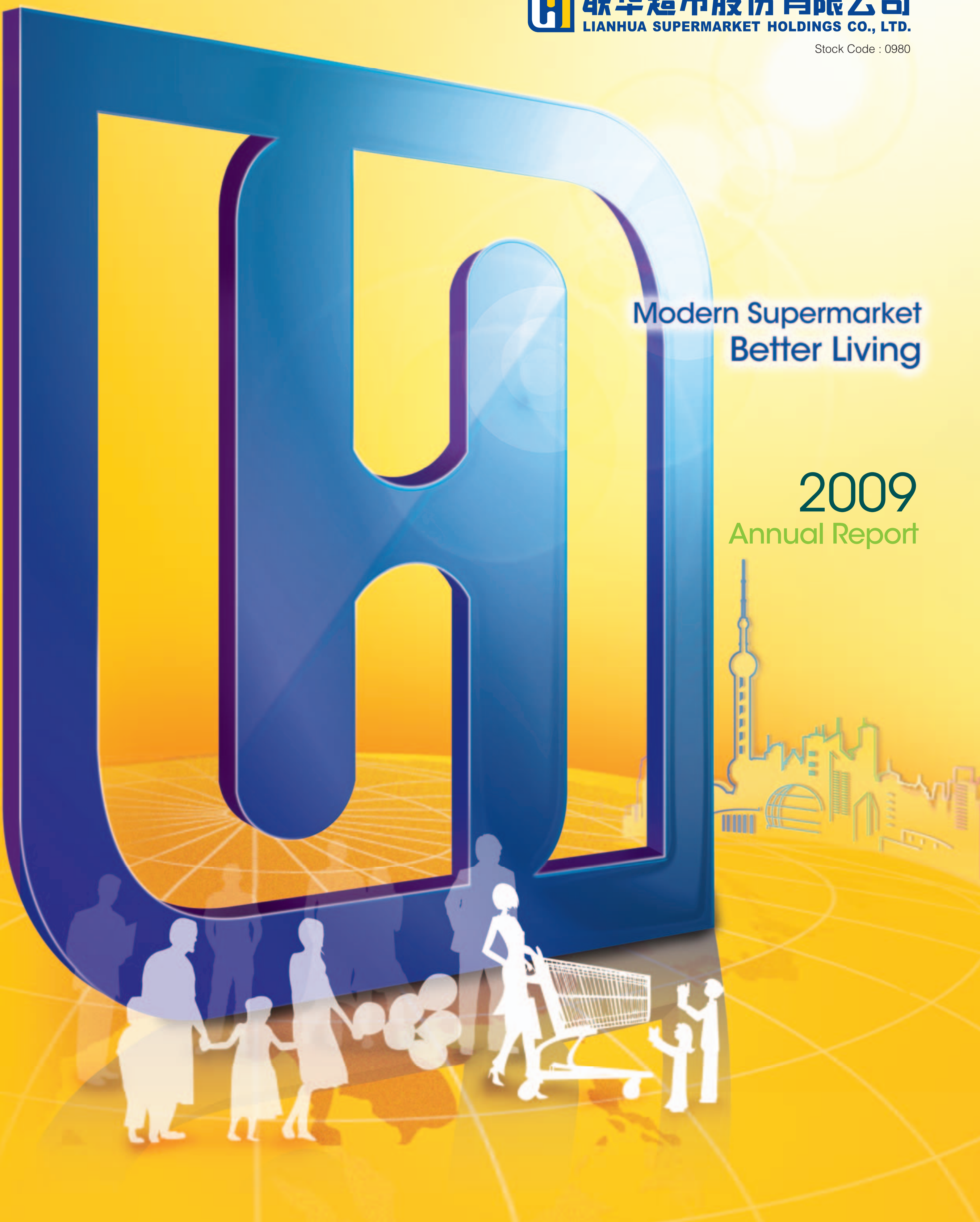
联华超市股份有限公司
LIANHUA SUPERMARKET HOLDINGS CO., LTD.

Stock Code : 0980



Modern Supermarket
Better Living

# 2009
# Annual Report

# Total of 4,930 outlets spanning in 22 provinces and municipalities across the nation.

| Province / Municipality | Hypermarket | Supermarket | Convenience Store |
|---|---|---|---|
| Shanghai | 32 | 1,741 | 1,289 |
| Zhejiang | 37 | 254 | 238 |
| Jiangsu | 24 | 526 | 6 |
| Anhui | 9 | 66 | |
| Henan | 5 | 9 | |
| Guangxi | 5 | 172 | |
| Heilongjiang | 4 | | |
| Liaoning | | | 311 |
| Beijing | 4 | 4 | 136 |
| Tianjin | 2 | | |
| Hebei | 2 | 3 | |
| Shandong | 1 | 17 | |
| Jiangxi | | 8 | |
| Fujian | 1 | | |
| Guangdong | 3 | | |
| Inner Mongolia | | 13 | |
| Chongqing | | 1 | |
| Gansu | | 1 | |
| Sichuan | 3 | | |
| Hunan | | 1 | |
| Hubei | | 1 | |
| Guizhou | | 1 | |

Lianhua Supermarket Holdings Co., Ltd. (the "Lianhua Supermarket" or the "Company") commenced its business in Shanghai in 1991. For over nineteen 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 2009, Lianhua Supermarket and its subsidiaries (the "Group") operated a total of 4,930 outlets (excluding those operated by the Company's associated companies) spanning in 22 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 of the PRC 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", "Hualian Supermarket" and "Lianhua Quik", respectively. In recent years, "Lianhua Supermarket", "Hualian Supermarket" and "Lianhua Quik" were consecutively awarded one of the most prestigious and distinctive brand name awards in the PRC by the Franchise Committee of the PRC Retail Chain Operations Association.



# CONTENTS



# CORPORATE INFORMATION

## Directors

**Executive Directors**
Mr. Wang Zhi-gang
Mr. Hua Guo-ping (appointed on 30 March 2010)
Mr. Liang Wei
Ms. Xu Ling-ling
Ms. Cai Lan-ying

**Non-Executive Directors**
Mr. Ma Xin-sheng *(Chairman)*
Mr. Xu Bo
Mr. Kazuyasu Misu
Mr. Wong Tak Hung

**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

**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. Ma Xin-sheng
Mr. Kazuyasu Misu
Mr. Zhang Hui-ming

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

## Supervisors

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

## Joint Company Secretaries

Ms. Xu Ling-ling
Mr. Stephen Mok

## Authorised Representatives

Mr. Liang Wei
Ms. Xu Ling-ling

## International Auditor

Deloitte Touche Tohmatsu

## Legal Advisers to the Company

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

*As to PRC laws*
Grandall 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

## Registered and Business Office

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

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

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

**Telephone**
86 (21) 5262 9922

**Fax**
86 (21) 5279 7976

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

## Shareholder's Enquiries

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

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

## Share Information

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

**Listing Date**
27 June 2003

**SEHK Stock Code**
980

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

**Year-end Date**
31 December

## Results Announcements

Interim Results for 2009 was published on 25 August 2009
Annual Results for 2009 was published on 30 March 2010

## Dividends

Interim Dividends: RMB0.12 (including tax) per share
Proposed Final Dividends: RMB0.16 (including tax) per share

## 2009 Annual General Meeting

To be convened at 10:00 a.m. on 23 June 2010 Wednesday

# MAJOR ACHIEVEMENTS

## January

Bailian Group Co., Ltd ("Bailian Group") entered into an equity transfer agreement with the shareholders of Shanghai Industrial United (Group) Commercial Network Development Company Limited ("SI Commercial Network") to acquire 100% equity interest of SI Commercial Network.

## February

Brand name "Lianhua Quik" under Lianhua Supermarket was accredited as a "Well-known Trademark of Shanghai (上海市著名商標)" and one of "2008 Commercial Brands of Growth (2008年度北京商業成長品牌)".

## March

Lianhua Supermarket, together with Shanghai Lianhua Quik Convenience Stores Company Limited and Shanghai Century Lianhua Supermarket Development Company Limited, was awarded the title of "2007-2008 Civilized Units of Shanghai".

## May

Ma Xin-sheng was appointed as the Chairman of Lianhua Supermarket; Hua Guo-ping was appointed as the deputy chairman of the board of directors of Lianhua Supermarket; Chen Jian-jun was appointed as the chairman of the supervisory committee of the Lianhua Supermarket and Dao Shu-rong was appointed as a supervisor of the supervisory committee.

## June

Lianhua Supermarket, in conjunction with Shanghai Lianhua Supermarket Development Co., Ltd. ("Lianhua Supermarket Development"), a subsidiary of Lianhua Supermarket, acquired 100% equity interest in Hualian Supermarket Holdings Company Limited ("Hualian Supermarket").

## July

"Bailian•Europe Retailer and Suppliers Trade Matchmaking Conference", sponsored by Bailian Group and undertaken by Lianhua Supermarket was held. Around 127 manufacturers from 18 European countries attended the exhibition and over 3,000 commodities were displayed. Counselor of the EU Embassy in China, representatives of European food manufacturers and suppliers, and Commercial Officer, Commercial Counselor and commissioner stationed in Shanghai from those countries presented at the Conference.

## September

Liang Wei, administrative vice general manager of Lianhua Supermarket was awarded the title of "Ten Outstanding People in Shanghai Retail Industry".

Lianhua Supermarket was awarded the certificate of "Shanghai Integrity Management Model Shop (Enterprise) (上海市誠信經營示範店(企業))" by the Federation of Shanghai Commercial Association (上海市商業聯合會).

## November

Business Case *"Q+e: A New Trend for Development of domestic convenience stores in China"* presented by Lianhua Quik was awarded "2009 Retail Innovation Prize (2009零售創新大獎)" by CCFA (中國連鎖協會) at the 11th China Chain Store Conference.

Yu Jian-yong, store manager of Century Mart Zhonghuan Store and Li Guo-wei, store manager of Qingchun Store, was granted the award of "2009 National Gold Medal Store Manager (2009年度全國金牌店長)"by CCFA at the 11th China Chain Store Conference.

# CHAIRMAN'S STATEMENT

# CHAIRMAN'S STATEMENT

## Dear Valued Shareholders,

I am pleased to present the annual results of Lianhua Supermarket for the year ended 31 December 2009 to our shareholders.

In 2009, the Group recorded a turnover of RMB24,017,720 thousand, representing a growth of 16.01% as compared with 2008, and a growth of 3.29% as compared with 2008 after taking into account Hualian Supermarket; with steadily improving gross profit margin and consolidated revenues margin. The Group recorded an operating profit of RMB647,573 thousand, representing a growth of 45.98% as compared with 2008, and a growth of 33.62% in operating profit as compared with 2008 after taking into account Hualian Supermarket. The Group recorded a profit attributable to shareholders of the Company of RMB506,802 thousand, representing an increase of 30.50% over that in 2008, and a growth of 22.86% over 2008 after taking into account Hualian Supermarket. Earnings per share was RMB0.81.


In 2009, the Group recorded a turnover of **RMB24,017,720 thousand**, representing a growth of 16.01% as compared with 2008, and a growth of 3.29% as compared with 2008 after taking into account Hualian Supermarket, and a profit attributable to shareholders of the Company of **RMB506,802 thousand**, representing an increase of 30.50% over that in 2008, and a growth of 22.86% over 2008 after taking into account Hualian Supermarket.

I was appointed as the Chairman of Lianhua Supermarket in May 2009. Through the study around my appointment, an enterprising course of Lianhua Supermarket becoming a local retailer has emerged. It is indeed an enterprising course since as early as in 1991 when the first supermarket of the Company debuted, traditional department stores still dominated China's retailing sector. A supermarket with open shelf was a novelty or even perplexed for consumers. Customers who came for shopping formed a long queue in front of the door. By 1996 when China's first hypermarket, a joint venture of the Company and the French retailer Carrefour, was opened in Shanghai, its "one-stop" shopping experience was quickly taken by families and "shopping at a supermarket" even became part of a trendy lifestyle. For local enterprises, chain supermarket is a never-ending "enterprising course" of explorations, studies and innovations, as China fell behind Western countries by decades on this business mode.

In the first decade of the 21st century, China's blazing economic growth and development continued to grab headlines, with stunning economic and social transformation partly signified by class stratification and ever-changing social ecosystem. Also radical changes in the decade were witnessed in China's retailing environment: China's accession to WTO, complete open-up in retailing, accelerating presence of almost all multinational retailer giants in China, and competitions at higher levels. On Chinese consumer market, as the seller's market has shifted to the buyer's market, the market gradually becomes consumer-oriented along with ongoing redistribution of social wealth, emergence of new consumer group and income class, subdivision of customers and differentiation of consumer demands. Coupled with the rising of e-commerce, non-store retailing and online stores to add uncertainties and challenges to the market, any player ignoring such changes and innovations will be eliminated by the times and tide. Throughout the decade, Lianhua Supermarket spared no efforts in pioneering in an enterprising, innovative and practical manner, building itself as a local retailing brand with roots and views for long-run development. Following its successful listing in Hong Kong in 2003, Lianhua Supermarket became the first retailer from Mainland China listed on the Stock Exchange and our standard of corporate governance was further improved. During the decade, the Company kept tuning its well-established business mode comprising three main retail segments and e-commerce according to market changes. Thanks to a total of 4,930 outlets and more than 6 million members, the turnover increased to RMB24,017.72 million in 2009 from RMB3,516.32 million in 2000, representing a compound annual growth rate of 23.80%, and the compound annual growth rate of net profit reached 29.09%. Through the decade, Lianhua Supermarket has been pursuing management development and innovations in its information system, distribution system, procurement system, merchandise management and human resources management. It is the solid foundation and the entrepreneurship to address challenges that steered Lianhua Supermarket through the turbulent year 2009 with desirable returns to investors.

Despite the post-2009 fallout to loom over the globe, we are expecting highlights from the Company and China in 2010, and even in the coming decades for our consumers and shareholders. Especially, a new room for growth will be promised for the Company from innovations in retail segments, merchandise and business modes coping with the fast improving living standards.

Following its acquisition of the sister company Hualian Supermarket in 2009, the Group has become the platform for development of supermarket business of Bailian Group, a substantial conglomerate. Enhancing internal resource consolidation, bargaining power and network scale merit will be critical to improve the Group's competitiveness in the future. Therefore, 2010 will be a critical year for Lianhua Supermarket to consolidate enterprises and upgrade its merchandise, logistics and information flows. The Group will take initiatives in seeking organic growth and searching for regional merger and acquisition opportunities.

For 2010 Shanghai World Expo, in addition to the economic stimulus, job creation and culture communication, we are further expecting the event themed "Better City, Better Life" to introduce new urban development concept and experience into China, a country that is still in the initial stage of urbanization. Currently, the preparation work for setting up six outlets in the Expo park is smooth, we expect that these outlets will showcase the Group's brand to global visitors. Enlightened by experience and models from developed countries in blueprinting the future city, we believe that chain retail operators, as a forever integral part of a city, will gain more driving force and growth potential as cities evolve.

Looking into 2010, consumption stimulation will still be a foothold of China's macro measures, while domestic demands, in particular consumption demands from residents, will be boosted to fuel economic growth continuously. It is expected that the domestic demand stimulus package will play an active role in consumer markets, implying vast potentials in China market.

Aiming at building a role model in the capital market, the Board of the Company (the "Board") will further improve corporate governance and explore effective incentive program to align the interests between the management and shareholders in a forward-looking, accountable and rational manner. Meanwhile, the Board is committed to enhancing decision-making efficiency and performance for healthy and rapid growth of the Company and the increase of shareholder value.

On behalf of the Board, I would like to extend my heartfelt thanks for the dedications and contributions of the management and all employees and the supports from our shareholders and business partners.

By order of the Board

**Ma Xin-sheng**
*Chairman*

30 March 2010
Shanghai, the PRC

# FIVE YEARS FINANCIAL HIGHLIGHTS

# FIVE YEARS FINANCIAL HIGHLIGHTS

| Unit: RMB'000<br>*For the Year Ended 31 December* | 2009 | 2008<br>(restated) | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Turnover | 24,017,720 | 23,253,764 | 18,086,857 | 16,443,030 | 14,312,503 |
| Hypermarkets | 13,039,537 | 11,910,715 | 9,846,161 | 8,568,580 | 7,153,548 |
| – Percentage to turnover(%) | 54.29 | 51.22 | 54.44 | 52.11 | 49.98 |
| Supermarkets | 9,318,539 | 9,597,304 | 6,560,466 | 6,238,956 | 5,642,603 |
| – Percentage to turnover(%) | 38.80 | 41.27 | 36.27 | 37.94 | 39.42 |
| Convenience stores | 1,552,902 | 1,591,675 | 1,524,042 | 1,545,061 | 1,470,475 |
| – Percentage to turnover(%) | 6.47 | 6.85 | 8.43 | 9.40 | 10.27 |
| Other businesses | 106,742 | 154,070 | 156,188 | 90,433 | 45,877 |
| – Percentage to turnover(%) | 0.44 | 0.66 | 0.86 | 0.55 | 0.33 |
| Gross profit | 3,136,043 | 3,020,832 | 2,348,636 | 1,981,680 | 1,604,221 |
| Gross profit margin (%) | 13.06 | 12.99 | 12.99 | 12.05 | 11.21 |
| Consolidated income margin (%) (note 1) | 24.10 | 23.48 | 25.47 | 23.61 | 19.89 |
| Operating profit | 647,573 | 484,641 | 417,294 | 229,518 | 257,138 |
| Operating profit margin (%) | 2.70 | 2.08 | 2.31 | 1.40 | 1.80 |
| Profit attributable to shareholders of the Company | 506,802 | 412,489 | 268,301 | 241,599 | 239,677 |
| Net profit margin (%) | 2.11 | 1.77 | 1.48 | 1.47 | 1.67 |
| Earning per share (RMB) | 0.81 | 0.66 | 0.43 | 0.39 | 0.39 |
| Interim dividend per share (RMB) | 0.12 | 0.10 | 0.06 | 0.06 | 0.06 |
| Final dividend per share (RMB) | 0.16 | 0.15 | 0.12 | 0.07 | 0.07 |

| Unit: RMB'000<br>*As at 31 December* | **2009** | 2008<br>(restated) | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Net assets | **2,928,074** | 3,043,994 | 2,715,424 | 2,051,500 | 1,890,761 |
| Total assets | **15,418,396** | 14,692,869 | 12,398,791 | 8,900,881 | 6,995,066 |
| Total liabilities | **12,490,322** | 11,648,875 | 9,683,367 | 6,576,062 | 4,879,855 |
| Net cash flow | **732,746** | (1,639,457) | 2,549,758 | 1,389,298 | 246,052 |
| Average return on total assets (%) | **3.37** | 3.05 | 2.52 | 3.38 | 4.47 |
| Average return on net assets(%) | **19.89** | 16.53 | 12.17 | 12.26 | 13.24 |
| Gearing ratio (%) (note 2) | **–** | 1.29 | – | – | 0.27 |
| Liquidity ratio (times) | **0.82** | 0.90 | 0.87 | 0.77 | 0.71 |
| Turnover of trade payables (days) | **59** | 56 | 60 | 62 | 61 |
| Turnover of inventories (days) | **37** | 37 | 35 | 36 | 31 |

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

# MANAGEMENT DISCUSSION & ANALYSIS

# MANAGEMENT DISCUSSION & ANALYSIS

## Operating Environment

The Chinese government's timely and forceful macroeconomic measures enabled the country to take the lead in stepping out of the shadows of global economic recession in 2009. According to the National Bureau of Statistics, the country's GDP increased by 8.7% in 2009, achieving the "8% growth rate target" set at the beginning of the year. Total retail sales of consumer products for the year was RMB12,534.3 billion and the actual growth of retail sales of consumer products (excluding the pricing factor) was 16.9%.

The national policy adopted in the year 2009, ranging from consumption policy, circulation policy and financial policy, prompted the development of the retail industry to varying degrees. According to the National Bureau of Statistics, following a series of measures to stimulate consumption growth, consumption at retail level contributed to 4.6 percentage points in GDP growth in 2009, and accounted for 52.5% of the GDP, which is higher than the 45.7% contribution in 2008 and the average of 45% in the years since 1978.

Pursuant to the "Chinese Consumer Confidence Report for the Fourth Quarter of 2009" (《2009年四季度中國消費者信心調查報告》) jointly released by China Economic Monitoring & Analysis Center (CEMAC) of the National Bureau of Statistics and The Nielsen Company, China's consumer confidence continued to build up ever since its optimistic performance in the third quarter. China consumer confidence index for the fourth quarter was 103.9 (range: 0-200), representing an increase of 3.1 points over the previous quarter. The continuous improvement in consumer confidence primarily derives from consumers's optimism on China's present economy, belief in favourable economic development in the future as well as positive expectations on employment and income growth in the coming years.

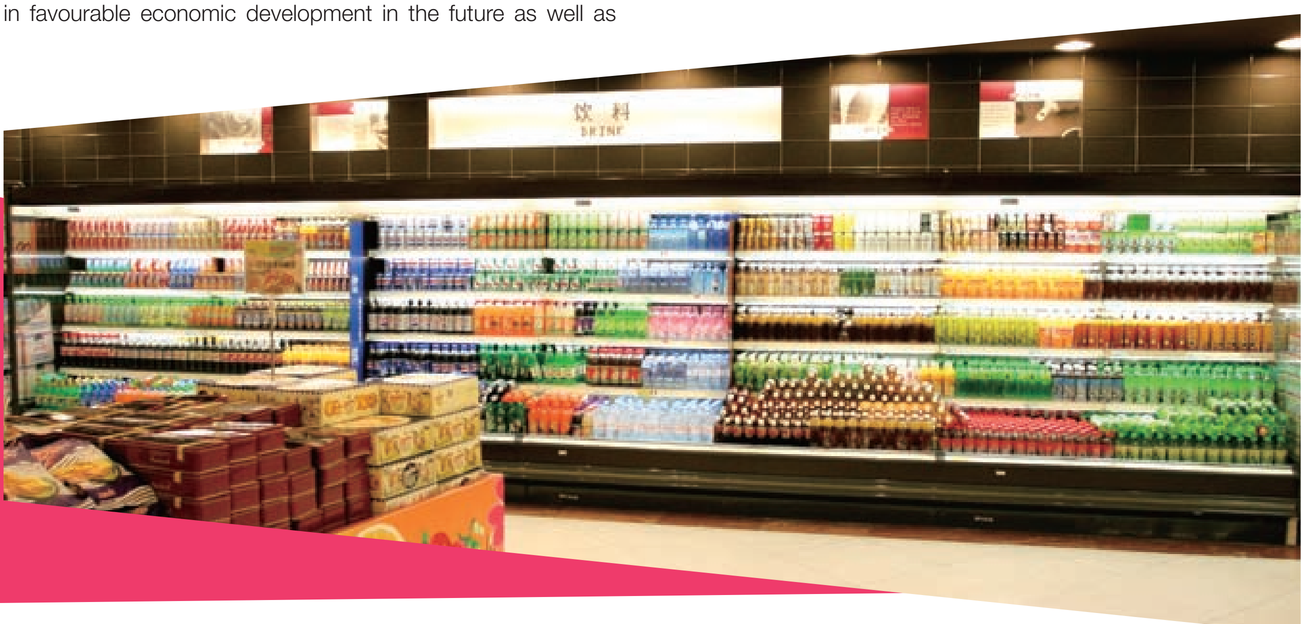
Global economy, together with China economy, will continue to recover in 2010 but instability and uncertainties are still in the way. China will continue to optimise its economic structure. The country is expected to step up efforts to implement economic stimulus measures which already yielded effect in 2009. The Group believes that positive factors that drove the growth of the economy and domestic consumption of China will persist and promote transformations and development of the industry continuously.

