting rights of H shares
Arisaig Greater China Fund Limited	H Shares	43,610,000(L)	7.01%(L)	–	21.07% (L)
Arisaig Partners (Mauritius) Limited	H Shares	43,610,000(L)	7.01%(L)	–	21.07% (L)
Cooper Lindsay William Ernest	H Shares	43,610,000(L)	7.01%(L)	–	21.07% (L)
Schroder Investment Management (Hong Kong) Limited	H Shares	12,593,000(L)	2.02%(L)		6.08% (L)
Government of Singapore Investment Corporation Pte Ltd	H Shares	12,502,300(L)	2.01%(L)	–	6.04% (L)
Matthews International Capital Management, LLC	H Shares	12,451,000(L)	2.00%(L)	–	6.01% (L)
Pioneer Investment Management Limited	H Shares	12,439,000(L)	2.00%(L)		6.01% (L)
The Bank of New York Mellon Corporation	H Shares	12,405,000(L)	1.99%(L)		5.99% (L)
FIL Limited	H Shares	12,312,000(L)	1.98%(L)		5.95% (L)
The Hamon Investment Group Pte Limited	H Shares	12,281,000(L)	1.97%(L)	–	5.93% (L)
Julius Baer International Equity Fund	H Shares	12,191,558(L)	1.96%(L)	–	5.89% (L)
JPMorgan Chase & Co.	H Shares	10,513,000(L) 10,513,000(P)	1.69% (L) 1.69% (P)	–	5.08% (L) 5.08% (P)

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

Notes:

1. As at 31 December 2008, SIHL beneficially owns 100% interests in Shanghai Industrial YKB Limited ("YKB") whilst YKB owns 43.62% interests in Shanghai Industrial Pharmaceutical. Shanghai Industrial Pharmaceutical beneficially owns 100% interests in Shanghai Hua Rui Investment Co. Ltd. ("Shanghai Hua Rui"). Shanghai Industrial Pharmaceutical and Shanghai Hua Rui hold 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 the shares of the Company above.

2. As at 31 December 2008, SIIC, through its wholly-owned subsidiaries, namely Shanghai Investment Holdings Limited ("Shanghai Investment"), SIIC Capital (B.V.I.) Limited ("SIIC Capital"), SIIC Treasury (B.V.I.) Limited ("SIIC Treasury"), SIIC Trading Company Limited ("SIIC Trading"), SIIC CM Development Funds Ltd. ("SIIC CM Development Funds"), The Tien Chu (Hong Kong) Company Limited ("Tien Chu HK"), SIIC CM Development Ltd. ("SIIC CM Development") and directly owns an aggregate of 51.98% interests in SIHL. Thus, SIIC, Shanghai Investment, SIIC Capital, SIIC Treasury, SIIC Trading, SIIC CM Developments Funds, Tien Chu HK and SIIC CM Development are deemed to have the discloseable interests in shares of the Company above.

3. As at 31 December 2008, Mr. Hua Guo-ping, a non-executive director of the Company, is an executive director of Shanghai Friendship. Mr. Wang Long-sheng , a supervisor of the Company, is an executive director and general manager of Shanghai Friendship. Mr. Zhang Zeng-yong, a supervisor of the Company, is a supervisor of Shanghai Friendship.

4. As at 31 December 2008, Mr. Lu Ming-fang, a non-executive director of the Company, is 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, is also a vice president of SIIC, an executive director of SIHL, and a director of Shanghai Industrial Pharmaceutical.

5. As at 31 December 2008, Mr. Lu Ming-fang, a non-executive director of the Company, beneficially owned 23,400 shares in Shanghai Industrial Pharmaceutical. Mr. Lu also beneficially owns 1,467,000 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 owns 248,000 ordinary shares in SIHL.

6. Arisaig Partners (Maritius) Ltd is a fund management institute of Arisaig Greater China Fund Limited, Arisaig Partners (Maritius) Ltd. 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 2008.

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 were completed. Bailian (Group) Company Limited has become the ultimate controlling shareholder of Shanghai Friendship Group Incorporated Company. Accordingly, Bailian (Group) Company Limited has also become 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.

Pre-emptive rights

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

Purchase, sale or redemption of shares

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

Share capital interests attributable to the Directors and Supervisors

As at 31 December 2008, 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 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 30 to 35.

Directors' and Supervisors' service contracts

The Company has entered into service contract with each of the executive Directors on 20 June 2008, 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, either directly or indirectly, 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 consolidated 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 auditors of the Company. The financial statements for the year 2008, which were compiled by the Company in accordance with the Hong Kong Financial Reporting Standards, were 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.

Qualified accountant

Subject to Rule 3.24 of the then Listing Rules (which was in force for the year ended 31 December 2008), the Company was required to employ a qualified accountant on a fulltime 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 then Listing Rules (which was in force for the year ended 31 December 2008) for a period of 3 years commencing from 7 January 2005.

Connected transactions

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

Continuing Connected Transactions – Rental Agreements

The rental agreement dated 30 September 2003 entered into between Century Lianhua as the lessee and Shanghai Friendship Shopping Center Development Co., Ltd. ("SFSC") as the lessor in respect of the leasing of No. 88, Xian Xia West Road, Chang Ning District, Shanghai, the PRC. The annual rent under this rental agreement for each of the three years ending 31 December 2011 is subject to an annual cap of RMB16,700,000, details of which were set out in the announcement of the Company dated 28 November 2008. Century Lianhua is a subsidiary of the Company and SFSC is a subsidiary of Shanghai Friendship, a substantial shareholder of the Company and thus such transactions constitute continuing connected transactions of the Company.

The rental agreement dated 3 December 2002 and the supplemental rental agreement dated 31 December 2008 entered into between Century Lianhua as the lessee and Homemart Decoration and Materials Co., Ltd. (hereinafter referred to as "Homemart") as the lessor in respect of the leasing No. 645, Xie Tu Road, Lu Wan District, Shanghai, the PRC. The annual rent (inclusive of management fee of RMB1,125,000 per year) of the premises for the periods from 1 January 2009 to 25 July 2012, from 26 July 2012 to 25 July 2017 and from 26 July 2017 to 25 July 2022 are RMB3,150,000 per year, RMB3,307,500 per year and RMB3,472,875 per year, respectively, details of which were set out in the announcement of the Company dated 31 December 2008. Since Homemart is a subsidiary of Shanghai Friendship, a substantial shareholder of the Company and thus such transactions constitute continuing connected transactions of the Company.

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 rental agreements is less than 2.5%, the above rental agreements are only subject to the reporting and announcement requirements under Rule 14A.45 to 14A.47 of the Listing Rules and are exempt from the independent shareholders' approval requirement.

Continuing Connected Transaction – Merchandising Agreement

The merchandising agreement dated 27 October 2005 entered into between the Company as the vendor and Quik Convenience as the purchaser in relation to the supply of merchandise to Quik Convenience by the Company.

As at the date of the merchandising agreement, since Quik Convenience was owned as to 70% by the Company and 30% by Shanghai Liding Investment Company Limited, one of the promotors of the Company. The transactions under the merchandising agreement constitute continuing connected transactions of the Company. Given that each of the assets ratio, revenue ratio and consideration ratio of the estimated aggregate annual amount of sales to Quik Convenience by the Company under the merchandising agreement for the three quarters ended 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 Quik Convenience by the Company for this year is RMB817,140,000.

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 during the year under review; 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 reviewed the above transactions and given written notice to the Board to acknowledge the above transactions:

(1) have been approved by the Board;

(2) have been entered into in accordance with the relevant governing agreements;

(3) 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

30 March 2009
Shanghai, the PRC

Report on Corporate Governance

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

The Board is pleased to confirm that save and except the Company's practice relating to the Directors' retirement rotation as set out below, the Company has complied with all the code provisions of the Code during the period under review and none of the Directors is aware of any information that would reasonably indicate that the Company is not or was at any time during the period under review in compliance with the code provisions of the Code as set out in Appendix 14 to the Listing Rules on the Stock Exchange.

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 at the annual general meeting on 20 June 2008, the third 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 2010. 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 third 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 during the preparation of the quarterly, interim and annual reports of the Company, other price-sensitive announcements issued and the financial information disclosed under the Listing Rules, reports submitted to the regulatory authorities and information disclosed under the 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, financing arrangements, major investments and risk management policies;

– the management has received clear guidelines and instructions in respect of their authorities, particularly in relation to the matters such as reporting to report to the Board and seeking 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)	4/4
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	4/4
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

Note:

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 at least 14 days prior to the meeting.

The members of the Board fully acknowledge their own duties and obligations in treating all shareholders on an equal basis and protecting the interests of all investors. The Company ensures that documents and information relating to the businesses of the Group are provided to Board members on a timely basis. The independent non-executive Directors perform their duties in compliance with relevant laws and regulations and safeguard the interests of the Company and its shareholders as a whole. The Company has received confirmation letters from each of the independent non-executive 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, 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 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 at the annual general meeting on 20 June 2008, the third session of the Board was established. On the same day, the Board established the third session of the four professional committees in accordance with the requirements of the Code. The third session of the Audit Committee comprised 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 third session of the Remuneration and Appraisal Committee of the Company comprised Mr. Xia Da-wei, Mr. Zhang Hui-ming and Mr. Hua Guo-ping and is chaired by Mr. Xia Da-wei. The third session of the Strategic Committee of the Company comprised Mr. Wang Zhi-gang, Mr. Lu Ming-fang, Mr. Koichi Narita and Mr. Zhang Hui-ming and is chaired by Mr. Wang Zhi-gang. The third session of the Nomination Committee of the Company comprised Mr. Zhang Hui-ming, Mr. Xia Da-wei and Mr. Hua Guo-ping and is chaired by Mr. Zhang Hui-ming. The Board has authorised the committees to formulate their respective terms of reference.