## Financial Review

### Growth in turnover and consolidated revenues

The Group completed the acquisition of Hualian Supermarket in 2009. As Hualian Supermarket and the Group are under common control of Bailian Group, the annual results 2008 of Hualian Supermarket was included in the consolidated financial statement of the Group with reference to guidance from relevant accounting standards for preparation of consolidated financial statement. The growth in turnover, operating profit and net profit attributable to the Company's shareholders was compared to that of 2008, respectively, at the convenience of investors.

In 2009, the Group recorded a turnover of RMB24,017,720 thousand, representing a growth of 16.01% as compared with 2008, and a growth of 3.29% as compared with 2008 after taking into account the sales of Hualian Supermarket, and the full-year same store sales growth slightly dropped by 0.24%. The



increase in turnover was mainly due to the acquisition of Hualian Supermarket, contribution from new outlets and sales growth in comparable outlets. During the period of economic downturn, the Group continued its effort on outlets structure optimization while an outlet rationalization among three business segments resulted in a decrease in total number of direct operation stores and in turn exerted a moderate influence on turnover growth of the year. As consumer confidence has been picking up since October 2009, the same store sales improved significantly with a growth rate returning to a level of 3% in the fourth quarter.

During the period under review, the gross profit grew steadily and reached RMB3,136,043 thousand (representing an increase of 11.77% over 2008 and 3.81% over 2008 after taking into account of Hualian Supermarket) and the gross profit margin increased steadily by 13.06%. The consolidated revenues reached RMB5,788,882 thousand (representing an increase of 15.22% over 2008 and 6.04% over 2008 after taking into account of Hualian Supermarket) with a consolidated income margin of 24.10%, representing an increase of 0.62 percentage point. The constant increase in the consolidated income is due to: 1) the continuous expansion in the Group's centralized purchasing scale and procurement from places of origin; 2) the growth in rental income generated by the more reasonable planning and marketing strategies in business solicitation; and 3) the growth in commission income driven by the continuous promotion of membership system. Meanwhile, the Group proactively utilized the sufficient capital and adopted the centralized cash management strategies to realize growth in cash income.

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

## Operating cost and net profit

In 2009, total selling and distribution expenses of the Group amounted to approximately RMB25,439,879 thousand, representing an increase of 15.82% over 2008 and 3.63% over 2008 after taking into account of Hualian Supermarket. Total administrative expenses amounted to RMB560,117 thousand, representing an increase of 2.06% as compared to the corresponding period of previous year and the overall cost ratio increased by approximately 0.39 percentage point as compared to that of the corresponding period of the previous year. Items of major operating costs such as rental, labour and utilities charges amounted to RMB1,330,294 thousand, RMB1,825,653 thousand and RMB475,995 thousand, respectively. Some of the operating costs increased inevitably. The Group proactively prompted internal charge control practices with an aim to improve management system and realize reasonable control over costs. Meanwhile, the Group strengthened consolidated revenues to offset cost increase and reasonably control the growth in cost ratio through constant exploration of revenue sources.


As at 31 December 2009, the Group recorded an operating profit of RMB647,573 thousand, representing a growth of 45.98% as compared with 2008, and a growth of 33.62% in operating profit as compared with the corresponding period of 2008 after taking into account Hualian Supermarket. The operating profit margin increased by 0.56 percentage point to 2.70% when compared with the corresponding period of 2008, and represented a growth of 0.62 percentage point as compared with 2008 (after taking into account Hualian Supermarket).

During the period, the Group's share of revenue of associated companies was RMB150,240 thousand, representing a slight increase of 0.51%. Shanghai Carhua Supermarket Company Limited ("Shanghai Carhua") recorded a decrease in profit as the 7 new outlets opened last year were still in the initial development stage, coupled with the impact of financial crisis.

During the period under review, the Group recorded a total profit attributable to the Company's shareholders of RMB506,802 thousand, representing an increase of 30.50% over that in 2008, and a growth of 22.86% over 2008 after taking into account the net profit of Hualian Supermarket. In 2009, the net profit margin of the Group was 2.11% and earnings per share were RMB0.81.

## Cash flow

In 2009, the Group's net cash inflow reached RMB732,746 thousand, cash and miscellaneous bank balances as at the period-end amounted to RMB7,001,724 thousand.

For the year ended 31 December 2009, the turnover period of the Group's trade payables was 59 days, inventory turnover period was approximately 37 days.

During the year under review, the Group did not use any financial instrument for hedging purposes and the Group did not issue any hedging instrument as at 31 December 2009.

## Growth in retail businesses

### Hypermarkets

During the period under review, the turnover of the Group's hypermarkets increased by approximately 9.48% when compared with the corresponding period of 2008 to RMB13,039,537 thousand, which accounted for approximately 54.29% of the Group's turnover, and the gross profit margin increased by 0.45 percentage points to 12.29%. The same store sales increased by 0.44%. The segment's operating profit was RMB243,857 thousand, representing an increase of RMB118,707 thousand over that in the corresponding period of 2008. The operating profit margin increased by 0.82 percentage point when compared with that of 2008. So far as hypermarkets are concerned, the Group will continue to implement the strategy of procurement from places of origin to reduce purchase cost, optimize the composition of suppliers and enhance the performance of its commodities with an aim to achieve a significant growth in consolidated revenues margin and operating profit margin.

| As at 31 December | 2009 | 2008 |
|---|---|---|
| Gross Profit Margin (%) | 12.29 | 11.83 |
| Consolidated Revenues Margin (%) | 23.82 | 23.11 |
| Operating Profit Margin (%) | 1.87 | 1.05 |

### Supermarkets

During the period under review, the Group further expanded its market share in Shanghai with the successful acquisition of Hualian Supermarket. At the same time, the Group initiated resources consolidation and capital management, outlets transformation and commodities improvement within Hualian Supermarket, which resulted in a sustainable growth in operating profit.

During the period under review, the turnover of the Group's supermarkets increased by approximately 32.25% when compared with the corresponding period of 2008 to RMB9,318,539 thousand, which accounted for approximately 38.80% of the Group's turnover. The gross profit margin was 13.61%. Segment operating profit was RMB327,889 thousand, representing an increase of RMB51,827 thousand, or a growth of approximately 18.77% over that in the corresponding period of 2008. Operating profit margin decreased by 0.4 percentage point when compared with that of 2008 as a result of the increase in wholesale franchise stores.

In 2009, the turnover of the Group's supermarkets decreased by 2.9% when compared with 2008 after taking into account the turnover of Hualian Supermarket and the same store sales also declined by 1.02%, primarily attributable to the decrease in the number of direct operation stores in the supermarket business segments due to closure of some stores upon expiry of the leases and transformation of three stores into hypermarkets through store expansion. Segment operating profit increased by 3.4% over that in the corresponding period of 2008. Operating profit margin increased by 0.22 percentage point when compared with that of 2008 upon the implementation of acquisition and reorganization of Hualian Supermarket.

Hualian Supermarket recorded a turnover of RMB2,661,580 thousand in 2009, representing a growth of 4.32% as compared with the corresponding period of 2008. Gross profit margin was 8.27% and same store sales growth reached 2.87%. Consolidation of Hualian Supermarket initiated during the year effectively enhanced its resource consolidation and led to a decrease in cost ratio. Operating profit margin increased by 1.01 percentage point in 2009.

| As at 31 December | 2009 | 2008 |
|---|---|---|
| Gross Profit Margin (%) | 13.61 | 13.86 |
| Consolidated Revenues Margin (%) | 22.67 | 22.39 |
| Operating Profit Margin (%) | 3.52 | 3.30 |

## Convenience Stores

During the period under review, some of the direct operation stores in convenience stores business segment went through transformation. The Group's convenience stores recorded a turnover of RMB1,552,902 thousand, which accounted for approximately 6.47% of the Group's turnover, and the same store sales decreased by 2.08%. The decrease in same store sales of the Group's convenience stores is mainly due to: 1) the decrease in market demand due to financial crisis; 2) abnormality in the weather of major sales seasons during the year under review, which affected full-year sales performance; and 3) the shut-down of a number of well established stores owing to give way to frequent reconstructions in major cities. During the year, a total of 121 convenience stores were transformed. The merchandise mix of the transformed stores was further optimized while the value-added services effectively expanded the income sources. During the period, consolidated revenues margin increased by 0.89 percentage point.

| As at 31 December | 2009 | 2008 |
|---|---|---|
| Gross Profit Margin (%) | 15.27 | 15.58 |
| Consolidated Revenues Margin (%) | 24.12 | 23.24 |
| Operating Profit Margin (%) | 1.62 | 1.69 |

## Capital structure

As at 31 December 2009, 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 decreased from RMB2,632,481 thousand to RMB2,463,284 thousand, which was mainly due to the increase in profit amounting to RMB506,802 thousand and dividends distribution amounting to RMB167,940 thousand as well as RMB508,059 thousand arising from the acquisition of Hualian Supermarket under the same controlling entity, representing an aggregate decrease of RMB675,999 thousand during the period.

## Details of the Group's pledged assets

As at 31 December 2009, the Group did not pledge any assets.

## Exposure to foreign exchange risk

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

## Share capital

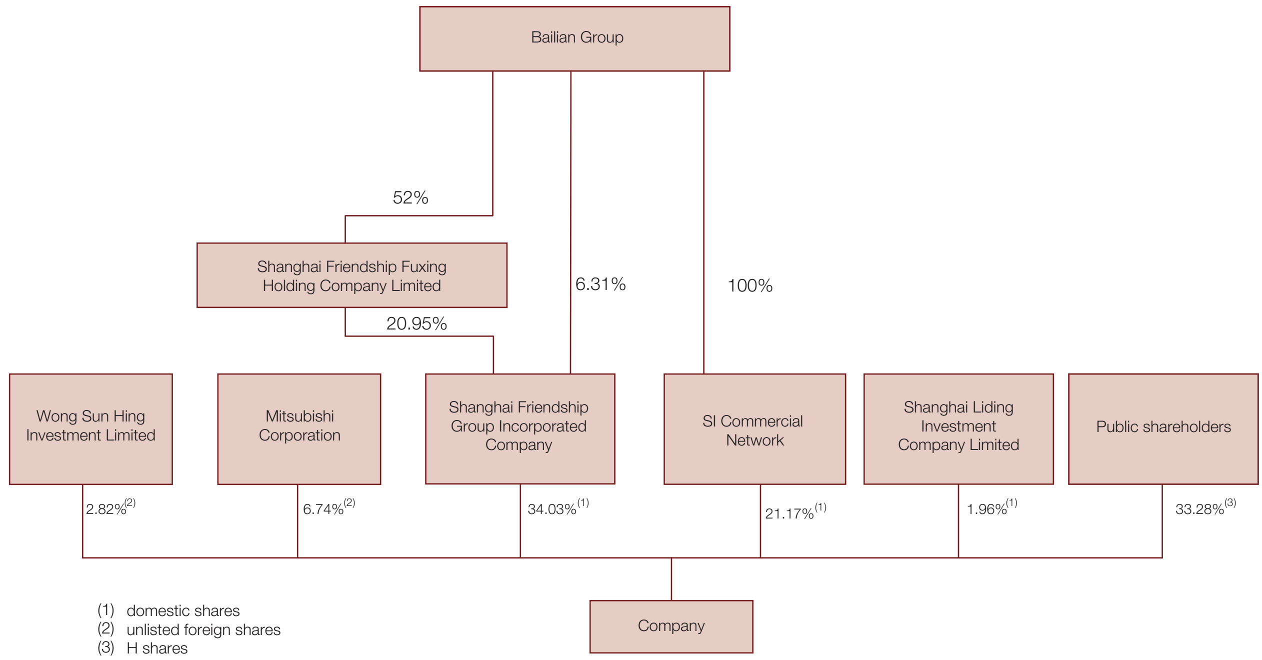
As at 31 December 2009, the issued share capital of the Company was as follows:

| Class of shares | Number of shares in issue | 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 |

On 21 January 2009, the Company was informed that two shareholders of 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.

As at the date of the Equity Transfer Agreement, 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 at a consideration of RMB766.75 million and RMB289.10 million, respectively. The Company was informed that the equity transfer was completed as at the date of this report. Please refer to the announcement of the Company dated 21 January 2009 for details.

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




## Contingent liabilities

As at 31 December 2009, the Group did not have any material contingent liabilities.

# Operating Review

The global financial crisis in 2008 put China's retailing sector under immense pressure since early 2009. Although there was no apparent decrease in real merchandise demand, the sharp decrease in food price index posed a significant impact on the Group's sales. The Group promptly sized up the situation timely to secure healthy growth with an aim to capture business opportunities and to improve its sustainable development capability. Noticeable progresses were seen in healthy market expansion, outlet layout optimization, merchandise mix improvement and internal management enhancement in 2009. Despite under the pressure of slightly increase in turnover with continuous cost hikes, a desirable growth was recorded in consolidated merchandise revenue, thus securing a further substantial growth in profitability.


### Emphasis on quality and centralized development to expand market share

During the year under review, the Group made steady progress in the developed cities in Yangtze River Delta by adhering to its strategy of emphasizing quality and centralized development. Fine tunings were made to the business structure to optimize the existing outlets for an overall improvement in quality. During the year, the Group opened 558 new outlets, including 11 new hypermarkets (together with three transformed from supermarkets outlets), 314 supermarkets (183 and 131 for Lianhua Supermarket and Hualian Supermarket, respectively), and 230 convenience stores.

During the year, the Company has completed the acquisition of Hualian Supermarket. As at 31 December 2009, Hualian Supermarket had a total of 1,150 outlets, including 214 directly operated stores and 936 franchised outlets, mainly covering the Eastern China region. The acquisition of Hualian Supermarket has further strengthened the advantages of the Group's operation in the Yangtze River Delta region, which leads to a substantial enhancement of the competitive edge of the Group's supermarket business.

To enhance the advantage of economy of scale in the regions of existing operations and potential growth, the Group capitalized on its hypermarket and supermarket operations, its two major business segments, to expand scale. Meanwhile, it set the pace of different retail segments and planned the market layout to secure the advantages of economy of scale in existing markets. During the year under review, the Group further extended its hypermarket segment in existing regions, including Qingpu District of Shanghai, Yangzhou and Zhenjiang cities of Jiangsu province, and Hangzhou and Jinhua districts of Zhejiang province, to consolidate its local market advantages. Moreover, the first outlet in Ningbo, Zhejiang province has been set up, its outstanding results laid a solid foundation for further development in that region.

Facing unfavourable macro economic situation and uncertain economic outlook, the Group also promptly optimized its existing outlet network by streamlining certain underperforming outlets. It also expanded and upgraded three supermarkets to hypermarkets. Such streamlining during economic downturn period will help the Group to seize opportunities during economic recovery.

As at 31 December 2009, the Group (including Hualian Supermarket) had a total of 4,930 retail outlets, covering 22 provinces and municipalities across the country. Details of the retail outlets are as follows:

| | | Supermarket | | | |
|---|---|---|---|---|---|
| | Hypermarket | Lianhua Supermarket | Hualian Supermarket | Convenience Store | Total |
| Direct operation | 132 | 495 | 214 | 921 | 1,762 |
| Franchised operation | – | 1,173 | 936 | 1,059 | 3,168 |
| Total | 132 | 1,668 | 1,150 | 1,980 | 4,930 |

## Acquisition and Consolidation

In early 2009, Bailian Group increased its shareholding in the Group and became the single largest shareholder of the Group. As a result, the Group established its role as a platform for Bailian's supermarket business consolidation. The Group acquired the entire equity interests in Hualian Supermarket in June 2009, and completed all legal procedures for the acquisition of Hualian Supermarket during the year. The acquisition allowed the Group to further increase the market share of its supermarket segment in Shanghai and Yangtze River Delta. Meanwhile, the merger of the Group and Hualian Supermarket will create a better platform for the development of the Group's franchised operation under the most influential supermarket brand in the region. More importantly, the merger of the two major supermarket players in the same region is expected to generate synergies in scale advantages and resources sharing.

Following the acquisition, the Group launched a series of marketing activities to deliver a message to consumers that Lianhua and Hualian have been "integrated". A business consolidation scheme was also developed. Major tasks accomplished as at the end of 2009 included: comparing the merchandise trading terms between the two supermarket groups to formulate the most favourable terms; comparing their outlet operations to acquire the best management experience; preparing and implementing proposals about integrating the two companies in terms of finance, information, franchising and corporate governance; and initiating consolidation schemes for merchandise systems and organizational frameworks.

## Optimized procurement model

During the period under review, the Group set up outlets in prime business areas, improved layouts of stores, optimized merchandise mix, enhanced capability for fresh product operation, pushed ahead with outlet transformation and refined its business model.

The Group expanded its centralized procurement, so as to further boost its consolidated revenues generated from commodities. Consolidation of resources from suppliers to the greatest extent to facilitate the implementation of centralized procurement has proven to be the most effective means for further transformation and increasing consolidated revenues. Against the backdrop of financial crisis in the first half of 2009, the Group actively deepened its existing reform of procurement system, optimized centralized procurement procedures among various business segments, rationalized proactively its supplier structure, increased the proportion of suppliers from different places of origin, explored actively operational mode for buy-up procurement to strengthen commodity competitiveness.


The Group strived to strengthen its fresh products differentiation, so as to enhance competitive edges of its outlets. Fresh products were the major focus of the Group's differentiated operation. With the adoption of its personalized operating strategies, under which priority was given to fresh products, the Group set up a procurement division to handle fresh products during the year under review. Apart from the major category of chilled and frozen food, pure fresh products have all been assigned to the handling of such newly-formed fresh products procurement division, which connected the processes of product procurement, inspection and acceptance, and distribution directly with fresh product bases, so as to ensure the purchase of high quality fresh products at low prices and to develop the Group's fresh product operation in a more comprehensive and professional manner.

The Group has also further developed and promoted its private label commodities. While introducing highly cost-effective goods, the Group gradually converted the development and selling functions of private label products into the mode of "internal suppliers" to promote the sales. The Group also appointed staff to trace and assess growth performance of new private label products on a regular basis. In addition, the Group examined outlet display and compared consolidated revenue contribution of private label products with other similar branded commodities. Leading position of private label products have already emerged in some categories.

The Group actively explored innovations in procurement mode of imported commodities, adopted outbound direct procurement gradually, and optimized its procurement flow. In July, the Group held the "European Retailer-Supplier Trade Fair" at its headquarters. The trade fair was attended by almost 127 manufacturers from 18 European countries which were showcasing over 3,000 commodities at Lianhua's headquarters. Through co-operation with these outstanding suppliers, the Group selected 110 items from 12 suppliers in six nations as the first batch of European imported goods displayed and sold at its outlets. Thus, consumers in China are now able to buy inexpensive high quality European commodities at their home towns.

## Optimized workflow and strengthened supervision to improve operational efficiency

The Group strengthened its category management and optimized its profit structure. During 2009, the Group placed greater emphasis on detailed and standardized commodity management, aiming to attain breakthrough in both quality and sales per ticket. First, the Group conducted market study on consumption trends, so as to speed up the introduction of anticipated best-selling items. Second, by using price band analysis, the Group formulated different tiers for various category. Third, the Group sources differentiated commodities to optimize our earning structure. Fourth, the Group removed less popular commodities to reserve more outlet space for best-selling items. Fifth, the Group rationalized the overall layout to highlight outstanding features of our commodities.

Also, the Group strengthened operational management and enhanced operational quality. Affected by keener competition in the retail sector and the onset of the financial crisis, enterprises experienced significant decline in their revenues. Facing such circumstances, the Group kept strengthening its supervision over operational matters and improving its price management mechanism, so as to further increase its margins. Meanwhile, the Group assisted outlets in improving its performance by carrying out various category studies and commodity structure fine-tuning. Moreover, the Group actively promoted and improved its automatic replenishment system and strengthened its out-of-stock management at outlet levels, in order to build up a sound inventory structure with scientific basis.

The Group maintained stringent cost control and reduced expenses. Facing with impacts which emerged in the aftermath of the financial crisis, the Group imposed stringent budget management, and implemented cost control and cost reduction plans. The Group conducted specific researches and studies on key expenditure items which would have significant impact on results, resulting in the formulation of cost control initiatives. The Group set cost control targets and strived to explore room for further cost reduction.

### Focused on fundamental improvements to reinforce transformation of outlets

In 2009, major directions for outlet transformation were to set up outlets in prime business areas, optimize layouts of outlets, improve merchandise mix and strengthen fresh product operation.

In 2009, the Group's hypermarkets business started to speed up its transformation. Its various models, such as "department store + supermarket", "community supermarket", "fresh food hypermarket", were well-received by the market.

During 2009, the Group's supermarket business continued to be engaged in "Lianhua Premier Foods Market". The opening of "LianHua Jinmao" in the second half of 2009 was well-received by the market. Currently, transformed outlets accounted for 70% of the supermarkets of Lianhua and Hualian in Shanghai.

Quik Convenience proactively sought breakthrough through the launch of value-added services, such as financial and multimedia services, transforming itself gradually into the "Q+e" outlet, which is the combination of the Quik mark with the virtual network. It won "2009 Innovation Award" on the 11th China Chain Stores Conference 2009. Leading national media groups, such as the People's Daily and CCTV, covered the Group's innovative achievement as their key stories about people's livelihoods and how China fought against the financial crisis. As at 31 December 2009, there are 121 newly transformed stores in the Group's convenient stores business.

### Promoting corporate culture

In view of pressures brought by the financial crisis and the need to achieve outstanding corporate results, building a brilliant management team to motivate and stimulate the passion of staff to tackle challenges ahead became an important mission. During the year, it was the Group's most important priority to enhance staff competitiveness as a kind of protection of their interest amid such unprecedented market situation. The Group strategically devised all-rounded development programmes with intent to train up staff with different expertises, such as developing their knowledge, know-how and strengths in some other combined aspects. Through the organization of corporate activities, such as "Practice and Competition", and technique campaigns, such as "Competition on service etiquette and knowledge" under the theme of "Welcome to World Expo", the Group further enhanced the operational techniques and service standards of its staff.

### Consolidating key outlets to prepare for World Expo and Enhancing integrated competitive advantages

To get prepared for the grand opening of the World Expo 2010 Shanghai, the Group, which is one of the key enterprises in Shanghai to receive foreign guests, has made preparation work for the World Expo as its key task in 2009. The task was completed through training of staff at all levels, consolidation of key outlets, large scale implementation and overall upgrading. First, the Group improved both indoor and outdoor environment of its outlets to enhance the atmosphere of festivities in the community in the run-up to the World Expo. Second, the Group strengthened its operational check and established long-term effective management system. Third, the Group perfected a range of convenient facilities and optimized the layout of hypermarkets to build up its image to represent Shanghai during the World Expo. Fourth, the Group provided more training programmes to its staff, so as to enhance their service quality. Fifth, the Group organized competition campaigns among staff to improve their service techniques. The Group's campaigns to promote the World Expo has earn it a good reputation. Some outlets, such as the Xianxia outlet of Century Mart and the Tianlin outlet in the supermarket segment gained recognitions from the governments in their respective districts. All these helped enhance the overall image of Lianhua. Moreover, the Group has been granted a franchise for operation within the World Expo Park area and entered into the "Retail Service Contract" with World Expo Affairs Co-ordination Office in early 2010. Lianhua Supermarket will have six outlets in World Expo Park selling the event's franchised products.

## Business of Associated Companies

During the year under review, Shanghai Carhua did not open any new outlets. As at 31 December 2009, Shanghai Carhua operated a total of 19 hypermarkets in Shanghai.

For the twelve months ended 31 December 2009, the Group's share of results of associated companies was approximately RMB150,240 thousand. The associated companies developed their businesses steadily.

## Material Acquisitions and Disposals

On 26 June 2009, the Company and its subsidiary, Lianhua Supermarket Development, entered into an equity transfer agreement with Bailian Group and its subsidiary, Bailian Group Real Estate Co., Ltd ("Balian Real Estate"), whereby the Company will acquire a 99.4% equity interest in Hualian Supermarket from Bailian Group; and Lianhua Supermarket Development will acquire 0.6% equity interest in Hualian Supermarket from Bailian Real Estate. Upon completion of the abovementioned equity transfer agreement, Hualian Supermarket will become a wholly-owned subsidiary of the Company. Please refer to the announcement of the Company dated 26 June 2009 for details of the equity transfers.

As at the date of this report, the above-mentioned equity transfers were completed.

## Employment and Training

As at 31 December 2009, the Group had a total of 56,696 employees, representing an increase of 7,056 employees (Note) during the period under review. Total staff costs were RMB1,825,653 thousand. 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.

Note: After the Company's further review, the existing number of employees of the Company was found to be different as compared with that disclosed in the results announcement of the Company dated 30 March 2010.

During the period under review, the Group actively reacted to the market changes, rationalized and adjusted the organizational structure as well as position structure of headquarters, and amended the departmental functions and responsibilities of different positions, so as to enhance the working efficiency of staff and departments. The Group formulated the cultivation scheme of middle and senior management personnel pursuant to the "Administrative Regulation on Human Resources Development and Cultivation and Retaining of Talents" of the Group. In addition, based on its human resources strategic planning, the Group formulated and implemented the training plan for fundamental management personnel, which covered the subjects of occupational norms, skills and developments. Also, in accordance with Group's performance assessment management system, the Group devised the performance assessment proposal for the year. During the period under review, in order to further enhance the operational skills of frontline employees, the Group organized the nationwide competition for operational skills and national occupational skills and quality assessment, and accredited and awarded the skilled employees who improved significantly in skills under the mentorship system of last year. During the period under review, 98 staffs with excellent operational skills obtained the national occupational qualification as senior workers.

During the period under review, the Group actively responded to the government's call for improving employment conditions. It participated in various employment policies implemented by the government to stabilize the staff team, and rationalize the staff deployment.


## Future Strategy

In 2010, following the economic recovery and the extended implementation of more consumption stimulation policies, the Group believes that retail enterprises in China will enjoy a better environment for growth. However, a more competitive market and adjustments brought about by the macroeconomic regulation and control policy remind the Group of the importance of keeping a clear mind. The Group will proactively secure opportunities from the economic recovery and World Expo 2010 Shanghai in order to achieve better results. In 2010, the Group will further strengthen its overall development, complete the full integration of Lianhua and Hualian and capture the opportunities for merger and acquisition, consolidate its internal resources to improve bargaining power, optimize its internal workflow to enhance the competitive strength of our outlets, actively participate in World Expo 2010 Shanghai to strive for a better brand image and improve its corporate image in the capital market.

The Group will continue to adhere to its strategy of emphasizing quality and focused development. In Eastern China and other markets which the Group has already tapped into, it will open new quality outlets under the dual development models of direct operation and franchises. At the same time, the Group will pay close attention to the merger and acquisition opportunities brought about by industry consolidation. Subject to the premises of benefiting all the shareholders, and by leveraging Bailian Group's extensive business resources and good cooperation relationship with the government, the Group will enlarge its cooperation with Bailian Group in market exploration and merchandise business so as to explore new room for growth.

The Group will implement the consolidation of Hualian's business in an organized manner. In 2010, the Group will implement a full integration with Hualian's business so as to complete the consolidation of financial information, merchandise and franchise. The Group's target is a complete consolidation of business and management by the end of this year.

The Group will enhance its business transformation and optimize its core competitiveness. The Group will optimize the composition of suppliers by expanding procurement from places of origin and buying up to enhance strategic cooperation between retailers and suppliers. The Group will fine-tune its fresh product base development, develop a supply chain of fresh products and enhance the capacity for operating fresh product business in outlets. The Group will optimize the profit structure of its merchandise, improve the work flow for its private label products development and sales and establish an effective communication channel between the staff which are responsible for own brand development and operation. The Group will optimize procurement channels for imported commodities to increase the proportion of merchandise from direct suppliers. The Group will optimize the logistic system construction to satisfy the needs of each business segment and carry out the preliminary business preparation for the full commencement of the establishment of logistics facilities in Jiangqiao.

The Group will continue to implement the strong outlet strategy to enhance the overall performance of outlets. The Group will raise the requirement for outlet transformation and formulate different regional transformation plans based on the consumption requirement of different market areas so as to optimize its merchandise mix. The Group will strengthen the franchisee management to benefit from the development of all the partners and optimize the wholesale management for franchise merchandise to improve franchise income. The Group will fully utilize the e-commerce platform to seek new growth drivers.

In 2010, the Group will continue to improve its fundamental management so as to enhance its management capability. The Group will strengthen cost-control consciousness by ways of reinforcing its concept, workflow optimization and assessments. The Group will enhance the headquarter's capability for integrating resources, improving the management and assessment capabilities in respect of merchandise management, investment and capital operation, logistics and distribution and internal control establishment. The Group will improve the evaluation system and ensure smooth communication between different departments and regions, organizational assurance and evaluation with sound recommendations when material business is under implementation in particular. The Group will optimize the assessment and incentive mechanism, establishing a sound staffing mechanism to promote its corporate culture.

The Group will make every effort to grasp the opportunity for improving its capability brought about by World Expo 2010 Shanghai. The work of "Welcome to World Expo" will be its main task. While capitalizing on the opportunities for sales growth and corporate image enhancement, the Group is also committed to fulfilling its social responsibility as a major enterprise in Shanghai.

# PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## Executive directors

**Wang Zhi-gang**

Mr. Wang Zhi-gang, aged 53, is a senior economist. Mr. Wang graduated from Remin University of China (中國人民大學) in 1982 and holds a Bachelor's degree in economics 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 from 2007 to May 2009.

**Hua Guo-ping**

Mr. Hua Guo-ping, aged 47, is the general manager of the Company. Mr. Hua is responsible for the operation and management of the Group. He 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 Shanghai Industrial Asset Management Company Limited 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 SI Commercial Network. 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, and since June 2009, he has been appointed as the general manager of the Company. Since March 2010, Mr. Hua has been redesignated as an executive director of the Company.

# PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

**Liang Wei**

Mr. Liang Wei, aged 59, is a senior economist. He graduated from Heilongjiang Business School (黑龍江商學院) in 1982 with a Bachelor's degree in business and economics. In 2008, he graduated from Shanghai National Accounting Institute with an EMBA, majoring in financial management. From 1982 to 1992, he worked in Shanghai Textile Company (上海紡織品公司) as a division chief and was responsible for business planning. From 1992 to 1994, he worked in Shanghai Union Trading Corporation (上海市內外聯合貿易公司) as a manager, responsible for foreign trade business. Mr. Liang joined the Group in November 1994. From 1994 to 1997, he was the deputy general manager of the Company, and from 2000 to June 2009, he was the general manager of the Company. Mr. Liang was appointed as administrative vice general manager of the Company in June 2009. Mr. Liang 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, aged 51, 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. In 2008, she graduated from Shanghai National Accounting Institute with an EMBA, majoring in financial 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 National Commerce Industry (全國商務系統勞動模範) by the Ministry of Personnel and the Ministry of Commerce of the People's Republic of China in 2008.

# PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

**Cai Lan-ying**

Ms. Cai Lan-ying, aged 57, 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 Group's business in Zhejiang Province. Ms. Cai graduated from Hangzhou Commercial and Technical College (杭州商業技工學校) with a diploma specializing in non-staple goods in 1969 and completed the economics programme at the Correspondence Institute of the Party School of C.C. of C.P.C. 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

**Ma Xin-sheng**

Mr. Ma Xin-sheng, aged 56, a senior economist and engineer, is the Chairman of the Board of the Company. Mr. Ma is responsible for the overall operation and management of the Group and the formulation of the development strategies of various businesses. Mr. Ma graduated from the University of Shanghai. In 2008, he graduated from Shanghai National Accounting Institute with an EMBA, majoring in financial management. For the period from March 1979 to December 1981, Mr. Ma was the deputy party secretary, party secretary and factory manager of Shanghai Rectifier Factory (上海整流器總廠). For the period from December 1989 to January 1995, Mr. Ma was the deputy general manager of Shanghai Electric Group Co., Ltd. (上海電器股份有限公司). For the period from January 1995 to October 1996, Mr. Ma was the general manager and party secretary of Shanghai Jidian Maoyi Building (上海市機電貿易大廈). For the period from October 1996 to December 2003, Mr. Ma was the chairman of labour union, deputy party secretary, deputy chairman of the board of directors and president of Shanghai Electric (Group) Corporation, the chairman of the board of directors of Shanghai Electric (Group) Finance Co., Ltd. (上海電氣(集團)財務公司) and the chairman of the board of directors of Shanghai Electric Group Co., Ltd. (上海電器股份有限公司). For the period from December 2003 to December 2007, Mr. Ma was the deputy party secretary of Shanghai State-owned Assets Supervision and Administration Commission. Mr. Ma is the party secretary and the chairman of the board of directors of Bailian Group, the chairman of the board of directors of Shanghai Bailian Group Co., Ltd. (a company listed on the Shanghai Stock Exchange), the chairman of the board of directors of China Bailian (Hong Kong) Limited (中國百聯(香港)有限公司) and the director of Shanghai Pudong Development Bank Co., Ltd. (a company listed on the Shanghai Stock Exchange) since about 2008. Mr Ma received a CEO Award in the first Robert A. Mundell World Executive Awards held in 2004. Mr. Ma joined the Group in May 2009 and was appointed as the Chairman of the Board of the Company since 2009.

# PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

**Xu Bo**

Mr. Xu Bo, aged 48, the vice president of Bailian Group. Mr. Xu was the deputy faculty dean of Shanghai Lixin Accounting College, deputy general manager and chief financial officer of Shanghai Hualian Commercial Building Co., Ltd. (上海華聯商廈股份有限公司), assistant to general manager of Hualian Group Co., Ltd. ("Hualian Group Company", 華聯(集團)有限公司), assistant to president of Bailian Group in the past. Mr. Xu was the director of Shanghai Material Trading Co., Ltd (a company listed on the Shanghai Stock Exchange) from 2005 to 2007 and Mr. Xu has been the director of Shanghai Bailian Group Co., Ltd (a company listed on the Shanghai Stock Exchange) since 2006. Mr. Xu joined the Group in May 2009.

**Kazuyasu Misu**

Kazuyasu Misu, aged 53. From April 1979 to April 2004, Mr. Misu worked successively in the Foods Administration Department and the Processed Foods Department B of Mitsubishi Corporation, Mitsubishi Corporation (U.K.) and the Food Materials Department of Mitsubishi Corporation. From April 2004 to April 2009, Mr. Misu successively served as the General Manager of the Processed Foods C Unit, the General Manager of the Confectionary and Pet Foods Unit, the acting General Manager, and then the General Manager, of Living Essentials Group CEO Office of Mitsubishi Corporation. Mr. Misu held position as a director in Yonekyu Co., Ltd. (a company listed on the Tokyo Stock Exchange) for the period from May 2007 to May 2008. He also served as a director in Nippon Meat Packers, Inc. (a company listed on Osaka Securities Exchange, Tokyo Stock Exchange and the Euronext Paris S.A.) during the period from June 2008 to March 2009. Since March 2009, he has served as a director in Coca-Cola Central Japan Co., Ltd. (a company listed on Tokyo Stock Exchange and Nagoya Stock Exchange) and a director in Ryoshoku Limited (a company listed on the Tokyo Stock Exchange). Since April 2009, he has worked as the Division COO of the Foods (Products) Division of Mitsubishi Corporation. Mr. Misu joined the Group in September 2009.

**Wong Tak Hung**

Mr. Wong Tak Hung, aged 58, 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.

# PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## Independent non-executive directors

**Lee Kwok Ming, Don**

Mr. Lee Kwok Ming, Don, aged 52, 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, aged 53, is the head of the Enterprise Research Institute and deputy director of Shanghai Logistics 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) and an independent non-executive director of United Gene High-Tech Group Limited (a company listed on the Stock Exchange). He joined the Group in January 2003.

**Xia Da-wei**

Mr. Xia Da-wei, aged 57, is a mentor for doctorate candidate, the President of Shanghai National Accounting Institute and deputy chairman of the Chinese Industrial Economic Association, a member of the Committee on Internal Control Standard of Enterprises for the Ministry of Finance, 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.

# PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## Supervisors

### Chen Jian-jun

Mr. Chen Jian-jun, aged 52, a senior economist, is the chairman of the supervisory committee and the party secretary of the Company. Mr. Chen graduated from Shanghai Second Polytechnic University in 1998 with a Bachelor's degree in computer application. From 1998 to 2001, he pursued a postgraduate degree at Research Institute of Yangtze River Development ("長江流域發展研究所") of East China Normal University, majoring in regional economics. Mr. Chen was the deputy chief officer, chief officer and deputy director of the resource office of Shanghai First Commercial Bureau (上海市商業一局), deputy human resources manager and manager of Hualian Group Company. He was appointed as an assistant to general manager and deputy general manager of Hualian Group Company, in 2000 and 2002 respectively. During his tenure at Hualian Group Company, Mr. Chen held concurrent posts as a director at Hualian Supermarket and chairman at Shanghai Auction Co., Ltd. From late 2003 to April 2007, he was the supervisor and secretary of party general branch of the disposal center of Bailian Group and was appointed as the party secretary and secretary of disciplinary committee of the Supermarket Merchandising Division of Bailian Group since April 2007. Since May 2009, Mr. Chen was appointed as the chairman of the Supervisory Committee and party secretary of the Company.

### Wang Long-sheng

Mr. Wang Long-sheng, aged 57, 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.

# PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

**Dao Shu-rong**

Mr. Dao Shu-rong, aged 55, a senior economist, is the Chairman of the labour union and the deputy party secretary of the Company. Mr. Dao graduated from the Shanghai TV University (上海電視大學) in 1986, majoring in corporate management and from the Graduate School of Shanghai Academy of Social Sciences in 2001, where he majored in business administration. In 2008, he graduated from Shanghai National Accounting Institute with an EMBA, majoring in financial management. Mr. Dao has more than 30 years' experience in business and human resources administration. In 1996, Mr. Dao worked as the deputy manager of the human resources division of Internal and External Commerce Association (內外聯商社). Mr. Dao joined the Company in 1997 and served as the chief of the human resources department and promoted to assistant to the general manager in 1999. He was appointed as division chief of the human resources division of the Company from 2001 till May 2009. Mr. Dao was appointed as the Chairman of the labour union and the deputy party secretary of the Company since May and July 2009 respectively. Mr. Dao was elected as the Supervisor of the Company in May 2009.

## Joint Company Secretaries

**Xu Ling-ling**

***Please refer to profiles of Executive Directors (Page 35).***

**Stephen Mok**

Mr. Stephen Mok, aged 45, is the joint secretary of the Company and the principal of Stephen Mok & Co. (in association with Eversheds LLP). He was admitted to practise as a solicitor in New South Wales, Australia in 1989, and in England and Wales and Hong Kong in 1992. Mr. Mok specialises in general commercial and corporate finance transactions, including advising enterprises and financial institutions in relation to listing on the Stock Exchange, merger and acquisition, corporate restructuring, joint ventures, and advising on legal compliance with Hong Kong securities matters. Mr. Mok is also the joint company secretary of Datang International Power Generation Co., Ltd. (a company listed on the Stock Exchange).

# PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## Senior Management

### Tang Qi

Mr. Tang Qi, aged 57, is a senior economist. Mr. Tang graduated from Fudan University in 1989 with a college degree. From 1999 to 2001, he pursued a postgraduate degree at Research Institute of Yangtze River Development ("長江流域發展研究所") of East China Normal University, majoring in regional economics. He was the division manager and deputy general manager of China Silk Domestic Sales Company at Shanghai ("中國絲綢上海內銷公司") from 1988 to 1995. Mr. Tang was deputy general manager of Hualian Group Economic Development Company ("華聯集團經濟發展公司") from 1995 to June 1997. Mr. Tang was the general manager of Shanghai Fashion Company (上海時裝公司), Shanghai New Hualian Mansion ("上海新華聯大廈") and Hualian Supermarket from July 1997 to late 2003. From late 2003 to August 2009, he was the deputy general manager of the Supermarket Merchandising Division of Bailian Group and the chairman of Hualian Supermarket. Since October 2009, Mr. Tang was deputy general manager of the Company and chairman of Hualian Supermarket.

### Zhang Guo-hong

Mr. Zhang Guo-hong, aged 38, is a certified accountant. Mr. Zhang graduated from Shanghai University of Finance and Economics in 1999 with a master's degree in international commerce. From 1994 to 1996, he was the head of procurement division at Hubei Lvfeng Stone Co. Ltd ("湖北綠峰石材有限公司"). From April 1999 to late 2003, he was the deputy head of Zhejiang management department, deputy head of commodity management department, assistant to general manager and deputy general manager of the Company. Mr. Zhang was deputy general manager of the Supermarket Merchandising Division of Bailian Group from late 2003 to August 2009 and was general manager of Hualian Supermarket since July 2005. Since October 2009, Mr. Zhang was deputy general manager of the Company and general manager of Hualian Supermarket.

# SHAREHOLDING STRUCTURE


Shanghai Friendship Group Incorporated Company
34.03%
Shanghai Industrial United (Group) Commercial Network Development Company Limited
21.17%
Mitsubishi Corporate
6.74%
Liahua Supermarket Holdings Co., Ltd
2.82%
Wing 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 2009.

## 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:

| | **2009** Percentage | 2008 Percentage |
|---|---|---|
| Purchases | | |
| Largest supplier | **3.75** | 3.75 |
| Five largest suppliers | **10.67** | 9.23 |
| Sales | | |
| Largest customer | **0.07** | 0.08 |
| Five largest customers | **0.14** | 0.19 |

During the year ended 31 December 2009, to the best knowledge of the Directors, none of the Directors, the supervisors ("Supervisors") of the Company, their respective associates, nor any shareholders of the Company had 5% or more of any direct or indirect interest in the share capital of the Company's suppliers and customers mentioned above.

## Subsidiaries and associated companies

As at 31 December 2009, the Company's principal subsidiaries are Shanghai Century Lianhua Supermarket Development Company Limited ("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 ("Lianhua E-business").

As at 31 December 2009, the Company's principal associated company is Shanghai Carhua.

Please refer to note 44 to the consolidated accounts of this annual report for the particulars of certain principal subsidiaries and associated companies of the Company.

# REPORT OF THE DIRECTORS

## Accounts

The audited results of the Group for the year ended 31 December 2009 are set out in the consolidated statement of comprehensive income on page 79 of the annual report.

The financial condition of the Group as at 31 December 2009 is set out in the consolidated statement of financial position on pages 80 to 81 of the annual report.

The cash flow of the Group for the year ended 31 December 2009 is set out in the consolidated statement of cash flow on pages 87 to 89 of the annual report.

## Dividends Distribution

The Board of the Company recommends payment of a final dividend of RMB0.16 per share (including tax) for the year ended 31 December 2009.

The register of H shares members of the Company will be closed from Tuesday, 25 May 2010 to Wednesday, 23 June 2010 (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 at 4:30 p.m. on Monday, 24 May 2010. In order to be qualified 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 Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Monday, 24 May 2010.

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 and 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.

# REPORT OF THE DIRECTORS

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 register of H shares members of the Company as at 4:30 p.m. on 24 May 2010. Any requests relating to any delay in confirming the identity of the shareholders or any errors in the identity of the shareholders will not be accepted.