To further enhance the independence of the 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 20 June 2008 to establish the third 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 9 April 2008 to review and discussed matters such as the internal controls of the Company, financial reports, remuneration and reappointment of domestic and international auditors and continuing connected transactions for 2007, 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 2007 complied with the accounting standards and requirements of the Stock Exchange and the relevant laws and that sufficient disclosures was mades. The Audit Committee also conducted a review on the internal control system of the Company and its subsidiaries and was of the view that the Company had an effective internal control system. The Audit Committee was of the view that its domestic and overseas auditor had carried out their work with professionalism and independence, and agreed to recommend to the Board their remuneration for 2007 and suggested to re-appoint its domestic and overseas auditors for 2008. The Audit Committee confirmed that the continuing connected transactions of the Company in 2007 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 also attended the meeting to address queries raised by the Audit Committee.

The Audit Committee of the Company held a meeting on 20 June 2008, and elected Mr. Lee Kwok Ming, Don as the chief member of the third session of the Audit Committee.

The Audit Committee of the Company held a meeting on 8 August 2008 and to review and discuss with the management the matters such as internal controls, interim financial report and continuing connected transactions up to 30 June 2008, including review of the Company's condensed interim accounts prepared in accordance with the HKFRSs. The Audit Committee was of the view that the Group's interim financial report for the year has complied 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 was efficient.

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

Set out below is the attendance record of the meetings of the Audit Committee in 2008:

Name	9 April 2008	20 June 2008	8 August 2008
Independent Non-executive Directors			
Mr. Lee Kwok Ming, Don (chairman)	Present	Present	Present
Mr. Zhang Hui-ming	Present	Present	Present
Mr. Xia Da-wei	Present	Present	Present
Non-executive Director			
Mr. Hua Guo-ping	Present	Present	Present

Remuneration and Appraisal Committee

On 20 June 2008, the Board passed a resolution for the election and establishment of the third 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 their own 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 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 2 February 2008. Having taken into account the factors including, but not limited to, the remuneration level paid by comparable companies, amount of time required to be spent by the Director and the Director's duties, remuneration packages of other positions within the Group and 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 2007.

The Remuneration and Appraisal Committee of the Company held a meeting on 20 June 2008 and elected Mr. Xia Da-wei as the chief member of the third session of the Remuneration and Appraisal Committee.

The Remuneration and Appraisal Committee of the Company held a meeting on 6 November 2008. 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 executive Directors for 2008 and thereafter.

Set out below is the attendance record of the Remuneration and Appraisal Committee meeting in 2008:

Name	2 February 2008	20 June 2008	6 November 2008
Independent Non-executive Directors			
Mr. Xia Da-wei (chairman)	Present	Present	Present
Mr. Zhang Hui-ming	Present	Present	Present
Non-executive Director			
Mr. Hua Guo-ping	Present	Present	Present

Nomination Committee

On 20 June 2008, the Board passed a resolution for the election and establishment of the third session of the Nomination Committee. 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 three members, including two independent non-executive Directors (including the Chairman) and one non-executive Director.

The Nomination Committee of the Company held a meeting on 10 April 2008. Since the terms of service of the second session of the Board of Directors was to expire, according to the recommendation by Shanghai Friendship Group Incorporated Company, Shanghai Industrial United (Group) Commercial Network Development Company Limited, Mitsubishi Corporation, Wong Sun Heng Investment Co., Ltd., Shanghai Liding Investment Company Limited and the General Manager Office of the Company, the Nomination Committee of the Company nominated Mr. Wang Zhi-gang, Mr. Liang Wei, Ms. Xu Ling-ling and Ms. Cai Lan-ying to act as the executive directors of the third session of the Board; Mr. Lu Ming-fang, Mr. Yao Fang, Mr. Koichi Narita, Mr. Wong Tak Hung and Mr. Hua Guo-ping act as the non-executive directors of the third session of the Board; Mr. Lee Kwok Ming, Don, Mr. Zhang Hui-ming and Mr. Xia Da-wei act as the independent non-executive directors of the third session of the Board.

The Nomination Committee of the Company held a meeting on 20 June 2008 and elected Mr. Zhang Hui-ming as the chief member of the third session of the Nomination Committee.

Set out below is the attendance record of the Nomination Committee meeting in 2008:

Name	10 April 2008	20 June 2008
Independent Non-executive Directors		
Mr. Zhang Hui-ming (chairman)	Present	Present
Mr. Xia Da-wei	Present	Present
Non-executive Director		
Mr. Hua Guo-ping	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 external auditors to the shareholders are set out on page 63.

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 as code of conduct for securities transactions by 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 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, RMB5.91 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 defined management structure and related authorizations, so as to facilitate the Group to achieve its business objectives, to safeguard its assets against any unauthorised usage or handling, to ensure proper keeping of accounting records and to provide reliable financial information for internal use or external distribution, as well as to ensure compliance with relevant laws and regulations. The purpose of the afore-mentioned internal control system is to provide reasonable, but not absolute, assurance that there are no material misrepresentations or omissions, and to manage, but not 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.

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 internal audit department of the Company inspected, supervised and evaluated the disclosure of financial information, operations and internal controls of the Group and its associated companies on a regular basis and whenever required based on the potential risks and significance of the internal control systems of various 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 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 2007 annual report and 2008 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 approximately 220 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 Company'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 Group 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 Group 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 three meetings. On 16 April 2008, the second session of the Supervisory Committee held a meeting regarding the operations of the Group in 2007, 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 2007 and discussed and adopted its report for 2007. On 20 June 2008, Mr. Wang Long-sheng was elected as the chairman of the third session of the Supervisory Committee. On 12 August 2008, a meeting of the third session of the Supervisory Committee was held to discuss the operating conditions for the six months ended 30 June 2008 and received the relevant reports on the financial position of the Group for the first half of year of 2008.

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.

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 and third sessions of the Board of the Company have formulated and implemented the operating strategies for the development of the Group in accordance with the operation objectives as determined in the general meetings since its inauguration. Against the backdrop of keen competitive in the domestic retail market, the Board has made proper decisions according to the operating environment, 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 CO., LTD.
(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 Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 64 to 134, which comprise the consolidated and company balance sheets as at 31 December 2008, 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 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 2008 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, 30 March 2009

Consolidated Profit and Loss Account

For the Year Ended 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
Turnover	6	**20,702,441**	18,086,857
Cost of sales	8	**(17,896,661)**	(15,738,221)
Gross profit		**2,805,780**	2,348,636
Other revenues	6	**1,885,620**	1,619,536
Other income	7	**247,651**	638,132
Distribution costs	8	**(4,069,104)**	(3,462,317)
Administrative expenses	8	**(423,577)**	(363,519)
Other operating expenses	8	**(87,134)**	(363,174)
Operating profit		**359,236**	417,294
Finance income		**85,336**	38,818
Finance costs		**(979)**	(1,133)
Finance income – net	9	**84,357**	37,685
Share of results of associates	21	**149,482**	130,475
Profit before taxation		**593,075**	585,454
Taxation	11	**(130,845)**	(204,805)
Profit for the year		**462,230**	380,649
Attributable to:			
Company's shareholders	12	**388,341**	268,301
Minority interests		**73,889**	112,348
		462,230	380,649
Dividends			
– Interim	13	**62,200**	37,320
– Final	13	**93,300**	74,640
Basic and diluted earnings per share for profit attributable to Company's shareholders	14	**RMB0.62**	RMB0.43

The notes on pages 71 to 134 are an integral part of these consolidated accounts.

Consolidated Balance Sheet

As at 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	16	**2,516,387**	2,583,134
Construction in progress	17	**153,088**	171,561
Land use rights	18	**309,519**	284,429
Intangible assets	19	**183,816**	193,941
Investments in associates	21	**437,223**	394,051
Available-for-sale financial assets	22	**30,158**	26,158
Held-to-maturity financial assets	23	**8,800**	–
Term deposits with initial term of exceeding 1 year	31	**230,000**	–
Deferred tax assets	37	**65,239**	44,672
Other non-current assets	24	**26,697**	28,220
		3,960,927	3,726,166
Current assets			
Inventories	25	**2,270,696**	1,926,462
Trade receivables	26	**37,551**	34,633
Deposits, prepayments and other receivables	27	**629,109**	596,462
Amounts due from associates	28	**532**	34
Available-for-sale financial assets	22	**215,000**	120,000
Financial assets at fair value through profit or loss	30	**27,706**	116,420
Term deposits with initial term of over 3 months but not exceeding 1 year			
– Restricted	31	**649,000**	–
– Unrestricted	31	**2,584,500**	–
Cash and cash equivalents	32	**3,326,315**	5,022,277
		9,740,409	7,816,288
Total assets		**13,701,336**	11,542,454

Consolidated Balance Sheet
(continued)

As at 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
EQUITY			
Equity attributable to the Company's shareholders			
Share capital	33	**622,000**	622,000
Reserves			
– Proposed final dividend	34	**93,300**	74,640
– Others	34	**1,775,142**	1,542,301
		2,490,442	2,238,941
Minority interests		**400,142**	351,820
Total equity		**2,890,584**	2,590,761
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	37	**53,432**	70,097
Current liabilities			
Trade payables	35	**3,130,020**	2,815,286
Other payables and accruals	36	**1,539,754**	1,113,454
Coupon liabilities		**5,937,430**	4,782,538
Amounts due to associates	28	**24,681**	7,865
Amount due to holding company	29	**39,000**	39,000
Amounts due to other related parties	29	**30,788**	41,632
Taxation payable		**55,647**	81,821
		10,757,320	8,881,596
Total liabilities		**10,810,752**	8,951,693
Total equity and liabilities		**13,701,336**	11,542,454
Net current liabilities		**(1,016,911)**	(1,065,308)
Total assets less current liabilities		**2,944,016**	2,660,858

Wang Zhi-gang
Director

Liang Wei
Director

Xu Ling-ling
Director

The notes on pages 71 to 134 are an integral part of these consolidated accounts.