## Reserves

During the year under review, shareholders' equity of the Group decreased from approximately RMB2,632.481 million to approximately RMB2,463.284 million.

Details of the movements in reserves during the year are set out in the consolidated statement of changes in equity on pages 84 to 85 of the annual report.

## Fixed assets

Movements of fixed assets during the year are set out in note 14 to the consolidated accounts of the annual report.

## Bank loans, overdrafts and other borrowings

As at 31 December 2009, 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 placed 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 2009:

| | |
|---|---|
| Highest trading price per H share during the year | HK$24.80 |
| Lowest trading price per H share during the year | HK$6.57 |
| Total turnover volume of H shares during the year | 110 million shares |
| Closing price per H share as at 31 December 2009 | HK$23.40 |

# REPORT OF THE DIRECTORS

### 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 2009, 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 Hing Investment Limited | 17,557 | 2.82 |
| H shares | 207,000 | 33.28 |
| Total | 622,000 | 100 |

### Number of shareholders

As at 31 December 2009, details of shareholders as recorded in the Register of Members of the Company are as follows:

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

# REPORT OF THE DIRECTORS

### 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.

# REPORT OF THE DIRECTORS

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 2009, none of the directors, supervisors or chief executives of the Company had any interests and short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are regarded or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

# REPORT OF THE DIRECTORS

As at 31 December 2009, Mr. Hua Guo-ping, Mr. Xu Bo and Mr. Wang Long-sheng (the Directors and Supervisors of the Company) are directors, supervisors or employees of Shanghai Friendship, and/or SI Commercial Network. As disclosed below, these companies had interests in the shares of the Company as at 31 December 2009 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 2009, 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 (Note 2) | domestic | 211,640,000 | 34.03% | 51.00% | – |
| SI Commercial Network (Note 1) | domestic | 131,683,000 | 21.17% | 31.73% | – |
| Bailian Group (Notes 1 & 3) | domestic | 131,683,000 | 21.17% | 31.73% | – |
| Mitsubishi Corporation | unlisted foreign shares | 41,900,000 | 6.74% | 10.10% | – |
| Arisaig Greater China Fund Limited | H shares | 40,146,000 (L) | 6.45%(L) | – | 19.39%(L) |
| Arisaig Partners (Mauritius) Limited | H shares | 40,146,000 (L) | 6.45%(L) | – | 19.39%(L) |
| Cooper Lindsay William Ernest | H shares | 40,146,000 (L) | 6.45%(L) | – | 19.39%(L) |
| Matthews International Capital Management, LLC | H shares | 16,580,000(L) | 2.67%(L) | – | 8.00%(L) |
| Schroder Investment Management (Hong Kong) Limited | H shares | 14,546,000(L) | 2.34%(L) | – | 7.02%(L) |

# REPORT OF THE DIRECTORS

| 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 |
|---|---|---|---|---|---|
| Pioneer Investment Management Limited | H shares | 12,310,000(L) | 1.98%(L) | – | 5.95%(L) |
| JPMorgan Chase & Co. | H shares | 12,221,000(L) | 1.96%(L) | – | 5.90%(L) |
| | | 12,158,000(P) | 1.95%(P) | – | 5.87%(P) |
| Julius Baer International Equity Fund | H shares | 12,191,558(L) | 1.96%(L) | – | 5.89%(L) |

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

Notes:

1. As at 31 December 2009, Bailian Group beneficially owns 100% interests in SI Commercial Network. Accordingly, Bailian Group is deemed to have the interests of the Company. Mr. Xu Bo, a non-executive Director of the Company, is the chairman of the board of directors of SI Commercial Network.

2. As at 31 December 2009, 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.

3. As at 31 December 2009, Mr. Ma Xin-sheng, a non-executive director of the Company, is the chairman of the board of directors of Bailian Group.

4. Arisaig Partners (Mauritius) Ltd is a fund managing institute of Arisaig Greater China Fund Limited. Arisaig Partners (Mauritius) 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 the shares or underlying shares of the Company which were required to be recorded in the register pursuant to section 336 of the SFO as at 31 December 2009.

# REPORT OF THE DIRECTORS

## Ultimate holding company

On 11 August 2004, Shanghai Friendship Group Incorporated Company, the immediate holding company 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 (which was established in Shanghai, the PRC). The administrative procedures for the approval stated above were completed. Bailian (Group) Company Limited has become the ultimate holding company of Shanghai Friendship Group Incorporated Company. Accordingly, Bailian (Group) Company Limited has also become the ultimate holding company 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 or any applicable laws and regulations requiring the Company to offer pre-emptive rights of new shares to its existing shareholders in accordance with the proportion of their respective shareholdings.

## Purchase, sale or redemption of shares

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

## Share capital interests attributable to the Directors and Supervisors

As at 31 December 2009, 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.

# REPORT OF THE DIRECTORS

## 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
Mr. Hua Guo-ping (Note)
Mr. Liang Wei
Ms. Xu Ling-ling
Ms. Cai Lan-ying

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

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

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

Note: Mr. Hua Guo Ping was redesignated as an executive Director from 30 March 2010.

Details of the profile of the Directors, Supervisors and senior management of the Company are set out on pages 34 to 41.

## 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 fellow subsidiaries was a party and in which a Director or Supervisor had material interests, either directly or indirectly, subsisted as at balance sheet date or at any time during the year under review.

# REPORT OF THE DIRECTORS

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

During the year, no arrangement was entered by the Company or its fellow 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 11 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

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

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

### Significant litigation

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

### Connected transactions

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

# REPORT OF THE DIRECTORS

*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, an immediate holding company 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 of 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, an immediate holding company of the Company and thus such transactions constitute continuing connected transactions of the Company.

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

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

# REPORT OF THE DIRECTORS

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

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

***Continuing Connected Transactions - Supply of Goods Framework Agreement***

On 25 February 2009, the Company entered into the supply of goods framework agreement with Bailian Group, pursuant to which Bailian Group agreed to supply various kinds of goods, including dried meat products, electrical appliances, electrical components, sports products, cosmetic and sanitary products and other domestic products, for sale in the sales outlets of the Group for the year ending 31 December 2009. The material terms of the framework agreement are as follows: (1) the pricing for the supply of goods under the supply of goods framework agreement is determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties with reference to the market price of such goods from time to time. Such transactions will be conducted in the ordinary and usual course of business of the Company, on normal commercial terms and on terms not less favourable to the Company than terms available from independent third parties; (2) Bailian Group and/or its subsidiaries shall pay sales rebates to the Company for the actual sale of the goods by Bailian Group and/or its subsidiaries to the Company under the supply of goods framework agreement. Such sales rebates to be paid by Bailian Group and/or its subsidiaries to the Company is determined principally by arm's length commercial negotiations between the parties according to the principles of fairness and reasonableness between the relevant parties with reference to the policy of determining sales rebates in the market. However, in any event, such sales rebates shall not be less than 1% of the actual sales figures of such particular type of goods to be supplied by Bailian Group and/or its subsidiaries to the Company under the supply of goods framework agreement. There is no maximum amount or percentage of sales rebate under the supply of goods framework agreement; (3) the actual payment term for the sale of the goods under the supply of goods framework agreement shall be determined by the parties upon negotiation and will be set out in individual supply of goods contracts. However, such payment term shall not be less than 15 days from the date of delivery of such goods; (4) the maximum aggregate annual transaction amounts under the supply of goods framework agreement for the year ending 31 December 2009 is RMB95,000,000. As Bailian Group entered an equity transfer agreement with the shareholders of SI Commercial Network on 21 January 2009 to acquire 100% equity interest in SI Commercial Network ("Equity Transfer") and became a connected person (as defined in the Chapter 14A of the Listing Rules) of the Company upon the completion of the abovementioned equity transfer, therefore the abovementioned continuing transaction became a continuing connected transaction of the Company. Given that each of the percentage ratios of the aggregate annual transaction amounts is less than 2.5%, the transactions under the supply of goods framework agreement are subject to the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules and are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules. Details of the agreement were set out in the announcement of the Company dated 2 March 2009.

# REPORT OF THE DIRECTORS

***Continuing Connected Transactions - Continuing Connected Transactions with Bailian Group***

Upon completion of the Equity Transfer, Bailian Group became a connected person of the Company. The Company announced on 2 March 2009 that the continuing transactions between the Company and Bailian Group before the completion of the Equity Transfer are, including but not limited to, the logistic services agreement, the property management agreement, the electricity payment agreement, the leasing agreements, the sale and purchase of mobile phones agreement and the smart cards arrangement agreement, details of which were set out in the announcement dated 2 March 2009 of the Company.

***Connected transaction – acquisition of Hualian Supermarket***

In order to allow the outlets to further permeate the market, expand the market share of the Company in the Yangtze River Delta region, especially the Shanghai region, and possess a dominant position in the supermarket business in Shanghai; in order to further strengthen the advantage of its operation and expand its procurement scale to obtain more bargaining power when negotiating with its suppliers; in order to improve significantly the retail chain franchise business and become a major franchising brand entering the supermarket industry in the Shanghai market and experience substantial growth in the franchise business in Zhejiang province and Jiangsu province, on 26 June 2009, the Company and its subsidiary, Lianhua Supermarket Development, entered into an equity transfer agreement with Bailian Group and its subsidiary, Bailian Real Estate Co., Ltd ("Bailian Real Estate"), whereby the Company will acquire 99.4% equity interest in Hualian Supermarket from Bailian Group and Lianhua Supermarket Development will acquire 0.6% equity interest in Hualian Supermarket from Bailian Real Estate. Upon completion of the abovementioned equity transfer agreement, Hualian Supermarket will become a wholly-owned subsidiary of the Company. Since Bailian Group was an associate of SI Commercial Network, a substantial shareholder of the Company, Bailian Group was a connected person of the Company under the Listing Rules. The abovementioned equity transfer agreement therefore constitutes a connected transaction of the Company. As one or more of the relevant percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the abovementioned equity transfer agreement exceeds 2.5%, the equity transfer agreement is subject to the reporting and announcement requirements and independent shareholders' approval under the Listing Rules. The Company performed the obligation of reporting and announcement and the abovementioned equity transfer agreement was passed by the independent shareholders by a voting ratio of 99.43% at the extraordinary general meeting held on 2 September 2009.

***Continuing Connected Transactions - Continuing Connected Transactions between Hualian Supermarket and Bailian Group***

On 26 June 2009, the Company and its subsidiary, Lianhua Supermarket Development, entered into an equity transfer agreement with Balian Group and its subsidiary, Bailian Real Estate, whereby the Company and Lianhua Supermarket Development will acquire 100% equity interest in Hualian Supermarket. Upon the completion of the equity transfer agreement, Hualian Supermarket will become a wholly-owned subsidiary of the Company under the Listing Rules. Therefore, the existing continuing transactions between Hualian Supermarket and Bailian Group constitute connected transactions of the Company. On 17 September 2009, the Company announced that the continuing transactions between Hualian Supermarket and Bailian Group are, including but not limited to, the property management agreements, the supply of goods framework agreement and the leasing agreement, details of which were set out in the announcement of the Company dated 17 September 2009.

# REPORT OF THE DIRECTORS

***Continuing Connected Transactions - framework agreements between the Company and Bailian Group from 2010 to 2012***

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

| Name | Transaction Particulars | Principal Terms | Annual Cap |
|---|---|---|---|
| Supply of goods framework agreement | Bailian Group and/or its subsidiaries agreed to supply various kinds of goods, including but not limited to dried meat products, electrical appliances, electrical components, sports products, cosmetic and sanitary products and other domestic products, for sale in the sales outlets of the Company | The pricing for the supply of goods under the Supply of Goods Framework Agreement is determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties with reference to the market price of such goods from time to time. Such transactions will be conducted in the ordinary and usual course of business of the Company, on normal commercial terms and on terms not less favourable to the Company than terms available from independent third parties. | The maximum aggregate annual transaction amounts under the supply of goods framework agreement for each of the three years ending 31 December 2012 are RMB140 million, RMB168 million and RMB201.6 million, respectively. |
| | The parties will enter into individual supply of goods contracts setting out specific terms including the specific goods to be supplied, the price, the payment terms and schedules and other terms of delivery of goods. Such terms will be consistent with the principles and the terms of the supply of goods framework agreement. | Bailian Group and/or its subsidiaries shall pay sales rebates to the Company for the actual sale of the goods by Bailian Group and/or its subsidiaries to the Company under the supply of goods framework Agreement. Such sales rebates to be paid by Bailian Group and/or its subsidiaries to the Company is determined principally by arm's length commercial negotiations between the parties according to the principles of fairness and reasonableness between the relevant parties with reference to the policy of determining sales rebates in the market. However, in any event, such sales rebates shall not be less than 1% of the actual sales figures of such particular type of goods to be supplied by Bailian Group and/or its subsidiaries to the Company under the supply of goods framework agreement. There is no maximum amount nor percentage of sales rebate under the supply of goods framework agreement. | |

# REPORT OF THE DIRECTORS

| Name | Transaction Particulars | Principal Terms | Annual Cap |
|---|---|---|---|
| | | Depending on the type of goods purchased and the practice of the particular subsidiary of Bailian Group, the actual payment for the sale of the goods under the supply of goods framework agreement is to be made on a monthly or agreed period basis (which period shall be determined by the market practice of the payment period of such particular type of goods purchased and shall not be less favourable than those available from independent third parties). Detailed terms shall be determined in the particular contract entered into between both parties. In the event that such payment is made on an agreed period basis, such payment term shall not be less than 15 days from the date of delivery of such goods. | |
| Logistic services agreement | Pursuant to the logistic services agreement, Bailian Group and its subsidiaries agreed to provide logistic and distribution services, including services of in-town distribution, allocation and return of goods, out-town distribution and warehouse management, to the Company. | The fee for the provision of logistic services under the logistic services agreement is determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties with reference to the market fee of the provision of such services from time to time. Such transactions will be conducted in the ordinary and usual course of business of the Company, on normal commercial terms and on terms not less favourable to the Company than terms available from independent third parties.<br><br>The fee payable by the Company to Bailian Group for the provision of logistic services is to be made by cash on a monthly or quarterly basis (as the case maybe depending on the type of logistic services rendered and the practice of the particular subsidiary of Bailian Group). | The maximum aggregate annual transaction amounts under the logistic services agreement for each of the three years ending 31 December 2012 are RMB14 million, RMB17 million and RMB22 million, respectively. |

# REPORT OF THE DIRECTORS

| Name | Transaction Particulars | Principal Terms | Annual Cap |
|---|---|---|---|
| Smart cards arrangement agreement | Each of the Company and Bailian Group has its own smart cards system which enables its customers to make purchases by using smart cards with prepaid values. Pursuant to the smart cards arrangement agreement, the parties agreed to accept all payments of purchases from the customers by using the smart cards of the other party within their respective sales networks. Each party shall charge the other party service fee according to the percentage ranging from 0.5% to 3% of such transaction amounts which are attributable to the other party. | The fee for the smart cards arrangement under the smart cards arrangement agreement is determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties with reference to the market fee of such arrangement from time to time. Such transactions will be conducted in the ordinary and usual course of business of the Company, on normal commercial terms and on terms not less favourable to the Company than terms available from independent third parties.<br><br>The fee payable under the smart cards arrangement agreement is to be made by cash on a monthly basis. | The maximum fee payable by Bailian Group to the Company for each of the three years ending 31 December 2012 are RMB40 million, RMB48 million and RMB57.6 million, respectively. The maximum fee payable by the Company to Bailian Group for each of the three years ending 31 December 2012 are RMB21.50 million, RMB25.80 million and RMB30.96 million, respectively. |

# REPORT OF THE DIRECTORS

| Name | Transaction Particulars | Principal Terms | Annual Cap |
|---|---|---|---|
| Sale and purchase of mobile phones agreement | Pursuant to the sale and purchase of mobile phones agreement, Bailian Group and the Company agreed to purchase mobile phones from the suppliers together in an aggregated basis in order to obtain better procurement terms. | The payment for the purchase of the mobile phones shall be made by the parties individually and jointly to the suppliers, regardless of individual purchase or joint purchase. However, in the event that a supplier refuses to handle the purchase payments by both parties in a separate manner, the party with higher volume of purchase may make payment to the supplier for all purchases and then issue a separate value-added tax invoice to the other party for settlement based on the same terms and conditions of purchase offered by the supplier. If there is any sales rebate from the suppliers, the party responsible for making the payment to the suppliers shall provide the other party with the sales rebate in proportion to their respective actual purchase volume.<br><br>The fee payable under the sale and purchase of mobile phones agreement is to be made by cash on a monthly or quarterly basis (as the case maybe depending on the type of mobile phone purchased and the practice of the particular subsidiary of Bailian Group). | The maximum aggregate annual transaction amounts under the sale and purchase of mobile phones agreement for each of the three years ending 31 December 2012 are RMB8 million, RMB12 million and RMB16 million, respectively. |

# REPORT OF THE DIRECTORS

| Name | Transaction Particulars | Principal Terms | Annual Cap |
|---|---|---|---|
| Supply of resources agreement | Bailian Group agreed to supply various kinds of resources, including office utilities, electrical appliances, facilities, industrial products, resources and components parts for the daily operation of the Company. | The pricing for the supply of resources under the supply of resources agreement is determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties with reference to the market price of such resources from time to time. Such transactions will be conducted in the ordinary and usual course of business of the Company, on normal commercial terms and on terms not less favourable to the Company than terms available from independent third parties.<br><br>Depending on the type of resources purchased and the practice of the particular subsidiary of Bailian Group, the fee payable under the supply of resources agreement is to be made by cash on a monthly, quarterly basis or agreed period basis (which period shall be determined by the market practice of the payment period of such particular type of resources purchased and shall not be less favourable than those from independent third parties). | The maximum aggregate annual transaction amounts under the supply of resources agreement for each of the three years ending 31 December 2012 are RMB20 million, RMB24 million and RMB28.8 million, respectively. |

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

As each of the percentage ratios in respect of the respective aggregate annual transaction amounts of the abovementioned framework agreements from 2010 to 2012 entered between the Company and Bailian Group is less than 2.5%, the abovementioned framework agreements are only subject to the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules but are exempt from the independent shareholders' approval requirement. Details of which please refer to the announcement of the Company dated 23 December 2009.

# REPORT OF THE DIRECTORS

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 no comparable transaction 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 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

**Ma Xin-sheng**
*Chairman*
30 March 2010
Shanghai, the PRC

# REPORT OF CORPORATE GOVERNANCE

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

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

## Board

The Board consists of 12 Directors, five of whom are executive Directors and four of whom are non-executive Directors including the chairman of the Board and three of whom are independent non-executive Directors. 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;

# REPORT OF CORPORATE GOVERNANCE

– 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 of the Main Board, reports submitted to the regulatory authorities and information disclosed under 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 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 five 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 | 5/5 |
| Mr. Hua Guo-ping | 5/5 |
| Mr. Liang Wei | 5/5 |
| Ms. Xu Ling-ling | 5/5 |
| Ms. Cai Lan-ying | 5/5 |

| **Non-executive Directors** | **5** |
| --- | --- |
| **Name** | **Attendance** |
| Mr. Ma Xin-sheng *(Chairman)* | 4/5 |
| Mr. Xu Bo | 4/5 |
| Mr. Kazuyasu Misu | 1/5 |
| Mr. Wong Tak Hung | 5/5 |

# REPORT OF CORPORATE GOVERNANCE

| **Independent Non-executive Directors** | **3** |
|---|---|
| **Name** | **Attendance** |
| Mr. Lee Kwok Ming, Don | 5/5 |
| Mr. Zhang Hui-ming | 5/5 |
| Mr. Xia Da-wei | 5/5 |

Notes: Mr. Ma Xin-sheng and Mr. Xu Bo were appointed as non-executive Directors of the Company at the general meeting of the Company held on 27 May 2009. As such, they did not attend the Board meeting held on 30 March 2009 in their capacities as Directors. Mr. Kazuyasu Misu was appointed as non-executive Director at the extraordinary general meeting of the Company held on 2 September 2009. As such, he did not attend the Board meetings held on 30 March 2009, 27 May 2009, 25 June 2009 and 25 August 2009 in his capacity as a Director. Mr. Hua Guo-ping was redesignated as an executive Director of the Company in the ninth meeting of the third session of the Board held on 30 March 2010.

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 notice of meeting, detailed agenda of the meeting and the relevant information at least 14 days prior to the meeting.

The members of the Board fully acknowledge their own duties and obligations in treating all shareholders on an equal basis and protecting the interests of all investors. The Company ensures that documents and information relating to the businesses of the Group are provided to Board members on a timely basis. The independent non-executive Directors perform their duties in compliance with relevant laws and regulations and safeguard the interests of the Company and its shareholders as a whole. The Company has received confirmation letters from each of the independent non-executive 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. Ma Xin-sheng and Mr. Hua Guo-ping, respectively, which complies with the requirement of Provision A.2.1 of the Code requiring that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Chairman leads the Board and is responsible for approving and overseeing 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.

# REPORT OF CORPORATE GOVERNANCE

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.

# REPORT OF CORPORATE GOVERNANCE

As approved by ordinary resolutions 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 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 financial expertise. The primary duties of the Audit Committee of the Company are to review the financial reporting procedures, internal control system and completeness of financial reports of the Company. The Audit Committee holds meetings on a regular basis to review the financial and other information to be reported to the shareholders, internal control system, risk management and the effectiveness and objectivity of audit procedures. The Audit Committee is also responsible for the relationship between the Board and the auditors of the Company with respect to any matters falling into its terms of reference and for making recommendations regarding the appointment, re-appointment and removal of external auditors, and approval of the relevant terms of engagement and reviewing the independence and objectivity of the auditors.

The Audit Committee of the Company held a meeting on 17 March 2009 to review and discuss matters such as the internal controls of the Company, financial reports, remuneration and reappointment of domestic and overseas auditors and continuing connected transactions for 2008, 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 is of the view that the annual financial report of the Group for the year 2008 has complied with the accounting standards and requirements of the Stock Exchange and the relevant laws and has made adequate disclosures. The Audit Committee also conducted a review on the internal control system of the Company and its subsidiaries and is of the view that the Company had an effective internal control system. The Audit Committee is of the view that domestic and overseas auditor of the Company had carried out their work with professionalism and independence, and agreed to make recommendations to the Board in respect of their remuneration for 2008 and suggested to re-appoint the domestic and overseas auditors for 2009. The Audit Committee confirmed that the continuing connected transactions of the Company in 2008 did not exceed their 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.

# REPORT OF CORPORATE GOVERNANCE

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 11 May 2009. As the shareholders holding more than 5% of the shares of the Company proposed to the Company on 11 May 2009 that an additional resolution in respect of the appointment of Deloitte Touche Tohmatsu as the Company's overseas auditor for the year 2009 shall be proposed in the 2008 annual general meeting, the Audit Committee agreed on suggesting the proposed resolution in respect of the appointment of Deloitte Touche Tohmatsu as the Company's overseas auditor for the year 2009 to be passed in the next general meeting by the shareholders of the Company after considering the conditions of the Company and the need of cost-controlling for the year 2009.

The Audit Committee of the Company held a meeting on 17 August 2009 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 2009, including review of the Company's condensed interim accounts prepared in accordance with the HKFRSs. The Audit Committee is of the view that the Group's interim financial report for the year has complied with the applicable accounting standards, requirements of the Stock Exchange and legal requirements, and has made adequate disclosures. In relation to its review of the Company's internal controls, the Audit Committee concluded that the Company's internal control system was effective.

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 2009:

| **Name** | **17 March 2009** | **11 May 2009** | **17 August 2009** |
|---|---|---|---|
| **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 (Note) | Present | Present | Present |

Note: As from 30 March 2010, Mr. Hua Guo Ping ceased to be a member of the Audit Committee and was re-designated as an executive Director of the Company.

# REPORT OF CORPORATE GOVERNANCE

***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 currently comprises three members, including two independent non-executive Directors (including the Chairman) and one executive Director.

The Remuneration and Appraisal Committee held a meeting on 17 March 2009. 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 performance-based remuneration, the Committee determined the remuneration package of all executive Directors and approved the remuneration to three executive Directors, one Supervisor, the senior management formed by deputy general managers and assistants to general manager for 2008.

Set out below is the attendance record of the meetings of the Remuneration and Appraisal Committee in 2009:

| **Name** | **17 March 2009** |
|---|---|
| **Independent Non-executive Directors** | |
| Mr. Xia Da-wei *(chairman)* | Present |
| Mr. Zhang Hui-ming | Present |
| **Non-executive Director** | |
| Mr. Hua Guo-ping (Note) | Present |

Note: As from 30 March 2010, Mr. Hua Guo Ping was redesignated as an executive Director of the Company.

***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 currently comprises three members, including two independent non-executive Directors (including the Chairman) and one executive Director.

The Nomination Committee of the Company held a meeting on 27 March 2009. Since Mr. Lu Ming-fang and Mr. Yao Fang resigned from being the non-executive Directors of the Company due to work reasons, according to the recommendation by SI Commercial Network, a shareholder of the Company, the Nomination Committee of the Company nominated Mr. Ma Xin-sheng and Mr. Xu Bo as the non-executive Directors of the third session of the Board.

# REPORT OF CORPORATE GOVERNANCE

The Nomination Committee of the Company held a meeting on 27 May 2009. Since Mr. Lu Ming-fang resigned from being a member of the third session of the Strategic Committee of the Company automatically when he resigned from being a non-executive Director of the Company, the Nomination Committee of the Company nominated Mr. Ma Xin-sheng as a member of the third session of the Strategic Committee.

The Nomination Committee of the Company held a meeting on 25 June 2009 and nominated Mr. Hua Guo-ping as the general manager of the Company and Mr. Liang Wei as the administrative vice general manager of the Company.

The Nomination Committee of the Company held a meeting on 6 August 2009. Since Mr. Koichi Narita resigned from being the non-executive Director of the Company due to work reasons, according to the recommendation by Mitsubishi Corporation, a shareholder of the Company, the Nomination Committee of the Company nominated Mr. Kazuyasu Misu as the non-executive Director of the third session of the Board.

The Nomination Committee of the Company held a meeting on 21 October 2009. Since the legal procedures for acquiring Hualian Supermarket had been completed, according to the recommendation by the general manager of the Company, the Nomination Committee of the Company nominated Mr. Tang Qi and Mr. Zhang Guo-hong as deputy general managers of the Company in order to continue to implement the integration and reorganization work after the merger and acquisition of Hualian Supermarket as well as to enhance the management and guidances towards the subsidiaries.

The Nomination Committee of the Company held a meeting on 11 December 2009. Since Mr. Koichi Narita resigned from being a member of the Strategic Committee automatically when he resigned from being a non-executive Director of the Company, the Nomination Committee of the Company nominated Mr. Kazuyasu Misu as a member of the third session of the Strategic Committee.

Set out below is the attendance record of the meetings of the Nomination Committee in 2009:

| Name | 27 March 2009 | 27 May 2009 | 25 June 2009 | 6 August 2009 | 21 October 2009 | 11 December 2009 |
|---|---|---|---|---|---|---|
| **Independent Non-executive Directors** | | | | | | |
| Mr. Zhang Hui-ming *(chairman)* | Present | Present | Present | Present | Present | Present |
| Mr. Xia Da-wei | Present | Present | Present | Present | Present | Present |
| **Non-executive Director** | | | | | | |
| Mr. Hua Guo-ping (Note) | Present | Present | Present | Present | Present | Present |

Note: As from 30 March 2010, Mr. Hua Guo Ping was redesignated as an executive Director of the Company.

# REPORT OF CORPORATE GOVERNANCE

### 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 for the year complied with the relevant laws and applicable accounting standards and that the Company would publish the financial statements of the Company on timely basis. The responsibilities of external auditors to the shareholders are set out on page 77.

### 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 auditors and reviewing their remuneration. For the year under review, RMB4.092 million was payable by the Company to the external auditors (including the PRC and overseas auditors) as service charge for their audit and due diligence consultancy services. For the year under review, the external overseas 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, compliance control and risk management. The Board has conducted a review of the effectiveness of the internal control system of the Group for 2009 and confirms that the internal control system of the Group is effective.

### Organizational Structure

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

# REPORT OF CORPORATE GOVERNANCE

## 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, environment, issues and other risks which may affect the development of the Company.

# REPORT OF CORPORATE GOVERNANCE

## Continuing operation

During the relevant year, there are no uncertain event or condition that may 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 2008 annual report and 2009 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 310 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 Company and its Board to provide an open, fair, impartial and transparent environment for its investors in strict compliance with the Listing Rules; and (3) to monitor the major operating activities of the Group and remind the Board and the Group to avoid significant operational risks.

During the period under review, the Supervisory Committee held five meetings. On 30 March 2009, the third session of the Supervisory Committee held a meeting regarding the operations of the Group in 2008, at which the Supervisory Committee reviewed and satisfied with the works done by the Group during the year, 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 2008 and discussed and adopted its report for 2008. On 27 May 2009, Mr. Chen Jian-jun was elected as the chairman of the third session of the Supervisory Committee. On 25 June 2009, the third session of the Supervisory Committee of the Company reviewed the connected transaction of the Group acquiring the entire shares of Hualian Supermarket and had confirmed the aforesaid transaction was in the ordinary course of the Company's business and on normal commercial terms; the terms were fair and reasonable and in the interest of the Company's shareholders as a whole. On 25 August 2009, the third session of the Supervisory Committee of the Company held a meeting regarding the operating conditions of the first half of the year ended 30 June 2009 and had gathered reports relating to the financial condition of the first half of 2009. On 12 December 2009, the third session of the Supervisory Committee of the Company reviewed the respective framework agreements entered into by the Company and Bailian Group with respect to goods purchasing, logistic distribution, resources purchasing, Smart Cards arrangement, mobile phones collective purchasing and e-business, property management and leasing transactions from 2010 to 2012 etc, in addition to the connected transactions of leasing by certain subsidiaries of the Company, namely, Hangzhou Zhonglian branch, Hangzhou Qingtai branch, Hangzhou Tangmiao branch and Hangzhou Minshenglu branch; and had confirmed that the aforesaid transactions were in the ordinary course of the Company's business and on normal commercial terms; the terms were fair and reasonable and in the interest of the Company's shareholders as a whole.

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

# REPORT OF THE SUPERVISORY COMMITTEE

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 of the Group, 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 Group 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 mergers and acquisitions and disposal of assets. The Supervisory Committee considered that the consideration for the Group's merger and acquisition 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 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 third session 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 PRC. Good corporate governance and open and fair disclosures of information will facilitate the Group in building up a good corporate image in the international capital market. As such, the Group will continue to improve its 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 financial statements of Lianhua Supermarket Holdings Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 79 to 156, which comprise the consolidated and Company's statements of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, consolidated and Company's statements of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements 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 financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

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

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

# INDEPENDENT AUDITOR'S REPORT

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
30 March 2010

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the Year Ended 31 December 2009*

| | NOTES | 2009 RMB'000 | 2008 RMB'000 (restated) |
|---|---|---|---|
| Turnover | 6 | **24,017,720** | 23,253,764 |
| Cost of sales | | **(20,881,677)** | (20,232,932) |
| Gross profit | | **3,136,043** | 3,020,832 |
| Other revenues | 6 | **2,280,322** | 2,083,763 |
| Other income | 8 | **372,517** | 354,319 |
| Selling and distribution expenses | | **(4,558,202)** | (4,316,946) |
| Administrative expenses | | **(560,117)** | (548,806) |
| Other operating expenses | | **(16,667)** | (94,933) |
| Finance costs | | **(6,323)** | (13,588) |
| Operating profit | | **647,573** | 484,641 |
| Share of profits of associates | | **150,240** | 149,482 |
| Profit before taxation | 10 | **797,813** | 634,123 |
| Taxation | 9 | **(208,430)** | (145,646) |
| Profit and total comprehensive income for the year | | **589,383** | 488,477 |
| ***Profit and total comprehensive income for the year attributable to:*** | | | |
| Owners of the Company | | **506,802** | 412,489 |
| Minority interests | | **82,581** | 75,988 |
| | | **589,383** | 488,477 |
| Earnings per share – Basic | 13 | **RMB0.81** | RMB0.66 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 31 December 2009*

| | NOTES | 31/12/2009<br>RMB'000 | 31/12/2008<br>RMB'000<br>(restated) | 1/1/2008<br>RMB'000<br>(restated) |
|---|---|---|---|---|
| ***Non-current assets*** | | | | |
| Property, plant and equipment | 14 | **3,031,153** | 2,771,683 | 2,834,407 |
| Construction in progress | 15 | **86,921** | 153,963 | 171,561 |
| Land use rights | 16 | **254,717** | 204,847 | 208,339 |
| Intangible assets | 17 | **183,917** | 196,895 | 207,698 |
| Investments in associates | 19 | **449,885** | 437,223 | 394,051 |
| Available-for-sale financial assets | 20 | **31,271** | 31,271 | 29,243 |
| Held-to-maturity financial assets | 21 | **377,615** | 8,800 | – |
| Term deposits – unrestricted | 30 | **480,000** | 230,000 | – |
| Prepaid lease payment | 23 | **138,481** | 134,905 | 99,826 |
| Deferred tax assets | 37 | **104,661** | 84,189 | 67,035 |
| Other non-current assets | 22 | **25,839** | 26,697 | 28,220 |
| | | **5,164,460** | 4,280,473 | 4,040,380 |
| ***Current assets*** | | | | |
| Inventories | 24 | **2,459,506** | 2,567,898 | 2,204,342 |
| Trade receivables | 25 | **74,302** | 80,562 | 67,939 |
| Deposits, prepayments and other receivables | 26 | **487,723** | 555,754 | 558,453 |
| Amount due from ultimate holding company | 27 | **–** | 156,110 | 89,609 |
| Amounts due from fellow subsidiaries | 27 | **–** | 116,156 | 102,979 |
| Amounts due from associates | 29 | **34** | 532 | 34 |
| Available-for-sale financial assets | 20 | **610,900** | 215,000 | 120,000 |
| Held-to-maturity financial assets | 21 | **97,873** | – | – |
| Financial assets at fair value through profit or loss | 28 | **1,874** | 27,706 | 116,420 |
| Term deposits | 30 | | | |
| – restricted | | **1,219,800** | 649,000 | – |
| – unrestricted | | **1,110,000** | 2,584,500 | – |
| Cash and cash equivalents | 31 | **4,191,924** | 3,459,178 | 5,098,635 |
| | | **10,253,936** | 10,412,396 | 8,358,411 |
| Total assets | | **15,418,396** | 14,692,869 | 12,398,791 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*(Continued)*

*At 31 December 2009*

| | NOTES | 31/12/2009 RMB'000 | 31/12/2008 RMB'000 (restated) | 1/1/2008 RMB'000 (restated) |
|---|---|---|---|---|
| ***Capital and reserves*** | | | | |
| Share capital | 36 | **622,000** | 622,000 | 622,000 |
| Reserves | | **1,841,284** | 2,010,481 | 1,734,832 |
| Equity attributable to owners of the Company | | **2,463,284** | 2,632,481 | 2,356,832 |
| Minority interests | | **464,790** | 411,513 | 358,592 |
| Total equity | | **2,928,074** | 3,043,994 | 2,715,424 |
| ***Non-current liabilities*** | | | | |
| Deferred tax liabilities | 37 | **51,375** | 53,432 | 70,057 |
| ***Current liabilities*** | | | | |
| Trade payables | 32 | **3,490,098** | 3,505,261 | 3,158,662 |
| Bank borrowings | | **–** | 190,000 | 180,000 |
| Other payables and accruals | 33 | **1,773,257** | 1,688,682 | 1,270,873 |
| Coupon liabilities | 34 | **6,944,234** | 6,056,335 | 4,832,979 |
| Deferred income | | **30,388** | 24,583 | 11,808 |
| Amounts due to associates | 29 | **4,791** | 24,681 | 7,865 |
| Amount due to immediate holding company | 35 | **–** | 39,000 | 39,000 |
| Amount due to ultimate holding company | 35 | **10,023** | – | – |
| Amounts due to fellow subsidiaries | 35 | **93,696** | 5,154 | 31,626 |
| Taxation payable | | **92,460** | 61,747 | 80,497 |
| | | **12,438,947** | 11,595,443 | 9,613,310 |
| Total liabilities | | **12,490,322** | 11,648,875 | 9,683,367 |
| Total equity and liabilities | | **15,418,396** | 14,692,869 | 12,398,791 |
| Net current liabilities | | **(2,185,011)** | (1,183,047) | (1,254,899) |
| Total assets less current liabilities | | **2,979,449** | 3,097,426 | 2,785,481 |

The consolidated financial statements on pages 79 to 156 were approved and authorised for issue by the Board of Directors on 30 March 2010 and are signed on its behalf by:

**Ma Xin-sheng**
*DIRECTOR*

**Xu Ling-ling**
*DIRECTOR*

# STATEMENT OF FINANCIAL POSITION

*At 31 December 2009*

| | NOTES | 31/12/2009 RMB'000 | 31/12/2008 RMB'000 |
|---|---|---|---|
| ***Non-current asset*** | | | |
| Property, plant and equipment | 14 | **264,040** | 315,947 |
| Construction in progress | 15 | **7,702** | 8,374 |
| Land use rights | 16 | **32,818** | 33,747 |
| Intangible assets | 17 | **3,866** | 5,124 |
| Investments in subsidiaries | 18 | **1,327,063** | 826,280 |
| Investments in associates | 19 | **192,871** | 192,871 |
| Available-for-sale financial assets | 20 | **4,535** | 4,535 |
| Held-to-maturity financial assets | 21 | **372,615** | 3,800 |
| Deferred tax assets | 37 | **20,177** | 438 |
| Other non-current assets | 22 | **3,549** | 3,737 |
| | | **2,229,236** | 1,394,853 |
| ***Current assets*** | | | |
| Inventories | 24 | **127,113** | 229,462 |
| Trade receivables | 25 | **75** | 659 |
| Deposits, prepayments and other receivables | 26 | **30,512** | 67,015 |
| Dividend receivable | | **5,388** | – |
| Amounts due from subsidiaries | 18 | **4,555,091** | 3,462,613 |
| Amounts due from associates | 29 | **34** | 527 |
| Available-for-sale financial assets | 20 | **610,900** | 200,000 |
| Held-to-maturity financial assets | 21 | **97,873** | – |
| Term deposits | | | |
| – unrestricted | 30 | **280,000** | 857,500 |
| Cash and cash equivalents | 31 | **521,042** | 231,833 |
| | | **6,228,028** | 5,049,609 |
| Total assets | | **8,457,264** | 6,444,462 |

# STATEMENT OF FINANCIAL POSITION

*(Continued)*

*At 31 December 2009*

| | NOTES | 31/12/2009 RMB'000 | 31/12/2008 RMB'000 |
|---|---|---|---|
| ***Capital and reserves*** | | | |
| Share capital | 36 | **622,000** | 622,000 |
| Reserves | | **1,741,375** | 1,465,864 |
| Total equity | | **2,363,375** | 2,087,864 |
| ***Current liabilities*** | | | |
| Trade payables | 32 | **1,504,099** | 1,591,001 |
| Other payables and accruals | 33 | **252,794** | 258,927 |
| Coupon liabilities | 34 | **4,137,492** | 2,358,074 |
| Amounts due to subsidiaries | 18 | **166,199** | 127,603 |
| Amounts due to associates | 29 | **1,227** | 3,389 |
| Amount due to ultimate holding company | 35 | **10,023** | – |
| Amounts due to fellow subsidiaries | 35 | **16,340** | – |
| Taxation payable | | **5,715** | 17,604 |
| | | **6,093,889** | 4,356,598 |
| Total liabilities | | **6,093,889** | 4,356,598 |
| Total equity and liabilities | | **8,457,264** | 6,444,462 |
| Net current assets | | **134,139** | 693,011 |
| Total assets less current liabilities | | **2,363,375** | 2,087,864 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the Year Ended 31 December 2009*

| | Attributable to owners of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 | Capital reserve RMB'000 (note a) | Other reserve RMB'000 | Statutory common reserve fund RMB'000 (note b) | Retained profits RMB'000 | Total attributable to owners of the Company RMB'000 | Minority interests RMB'000 | Total RMB'000 |
| At 31 December 2007 and 1 January 2008 as previously reported | 622,000 | 755,953 | 3,595 | 151,899 | 705,494 | 2,238,941 | 351,820 | 2,590,761 |
| Adjustments in respect of the acquisition of Hualian Group (note c) | – | – | 300,000 | – | (182,109) | 117,891 | 6,772 | 124,663 |
| At 31 December 2007 and 1 January 2008 as restated | 622,000 | 755,953 | 303,595 | 151,899 | 523,385 | 2,356,832 | 358,592 | 2,715,424 |
| Profit for the year | – | – | – | – | 412,489 | 412,489 | 75,988 | 488,477 |
| Profit appropriations | – | – | – | 21,856 | (21,856) | – | – | – |
| Dividends paid to minority interests | – | – | – | – | – | – | (20,124) | (20,124) |
| 2007 final dividend (note 12) | – | – | – | – | (74,640) | (74,640) | – | (74,640) |
| 2008 interim dividend (note 12) | – | – | – | – | (62,200) | (62,200) | – | (62,200) |
| Closure of a subsidiary | – | – | – | – | – | – | (4,000) | (4,000) |
| Equity interest contributed by minority shareholder of a subsidiary | – | – | – | – | – | – | 3,000 | 3,000 |
| Repayment of capital to minority shareholder of a subsidiary | – | – | – | – | – | – | (500) | (500) |
| Acquisition of additional equity interests in subsidiaries | – | – | – | – | – | – | (1,443) | (1,443) |
| At 31 December 2008 (restated) | 622,000 | 755,953 | 303,595 | 173,755 | 777,178 | 2,632,481 | 411,513 | 3,043,994 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*(Continued)*

*For the Year Ended 31 December 2009*

| | Attributable to owners of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 | Capital reserve RMB'000 (note a) | Other reserve RMB'000 | Statutory common reserve fund RMB'000 (note b) | Retained profits RMB'000 | Total attributable to owners of the Company RMB'000 | Minority interests RMB'000 | Total RMB'000 |
| At 31 December 2008 and 1 January 2009 (restated) – continued | 622,000 | 755,953 | 303,595 | 173,755 | 777,178 | 2,632,481 | 411,513 | 3,043,994 |
| Profit for the year | – | – | – | – | 506,802 | 506,802 | 82,581 | 589,383 |
| Profit appropriations | – | – | – | 40,956 | (40,956) | – | – | – |
| Dividends paid to minority interests | – | – | – | – | – | – | (25,781) | (25,781) |
| 2008 final dividend (note 12) | – | – | – | – | (93,300) | (93,300) | – | (93,300) |
| 2009 interim dividend (note 12) | – | – | – | – | (74,640) | (74,640) | – | (74,640) |
| Consideration for Acquisition of Hualian Group (note d) | – | – | (508,059) | – | – | (508,059) | – | (508,059) |
| Closure of subsidiaries | – | – | – | – | – | – | (4,873) | (4,873) |
| Equity interest contributed by minority shareholder of a subsidiary | – | – | – | – | – | – | 1,350 | 1,350 |
| At 31 December 2009 | 622,000 | 755,953 | (204,464) | 214,711 | 1,075,084 | 2,463,284 | 464,790 | 2,928,074 |

Notes:

(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.

(c) The amounts represent the financial impact of adopting merger accounting to account for acquisition of Hualian Supermarket Holdings Company Limited and its subsidiaries (the "Hualian Group") as of 31 December 2007, details of which are summarised in note 2 and note 40(2).

(d) The amount represents cash consideration for acquisition of Hualian Group, details of which are summarised in note 40(2).