Balance Sheet

As at 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	16	**252,161**	260,675
Construction in progress	17	**8,374**	–
Land use rights	18	**98,462**	101,883
Intangible assets	19	**5,124**	7,792
Investments in subsidiaries	20	**826,280**	911,215
Investments in associates	21	**192,871**	186,121
Available-for-sale financial assets	22	**4,535**	4,535
Held-to-maturity financial assets	23	**3,800**	–
Deferred tax assets	37	**438**	438
Other non-current assets	24	**3,737**	3,925
		1,395,782	1,476,584
Current assets			
Inventories	25	**229,462**	216,546
Trade receivables	26	**659**	2,944
Deposits, prepayments and other receivables	27	**66,086**	54,286
Amounts due from subsidiaries	20	**3,462,613**	2,268,664
Amounts due from associates	28	**527**	34
Available-for-sale financial assets	22	**200,000**	120,000
Term deposits with initial term of over 3 months but not exceeding 1 year	31	**857,500**	–
Cash and cash equivalents	32	**231,833**	1,364,690
		5,048,680	4,027,164
Total assets		**6,444,462**	5,503,748

Balance Sheet
(continued)

As at 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
EQUITY			
Equity attributable to the Company's shareholders			
Share capital	33	**622,000**	622,000
Reserves			
– Proposed final dividend	34	**93,300**	74,640
– Others	34	**1,372,564**	1,424,507
Total equity		**2,087,864**	2,121,147
LIABILITIES			
Current liabilities			
Trade payables	35	**1,591,001**	1,429,469
Other payables and accruals	36	**258,927**	160,997
Coupon liabilities		**2,358,074**	1,027,224
Amounts due to subsidiaries	20	**127,603**	766,326
Amounts due to associates	28	**3,389**	–
Taxation payable		**17,604**	(1,415)
Total liabilities		**4,356,598**	3,382,601
Total equity and liabilities		**6,444,462**	5,503,748
Net current assets		**692,082**	644,563
Total assets less current liabilities		**2,087,864**	2,121,147

Wang Zhi-gang
Director

Liang Wei
Director

Xu Ling-ling
Director

The notes on pages 71 to 134 are an integral part of these consolidated accounts.

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2008

		Attributable to Company's shareholders				Minority interests	Total equity
	Note	Share capital RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	RMB'000	RMB'000
Balance at 1 January 2008		**622,000**	**911,447**	**705,494**	**2,238,941**	**351,820**	**2,590,761**
Profit for the year		**–**	**–**	**388,341**	**388,341**	**73,889**	**462,230**
Profit appropriations		**–**	**21,856**	**(21,856)**	**–**	**–**	**–**
Closure of a subsidiary		**–**	**–**	**–**	**–**	**(4,000)**	**(4,000)**
Acquisition of additional equity interests in subsidiaries		**–**	**–**	**–**	**–**	**(1,443)**	**(1,443)**
2007 final dividend	13	**–**	**–**	**(74,640)**	**(74,640)**	**(20,124)**	**(94,764)**
2008 interim dividend	13	**–**	**–**	**(62,200)**	**(62,200)**	**–**	**(62,200)**
		–	**21,856**	**229,645**	**251,501**	**48,322**	**299,823**
Balance at 31 December 2008		**622,000**	**933,303**	**935,139**	**2,490,442**	**400,142**	**2,890,584**
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	34(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

The notes on pages 71 to 134 are an integral part of these consolidated accounts.

Consolidated Cash Flow Statement

For the Year Ended 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
Cash flows from operating activities			
Cash generated from operations	38	**1,793,138**	3,198,847
Interest paid		**(979)**	(1,133)
PRC income tax paid		**(194,251)**	(177,222)
Net cash inflow from operating activities		**1,597,908**	3,020,492
Cash flows from investing activities			
Payments for property, plant and equipment and construction in progress		**(440,805)**	(463,578)
Payments for land use rights		**(36,755)**	(291)
Proceeds from disposal of property, plant and equipment		**9,172**	2,020
Proceeds from disposal of land use rights		**–**	10,390
Payments for intangible assets		**(8,837)**	(2,652)
Increase in unrestricted term deposits		**(2,814,500)**	–
Interest received		**152,586**	38,818
Additional capital investment in an associate		**(6,750)**	–
Acquisition of additional equity interests in subsidiaries		**(3,233)**	(2,856)
Increase in available-for-sale financial assets		**(219,000)**	(91,010)
Increase in held-to-maturity financial assets		**(8,800)**	–
Proceeds from sale of available-for-sale financial assets		**130,956**	13,250
Proceeds from disposal of an associate		**–**	41,889
Proceeds from disposal of a subsidiary		**–**	32,000
Dividends received from associates		**113,060**	65,046
Net cash outflow from investing activities		**(3,132,906)**	(356,974)
Cash flows from financing activities			
Dividends paid		**(136,840)**	(81,913)
Repayment of capital contributions to minority shareholders		**(4,000)**	(805)
Dividends paid to minority shareholders		**(20,124)**	(31,042)
Net cash outflow from financing activities		**(160,964)**	(113,760)
Net (decrease)/increase in cash and cash equivalents		**(1,695,962)**	2,549,758
Cash and cash equivalents at beginning of the year		**5,022,277**	2,472,519
Cash and cash equivalents at end of the year		**3,326,315**	5,022,277

The notes on pages 71 to 134 are an integral part of these consolidated accounts.

Notes to the Consolidated Accounts

For the Year Ended 31 December 2008

1. Principal activities

The principal activities of Lianhua Supermarket Holdings Co., Ltd. (the "Company") and its subsidiaries (collectively, the "Group") and its associates are the operation of 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, and its place of business in the PRC is 5th to 13th Floors, 1258 Zhen Guang 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 in the accounts, 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 2008, the Group adopted the following new standards, amendments and interpretation of HKFRS, which are effective in 2008 and relevant to the Group's operations.

- HKAS 39, "Financial Instruments: Recognition and Measurement", amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met. The related amendment to HKFRS 7, "Financial Instruments: Disclosures", introduces disclosure requirements with respect to financial assets reclassified out of the held-for-trading and available-for-sale categories. The amendment is effective prospectively from 1 July 2008. This amendment does not have any impact on the Group's accounts, as the Group has not reclassified any financial assets.

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 2008 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). The revised standard will prohibit the presentation of items of income and expenses (that is, "non-owner changes in equity") in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. 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 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. Based on current preliminary assessment, the adoption of the standard is not expected to have any significant impact on the Group's 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 accounts.

- HKAS 23 (Revised) "Borrowing Costs" (effective for annual periods beginning on 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 (Revised) from 1 January 2009, but it is not expected to have any significant impact on the Group's accounts.

2. Summary of significant accounting policies (continued)

(a) *Basis of preparation* (continued)

- HKAS 27 (Revised) "Consolidated and Separate Financial Statements" (effective for 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 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 accounts as currently no material business combination activities are anticipated.

- HKAS 28 (Amendment), "Investments in Associates" (and consequential amendments to HKAS 32, "Financial Instruments: Presentation" and HKFRS 7, "Financial Instruments: Disclosures") (effective for annual periods beginning on or after 1 January 2009). An investment in associate is treated as a single asset for the purposes of impairment testing and any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. The Group will apply the HKAS 28 (Amendment) to impairment tests related to investments in associates and any related impairment losses from 1 January 2009. The adoption of the standard is currently not expected to have significant impact on the Group's accounts. The Group will assess the impact as it becomes aware of any indicators and currently no material impairment indicators from associates are anticipated.

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

- HKAS 36 (Amendment), "Impairment of Assets" (effective for annual periods beginning on or after 1 January 2009). Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Group will apply the HKAS 36 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 January 2009.

- HKAS 39 (Amendment), "Financial Instruments: Recognition and Measurement" (effective for annual periods beginning on or after 1 January 2009).

  – This amendment clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.

  – The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio on initial recognition.

  The Group will apply the HKAS 39 (Amendment) from 1 January 2009. It is not expected to have an impact on the Group's consolidated profit and loss account. The adoption of the standard is not expected to have significant impact on the Group's accounts as currently no material hedging investment are anticipated.