# STATEMENT OF CHANGES IN EQUITY

*For the Year Ended 31 December 2009*

| | Share capital RMB'000 | Capital reserve RMB'000 | Other reserve RMB'000 | Statutory common reserve fund RMB'000 | Retained profits RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| At 31 December 2007 and 1 January 2008 | 622,000 | 755,953 | 3,595 | 151,899 | 587,700 | 2,121,147 |
| Profit for the year | – | – | – | – | 103,557 | 103,557 |
| Profit appropriations | – | – | – | 21,856 | (21,856) | – |
| 2007 final dividend (note 12) | – | – | – | – | (74,640) | (74,640) |
| 2008 interim dividend (note 12) | – | – | – | – | (62,200) | (62,200) |
| At 31 December 2008 | 622,000 | 755,953 | 3,595 | 173,755 | 532,561 | 2,087,864 |

| | **Share capital RMB'000** | **Capital reserve RMB'000** | **Other reserve RMB'000** | **Statutory Common reserve fund RMB'000** | **Retained profits RMB'000** | **Total RMB'000** |
|---|---|---|---|---|---|---|
| At 31 December 2008 and 1 January 2009 | **622,000** | **755,953** | **3,595** | **173,755** | **532,561** | **2,087,864** |
| Profit for the year | **–** | **–** | **–** | **–** | **443,451** | **443,451** |
| Profit appropriations | **–** | **–** | **–** | **40,956** | **(40,956)** | **–** |
| 2008 final dividend (note 12) | **–** | **–** | **–** | **–** | **(93,300)** | **(93,300)** |
| 2009 interim dividend (note 12) | **–** | **–** | **–** | **–** | **(74,640)** | **(74,640)** |
| At 31 December 2009 | **622,000** | **755,953** | **3,595** | **214,711** | **767,116** | **2,363,375** |

# CONSOLIDATED STATEMENT OF CASH FLOWS

*For the Year Ended 31 December 2009*

| | NOTES | 2009 RMB'000 | 2008 RMB'000 (restated) |
|---|---|---|---|
| Profit before taxation | | **797,813** | 634,123 |
| ***Adjustments for:*** | | | |
| Depreciation of property, plant and equipment | | **476,345** | 521,853 |
| Amortisation of land use rights | | **4,456** | 3,492 |
| Amortisation of intangible assets | | **23,999** | 21,775 |
| Amortisation of other non-current assets | | **858** | 1,523 |
| Loss on disposal of property, plant and equipment | | **5,923** | 38,737 |
| Impairment loss on property, plant and equipment recognised | | **9,056** | 25,956 |
| Loss on disposal of goodwill related to a subsidiary closed during the year | | **–** | 635 |
| Loss on disposal of other intangible assets | | **–** | 268 |
| Gain on disposal of available-for-sale financial assets | | **(16,735)** | (10,956) |
| Interest income on held-to-maturity financial assets | | **(4,188)** | – |
| Share of results of associates | | **(150,240)** | (149,482) |
| (Reversal) provision of allowance for doubtful debts | | **(4,870)** | 14,775 |
| Interest income | | **(208,758)** | (170,615) |
| Interest expense | | **6,323** | 13,588 |
| Operating profit before movements in working capital | | **939,982** | 945,672 |
| Decrease (increase) in inventories | | **108,392** | (363,556) |
| Decrease (increase) in trade and other receivables | | **110,049** | (24,699) |
| Increase in prepaid lease payments | | **(3,576)** | (35,079) |
| Decrease (increase) in amounts due from associates | | **498** | (498) |
| Decrease (increase) in amounts due to fellow subsidiaries | | **88,542** | (26,472) |
| Decrease of financial assets at fair value through profit or loss | | **25,832** | 88,714 |
| Increase in deferred income | | **5,805** | 12,775 |
| Increase in restricted term deposits | | **(570,800)** | (649,000) |
| Increase in trade and other payables | | **(8,777)** | 750,596 |
| Increase in coupon liabilities | | **887,899** | 1,223,356 |
| (Decrease) increase in amounts due to associates | | **(19,890)** | 16,816 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

*(Continued)*

*For the Year Ended 31 December 2009*

| | NOTES | 2009 RMB'000 | 2008 RMB'000 (restated) |
|---|---|---|---|
| Cash generated from operations | | **1,563,956** | 1,938,625 |
| Income taxes paid | | **(200,246)** | (198,175) |
| Interest received | | **208,758** | 170,615 |
| Interest paid | | **(6,323)** | (13,588) |
| Net cash from operating activities | | **1,566,145** | 1,897,477 |
| ***Investing activities*** | | | |
| Purchase of property, plant and equipment and construction in progress | | **(501,228)** | (511,808) |
| Purchase of land use right | | **(91,649)** | – |
| Proceeds from disposal of land use right | | **36,359** | – |
| Proceeds from disposal of property, plant and equipment | | **3,987** | 18,916 |
| Purchase of intangible assets | | **(10,321)** | (9,605) |
| Additional capital investment in an associate | | **–** | (6,750) |
| Acquired on acquisition of a subsidiary | 40 | **(56,946)** | – |
| Acquisition of additional equity interests in subsidiaries | | **–** | (3,233) |
| Purchase of available-for-sale financial assets | | **(895,900)** | (217,028) |
| Proceeds on disposal of available-for-sale financial assets | | **516,735** | 130,956 |
| Increase in held-to-maturity financial assets | | **(462,500)** | (8,800) |
| Dividends received from associates | | **137,578** | 113,060 |
| Decrease (increase) in amount due from ultimate holding company | | **156,110** | (66,501) |
| Decrease (increase) in amounts due from fellow subsidiaries | | **116,156** | (13,177) |
| Decrease (increase) in unrestricted term deposits | | **1,224,500** | (2,814,500) |
| Net cash from (used in) investing activities | | **172,881** | (3,388,470) |

# CONSOLIDATED STATEMENT OF CASH FLOWS

*(Continued)*

*For the Year Ended 31 December 2009*

| | NOTES | 2009 RMB'000 | 2008 RMB'000 (restated) |
|---|---|---|---|
| ***Financing activities*** | | | |
| New bank borrowings raised | | **–** | 430,000 |
| Repayment of bank borrowings | | **(272,000)** | (420,000) |
| Dividends paid to owners of the Company | | **(167,940)** | (136,840) |
| Repayment of capital contributions to minority shareholders | | **(4,873)** | (4,500) |
| Dividends paid to minority shareholders | | **(25,781)** | (20,124) |
| Equity interest contributed by minority shareholder of a subsidiary | | **1,350** | 3,000 |
| Decrease in amount due to immediate holding company | | **(39,000)** | – |
| Cash consideration paid upon acquisition of Hualian Group | 40 | **(498,036)** | – |
| Net cash used in financing activities | | **(1,006,280)** | (148,464) |
| Increase (decrease) in cash and cash equivalents | | **732,746** | (1,639,457) |
| Cash and cash equivalents at 1 January | | **3,459,178** | 5,098,635 |
| Cash and cash equivalents at 31 December | | **4,191,924** | 3,459,178 |
| Analysis of the balances of cash and cash equivalents: | | | |
| Bank balances and cash | | **4,191,924** | 3,459,178 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 1. PRINCIPAL ACTIVITIES

The principal activities of Lianhua Supermarket Holdings Co., Ltd. (the "Company") and its subsidiaries (collectively, the "Group") and its associates are the operation of chain stores including supermarkets, hypermarkets and convenience stores, primarily in the Eastern Region of the 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 Room 713, 7th Floor, No. 1258, Zhen Guang Road, Pu Tuo District, Shanghai, the PRC. The Company is listed on the main board of The Stock Exchange of Hong Kong Limited.

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

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

## 2. BASIS OF PRESENTATION

Pursuant to the resolution passed at the Directors' meeting on 26 June 2009, the Group acquired the equity interests in Hualian Supermarket Holdings Company Limited and its subsidiaries (the "Hualian Group") for cash of RMB508,059,000 (the "Acquisition of Hualian Group"). Hualian Group was previously owned by Bailian Group. As the Group and Hualian Group are under the common control of Bailian Group, the Acquisition of Hualian Group has been reflected in the consolidated financial statements using the principles of merger accounting as if they had been combined from the date when the combining entities first came under the control of Bailian Group. Accordingly, the consolidated assets and liabilities of Hualian Group have been accounted for in the consolidated financial statements of the Group at their existing book values from Bailian Group's perspective. No amount is recognised in respect of goodwill nor adjustment made in respect of differences between the fair values of Hualian Group's identifiable assets, liabilities and contingent liabilities and their carrying amounts. The consolidated statement of comprehensive income includes the results of Hualian Group from the earliest date presented or since the date when Hualian Group first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The Acquisition of Hualian Group was completed on 15 October 2009.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 2. BASIS OF PRESENTATION (continued)

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

| | **2009**<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|
| Increase in turnover | **2,661,580** | 2,551,323 |
| Increase in cost of sales | **2,441,480** | 2,336,271 |
| Increase in other revenues | **195,700** | 198,143 |
| Increase in other income | **16,815** | 21,332 |
| Increase in selling and distribution expenses | **241,228** | 247,842 |
| Increase in administrative expenses | **117,991** | 125,229 |
| Increase in other operating expenses | **677** | 7,799 |
| Increase in finance costs | **2,284** | 12,609 |
| Increase in taxation | **20,303** | 14,801 |
| Increase in profit and total comprehensive income for the year | **50,132** | 26,247 |
| Increase in profit and total comprehensive income for the year attributable to: | | |
| Owners of the Company | **48,832** | 24,148 |
| Minority interests | **1,300** | 2,099 |
| | **50,132** | 26,247 |
| Increase in earnings per share – Basic | **RMB0.08** | RMB0.04 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 2. BASIS OF PRESENTATION (continued)

The effect of Acquisition of Hualian Group described above on the financial positions of the Group as at 1 January 2008 and 31 December 2008 is as follows:

| | As at 1/1/2008 (originally stated) RMB'000 | Adjustments RMB'000 | As at 1/1/2008 (restated) RMB'000 | As at 31/12/2008 (originally stated) RMB'000 | Adjustments RMB'000 | As at 31/12/2008 (restated) RMB'000 |
|---|---|---|---|---|---|---|
| Property, plant and equipment | 2,669,256 | 165,151 | 2,834,407 | 2,630,658 | 141,025 | 2,771,683 |
| Construction in progress | 171,561 | – | 171,561 | 153,088 | 875 | 153,963 |
| Land use right | 194,815 | 13,524 | 208,339 | 191,756 | 13,091 | 204,847 |
| Intangible assets | 193,941 | 13,757 | 207,698 | 183,816 | 13,079 | 196,895 |
| Available-for-sale financial assets | 26,158 | 3,085 | 29,243 | 30,158 | 1,113 | 31,271 |
| Deferred tax assets | 44,632 | 22,403 | 67,035 | 65,239 | 18,950 | 84,189 |
| Inventories | 1,926,462 | 277,880 | 2,204,342 | 2,270,696 | 297,202 | 2,567,898 |
| Trade receivables | 34,633 | 33,306 | 67,939 | 37,551 | 43,011 | 80,562 |
| Deposits, prepayments and other receivables | 500,128 | 58,325 | 558,453 | 497,696 | 58,058 | 555,754 |
| Amount due from ultimate holding company | – | 89,609 | 89,609 | – | 156,110 | 156,110 |
| Amounts due from fellow subsidiaries | – | 102,979 | 102,979 | – | 116,156 | 116,156 |
| Cash and cash equivalents | 5,022,277 | 76,358 | 5,098,635 | 3,326,315 | 132,863 | 3,459,178 |
| Bank borrowings | – | (180,000) | (180,000) | – | (190,000) | (190,000) |
| Trade payables | (2,815,286) | (343,376) | (3,158,662) | (3,130,020) | (375,241) | (3,505,261) |
| Other payables and accruals | (1,101,646) | (169,227) | (1,270,873) | (1,515,171) | (173,511) | (1,688,682) |
| Coupon liabilities | (4,782,538) | (50,441) | (4,832,979) | (5,937,430) | (118,905) | (6,056,335) |
| Amounts due to fellow subsidiaries | (41,632) | 10,006 | (31,626) | (30,788) | 25,634 | (5,154) |
| Taxation payable | (81,821) | 1,324 | (80,497) | (55,647) | (6,100) | (61,747) |
| Total effects on net assets | 1,960,940 | 124,663 | 2,085,603 | (1,282,083) | 153,410 | (1,128,673) |
| Total effects on equity | 2,590,761 | 124,663 | 2,715,424 | 2,890,584 | 153,410 | 3,043,994 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

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

In the current year, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

| | |
|---|---|
| HKAS 1 (Revised 2007) | Presentation of Financial Statements |
| HKAS 23 (Revised 2007) | Borrowing Costs |
| HKAS 32 & 1 (Amendments) | Puttable Financial Instruments and Obligations Arising on Liquidation |
| HKFRS 1 & HKAS 27 (Amendments) | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate |
| HKFRS 2 (Amendment) | Vesting Conditions and Cancellations |
| HKFRS 7 (Amendment) | Improving Disclosures about Financial Instruments |
| HKFRS 8 | Operating Segments |
| HK(IFRIC) – Int 9 & HKAS 39 (Amendments) | Embedded Derivatives |
| HK(IFRIC) – Int 13 | Customer Loyalty Programmes |
| HK(IFRIC) – Int 15 | Agreements for the Construction of Real Estate |
| HK(IFRIC) – Int 16 | Hedges of a Net Investment in Foreign Operation |
| HK(IFRIC) – Int 18 | Transfers of Assets from Customers |
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009 |
| HKFRSs (Amendments) | Improvements of HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39 |

Except as described below, the adoption of these new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

***HKAS 1 (Revised 2007) Presentation of Financial Statements***

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

In addition, the adoption of HKAS 1 (Revised 2007) has resulted in the presentation of a third consolidated statement of financial position as at 1 January 2008 as the Group has made a retrospective restatement of items in its financial statements during the current financial year (see note 2).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

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

***HKFRS 7 (Amendment) Improving Disclosures about Financial Instruments***

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

***HKFRS 8 Operating Segments***

HKFRS 8 is a disclosure standard that has not resulted in a redesignation of the Group's reportable segments (see note 7).

***HK(IFRIC)-Int 13 Customer Loyalty Programmes***

The adoption of HK(IFRIC)-Int 13 requires that where goods or services are sold together with a customer loyalty incentive (loyalty points), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between sale of goods or services in the initial sale and the loyalty points. The fair value of the customer loyalty points generated from the initial sales transaction is measured by reference to fair value and recorded in "deferred income" in current liability. As the accounting treatment prescribed in HK(IFRIC)-Int 13 is the same as the Group's existing accounting policy on customer loyalty programme, the adoption of HK(IFRIC)-Int 13 has had no impact on the reported results and financial position of the Group. Accordingly, no prior period adjustment is required.

The Group has not early adopted the following new and revised Standards, Amendments or Interpretations that have been issued but are not yet effective.

| | |
|---|---|
| HKFRSs (Amendments) | Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008[1] |
| HKFRSs (Amendments) | Improvements to HKFRSs 2009[2] |
| HKAS 24 (Revised) | Related Party Disclosure[5] |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements[1] |
| HKAS 32 (Amendment) | Classification of Rights Issues[4] |
| HKAS 39 (Amendment) | Eligible Hedged Items[1] |
| HKFRS 1 (Amendment) | Additional Exemptions for First-time Adopters[3] |
| HKFRS 1 (Amendment) | Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[6] |
| HKFRS 2 (Amendment) | Group Cash-settled Share-based Payment Transactions[3] |
| HKFRS 3 (Revised) | Business Combinations[1] |
| HKFRS 9 | Financial Instruments[7] |
| HK(IFRIC) – Int 14 (Amendment) | Prepayments of Minimum Funding Requirements[5] |
| HK(IFRIC) – Int 17 | Distribution of Non-cash Assets to Owners[1] |
| HK(IFRIC) – Int 19 | Extinguishing Financial Liabilities with Equity Instruments[6] |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

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

[1] Effective for annual periods beginning on or after 1 July 2009

[2] Amendments that are effective for annual periods beginning on or after 1 January 2009 and 1 January 2010, as appropriate

[3] Effective for annual periods beginning on or after 1 January 2010

[4] Effective for annual periods beginning on or after 1 February 2010

[5] Effective for annual periods beginning on or after 1 January 2011

[6] Effective for annual periods beginning on or after 1 July 2010

[7] Effective for annual periods beginning on or after 1 January 2013

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary.

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in accordance with the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by Listing Rules and the Hong Kong Companies Ordinance.

***Basis of consolidation***

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

The results of subsidiaries acquired of during the year, except for those accounted for as common control combinations (see accounting policy below), are included in the consolidated statement of comprehensive income from the effective date of acquisition.

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

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

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

***Business combination***

The acquisition of business, except for those accounted for as common control combinations (see accounting policy below), is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 Business Combinations are recognised at their fair values at the acquisition date.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

***Business combination*** (continued)

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

***Acquisition of additional interests in subsidiaries***

On acquisition of additional interests in subsidiaries, the difference between the consideration and the carrying values of the underlying assets and liabilities attributable to the additional interests in subsidiaries is debited to goodwill. Discount arising on acquisition of additional interests in subsidiaries represents the excess of the carrying value of the underlying assets and liabilities attributable to the additional interests in the subsidiaries over the cost of the acquisition and is credited to profit or loss.

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

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

***Goodwill***

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

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

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

***Investments in associates***

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Any reversal of impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

***Investments in associates*** (continued)

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

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

***Revenue recognition***

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

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

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

Service income is recognised when services are provided.

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

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

***Property, plant and equipment***

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

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

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

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

***Leasing***

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

*The Group as lessor*

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

*The Group as lessee*

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

***Leasehold land and building***

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

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

***Borrowing costs***

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

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

***Government grants***

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants are recognised as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

***Retirement benefit costs***

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

*Taxation*

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

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

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

***Intangible assets***

*Intangible assets acquired separately*

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

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

***Inventories***

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

***Financial instruments***

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

*Financial assets*

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

*Effective interest method*

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

***Financial instruments*** (continued)

*Financial assets at fair value through profit or loss*

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

A financial asset is classified as held for trading if:

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

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

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

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

*Loans and receivables*

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

***Financial instruments*** (continued)

*Held-to-maturity investments*

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

*Available-for-sale financial assets*

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

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

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

*Impairment of financial assets*

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

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

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

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganisation.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

***Financial instruments*** (continued)

*Impairment of financial assets* (continued)

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

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss 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 estimated future cash flows discounted at the original effective interest rate.

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

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

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

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in investment revaluation reserve.

*Financial liabilities and equity*

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into other financial liabilities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

***Financial instruments*** (continued)

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

*Other financial liabilities*

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

*Equity instruments*

Equity instruments issued by the Group are recorded as the proceeds received, net of direct issue costs.

*Derecognition*

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

***Provisions***

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

At the end of the reporting period, the Group reviews the carrying amounts of its non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

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

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

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

***Key sources of estimation uncertainty***

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

*Deferred taxation*

Deferred tax assets relating to certain deductible temporary differences 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.

*Estimated impairment of goodwill*

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

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

***Key sources of estimation uncertainty*** (continued)

*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.

*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 end of the reporting period.

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

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

*Estimated store closure provision*

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 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:

| | 2009<br>RMB'000 | 2008<br>RMB'000<br>(restated) |
|---|---|---|
| ***Turnover*** | | |
| Sales of merchandise | **24,017,720** | 23,253,764 |
| ***Other revenues*** | | |
| Income from suppliers | **1,727,035** | 1,579,079 |
| Gross rental income from leasing of shop premises | **457,532** | 408,255 |
| Royalty income from franchised stores | **63,140** | 61,970 |
| Commission income from coupon redemption in other retailers | **32,615** | 34,459 |
| | **2,280,322** | 2,083,763 |

## 7. SEGMENT INFORMATION

The Group has adopted HKFRS 8 Operating Segments with effect from 1 January 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor Standard (HKAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's system of internal financial reporting to key management personnel serving only as the starting point for the identification of such segments.

The identification of the Group's reportable segments under HKFRS 8 is consistent with the prior years' presentation of business segments as primary reporting format under HKAS 14. Information reported to the Group's general manager, who is the chief operating decision maker of the Group for the purposes of resource allocation and assessment of performance is focused on three main operations as follows:

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 7. SEGMENT INFORMATION (continued)

There are no significant sales or other transactions between the segments. Other operations of the Group mainly comprise sales of merchandise to wholesalers; provision of logistic services for wholesale business; and sales through internet.

For the comparative purpose, the financial information of Hualian Group has been included in the segment information for the year ended 31 December 2008.

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

| | Segment revenue | | Segment results | |
|---|---|---|---|---|
| | **2009** RMB'000 | 2008 RMB'000 (restated) | **2009** RMB'000 | 2008 RMB'000 (restated) |
| Hypermarkets | **14,414,598** | 13,159,777 | **243,857** | 125,150 |
| Supermarkets | **10,040,750** | 10,270,813 | **327,889** | 317,111 |
| Convenience stores | **1,676,987** | 1,710,918 | **25,128** | 26,850 |
| Other operations | **165,707** | 196,019 | **99,890** | 85,933 |
| | **26,298,042** | 25,337,527 | **696,764** | 555,044 |

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

| | **2009** RMB'000 | 2008 RMB'000 (restated) |
|---|---|---|
| Segment results | **696,764** | 555,044 |
| Unallocated income | **52,533** | 32,851 |
| Unallocated expenses | **(101,724)** | (103,254) |
| Share of profits of associates | **150,240** | 149,482 |
| Consolidated profit before taxation | **797,813** | 634,123 |

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 7. SEGMENT INFORMATION (continued)

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

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

| | **31/12/2009** RMB'000 | 31/12/2008 RMB'000 (restated) |
|---|---|---|
| ***Segment assets*** | | |
| – Hypermarkets | **8,077,369** | 7,537,454 |
| – Supermarkets | **4,539,038** | 4,904,622 |
| – Convenience Stores | **333,052** | 364,494 |
| – Other operations | **89,760** | 73,542 |
| Total segment assets | **13,039,219** | 12,880,112 |
| Investments in associates | **449,885** | 437,223 |
| Other unallocated assets | **1,929,292** | 1,375,534 |
| Total assets | **15,418,396** | 14,692,869 |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 7. SEGMENT INFORMATION (continued)

*Other segment information*

**2009**

| | Hypermarkets RMB'000 | Supermarkets RMB'000 | Convenience stores RMB'000 | Other operations RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| Amounts included in the measure of segment results or segment assets: | | | | | |
| Addition to non-current assets (note) | **510,987** | **247,350** | **32,072** | **–** | **790,409** |
| Depreciation | **306,577** | **133,026** | **20,933** | **15,809** | **476,345** |
| Amortisation | **18,210** | **7,044** | **841** | **3,218** | **29,313** |
| Impairment losses on property, plant and equipment | **–** | **9,056** | **–** | **–** | **9,056** |
| Loss (gain) on disposal of property, plant and equipment | **2,554** | **3,314** | **121** | **(66)** | **5,923** |

Note: Non-current assets include the additions of property, plant and equipment, construction in progress, land use rights and intangible assets.

2008

| | Hypermarkets RMB'000 (restated) | Supermarkets RMB'000 (restated) | Convenience stores RMB'000 (restated) | Other operations RMB'000 (restated) | Total RMB'000 (restated) |
|---|---|---|---|---|---|
| Amounts included in the measure of segment results or segment assets: | | | | | |
| Addition to non-current assets | 351,648 | 165,862 | 12,517 | 5,198 | 535,225 |
| Depreciation | 308,040 | 164,832 | 22,921 | 26,060 | 521,853 |
| Amortisation | 15,696 | 4,732 | 1,660 | 4,702 | 26,790 |
| Impairment losses on property, plant and equipment | 21,584 | 4,372 | – | – | 25,956 |
| Loss on disposal of property, plant and equipment | 12,039 | 20,090 | – | 6,608 | 38,737 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 7. SEGMENT INFORMATION (continued)

***Geographical information***

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

***Information about major customers***

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

## 8. OTHER INCOME

| | 2009<br>RMB'000 | 2008<br>RMB'000<br>(restated) |
|---|---|---|
| *Interest income* | **208,758** | 170,615 |
| Government subsidies | **20,324** | 36,378 |
| Gain on disposal of financial assets at fair value through profit or loss | **18,539** | 32,641 |
| Gain on disposal of available-for-sale financial assets | **16,735** | 10,956 |
| Interest income on held-to-maturity financial assets | **4,188** | – |
| Compensation for relocation or rental | **11,910** | 28,497 |
| Salvage sales | **19,756** | 29,128 |
| Others | **72,307** | 46,104 |
| Total | **372,517** | 354,319 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 9. TAXATION

| | 2009 RMB'000 | 2008 RMB'000 (restated) |
|---|---|---|
| ***PRC income tax*** | | |
| – Current taxation | **230,959** | 179,425 |
| – Deferred taxation | **(22,529)** | (33,779) |
| | **208,430** | 145,646 |

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

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

PRC income tax is calculated based on the statutory income tax rate of 25% (2008: 25%) of taxable income of the subsidiaries based on the relevant PRC tax rules and regulations except for certain subsidiaries which are taxed at preferential rate of 15% to 20% (2008: 0% to 18%).

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | RMB'000 | % | RMB'000 (restated) | % |
| Profit before tax | **797,813** | | 634,123 | |
| Tax at the income tax rate of 25% (2008: 25%) | **199,453** | **25.0** | 158,531 | 25.0 |
| Tax effect of share of profit of associates | **(37,560)** | **(4.7)** | (37,371) | (5.9) |
| Tax effect of expenses not deductible for tax purpose | **16,755** | **2.0** | 7,795 | 1.2 |
| Tax effect of income not taxable for tax purpose | **(5,081)** | **(0.6)** | (3,955) | (0.6) |
| Tax effect of tax losses/deductible temporary differences not recognised | **39,553** | **5.0** | 30,523 | 4.9 |
| Utilisation of tax losses/deductible temporary differences previously not recognised | **(1,857)** | **(0.2)** | (7,551) | (1.2) |
| Effect of tax exemptions and preferential tax rates granted to certain PRC subsidiaries | **(2,833)** | **(0.4)** | (2,326) | (0.4) |
| Tax charge and effective tax rate for the year | **208,430** | **26.1** | 145,646 | 23.0 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 10. PROFIT BEFORE TAXATION

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

| | 2009<br>RMB'000 | 2008<br>RMB'000<br>(restated) |
|---|---|---|
| ***Amortisation and depreciation*** | | |
| Amortisation of other non-current assets (note 22) | **858** | 1,523 |
| Amortisation of intangible assets (note 17) | **23,999** | 21,775 |
| Amortisation of land use rights (note 16) | **4,456** | 3,492 |
| Depreciation of property, plant and equipment (note 14) | **476,345** | 521,853 |
| Total depreciation and amortisation | **505,658** | 548,643 |
| ***Share of profits of associates*** | | |
| Share of profit before taxation | **(204,480)** | (199,309) |
| Share of taxation | **54,240** | 49,827 |
| | **(150,240)** | (149,482) |
| Auditors' remuneration | **4,092** | 5,911 |
| Loss on disposal of property, plant and equipment | **5,923** | 38,737 |
| Impairment loss on property, plant and equipment recognised (included in other operating expenses) | **9,056** | 25,956 |
| Loss on disposal of goodwill related to a subsidiary closed during the year | **–** | 635 |
| Loss on disposal of other intangible assets | **–** | 268 |
| Director's remuneration (note 11) | **8,814** | 7,161 |
| Salaries, wages and other employee benefits | **1,651,096** | 1,517,319 |
| Retirement benefit scheme contribution | **165,743** | 139,229 |
| Total Staff costs | **1,825,653** | 1,663,709 |
| Cost of inventories recognised as expenses | **20,881,677** | 20,232,932 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

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

### (a) *Directors' emoluments*

The remuneration of each Director for the year ended 31 December 2009 is set out below:

| Name of Director | Fees | Basic salaries, allowances and benefits in kind | Discretionary bonuses | Retirement benefit costs | Medical benefits | 2009 | 2008 |
|---|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 (note) | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Executive/Non-executive Directors: | | | | | | | |
| Mr. Liang Wei | – | 333 | 899 | 38 | 14 | 1,284 | 1,334 |
| Ms. Xu Ling-ling | – | 277 | 797 | 38 | 14 | 1,126 | 1,168 |
| Ms. Cai Lan-ying | – | 277 | 5,690 | 67 | 10 | 6,044 | 4,299 |
| Mr. Wang Zhi-gang | – | – | – | – | – | – | – |
| Mr. Ma Xin-sheng | – | – | – | – | – | – | – |
| Mr. Xu Bo | – | – | – | – | – | – | – |
| Mr. Koichi Narita | – | – | – | – | – | – | – |
| Mr. Kazuyasu Misu | – | – | – | – | – | – | – |
| Mr. Lu Ming-fang | – | – | – | – | – | – | – |
| Mr Yao Fang | – | – | – | – | – | – | – |
| Mr. Wong Tak Hung | – | – | – | – | – | – | – |
| Mr. Hua Guo-ping | – | – | – | – | – | – | – |
| Independent non-executive Directors: | | | | | | | |
| Mr. Lee Kwok Ming, Don | 120 | – | – | – | – | 120 | 120 |
| Mr. Zhang Hui Ming | 120 | – | – | – | – | 120 | 120 |
| Mr. Xia Da Wei | 120 | – | – | – | – | 120 | 120 |
| 2009 | 360 | 887 | 7,386 | 143 | 38 | 8,814 | 7,161 |
| 2008 | 360 | 887 | 5,743 | 134 | 37 | | |

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

None of the Directors waived any emoluments during the years ended 31 December 2009 and 2008.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

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

| | **2009**<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|
| Basic salaries, allowances and benefits-in-kind | **277** | 277 |
| Discretionary bonuses | **607** | 845 |
| Retirement benefit costs | **38** | 33 |
| Medical benefits | **14** | 13 |
| | **936** | 1,168 |

The emoluments fell within the following band:

| | **Number of Supervisors** | |
|---|---|---|
| | **2009** | 2008 |
| Nil – HK$500,000 | 1 | 2 |
| HK$500,001 – HK$1,000,000 | 1 | 1 |

None of the Supervisors waived any emoluments during the years ended 31 December 2009 and 2008.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

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

(c) ***Five highest paid individuals***

All five individuals whose emoluments were the highest in the Group during the year were executives of the Group. Except for Ms. Cai Lan-ying (2008: Ms. Cai Lan-ying) who is the director of the Company, none of them was a Director or Supervisor of the Company. The emoluments of these five highest paid individuals are as follows:

| | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|
| Basic salaries, allowances and benefits-in-kind | **1,393** | 1,393 |
| Discretionary bonuses | **23,069** | 16,290 |
| Retirement benefit costs | **336** | 340 |
| Medical benefits | **49** | 54 |
| | **24,847** | 18,077 |

The emoluments fell within the following band:

| | Number of Supervisors | |
|---|---|---|
| | **2009** | 2008 |
| HK$3,000,001 – HK$3,500,000 | **–** | 2 |
| HK$3,500,001 – HK$4,000,000 | **–** | 2 |
| HK$4,000,001 – HK$4,500,000 | **2** | 1 |
| HK$4,500,001 – HK$5,000,000 | **1** | – |
| HK$5,000,001 – HK$5,500,000 | **1** | – |
| HK$5,500,001 – HK$6,000,000 | **–** | – |
| HK$6,000,001 – HK$6,500,000 | **1** | – |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 12. DIVIDEND

| | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|
| ***Dividend recognised as distribution during the year:*** | | |
| 2009 interim dividend RMB0.12 (2008: RMB0.10) per share | **74,640** | 62,200 |
| 2008 final dividend RMB0.15 (2008: 2007 final dividend RMB0.12) per share | **93,300** | 74,640 |
| | **167,940** | 136,840 |

An interim dividend in respect of 2009 of RMB0.12 (2008: RMB0.10) per share amounting to a total of RMB74,640,000 (2008: RMB62,200,000) has been declared by the Board on 25 August 2009.

At a meeting held on 30 March 2010, the Directors proposed a final dividend of RMB0.16 (2008: RMB0.15) per share for the year ended 31 December 2009, totalling RMB99,520,000 (2008: RMB93,300,000). The 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 2010 upon approval by the shareholders at the forthcoming Annual General Meeting.

## 13. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the following data:

| | 2009 | 2008 (restated) |
|---|---|---|
| *Earnings* | | |
| Profit for the year attributable to owners of the Company (RMB'000) | **506,802** | 412,489 |
| *Number of shares* | | |
| Number of ordinary shares in issue during the year | **622,000,000** | 622,000,000 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 14. 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 |
|---|---|---|---|---|---|
| ***COST*** | | | | | |
| At 1 January 2008 (restated) | 1,343,468 | 1,554,992 | 233,513 | 1,721,494 | 4,853,467 |
| Additions | – | 272,431 | 34,727 | 163,559 | 470,717 |
| Transfer from construction in progress | 19,156 | 28,632 | 723 | 23,510 | 72,021 |
| Disposals | (4,167) | (56,335) | (25,517) | (475,994) | (562,013) |
| At 31 December 2008 (restated) | 1,358,457 | 1,799,720 | 243,446 | 1,432,569 | 4,834,192 |
| Additions | 19,817 | 240,378 | 17,267 | 124,240 | 401,702 |
| Acquired on acquisition of a subsidiary | 144,899 | – | – | – | 144,899 |
| Transfer from construction in progress | 187,266 | 10,941 | – | 9,973 | 208,180 |
| Disposals | (8,000) | (97,849) | (11,948) | (68,689) | (186,486) |
| At 31 December 2009 | 1,702,439 | 1,953,190 | 248,765 | 1,498,093 | 5,402,487 |
| ***DEPRECIATION*** | | | | | |
| At 1 January 2008 (restated) | 177,984 | 785,597 | 86,552 | 855,561 | 1,905,694 |
| Provided for the year | 42,221 | 221,332 | 27,955 | 230,345 | 521,853 |
| Eliminated on disposals | (3,784) | (52,539) | (20,521) | (421,450) | (498,294) |
| At 31 December 2008 (restated) | 216,421 | 954,390 | 93,986 | 664,456 | 1,929,253 |
| Provided for the year | 51,074 | 229,077 | 29,007 | 167,187 | 476,345 |
| Eliminated on disposals | (8,000) | (41,431) | (3,019) | (57,210) | (109,660) |
| At 31 December 2009 | 259,495 | 1,142,036 | 119,974 | 774,433 | 2,295,938 |
| ***IMPAIRMENT*** | | | | | |
| At 1 January 2008 (restated) | – | 68,826 | 1,542 | 42,998 | 113,366 |
| Provided for the year | – | 21,190 | – | 4,766 | 25,956 |
| Eliminated on disposals | – | – | (30) | (6,036) | (6,066) |
| At 31 December 2008 (restated) | – | 90,016 | 1,512 | 41,728 | 133,256 |
| Provided for the year | – | 4,656 | – | 4,400 | 9,056 |
| Eliminated on disposals | – | (55,904) | – | (11,012) | (66,916) |
| At 31 December 2009 | – | 38,768 | 1,512 | 35,116 | 75,396 |
| ***CARRYING VALUES*** | | | | | |
| At 31 December 2009 | 1,442,944 | 772,386 | 127,279 | 688,544 | 3,031,153 |
| At 31 December 2008 (restated) | 1,142,036 | 755,314 | 147,948 | 726,385 | 2,771,683 |
| At 1 January 2008 (restated) | 1,165,484 | 700,569 | 145,419 | 822,935 | 2,834,407 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

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

Note:

(a) An impairment loss of RMB9,056,000 (2008: RMB25,956,000) on certain items of property plant and equipment has been recognised during the year mainly due to certain loss making hypermarkets and supermarkets.

(b) Amongst the depreciation of RMB476,345,000 (2008: RMB521,853,000) , RMB436,242,000 (2008: RMB471,341,000) and RMB40,103,000 (2008: RMB50,512,000) were included in selling and distribution expenses and administrative expenses respectively.

(c) As of 31 December 2009, the Group has not obtained building ownership certificates for certain buildings with carrying amount of RMB194,212,000 (2008: RMB203,308,000).

| **Company** | **Buildings** | **Leasehold improvements** | **Transportation vehicles and equipment** | **Operating and office equipment** | **Total** |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| ***COST*** | | | | | |
| At 1 January 2008 | 290,902 | 138,552 | 5,284 | 112,739 | 547,477 |
| Additions | – | 12,000 | 171 | 3,905 | 16,076 |
| Transfer from construction in progress | – | 19,156 | – | – | 19,156 |
| Disposals | – | (24,885) | (72) | (74,695) | (99,652) |
| At 31 December 2008 | 290,902 | 144,823 | 5,383 | 41,949 | 483,057 |
| Additions | – | 1,719 | 1,263 | 1,939 | 4,921 |
| Transfer from construction in progress | – | – | – | 9,973 | 9,973 |
| Disposals | – | (146,542) | (744) | (26,277) | (173,563) |
| At 31 December 2009 | 290,902 | – | 5,902 | 27,584 | 324,388 |
| ***DEPRECIATION*** | | | | | |
| At 1 January 2008 | 30,092 | 119,404 | 1,555 | 69,473 | 220,524 |
| Provided for the year | 6,980 | 13,020 | 891 | 19,471 | 40,362 |
| Eliminated on disposals | – | (24,682) | (49) | (69,045) | (93,776) |
| At 31 December 2008 | 37,072 | 107,742 | 2,397 | 19,899 | 167,110 |
| Provided for the year | 6,980 | 3,259 | 1,161 | 5,494 | 16,894 |
| Eliminated on disposals | – | (111,001) | (651) | (12,004) | (123,656) |
| At 31 December 2009 | 44,052 | – | 2,907 | 13,389 | 60,348 |
| ***CARRYING VALUES*** | | | | | |
| At 31 December 2009 | 246,850 | – | 2,995 | 14,195 | 264,040 |
| At 31 December 2008 | 253,830 | 37,081 | 2,986 | 22,050 | 315,947 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

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

The above items of property, plant and equipment are depreciated on a straight-line basis as follows:

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

## 15. CONSTRUCTION IN PROGRESS

| **Group** | Construction in progress RMB'000 |
|---|---|
| At 1 January 2008 | 171,561 |
| Additions | 54,903 |
| Transfer to property, plant and equipment (note 14) | (72,021) |
| Transfer to intangible assets (note 17) | (480) |
| At 31 December 2008 (restated) | 153,963 |
| Additions | 141,838 |
| Transfer to property, plant and equipment (note 14) | (208,180) |
| Transfer to intangible assets (note 17) | (700) |
| At 31 December 2009 | 86,921 |

| **Company** | RMB'000 |
|---|---|
| At 1 January 2008 | – |
| Additions | 27,530 |
| Transfer to property, plant and equipment (note 14) | (19,156) |
| At 31 December 2008 | 8,374 |
| Additions | 10,001 |
| Transfer to property, plant and equipment (note 14) | (9,973) |
| Transfer to intangible assets (note 17) | (700) |
| At 31 December 2009 | 7,702 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 16. LAND USE RIGHTS

| **Group** | **Land use rights** RMB'000 |
|---|---|
| ***COST*** | |
| At 1 January 2008 and 31 December 2008 (restated) | 242,690 |
| Additions | 91,649 |
| Disposals | (36,359) |
| At 31 December 2009 | 297,980 |
| ***AMORTISATION*** | |
| At 1 January 2008 (restated) | 30,859 |
| Charge for the year | 3,492 |
| At 31 December 2008 (restated) | 34,351 |
| Charge for the year | 4,456 |
| At 31 December 2009 | 38,807 |
| ***CARRYING VALUES*** | |
| At 31 December 2009 | 259,173 |
| At 31 December 2008 (restated) | 208,339 |
| At 1 January 2008 (restated) | 211,831 |

| | **31/12/2009** RMB'000 | 31/12/2008 RMB'000 (restated) | 1/1/2008 RMB'000 (restated) |
|---|---|---|---|
| Analysed for reporting purposes as: | | | |
| Non-current portion | **254,717** | 204,847 | 208,339 |
| Current portion to be charged to the profit or loss next year included in deposits, prepayments and other receivables (note 26) | **4,456** | 3,492 | 3,492 |
| Total | **259,173** | 208,339 | 211,831 |

Note:

In relation to the amortisation charge for the year of RMB4,456,000 (2008: RMB3,492,000), RMB2,237,000 (2008: RMB2,237,000) and RMB2,219,000 (2008: RMB1,255,000) were included in selling and distribution expenses and administrative expenses respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 16. LAND USE RIGHTS (continued)

| **Company** | **Land use rights** RMB'000 |
|---|---|
| ***COST*** | |
| At 1 January 2008, 31 December 2008 and 31 December 2009 | 43,035 |
| ***AMORTISATION*** | |
| At 1 January 2008 | 7,430 |
| Charge for the year | 929 |
| At 31 December 2008 | 8,359 |
| Charge for the year | 929 |
| At 31 December 2009 | 9,288 |
| ***CARRYING VALUES*** | |
| At 31 December 2009 | 33,747 |
| At 31 December 2008 | 34,676 |

| | **31/12/2009** RMB'000 | 31/12/2008 RMB'000 |
|---|---|---|
| Analysed for reporting purposes as: | | |
| Non-current portion | **32,818** | 33,747 |
| Current portion to be charged to the profit or loss next year included in deposits, prepayments and other receivables (note 26) | **929** | 929 |
| | **33,747** | 34,676 |

The Group's interests in land use rights represent prepaid operating lease payment for the land with medium-term leasing period between 10 to 50 years in PRC.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 17. INTANGIBLE ASSETS

| Group | Software RMB'000 | Goodwill RMB'000 | Total RMB'000 |
|---|---|---|---|
| ***COST*** | | | |
| At 1 January 2008 (restated) | 111,010 | 170,845 | 281,855 |
| Additions | 9,605 | – | 9,605 |
| Transfer from construction in progress | 480 | – | 480 |
| Acquisition of additional equity interests in subsidiaries | – | 1,790 | 1,790 |
| Disposals | (9,314) | (635) | (9,949) |
| At 31 December 2008 (restated) | 111,781 | 172,000 | 283,781 |
| Additions | 10,321 | – | 10,321 |
| Transfer from construction in progress | 700 | – | 700 |
| Disposals | (1,960) | – | (1,960) |
| At 31 December 2009 | 120,842 | 172,000 | 292,842 |
| ***AMORTISATION AND IMPAIRMENT*** | | | |
| At 1 January 2008 (restated) | 54,098 | 20,059 | 74,157 |
| Charge for the year | 21,775 | – | 21,775 |
| Eliminated on disposals | (9,046) | – | (9,046) |
| At 31 December 2008 (restated) | 66,827 | 20,059 | 86,886 |
| Charge for the year | 23,999 | – | 23,999 |
| Eliminated on disposals | (1,960) | – | (1,960) |
| At 31 December 2009 | 88,866 | 20,059 | 108,925 |
| ***CARRYING VALUES*** | | | |
| At 31 December 2009 | 31,976 | 151,941 | 183,917 |
| At 31 December 2008 (restated) | 44,954 | 151,941 | 196,895 |
| At 1 January 2008 (restated) | 56,912 | 150,786 | 207,698 |

Note:

(a) The impairment loss on goodwill relates to an impairment loss recognized in 2007 which 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) In relation to the amortisation charge for the year of RMB23,999,000 (2008: RMB21,775,000), RMB17,046,000 (2008: RMB16,580,000) and RMB6,953,000 (2008: RMB5,195,000) were included in selling and distribution expenses and administrative expenses respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 17. INTANGIBLE ASSETS (continued)

### (b) *Impairment tests for goodwill*

Goodwill is allocated to the groups of CGUs identified according to the reporting segments as follows. A segment level summary of the goodwill is presented below.

| | **31/12/2009** RMB'000 | 31/12/2008 RMB'000 (restated) | 1/1/2008 RMB'000 (restated) |
|---|---|---|---|
| Supermarkets | **101,731** | 101,731 | 101,681 |
| Hypermarkets | **45,944** | 45,944 | 45,944 |
| Others | **4,266** | 4,266 | 3,161 |
| | **151,941** | 151,941 | 150,786 |

The recoverable amounts of the groups of cash-generating units are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rate and growth rate. These calculations are based on cash flow forecasts prepared by the Group, which is derived from the one year financial budgets and extrapolated for the following 15 years using an estimated growth rate of 3% to 10% and a pre-tax discount rate of 9% (2008: 9%). This pre-tax discount rate is equivalent to a post-tax discount rate of 7% (2008: 7%). The growth rate used does not exceed the average long-term growth rate for the relevant markets.

| **Company** | **Software** RMB'000 |
|---|---|
| ***COST*** | |
| At 1 January 2008 | 14,902 |
| Additions | 169 |
| At 31 December 2008 | 15,071 |
| Additions | 1,057 |
| Transfer from construction in progress | 700 |
| At 31 December 2009 | 16,828 |
| ***AMORTISATION*** | |
| At 1 January 2008 | 7,110 |
| Charge for the year | 2,837 |
| At 31 December 2008 | 9,947 |
| Charge for the year | 3,015 |
| At 31 December 2009 | 12,962 |
| ***CARRYING VALUES*** | |
| At 31 December 2009 | 3,866 |
| At 31 December 2008 | 5,124 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 18. INVESTMENTS IN SUBSIDIARIES/BALANCES WITH SUBSIDIARIES

| Company | 31/12/2009 RMB'000 | 31/12/2008 RMB'000 |
|---|---|---|
| Unlisted equity investments, at cost | **1,406,653** | 927,088 |
| Less: Impairment losses | **(79,590)** | (100,808) |
| | **1,327,063** | 826,280 |

Particulars of the Company's principal subsidiaries at 31 December 2009 are set out in note 44.