- There are a number of minor amendments to HKFRS 7, "Financial Instruments: Disclosures", HKAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors", HKAS 10, "Events after the Balance Sheet Date", HKAS 18, "Revenue" and HKAS 34, "Interim Financial Reporting" which are not addressed above. These amendments are unlikely to have an impact on the Group's accounts and have therefore not been analysed in detail.

2. Summary of significant accounting policies (continued)

(a) *Basis of preparation* (continued)

The Group has assessed the other recently published new standards, amendments to existing standards and interpretations of HKFRS, which are not yet effective for the annual period beginning on 1 January 2008, and concluded that they are not relevant to the Group's operations. These are set out as follows:

- HKFRS 1 (Revised), "First-time Adoption of HKFRS" and consequential amendments to HKAS 27 (Revised) "Consolidated and Separate Financial Statements" (effective for annual periods beginning on or after 1 July 2009).

- HKFRS 2 (Amendment), "Share-based Payment" (effective for annual periods beginning on or after 1 January 2009).

- HK(IFRIC) – Int 16, "Hedges of a Net Investment in a Foreign Operation" (effective for annual periods beginning on or after 1 October 2008).

- HKAS 19 (Amendment), "Employee Benefits" (effective for annual periods beginning on or after 1 January 2009).

- HKFRS 5 (Amendment), "Non-current Assets Held For Sale and Discontinued Operations" (and consequential amendments to HKFRS 1, "First-time Adoption of HKFRS") (effective for annual periods beginning on or after 1 July 2009).

- HK(IFRIC) – Int 15, "Agreements for the Construction of Real Estate" (effective for annual periods beginning on or after 1 January 2009).

- HK(IFRIC) – Int 17, "Distributions of Non-cash Assets to Owners" (effective for annual periods beginning on or after 1 July 2009).

- HK(IFRIC) – Int 18, "Transfers of Assets from Customers" (effective for annual periods beginning on or after 1 July 2009).

- HKAS 16 (Amendment), "Property, Plant and Equipment" (and consequential amendments to HKAS 7, "Cash Flow Statements") (effective for annual periods beginning on or after 1 January 2009).

- HKAS 20 (Amendment), "Accounting for Government Grants and Disclosure of Government Assistance" (effective for annual periods beginning on or after 1 January 2009).

- HKAS 29 (Amendment), "Financial Reporting in Hyperinflationary Economies" (effective for annual periods beginning on or after 1 January 2009).

2. Summary of significant accounting policies (continued)

(a) *Basis of preparation* (continued)

- HKAS 31 (Amendment), "Interests in Joint Ventures" (and consequential amendments to HKAS 32 and HKFRS 7) (effective for annual periods beginning on or after 1 January 2009).

- HKAS 38 (Amendment), "Intangible Assets" (effective for annual periods beginning on or after 1 January 2009).

- HKAS 39 (Amendment), "Financial Instruments: Recognition and Measurement" – "Eligible Hedged Items" (effective for annual periods beginning on or after 1 July 2009).

- HKAS 40 (Amendment), "Investment Property" (and consequential amendments to HKAS 16) (effective for annual periods beginning on or after 1 January 2009).

- HKAS 41 (Amendment), "Agriculture" (effective for annual periods beginning on or after 1 January 2009).

(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 consolidated profit and loss account.

2. Summary of significant accounting policies (continued)

(b) ***Consolidation*** (continued)

(i) *Subsidiaries* (continued)

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. 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.

(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 consolidated 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.

2. Summary of significant accounting policies (continued)

(b) ***Consolidation*** (continued)

(iii) *Associates* (continued)

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, term deposits and operating cash, and mainly exclude certain corporate cash and cash equivalents, investments in associates, deferred tax assets, amounts due from related parties, available-for-sale financial assets, held-to-maturity 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.

(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 consolidated profit and loss account during the financial period in which they are incurred.

2. Summary of significant accounting policies (continued)

(d) ***Property, plant and equipment*** (continued)

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

A review of useful economic lives and residual values of the assets was performed during the year. Due to the technological advances, the residual values of the assets except for leasehold improvements and the estimated useful lives of the operating and office equipment are expected to be reduced. In order to reflect such change, the Group adjusted the residual values and useful lives of respective assets. The estimated useful lives and residual values, as a percentage of the cost before and after the change are as follows:

Before the change	**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%

After the change	**Estimated useful lives**	**Estimated residual values**
Buildings	25 to 40 years	5%
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%
Operating and office equipment	3 to 8 years	0 to 5%

The above change resulted in a decrease in profit for the year of RMB28,482,000.

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 consolidated profit and loss account.

Notes to the Consolidated Accounts
(continued)

For the Year Ended 31 December 2008

2. Summary of significant accounting policies (continued)

(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 rights to use certain land. The premiums paid for such rights are treated as prepayments for operating leases and recorded as land use rights, which are amortised over the respective period of the lease using the straight-line method.

(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.

(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).

2. Summary of significant accounting policies (continued)

(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, held-to-maturity 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 also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(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. The Group's loans and receivables comprise 'trade and other receivables' (Note 2(k)), 'term deposits' (Note 2(l)) and cash and cash equivalents (Note 2(m))in the balance sheet.

(iii) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the balance sheet date; which are classified as current assets.

(iv) 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.

2. Summary of significant accounting policies (continued)

(i) ***Financial assets*** (continued)

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 consolidated 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. Held-to-maturity financial assets and 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 consolidated 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 'available-for-sale financial assets' 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 consolidated profit and loss account. Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated profit and loss account. Dividends on available-for-sale equity instruments are recognised in the consolidated 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.

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 consolidated profit and loss account – is removed from equity and recognised in the consolidated profit and loss account. Impairment losses recognised in the consolidated profit and loss account on equity instruments are not reversed through the consolidated profit and loss account. For held-to-maturity financial assets carried at amortised cost, an impairment loss is recognized in the consolidated profit and loss account when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimate future cash flows discounted at the original effective interest rate. When the financial assets are considered to be uncollectible, the amounts are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited in the consolidated profit and loss account. Impairment testing of trade and other receivables is described in Note 2(k).

2. Summary of significant accounting policies (continued)

(j) 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 on the weighted average basis. Net realisable value of merchandise is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

During the year, the Group changed its costing method from first-in, first-out basis to weighted average basis for hypermarkets. This change in costing method has no significant impact on current year's cost of sales and inventory balance as at 31 December 2008.

(k) 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 consolidated 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 consolidated profit and loss account.

(l) Term deposits

Term deposits are the deposits held with banks with initial term of over 3 months when placed and carried in the balance sheet at cost and subsequently measured at amortised cost using the effective interest method.

(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 with banks with an initial term of 3 months or less.

(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 consolidated 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 tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated profit and loss account, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

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 substantively 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.

2. Summary of significant accounting policies (continued)

(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.

(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 consolidated profit and loss account using the coupon sales value. Certain coupons surrendered in exchange for products or services of other retailers which have agreements with the Group or with a related company controlled by the ultimate holding company (the "counterparty") are settled and paid to these retailers or to the counterparty periodically after deducting the Group's commission based on the agreements. Coupons liabilities are classified as current liabilities at the end of the year.

2. Summary of significant accounting policies (continued)

(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 consolidated 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 consolidated 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.

(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 consolidated 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 consolidated profit and loss account in the year in which they are incurred.

2. Summary of significant accounting policies (continued)

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

(ii) *Price risk*

The financial assets at fair value through profit and loss represented the money market fund. Given the funds were purchased near the year end, the Group believes the risk exposure associated with such investment is insignificant.

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. As at 31 December 2008, the Group did not have any investment in listed equity securities and funds.

The Group monitors the 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 that 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	
	2008	2007
Index	**RMB'000**	RMB'000
SSE A Share	–	5,722
SSE Fund	–	919
SZSE A Share	–	227
SZSE Fund	–	1,383

(iii) *Cash flow and fair value interest rate risk*

Other than bank balances including term deposits, held-to-maturity financial assets 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's exposure to changes in interest rates is mainly attributable to its bank balances. Bank balances at variable rates expose the Group to cash flow interest-rate risk. With all other variables held constant, if the average interest rate on bank balances subject to floating interest rate, held by the Group at the balance sheet date had been 50 basis point higher/lower, the Group's profit after tax and equity would increase/decrease by approximately RMB33,363,000 (2007: RMB24,290,000).

The return of the Group's held-to-maturity financial assets, which are the unlisted government certificate bonds is not expected to change significantly.

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

3. Financial risk management (continued)

(a) *Financial risks* (continued)

(iv) Credit risk

Majority of the Group's sales are settled mainly in cash or by cheques 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 the PRC without significant credit risk. As at 31 December 2008, the five largest bank balances accounted for 73.7% of total term deposits and cash and cash equivalents of the Group (2007: 69.5%). Management does not expect any losses from non-performance of these financial institutions. The remaining bank balances are also held in high quality financial institutions and the management are of the opinion that there is no significant credit risk on such assets.

Trade receivables are due from regular institutional customers with an appropriate financial strength. 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.

3. Financial risk management (continued)

(a) ***Financial risks*** (continued)

(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 31 December 2008					
Trade payables	**3,130,020**	**–**	**–**	**–**	**3,130,020**
Other payables and accruals	**1,539,754**	**–**	**–**	**–**	**1,539,754**
Amounts due to associates	**24,681**	**–**	**–**	**–**	**24,681**
Amount due to holding company	**39,000**	**–**	**–**	**–**	**39,000**
Amounts due to other related parties	**30,788**	**–**	**–**	**–**	**30,788**
	4,764,243	**–**	**–**	**–**	**4,764,243**
As 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

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) *Income taxes and deferred taxation*

The Group is subject to income taxes in different jurisdictions in the PRC. Significant judgement is required in determining the amount of the provision for taxation and the timing of payment of the related taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred assets and income tax expenses in the periods in which such estimate is changed.

4. Critical accounting estimates and judgements (continued)

(b) 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.

(c) Useful lives and residual values of property, plant and equipment

The Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. 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.

(d) 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.

(e) 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(b)) 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.

(f) Estimated store closure provision

The Group follows HKAS 37 to recognise store closure provision. Provisions are recognised when the Group has a constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount 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 2008 are as follows:

	Supermarkets RMB'000	Hypermarkets RMB'000	Convenience stores RMB'000	Other operations RMB'000	Group RMB'000
2008					
Segment revenue	7,514,453	13,159,777	1,710,919	202,912	22,588,061
Including sales of merchandise to franchised stores at cost	604,213	–	445,266	–	1,049,479
Segment results	220,286	84,861	26,573	13,810	345,530
Other income					116,960
Unallocated costs					(103,254)
Operating profit					359,236
Finance income					85,336
Finance costs					(979)
Finance income – net					84,357
Share of results of associates					149,482
Profit before taxation					593,075
Taxation					(130,845)
Profit for the year					462,230
Other segment items are as follows:					
Capital expenditure	153,128	351,648	12,517	5,198	522,491
Depreciation charge	136,164	308,040	22,921	26,060	493,185
Amortisation charge	11,459	15,696	1,660	4,702	33,517
Impairment charge (Note 8)	4,372	21,584	–	–	25,956
Loss on disposal of property, plant and equipment	14,679	12,039	–	6,608	33,326

Notes to the Consolidated Accounts
(continued)

For the Year Ended 31 December 2008

5. Segment information (continued)

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

	Supermarkets RMB'000	Hypermarkets 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:

	Supermarkets RMB'000	Hypermarkets RMB'000	Convenience stores RMB'000	Other operations RMB'000	Group RMB'000
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 (Note 8)	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

5. Segment information (continued)

The segment assets and liabilities at 31 December 2008 are as follows:

	Supermarkets RMB'000	Hypermarkets RMB'000	Convenience stores RMB'000	Other operations RMB'000	Group RMB'000
Segment assets	**3,913,089**	**7,537,454**	**364,494**	**73,542**	**11,888,579**
Investments in associates					**437,223**
Unallocated assets					**1,375,534**
Total assets					**13,701,336**
Segment liabilities	**3,065,309**	**7,347,848**	**331,356**	**14,619**	**10,759,132**
Unallocated liabilities					**51,620**
Total liabilities					**10,810,752**

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

Unallocated costs represent corporate expenses.

Segment assets consist primarily of property, plant and equipment, land use rights, intangible assets, inventories, receivables, term deposits and operating cash. They mainly exclude certain corporate cash and cash equivalents, investments in associates, deferred tax assets, amounts due from related parties, available-for-sale financial assets, held-to-maturity 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.

Notes to the Consolidated Accounts
(continued)

For the Year Ended 31 December 2008

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:

	2008 **RMB'000**	2007 RMB'000
Turnover		
Sales of merchandise	**20,702,441**	18,086,857
Other revenues		
Income from suppliers		
– Promotion and store display income	**1,367,706**	1,195,161
– Merchandise storage and delivery income	**40,681**	37,886
– Information system service income	**7,298**	6,955
Gross rental income from leasing of shop premises	**396,649**	312,905
Royalty income from franchised stores	**31,933**	30,868
Commission income from coupon redemption in other retailers	**41,353**	35,761
	1,885,620	1,619,536
Total revenues	**22,588,061**	19,706,393

7. Other income

	2008 **RMB'000**	2007 RMB'000
Government subsidies	**36,378**	22,150
Gain on trading of financial assets at fair value through profit or loss	**32,641**	435,976
Fair value gain (unrealised) on financial assets at fair value through profit or loss	**–**	72,268
Gain on disposal of available-for-sale financial assets	**10,956**	9,981
Gain on disposal of a subsidiary	**–**	20,309
Gain on disposal of land use rights	**–**	8,930
Compensation on store relocation and lease termination	**26,339**	8,316
Interest income on term deposits	**67,250**	–
Salvage sales	**38,345**	37,107
Others	**35,742**	23,095
	247,651	638,132

Notes to the Consolidated Accounts
(continued)

For the Year Ended 31 December 2008

8. Expenses by nature

	2008 RMB'000	2007 RMB'000
Cost of merchandise	**17,896,661**	15,738,221
Amortisation of other non-current assets	**1,523**	1,987
Amortisation of software (Note 19)	**20,329**	19,806
Amortisation of land use rights (Note 18)	**11,665**	9,971
Auditors' remuneration	**5,911**	5,950
Depreciation of property, plant and equipment (Note 16)	**493,185**	452,371
Loss on disposal of property, plant and equipment	**33,326**	118,274
Loss on disposal of other non-current assets	**–**	9,881
Operating lease rental in respect of land and buildings	**1,171,046**	994,695
Outgoings for income from leasing of shop premises	**152,140**	117,546
Staff costs (Note 10)	**1,526,046**	1,179,486
Pre-operating expenses	**7,199**	8,518
Utility expenses	**418,286**	405,302
Advertising and promotion costs	**129,791**	49,616
Other store operating expenses	**402,284**	380,321
Impairment of property, plant and equipment (Note 16)	**25,956**	106,012
Impairment of intangible assets (Note 19)	**–**	20,059
Impairment of other non-current assets (Note 24)	**–**	3,197
Store closure expenses and provision (Note a)	**8,155**	97,728
Other expenses	**172,973**	208,290
Total cost of sales, distribution costs, administrative expenses and other operating expenses	**22,476,476**	19,927,231

Note:

(a) The store closure expenses and provision for 2008 consist primarily of the compensation for early termination of lease contracts of RMB5,579,000 (2007: RMB66,198,000), write-off of non-recoverable assets of RMB nil (2007: RMB21,500,000), staff dismissal compensation of RMB1,897,000 (2007: RMB7,854,000) and other miscellaneous items of RMB679,000 (2007: RMB2,176,000).

9. Finance income and costs

	2008 RMB'000	2007 RMB'000
Interest income on cash and cash equivalents	**85,336**	38,818
Interest expenses	**(979)**	(1,133)
Net finance income	**84,357**	37,685

Notes to the Consolidated Accounts
(continued)

For the Year Ended 31 December 2008

10. Staff costs

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

	2008 **RMB'000**	2007 RMB'000
Salaries and wages	**1,140,362**	846,072
Retirement benefit costs – defined contribution plans (Note)	**126,519**	91,317
Medical benefits and other welfare expenses	**259,165**	242,097
	1,526,046	1,179,486

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 2008 is calculated based on the statutory income tax rate of 25% of assessable income of the Group based on the relevant PRC tax rules and regulations except for certain subsidiaries which are taxed at preferential rates ranging from 0% to 18%. In 2007, the current taxation was based on a tax rate of 33% while the deferred taxation was primarily based on a tax rate of 25%. This decrease is mainly due to the implementation of the Corporate Income Tax Law (the "CIT Law") of the PRC approved by the National People's Congress on 16 March 2007. The CIT Law reduces the standard PRC corporate income tax rate from 33% to 25% with effect from 1 January 2008.

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

	2008 **RMB'000**	2007 RMB'000
PRC income tax		
– Current taxation	**168,077**	218,536
– Deferred taxation (Note 37)	**(37,232)**	(13,731)
	130,845	204,805

11. Taxation (continued)

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:

	2008 RMB'000	2007 RMB'000
Profit before taxation	**593,075**	585,454
Less: Share of results of associates	**(149,482)**	(130,475)
	443,593	454,979
Calculated at a taxation rate of 25% (2007: 33%)	**110,898**	150,143
Effect of preferential tax rates on the income of certain subsidiaries	**(2,326)**	(17,053)
Income not subject to tax	**(3,955)**	(4,899)
Expenses not deductible for taxation purpose	**5,882**	6,105
Utilisation of previously unrecognised tax losses	**(7,551)**	(3,719)
Tax losses for which no deferred tax asset was recognised	**27,897**	83,326
Impact of tax rate change on deferred tax	**–**	(9,098)
Taxation charge	**130,845**	204,805

12. Profit attributable to Company's shareholders

The profit attributable to Company's shareholders for the year ended 31 December 2008 is dealt with in the Company's accounts to the extent of RMB103,557,000 (2007: RMB267,908,000).

13. Dividends

	2008 RMB'000	2007 RMB'000
Interim dividend, paid, of RMB0.10 (2007: RMB0.06) per share	**62,200**	37,320
Final dividend, proposed, of RMB0.15 (2007: RMB0.12) per share	**93,300**	74,640
	155,500	111,960

At a meeting held on 12 August 2008, the Directors declared an interim dividend of RMB0.10 per share which was within the limit authorised by the Company's shareholders during the Annual General Meeting for the year 2007 held on 20 June 2008.

At a meeting held on 30 March 2009, the Directors proposed a final dividend of RMB0.15 per share for 2008 (2007: RMB0.12 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 2009 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.

	2008	2007
Profit attributable to Company's shareholders (RMB'000)	**388,341**	268,301
Weighted average number of ordinary shares in issue (thousands)	**622,000**	622,000
Basic earnings per share	**RMB0.62**	RMB0.43

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 2008 is set out below:

Name of Director	Fees RMB'000	Basic salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement benefit costs RMB'000	Medical benefits RMB'000	2008 Total RMB'000	2007 Total RMB'000
Executive/Non-executive Directors:							
Mr. Liang Wei	–	333	955	33	13	1,334	876
Ms. Xu Ling-ling	–	277	845	33	13	1,168	760
Ms. Cai Lan-ying	–	277	3,943	68	11	4,299	2,770
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	120	–	–	–	–	120	100
Mr. Zhang Hui Ming	120	–	–	–	–	120	100
Mr. Xia Da Wei	120	–	–	–	–	120	100
2008	360	887	5,743	134	37	7,161	4,706
2007	300	765	3,524	84	33		

None of the Directors waived any emoluments during the year.

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

(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:

	2008 RMB'000	2007 RMB'000
Basic salaries, allowances and benefits-in-kind	**277**	238
Discretionary bonuses	**845**	465
Retirement benefit costs	**33**	28
Medical benefits	**13**	11
	1,168	742

The emoluments fell within the following band:

	Number of Supervisors	
	2008	2007
Nil – HK$1,000,000	**2**	3
HK$1,000,001 – HK$1,500,000	**1**	–

None of the Supervisors waived any emoluments during the year.

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

(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:

	2008 RMB'000	2007 RMB'000
Basic salaries, allowances and benefits-in-kind	**1,393**	1,354
Discretionary bonuses	**16,290**	10,221
Retirement benefit costs	**340**	292
Medical benefits	**54**	38
	18,077	11,905

The emoluments fell within the following band:

	Number of Supervisors	
	2008	2007
HK$1,500,001 – HK$2,000,000	**–**	2
HK$2,000,001 – HK$2,500,000	**–**	2
HK$2,500,001 – HK$3,000,000	**–**	1
HK$3,000,001 – HK$5,000,000	**5**	–

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

Notes to the Consolidated Accounts
(continued)

For the Year Ended 31 December 2008

16. Property, plant and equipment

Group	Buildings RMB'000	Leasehold improvements RMB'000	Transportation vehicles and equipment RMB'000	Operating and office equipment RMB'000	Total RMB'000
At 1 January 2007					
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
Year ended 31 December 2008					
Opening net book amount	**1,005,161**	**704,097**	**129,434**	**744,442**	**2,583,134**
Additions	**–**	**241,322**	**32,570**	**157,611**	**431,503**
Transfer from construction in progress (Note 17)	**19,156**	**20,000**	**723**	**23,510**	**63,389**
Disposals	**(999)**	**(2,708)**	**(2,689)**	**(36,102)**	**(42,498)**
Depreciation (Note 8)	**(39,314)**	**(212,194)**	**(26,081)**	**(215,596)**	**(493,185)**
Impairment charge (Note 8)	**–**	**(21,190)**	**–**	**(4,766)**	**(25,956)**
Closing net book amount	**984,004**	**729,327**	**133,957**	**669,099**	**2,516,387**
At 31 December 2008					
Cost	**1,155,096**	**1,640,283**	**216,942**	**1,194,867**	**4,207,188**
Accumulated depreciation	**(171,092)**	**(820,940)**	**(81,473)**	**(485,514)**	**(1,559,019)**
Accumulated impairment charge	**–**	**(90,016)**	**(1,512)**	**(40,254)**	**(131,782)**
Net book value	**984,004**	**729,327**	**133,957**	**669,099**	**2,516,387**

Notes to the Consolidated Accounts
(continued)

For the Year Ended 31 December 2008

16. Property, plant and equipment (continued)

Note:

(a) Impairment charge of RMB25,956,000 (2007: RMB106,012,000) 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 RMB463,643,000 (2007: RMB418,531,000) and RMB29,542,000 (2007: RMB33,840,000) have been included in distribution costs and administrative expenses, respectively in the consolidated profit and loss account.

Company	Buildings RMB'000	Leasehold improvements RMB'000	Transportation vehicles and equipment RMB'000	Operating and office equipment RMB'000	Total RMB'000
At 1 January 2007					
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
Year ended 31 December 2008					
Opening net book amount	171,024	42,656	3,729	43,266	260,675
Additions	–	14,090	171	3,905	18,166
Transfer from construction in progress (Note 17)	19,156	–	–	–	19,156
Disposals	–	(1,475)	(23)	(5,650)	(7,148)
Depreciation	(5,305)	(13,020)	(892)	(19,471)	(38,688)
Closing net book amount	184,875	42,251	2,985	22,050	252,161
At 31 December 2008					
Cost	220,512	171,544	5,383	41,949	439,388
Accumulated depreciation	(35,637)	(129,293)	(2,398)	(19,899)	(187,227)
Net book value	184,875	42,251	2,985	22,050	252,161

Notes to the Consolidated Accounts
(continued)

For the Year Ended 31 December 2008

17. Construction in progress

Group	RMB'000
At 1 January 2007	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
Additions	45,396
Transfer to property, plant and equipment (Note 16)	(63,389)
Transfer to intangible assets (Note 19)	(480)
At 31 December 2008	153,088

Company	RMB'000
At 1 January 2007	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	–
Additions	27,530
Transfer to property, plant and equipment (Note 16)	(19,156)
At 31 December 2008	8,374

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	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Net book value, at 1 January	**284,429**	198,316	**101,883**	36,533
Additions	**36,755**	21,291	**221**	–
Transfer from construction in progress (Note 17)	**–**	76,253	**–**	68,039
Amortisation (Note 8)	**(11,665)**	(9,971)	**(3,642)**	(2,689)
Disposals	**–**	(1,460)	**–**	–
Net book value, at 31 December	**309,519**	284,429	**98,462**	101,883

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
In PRC held on:				
Leases of between 10 to 50 years	**309,519**	284,429	**98,462**	101,883

19. Intangible assets

Group	Software RMB'000	Goodwill RMB'000	Total RMB'000
At 1 January 2007			
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
Opening net book amount at 1 January 2008	49,897	144,044	193,941
Additions	8,837	–	8,837
Transfer from construction in progress (Note 17)	480	–	480
Acquisition of additional equity interests in subsidiaries	–	1,790	1,790
Amortisation charge (Note 8)	(20,329)	–	(20,329)
Disposals	(268)	(635)	(903)
Closing net book amount at 31 December 2008	38,617	145,199	183,816
At 31 December 2008			
Cost	101,150	165,258	266,408
Accumulated amortisation	(62,533)	–	(62,533)
Accumulated impairment charge	–	(20,059)	(20,059)
Net book value	38,617	145,199	183,816

19. Intangible assets (continued)

Note:

(a) No impairment charge (2007: RMB20,059,000) has been included in other operating expenses in the consolidated profit and loss account. The impairment charge of goodwill in 2007 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 RMB13,892,000 (2007: RMB14,263,000) and RMB6,437,000 (2007: RMB5,543,000) 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.

	2008 RMB'000	2007 RMB'000
Supermarkets	**94,989**	94,939
Hypermarkets	**45,944**	45,944
Others	**4,266**	3,161
	145,199	144,044

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 9% (2007: 10%). This pre-tax discount rate is equivalent to a post-tax discount rate of 7% (2007: 7%). The growth rate used does not exceed the average long-term growth rate for the relevant markets.

Notes to the Consolidated Accounts
(continued)

For the Year Ended 31 December 2008

19. Intangible assets (continued)

Company	**Software** RMB'000
At 1 January 2007	
Cost	14,826
Accumulated amortisation	(4,137)
Net book value	10,689
Opening net book amount at 1 January 2007	10,689
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
Opening net book amount at 1 January 2008	**7,792**
Additions	**169**
Amortisation charge	**(2,837)**
Closing net book amount at 31 December 2008	**5,124**
At 31 December 2008	
Cost	**15,071**
Accumulated amortisation	**(9,947)**
Net book value	**5,124**

Notes to the Consolidated Accounts
(continued)

For the Year Ended 31 December 2008

20. Investments in subsidiaries/Balances with subsidiaries

Company	2008 RMB'000	2007 RMB'000
Unlisted equity investments, at cost	**927,088**	1,003,705
Less: Provision for impairment losses	**(100,808)**	(92,490)
	826,280	911,215

Particulars of the Company's principal subsidiaries at 31 December 2008 are set out in Note 43 to the accounts.

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

21. Investments in associates

Group	2008 RMB'000	2007 RMB'000
Share of net assets including goodwill	**437,223**	394,051
Unlisted equity investments, at cost	**194,060**	187,310

Company	2008 RMB'000	2007 RMB'000
Unlisted equity investments, at cost	**192,871**	186,121
Less: Provision for impairment losses	**–**	–
	192,871	186,121

Investments in associates as at 31 December 2008 include goodwill of RMB6,787,000 (2007: RMB6,787,000).

Particulars of the Company's principal associates at 31 December 2008 are set out in Note 43 to the accounts.

Notes to the Consolidated Accounts
(continued)

For the Year Ended 31 December 2008

21. Investments in associates (continued)

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

Group	2008 RMB'000	2007 RMB'000
Balance at beginning of the year	**394,051**	328,622
Share of profits less losses of associates	**149,482**	130,475
– Profit before taxation	**199,309**	193,749
– Taxation	**(49,827)**	(63,274)
Addition arising from capital investment in an associate	**6,750**	–
Dividends received	**(113,060)**	(65,046)
Balance at end of the year	**437,223**	394,051

(b) The Group's share of the results of its principal associates, all of which are unlisted, and its aggregated assets (including goodwill), liabilities, net assets and revenues are as follows:

Name	Assets RMB'000	Liabilities RMB'000	Net assets RMB'000	Revenues RMB'000	Profit/ (Loss) RMB'000	% Interest held
2008						
Shanghai Carhua Supermarket Co., Ltd.	**1,027,942**	**677,749**	**350,193**	**2,348,805**	**139,952**	**45**
Tianjin Yishang Development Co., Ltd.	**380,764**	**317,571**	**63,193**	**318,347**	**7,000**	**20**
Others	**32,956**	**15,906**	**17,050**	**130,902**	**2,530**	
	1,441,662	**1,011,226**	**430,436**	**2,798,054**	**149,482**	
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	

Notes to the Consolidated Accounts
(continued)

For the Year Ended 31 December 2008

22. Available-for-sale financial assets

Group	2008 RMB'000	2007 RMB'000
Non-current		
Legal person shares (i)	**1,112**	1,112
Unlisted equity investments (ii)	**29,046**	25,046
	30,158	26,158
Current		
Unlisted money market investment (iii)	**215,000**	120,000
Total	**245,158**	146,158

Company	2008 RMB'000	2007 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)	**200,000**	120,000
Total	**204,535**	124,535

(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. Held-to-maturity financial assets

Group	2008 RMB'000	2007 RMB'000
Government Certificate Bonds – unlisted		
– Debentures with fixed interest of 5.74% and maturity date of 4 August 2011 – PRC	**5,000**	–
– Debentures with fixed interest of 5.74% and maturity date of 1 August 2011 – PRC	**3,800**	–
	8,800	–

Company	2008 RMB'000	2007 RMB'000
Government Certificate Bonds – unlisted		
– Debentures with fixed interest of 5.74% and maturity date of 1 August 2011 – PRC	**3,800**	–

The carrying amounts of held-to-maturity financial assets of the Group and the Company approximate their fair value.

24. 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 in 2007. In 2008, no additional impairment loss associated with other non-current assets of the Group has been recognised.

Notes to the Consolidated Accounts
(continued)

For the Year Ended 31 December 2008

25. Inventories

Group	2008 RMB'000	2007 RMB'000
Merchandise for resale	**2,257,151**	1,906,172
Provision for obsolescence	**(3,957)**	(3,246)
	2,253,194	1,902,926
Low value consumables	**17,502**	23,536
	2,270,696	1,926,462

Company	2008 RMB'000	2007 RMB'000
Merchandise for resale	**227,318**	214,337
Provision for obsolescence	**(1,072)**	(1,072)
	226,246	213,265
Low value consumables	**3,216**	3,281
	229,462	216,546

The cost of inventories recognised as expense and included in cost of sales of the consolidated profit and loss account amounted to RMB17,896,661,000 (2007: RMB15,738,221,000).

26. Trade receivables

The ageing analysis 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	2008 RMB'000	2007 RMB'000
Within 30 days	**29,021**	29,555
30-60 days	**8,294**	1,575
61-90 days	**17**	3,155
91 days-one year	**219**	348
	37,551	34,633

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.

26. Trade receivables (continued)

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

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

27. Deposits, prepayments and other receivables

Group	2008 RMB'000	2007 RMB'000
Deposits and prepayments	**476,363**	489,952
Other receivables	**152,746**	106,510
	629,109	596,462

Company	2008 RMB'000	2007 RMB'000
Deposits and prepayments	**51,523**	52,358
Other receivables	**14,563**	1,928
	66,086	54,286

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

28. 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.

29. 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 balances are unsecured and interest free.

Notes to the Consolidated Accounts
(continued)

For the Year Ended 31 December 2008

30. Financial assets at fair value through profit or loss

Group	2008 RMB'000	2007 RMB'000
Money market funds	**27,706**	–
Equity securities listed in the PRC held for trading, at market value	**–**	116,420

31. Term deposits

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

As at 31 December 2008, term deposits included restricted cash amounting to RMB649,000,000 (2007: nil). The restricted cash represents deposits placed by a subsidiary to banks for the purpose of issuing coupons in a province. The deposits are held as security for coupon liabilities balance and are not available for other use by the Group.

The effective interest rate on term deposits was 3.83% (2007: 0%) per annum. The carrying amounts of the term deposits of the Group and the Company approximate their fair value.

32. Cash and cash equivalents

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

Notes to the Consolidated Accounts
(continued)

For the Year Ended 31 December 2008

33. Share capital

	Number of shares at RMB1.00 each	Nominal value RMB'000
Registered, issued and fully paid		
At 31 December 2007 and 31 December 2008	622,000,000	622,000

Since the Company is a limited liability company incorporated in the PRC, registered capital is considered more meaningful than the authorised capital to the Company. Accordingly the management has determined to disclose the registered capital in these consolidated accounts which is equal to the issued and fully paid capital.

In prior years' accounts, the authorised capital was disclosed which comprised the issued capital and the capital to be issued by the Board within the authorisation granted by the shareholders during the Annual General Meeting. As at 31 December 2007, the issued capital of the Company amounted to RMB622,000,000. According to the resolution passed at the Annual General Meeting for the year 2006, the Board was authorised to determine on its own to issue additional shares not exceeding 20% of the aggregate nominal amount of the H shares of the Company in issue at the date of passing of the resolution, which amounted to RMB41,400,000. Accordingly, based on such calculation, the authorised capital of the Company as at 31 December 2007 should have been RMB663,400,000, which is RMB41,600,000 less than the amount disclosed in the 2007 accounts.

The share capital of the Company as at 31 December 2008 and 2007 comprised 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.

Notes to the Consolidated Accounts
(continued)

For the Year Ended 31 December 2008

34. Reserves

Group	Capital reserve RMB'000 (note (a))	Other reserves RMB'000	Statutory common reserve fund RMB'000 (note (b))	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2008	**755,953**	**3,595**	**151,899**	**705,494**	**1,616,941**
Profit for the year attributable to Company's shareholders	**–**	**–**	**–**	**388,341**	**388,341**
Profit appropriations	**–**	**–**	**21,856**	**(21,856)**	**–**
2007 final dividend	**–**	**–**	**–**	**(74,640)**	**(74,640)**
2008 interim dividend	**–**	**–**	**–**	**(62,200)**	**(62,200)**
Balance at 31 December 2008	**755,953**	**3,595**	**173,755**	**935,139**	**1,868,442**
Representing:					
Final dividend proposed				**93,300**	**93,300**
Others				**841,839**	**1,775,142**
				935,139	**1,868,442**
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

Notes to the Consolidated Accounts
(continued)

For the Year Ended 31 December 2008

34. Reserves (continued)

Company	Capital reserve RMB'000 (note (a))	Other reserves RMB'000	Statutory common reserve fund RMB'000 (note (b))	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2008	**755,953**	**3,595**	**151,899**	**587,700**	**1,499,147**
Profit for the year attributable to Company's shareholders	**–**	**–**	**–**	**103,557**	**103,557**
Profit appropriations	**–**	**–**	**21,856**	**(21,856)**	**–**
2007 final dividend	**–**	**–**	**–**	**(74,640)**	**(74,640)**
2008 interim dividend	**–**	**–**	**–**	**(62,200)**	**(62,200)**
Balance at 31 December 2008	**755,953**	**3,595**	**173,755**	**532,561**	**1,465,864**
Representing:					
Final dividend proposed				**93,300**	**93,300**
Others				**439,261**	**1,372,564**
				532,561	**1,465,864**
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

Notes to the Consolidated Accounts
(continued)

For the Year Ended 31 December 2008

34. Reserves (continued)

Note:

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

(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 year 2007 in order to correspond with the aforementioned changes made to the statutory common reserve fund in the statutory accounts.

35. Trade payables

The ageing analysis of the trade payables are as follows:

Group	2008 RMB'000	2007 RMB'000
Within 30 days	**2,707,495**	2,368,989
30-60 days	**313,875**	234,452
61-90 days	**75,704**	71,520
91 days-one year	**32,946**	140,325
	3,130,020	2,815,286

Company	2008 RMB'000	2007 RMB'000
Within 30 days	**1,459,628**	1,246,500
30-60 days	**65,209**	40,900
61-90 days	**25,080**	21,013
91 days-one year	**41,084**	121,056
	1,591,001	1,429,469

Notes to the Consolidated Accounts
(continued)

For the Year Ended 31 December 2008

36. Other payables and accruals

Group	**2008** **RMB'000**	2007 RMB'000
Other payables	**1,427,291**	912,973
Store closure provision	**50,883**	42,728
Customers' advances	**50,022**	117,354
Accruals	**11,558**	40,399
	1,539,754	1,113,454

Company	**2008** **RMB'000**	2007 RMB'000
Other payables	**252,998**	149,753
Customers' advances	**5,729**	10,325
Accruals	**200**	919
	258,927	160,997

37. 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	
	2008 **RMB'000**	2007 RMB'000	**2008** **RMB'000**	2007 RMB'000
Deferred tax assets	**(65,239)**	(44,672)	**(438)**	(438)
Deferred tax liabilities	**53,432**	70,097	**–**	–
	(11,807)	25,425	**(438)**	(438)

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:

Notes to the Consolidated Accounts
(continued)

For the Year Ended 31 December 2008

37. Deferred taxation (continued)

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 2007	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
Credited to consolidated profit and loss account	(2,057)	(14,568)	(16,625)
At 31 December 2008	53,432	–	53,432

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 2007	(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)
Effective 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)
(Credited)/debited to consolidated profit and loss account	7,752	(2,759)	(25,600)	–	(20,607)
At 31 December 2008	(452)	(4,533)	(60,254)	–	(65,239)

37. Deferred taxation (continued)

Company

	Deferred tax assets in respect of bad debt and inventory provisions RMB'000
Balance at 1 January 2007	(284)
Credited to consolidated profit and loss account	(154)
At 31 December 2007	(438)
Movements during the year 2008	–
At 31 December 2008	**(438)**

At 31 December 2008, deferred tax assets mainly in respect of certain temporary differences arising from tax losses carried forward amounting to RMB201,254,000 (2007: RMB308,430,000) 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.

Notes to the Consolidated Accounts
(continued)

For the Year Ended 31 December 2008

38. Notes to consolidated cash flow statement

Reconciliation of profit before taxation to cash generated from operations:

	2008	2007
	RMB'000	RMB'000
Profit before taxation	**593,075**	585,454
Adjustments for:		
Amortisation of intangible assets	**20,329**	19,806
Amortisation of other non-current assets	**1,523**	1,987
Amortisation of land use rights	**11,665**	9,971
Depreciation of property, plant and equipment	**493,185**	452,371
Loss on disposal of property, plant and equipment	**33,326**	118,274
Loss on disposal of intangible assets	**268**	–
Gain on disposal of land use rights	**–**	(8,930)
Loss on disposal of other non-current assets	**–**	9,881
Impairment of property, plant and equipment	**25,956**	106,012
Impairment of other non-current assets	**–**	3,197
Impairment of goodwill	**–**	20,059
Gain on disposal of a subsidiary	**–**	(20,309)
Loss on disposal of goodwill related to a subsidiary closed during the year	**635**	–
Gain on disposal of available-for-sales financial assets	**(10,956)**	(9,981)
Fair value gain (unrealised) on financial assets at fair value through profit or loss	**–**	(72,268)
Share of results of associates	**(149,482)**	(130,475)
Interest income	**(152,586)**	(38,818)
Interest expense	**979**	1,133
Operating profit before working capital changes	**867,917**	1,047,364
Changes in working capital:		
Inventories	**(344,234)**	(310,091)
Trade and other receivables	**(35,565)**	86,487
Amounts due from associates	**(498)**	911
Financial assets at fair value through profit or loss	**88,714**	15,129
Restricted term deposits	**(649,000)**	–
Trade and other payables	**704,940**	516,024
Coupon liabilities	**1,154,892**	1,795,533
Amounts due to associates and other related parties	**5,972**	47,490
Cash generated from operations	**1,793,138**	3,198,847

39. 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 28 and 29, 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	**2008 RMB'000**	2007 RMB'000
Purchases from associates – Shanghai Lianhua Supermarket Food Co., Ltd. and Shanghai Gude Commercial Trading Co., Ltd.	(i)	**31,788**	29,287
Purchases from related companies controlled by the ultimate holding company	(i)	**79,142**	62,246
Rental expenses paid to subsidiaries of the holding company and the ultimate holding company	(ii)	**34,380**	32,863
Interest expenses		**979**	1,133
Commission income received from related companies controlled by the ultimate holding company	(iii)	**17,965**	17,718
Commission income arising from the settlement of coupon liabilities with a related company controlled by the ultimate holding company	(iv)	**9,076**	1,892
Commission charge arising from the settlement of coupon liabilities with a related company controlled by the ultimate holding company	(iv)	**10,670**	2,681

39. Related party transactions (continued)

(a) *Related party transactions* (continued)

Note:

(i) The purchase price was determined with reference to the then prevailing market prices and the prices charged by those associates and related companies controlled by the ultimate holding company to third parties.

(ii) These represent rental expenses of certain hypermarkets paid to subsidiaries of Shanghai Friendship Group Incorporated Company, the holding company of the Group, and subsidiaries of Bailian Group Co., Ltd., the ultimate 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.

(iii) 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.

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

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

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

	2008 **RMB'000**	2007 RMB'000
Current liabilities		
Accounts payable and other liabilities	**258,470**	234,882

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

In addition, term deposits and cash and cash equivalents of RMB6,667,813,000 of the Group at the balance sheet date are deposited at state-owned banks.

39. Related party transactions (continued)

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

	2008 RMB'000	2007 RMB'000
Purchase of goods	**3,045,893**	2,659,332
Interest income received	**152,586**	38,818
Bank charges	**21,210**	15,191

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

(d) *Key management compensation*

	2008 RMB'000	2007 RMB'000
Salaries and other short-term employee benefits	**13,368**	10,073
Post-employment benefits	**260**	254
Other long-term benefits	**311**	254
	13,939	10,581

40. Commitments

(a) *Capital commitments for property, plant and equipment*

	2008 RMB'000	2007 RMB'000
Contracted but not provided for	**389,040**	305,769

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

Notes to the Consolidated Accounts
(continued)

For the Year Ended 31 December 2008

40. Commitments (continued)

(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:

	2008 **RMB'000**	2007 RMB'000
Not later than one year	**984,504**	976,363
Later than one year and not later than five years	**3,940,035**	3,445,007
Later than five years	**6,743,752**	7,242,237
	11,668,291	11,663,607

(c) ***Commitments for equity investments***

As at 31 December 2008, the Group had a commitment to acquire the remaining equity interests of 25.39% (2007: 25.39%) in Hangzhou Lianhua Huashang Group Co., Ltd. held by third parties at a consideration of not less than RMB140,760,000.

41. 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:

	2008 **RMB'000**	2007 RMB'000
Not later than one year	**222,705**	211,132
Later than one year and not later than five years	**315,991**	366,494
Later than five years	**209,805**	247,778
	748,501	825,404

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.

42. Events after the balance sheet date

On 21 January 2009, two shareholders of Shanghai Industrial United (Group) Commercial Network Development Company Limited ("SI Commercial Network"), namely Shanghai Industrial Pharmaceutical Investment Co., Ltd. ("Shanghai Industrial Pharmaceutical") and Shanghai Hua Rui Investment Co., Ltd. ("Shanghai Hua Rui"), entered into an equity transfer agreement (the "Equity Transfer Agreement") with Bailian Group Co., Ltd. ("Bailian Group"). SI Commercial Network owned 131,683,000 domestic shares of the Company, representing approximately 21.17% of the equity interest in the Company. Pursuant to the Equity Transfer Agreement, Shanghai Industrial Pharmaceutical and Shanghai Hua Rui conditionally agreed to transfer approximately 72.62% and 27.38% equity interests in SI Commercial Network to Bailian Group. After the completion of the aforementioned equity transfer, Bailian Group effectively owns an additional 21.17% of equity interest in the Company through SI Commercial Network.

43. Particulars of major subsidiaries and associates

As at 31 December 2008, 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
Shenyang Century Lianhua Supermarket Co., Ltd.	26 May 2004	3,000	90.00%	9.89%	Hypermarket
Hebei Century Lianhua Supermarket Co., Ltd.	26 October 2004	30,000	91.00%	8.90%	Hypermarket
Tianjin Yishang Lianhua Supermarket Co., Ltd.	1 September 2002	30,000	80.00%	–	Hypermarket

43. 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 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
Shanghai Century Lianhua Supermarket Xuhui Co.,Ltd.	1 June 2001	500	–	100.00%(i)	Hypermarket
Hangzhou Lianhua Huashang Group Co., Ltd.	1 June 2001	120,500	74.19%	–	Supermarket and hypermarket
Lianhua Supermarket Jiangsu Co., Ltd.	21 March 2003	50,000	85.00%	13.89%	Supermarket and hypermarket
Guangxi Lianhua Supermarket Joint Stock Co., Ltd.	18 November 2001	68,670	92.00%	2.59%	Supermarket and hypermarket
Shanghai Lianhua Supermarket Jiading Co., Ltd.	9 October 1996	3,290	81.76%	17.20%	Supermarket
Shanghai Lianhua Xinxin Supermarket Co., Ltd.	22 April 1997	13,300	55.00%	–	Supermarket
Shanghai Lianhua Supermarket Development Co., Ltd.	8 April 2006	10,000	100%	–	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%	56.45%	Wholesaling

43. 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 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
Lianhua E-business Co., Ltd.	4 October 1995	55,000	57.27%	–	Trading
(b) Associates					
Shanghai Carhua Supermarket Co., Ltd.	8 February 1995	356,824	45.00%	–	Hypermarket
Tianjin Yishang Development Co., Ltd.	27 October 1998	200,277	20.00%	–	Department stores

(i) The Group indirectly 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.

For the Year Ended 31 December 2008

44. 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 Co., Ltd., a state-owned enterprise established in the PRC, as being the ultimate holding company.

45. Approval of accounts

The accounts were approved by the Board of Directors on 30 March 2009.

LIANHUA SUPERMARKET HOLDINGS CO., LTD

Annual Report 2008

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