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

## 19. INVESTMENTS IN ASSOCIATES

| Group | 31/12/2009 RMB'000 | 31/12/2008 RMB'000 | 1/1/2008 RMB'000 |
|---|---|---|---|
| Unlisted equity investments, at cost | **194,060** | 194,060 | 187,310 |
| Share of post – acquisition profits, net of dividends received | **255,825** | 243,163 | 206,741 |
| | **449,885** | 437,223 | 394,051 |

| Company | 31/12/2009 RMB'000 | 31/12/2008 RMB'000 |
|---|---|---|
| Unlisted equity investments, at cost | **192,871** | 192,871 |

Investments in associates as at 31 December 2009 include goodwill of RMB6,787,000 (2008: RMB6,787,000).

Particulars of the Company's principal associates at 31 December 2009 and 2008 are set out in note 44.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 19. INVESTMENTS IN ASSOCIATES (continued)

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

| Group | 31/12/2009 RMB'000 | 31/12/2008 RMB'000 |
|---|---|---|
| Total assets | **4,187,981** | 4,301,314 |
| Total liabilities | **2,979,044** | 3,165,994 |
| Net assets | **1,208,937** | 1,135,320 |
| Group's share of net assets of associates | **443,098** | 430,436 |

| | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|
| Revenue | **6,916,811** | 7,124,149 |
| Profit for the year | **387,749** | 354,801 |
| Group's share of profits of associates for the year | **150,240** | 149,482 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 20. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| Group | 31/12/2009 RMB'000 | 31/12/2008 RMB'000 (restated) | 1/1/2008 RMB'000 (restated) |
|---|---|---|---|
| ***Non-current*** | | | |
| Legal person shares (note a) | **1,112** | 1,112 | 1,112 |
| Unlisted equity investments (note b) | **30,159** | 30,159 | 28,131 |
| | **31,271** | 31,271 | 29,243 |
| ***Current*** | | | |
| Unlisted money market investments (note c) | **610,900** | 215,000 | 120,000 |
| Total | **642,171** | 246,271 | 149,243 |

| Company | 31/12/2009 RMB'000 | 31/12/2008 RMB'000 |
|---|---|---|
| ***Non-current*** | | |
| Legal person shares (note a) | **1,112** | 1,112 |
| Unlisted equity investments (note b) | **3,423** | 3,423 |
| | **4,535** | 4,535 |
| ***Current*** | | |
| Unlisted money market investment (note c) | **610,900** | 200,000 |
| Total | **615,435** | 204,535 |

Notes:

(a) These represent investments in legal person shares of certain PRC listed companies, which carry restrictions on trading in stock exchange.

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

(c) The effective interest rate of the money market investments were ranged from 1.9% to 4.14% (2008: 4.5% to 4.52%) per annum. Based on the terms, the investments will be repaid within 1 year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 21. HELD-TO-MATURITY FINANCIAL ASSETS

| Group | 31/12/2009 RMB'000 | 31/12/2008 RMB'000 | 1/1/2008 RMB'000 |
|---|---|---|---|
| ***Non-current*** | | | |
| Unlisted government certificate bonds with fixed interest of 3.73%-5.74% and maturity date of over one year – PRC | **177,615** | 8,800 | – |
| Listed corporate bond with fixed interest of 7.1% and maturity date of over one year | **200,000** | – | – |
| | **377,615** | 8,800 | – |
| ***Current*** | | | |
| Unlisted government certificate bonds with fixed interest of 2.6% and maturity date of less than one year – PRC | **97,873** | – | – |
| Total | **475,488** | 8,800 | – |

| Company | 31/12/2009 RMB'000 | 31/12/2008 RMB'000 |
|---|---|---|
| ***Non-current*** | | |
| Unlisted government certificate bonds with fixed interest of 3.73%-5.74% and maturity date of over one year – PRC | **172,615** | 3,800 |
| Listed corporate bond with fixed interest of 7.1% and maturity date of over one year | **200,000** | – |
| | **372,615** | 3,800 |
| ***Current*** | | |
| Unlisted government certificate bonds with fixed interest of 2.6% and maturity date of less than one year – PRC | **97,873** | – |
| Total | **470,488** | 3,800 |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 22. 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 and 2009, no additional impairment loss associated with other non-current assets of the Group has been recognised.

Amongst the amortisation of RMB858,000 (2008: RMB1,523,000), RMB670,000 (2008: RMB1,335,000) and RMB188,000 (2008: RMB188,000) were included in selling and distribution expenses and administrative expenses respectively.

## 23. PREPAID LEASE PAYMENT

Prepaid lease payments represent prepaid rental for store premises which will be charged to the statement of comprehensive income after 1 year. Prepaid lease payments which will be charged to the statement of comprehensive income within 1 year are included in prepayments (see note 26).

## 24. INVENTORIES

| Group | 31/12/2009<br>RMB'000 | 31/12/2008<br>RMB'000<br>(restated) | 1/1/2008<br>RMB'000<br>(restated) |
|---|---|---|---|
| Merchandise for resale | **2,439,893** | 2,549,018 | 2,190,577 |
| Allowance for obsolescence | **(1,756)** | (3,957) | (13,029) |
| | **2,438,137** | 2,545,061 | 2,177,548 |
| Low value consumables | **21,369** | 22,837 | 26,794 |
| | **2,459,506** | 2,567,898 | 2,204,342 |

| Company | 31/12/2009<br>RMB'000 | 31/12/2008<br>RMB'000 |
|---|---|---|
| Merchandise for resale | **126,364** | 227,318 |
| Allowance for obsolescence | **(1,072)** | (1,072) |
| | **125,292** | 226,246 |
| Low value consumables | **1,821** | 3,216 |
| | **127,113** | 229,462 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 25. TRADE RECEIVABLES

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

| Group | 31/12/2009 RMB'000 | 31/12/2008 RMB'000 (restated) | 1/1/2008 RMB'000 (restated) |
|---|---|---|---|
| Within 30 days | 59,958 | 68,965 | 62,861 |
| 31-60 days | 14,082 | 8,294 | 1,575 |
| 61-90 days | 176 | 17 | 3,155 |
| 91 days – one year | 86 | 3,286 | 348 |
| | 74,302 | 80,562 | 67,939 |

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

| | 2009 RMB'000 | 2008 RMB'000 (restated) |
|---|---|---|
| 1 January | 13,336 | 8,801 |
| Impairment losses recognised on trade receivable | – | 4,535 |
| Amounts reversed during the year | (1,062) | – |
| 31 December | 12,274 | 13,336 |

| Company | 31/12/2009 RMB'000 | 31/12/2008 RMB'000 |
|---|---|---|
| Within 30 days | 75 | 659 |
| | 75 | 659 |

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

All trade receivables of the Company at the end of each reporting period were aged less than 30 days.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 26. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

| **Group** | **31/12/2009** RMB'000 | 31/12/2008 RMB'000 (restated) | 1/1/2008 RMB'000 (restated) |
|---|---|---|---|
| Land use right – current portion (note 16) | **4,456** | 3,492 | 3,492 |
| Deposits and prepayments | **314,115** | 378,070 | 419,049 |
| Other receivables net of allowance for doubtful debts | **169,152** | 174,192 | 135,912 |
| | **487,723** | 555,754 | 558,453 |

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

| | **2009** RMB'000 | 2008 RMB'000 (restated) |
|---|---|---|
| 1 January | **10,240** | – |
| Impairment losses recognised on receivables | **–** | 10,240 |
| Amounts reversed during the year | **(3,808)** | – |
| 31 December | **6,432** | 10,240 |

| **Company** | **31/12/2009** RMB'000 | 31/12/2008 RMB'000 |
|---|---|---|
| Land use right – current portion (note 16) | **929** | 929 |
| Deposits and prepayments | **19,484** | 51,523 |
| Other receivables net of allowance for doubtful debts | **10,099** | 14,563 |
| | **30,512** | 67,015 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 27. AMOUNTS DUE FROM ULTIMATE HOLDING COMPANY/FELLOW SUBSIDIARIES

Amount due from ultimate holding company was unsecured, carried interest ranging from 5.58% to 7.47% (2008: 5.58% to 7.47%) per annum and repayable on demand.

Amounts due from fellow subsidiaries were unsecured, carried interest ranging from 5.85% to 6.57% (2008: 5.85% to 6.57%) per annum and repayable on demand.

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

| Group | 31/12/2009<br>RMB'000 | 31/12/2008<br>RMB'000 | 1/1/2008<br>RMB'000 |
|---|---|---|---|
| Equity securities listed in the PRC held for trading, at market value | **1,874** | – | 116,420 |
| Money market funds | **–** | 27,706 | – |
| | **1,874** | 27,706 | 116,420 |

## 29. AMOUNTS DUE FROM/TO ASSOCIATES

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

## 30. TERM DEPOSITS

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

As at 31 December 2009, term deposits of the Group included restricted deposits amounting to RMB1,219,800,000 (2008: RMB649,000,000). The restricted deposits represent deposits placed by a subsidiary with various banks which are held as security for coupon issued to customers and are not available for other use by the Group.

The effective interest rate on term deposits was ranged from 1.71% to 5.13% (2008: 2.25% to 5.38%) per annum. The carrying amounts of the term deposits of the Group and the Company approximate their fair value.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 31. CASH AND CASH EQUIVALENTS

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

Bank balances carry interest at prevailing market rates ranging from 0.36% to 2.79% per annum for the year ended 31 December 2009 (2008: ranging from 0.72% to 2.5% per annum).

## 32. TRADE PAYABLES

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

| Group | 31/12/2009<br>RMB'000 | 31/12/2008<br>RMB'000<br>(restated) | 1/1/2008<br>RMB'000<br>(restated) |
|---|---|---|---|
| Within 30 days | **2,982,348** | 3,078,824 | 2,712,365 |
| 31-60 days | **296,485** | 313,875 | 234,452 |
| 61-90 days | **104,145** | 75,704 | 71,520 |
| 91 days – one year | **107,120** | 36,858 | 140,325 |
| | **3,490,098** | 3,505,261 | 3,158,662 |

| Company | 31/12/2009<br>RMB'000 | 31/12/2008<br>RMB'000 |
|---|---|---|
| Within 30 days | **1,344,133** | 1,459,628 |
| 31-60 days | **81,393** | 65,209 |
| 61-90 days | **27,320** | 25,080 |
| 91 days – one year | **51,253** | 41,084 |
| | **1,504,099** | 1,591,001 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 33. OTHER PAYABLES AND ACCRUALS

| Group | 31/12/2009 RMB'000 | 31/12/2008 RMB'000 (restated) | 1/1/2008 RMB'000 (restated) |
|---|---|---|---|
| Other payables | **1,445,863** | 1,447,178 | 955,163 |
| Payables for acquisition of property, plant and equipment | **171,353** | 129,041 | 115,229 |
| Store closure provision | **58,162** | 50,883 | 42,728 |
| Accruals | **41,543** | 11,558 | 40,399 |
| Advance from customers | **56,336** | 50,022 | 117,354 |
| | **1,773,257** | 1,688,682 | 1,270,873 |

| Company | 31/12/2009 RMB'000 | 31/12/2008 RMB'000 |
|---|---|---|
| Other payables | **170,950** | 154,435 |
| Payables for acquisition of property, plant and equipment | **79,973** | 98,563 |
| Accruals | **226** | 200 |
| Advance from customers | **1,645** | 5,729 |
| | **252,794** | 258,927 |

## 34. COUPON LIABILITIES

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 35. AMOUNTS DUE TO IMMEDIATE HOLDING COMPANY/ULTIMATE HOLDING COMPANY/FELLOW SUBSIDIARIES

Amount due to immediate holding company represents the balance due to Shanghai Friendship Group Incorporated Company, which is unsecured and bears interest at 2.85% per annum. The amount had been repaid on 13 July 2009.

Amount due to ultimate holding company represents the balance due to Bailian Group for the resident consideration of acquisition of Hualian Group, the balances are unsecured, interest free and payable on demand.

Amounts due to fellow subsidiaries are unsecured, interest free and payable on demand.

## 36. SHARE CAPITAL

| | Number of shares of RMB1.00 each | Nominal value RMB'000 |
|---|---|---|
| Registered, issued and fully paid | | |
| At 1 January 2008, 31 December 2008 and 31 December 2009 | 622,000,000 | 622,000 |

The share capital of the Company as at 1 January 2008, 31 December 2008 and 2009 comprised of:

| | Number of shares of 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 FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 37. DEFERRED TAXATION

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

| Group | 31/12/2009 RMB'000 | 31/12/2008 RMB'000 (restated) | 1/1/2008 RMB'000 (restated) |
|---|---|---|---|
| Deferred tax assets | **104,661** | 84,189 | 67,035 |
| Deferred tax liabilities | **(51,375)** | (53,432) | (70,057) |
| | **53,286** | 30,757 | (3,022) |

| Company | 31/12/2009 RMB'000 | 31/12/2008 RMB'000 |
|---|---|---|
| Deferred tax assets | **20,177** | 438 |

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

| Group | Fair value adjustments on buildings RMB'000 | Fair value gain on financial assets at fair value through profit or loss adjustments RMB'000 | Pre-operating expenses RMB'000 | Bad debt and inventory provisions RMB'000 | Accrued expenses RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| At 1 January 2008 (restated) | (55,489) | (14,568) | 8,204 | 6,083 | 52,748 | (3,022) |
| Charge (credit) to profit or loss | 2,057 | 14,568 | (7,752) | 800 | 24,106 | 33,779 |
| At 31 December 2008 (restated) | (53,432) | – | 452 | 6,883 | 76,854 | 30,757 |
| Charge (credit) to profit or loss | 2,057 | – | 124 | (1,767) | 22,115 | 22,529 |
| At 31 December 2009 | (51,375) | – | 576 | 5,116 | 98,969 | 53,286 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 37. DEFERRED TAXATION (continued)

| **Company** | **Deferred tax assets in respect of bad debt and inventory provisions** RMB'000 |
|---|---|
| At 1 January 2008 and 31 December 2008 | (438) |
| Credit to profit and loss | (19,739) |
| At 31 December 2009 | (20,177) |

The Group has unutilised tax losses of approximately RMB349,535,000 (2008: RMB201,254,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unutilised tax losses due to the unpredictability of future profit streams. The unrecognised tax losses will expire as follows:

| **Group** | **31/12/2009** RMB'000 | 31/12/2008 RMB'000 |
|---|---|---|
| ***Year of expiry*** | | |
| 2009 | **–** | 12,171 |
| 2010 | **45,628** | 53,099 |
| 2011 | **75,680** | 88,241 |
| 2012 and afterwards | **228,227** | 47,743 |
| | **349,535** | 201,254 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 38. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which includes the borrowings, cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and retained earnings.

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 owners of the Company " as shown in the consolidated statement of financial position. 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.

## 39. FINANCIAL INSTRUMENTS

*(a) Categories of financial instruments*

**Financial assets**

| **Group** | **31/12/2009** RMB'000 | 31/12/2008 RMB'000 (restated) | 1/1/2008 RMB'000 (restated) |
|---|---|---|---|
| Financial assets at fair value through profit or loss | **1,874** | 27,706 | 116,420 |
| Held-to-maturity investments | **475,488** | 8,800 | – |
| Available-for-sale financial assets | **642,171** | 246,271 | 149,243 |
| Loans and receivables (including cash and cash equivalents) | **7,245,212** | 7,450,230 | 5,495,108 |
| | **8,364,745** | 7,733,007 | 5,760,771 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 39. FINANCIAL INSTRUMENTS (continued)

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

**Financial assets** (continued)

| **Company** | **31/12/2009** RMB'000 | 31/12/2008 RMB'000 |
|---|---|---|
| Held-to-maturity investments | **470,488** | 3,800 |
| Available-for-sale financial assets | **615,435** | 204,535 |
| Loans and receivables (including cash and cash equivalents) | **5,366,341** | 4,567,695 |
| | **6,452,264** | 4,776,030 |

**Financial liabilities**

| **Group** | **31/12/2009** RMB'000 | 31/12/2008 RMB'000 (restated) | 1/1/2008 RMB'000 (restated) |
|---|---|---|---|
| Other financial liabilities, at amortised cost | **5,315,529** | 5,402,756 | 4,570,672 |

| **Company** | **31/12/2009** RMB'000 | 31/12/2008 RMB'000 |
|---|---|---|
| Other financial liabilities, at amortised cost | **1,949,037** | 1,975,191 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 39. FINANCIAL INSTRUMENTS (continued)

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

The Group's and the Company's major financial instruments include equity and debt investments, borrowings, amounts due from/to subsidiaries, trade and other receivables and trade and other payables, term deposits, cash and cash equivalents. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

*Currency risk*

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

*Interest rate risk*

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

The Group's and the Company's cash flow interest rate risk exposure to changes in interest rates is mainly attributable to its bank balances. Bank balances at variable rates expose the Group and the Company to cash flow interest-rate risk. With all other variables held constant, if the average interest rate on bank balances subject to floating interest rate, held by the Group and the Company at the end of reporting period had been 50 basis point higher/lower, the Group's profit before tax and equity would increase/decrease by approximately RMB35,009,000 (2008: RMB34,613,000) and the Company's profit before tax and equity would increase/decrease by approximately RMB4,005,000 (2008: RMB5,447,000).

The interest rate of the Group's and the Company's unlisted government certificate bonds and listed cooperate bond, which are classified as held-to-maturity financial assets and investment in money market investment products, which are classified as available-for-sale financial assets, is fixed. The Group and the Company are exposed to fair value interest rate risk in relation to these fixed-rate investments.

*Other price risk*

Financial assets at fair value through profit or loss at 31 December 2009 represented equity securities acquired upon initial public offering. As the Group had sold the securities on the first trading date, the Group believes the risk exposure associated with such investment is insignificant.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 39. FINANCIAL INSTRUMENTS (continued)

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

*Credit risk*

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

The Group and the Company maintain substantially most of its cash and cash equivalents and term deposits in interest bearing accounts in several nationwide and regional renowned financial institutions in the PRC without significant credit risk. As at 31 December 2009, the five largest bank balances accounted for 63.0% of total term deposits and cash and cash equivalents of the Group (2008: 73.7%). As at 31 December 2009, the five largest bank balances accounted for 98.5% of total term deposits and cash and cash equivalents of the Company (2008: 99.7%). The remaining bank balances of the Group and the Company are also held in high quality financial institutions and the management are of the opinion that there is no significant credit risk on such assets.

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

*Liquidity risk*

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

As of 31 December 2009, the Group has net current liabilities of RMB2.2 billion (2008: RMB1.2 billion). Taking into account of the existing banking facilitates and cash flows from operations, the directors of the Company consider the liquidity risk is properly monitored.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 39. FINANCIAL INSTRUMENTS (continued)

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

*Liquidity risk* (continued)

The table below analyses the Group's and the Company's financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are contractual undiscounted cash flows.

**Group**

| Financial liabilities | Weighted average interest rate % | Less than 6 months RMB'000 | 6 months to 1 year RMB'000 | Over 1 year RMB'000 | Undiscounted cash flows RMB'000 | Carrying amount RMB'000 |
|---|---|---|---|---|---|---|
| As at 31 December 2009 | | | | | | |
| Trade payables | **–** | **3,490,098** | **–** | **–** | **3,490,098** | **3,490,098** |
| Other payables and accruals | **–** | **1,716,921** | **–** | **–** | **1,716,921** | **1,716,921** |
| Amounts due to associates | **–** | **4,791** | **–** | **–** | **4,791** | **4,791** |
| Amount due to ultimate holding company | **–** | **10,023** | **–** | **–** | **10,023** | **10,023** |
| Amounts due to fellow subsidiaries | **–** | **93,696** | **–** | **–** | **93,696** | **93,696** |
| | | **5,315,529** | **–** | **–** | **5,315,529** | **5,315,529** |
| As at 31 December 2008 | | | | | | |
| Trade payables | – | 3,505,261 | – | – | 3,505,261 | 3,505,261 |
| Other payables and accruals | – | 1,638,660 | – | – | 1,638,660 | 1,638,660 |
| Amounts due to associates | – | 24,681 | – | – | 24,681 | 24,681 |
| Amount due to immediate holding company | 2.85 | – | 39,979 | – | 39,979 | 39,000 |
| Amounts due to fellow subsidiaries | – | 5,154 | – | – | 5,154 | 5,154 |
| Bank borrowings | 4.86-7.2 | 201,755 | – | – | 201,755 | 190,000 |
| | | 5,375,511 | 39,979 | – | 5,415,490 | 5,402,756 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 39. FINANCIAL INSTRUMENTS (continued)

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

*Liquidity risk* (continued)

**Company**

| Financial liabilities | Weighted average interest rate | Less than 6 months | 6 months to 1 year | Over 1 year | Undiscounted cash flows | Carrying amount |
|---|---|---|---|---|---|---|
| | % | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| As at 31 December 2009 | | | | | | |
| Trade payables | – | **1,504,099** | – | – | **1,504,099** | **1,504,099** |
| Other payables and accruals | – | **251,149** | – | – | **251,149** | **251,149** |
| Amounts due to associates | – | **1,227** | – | – | **1,227** | **1,227** |
| Amount due to ultimate holding company | – | **10,023** | – | – | **10,023** | **10,023** |
| Amounts due to fellow subsidiaries | – | **16,340** | – | – | **16,340** | **16,340** |
| Amounts due to subsidiaries | – | **166,199** | – | – | **166,199** | **166,199** |
| | | **1,949,037** | – | – | **1,949,037** | **1,949,037** |
| As at 31 December 2008 | | | | | | |
| Trade payables | – | 1,591,001 | – | – | 1,591,001 | 1,591,001 |
| Other payables and accruals | – | 253,198 | – | – | 253,198 | 253,198 |
| Amounts due to associates | – | 3,389 | – | – | 3,389 | 3,389 |
| Amounts due to subsidiaries | – | 127,603 | – | – | 127,603 | 127,603 |
| | | 1,975,191 | – | – | 1,975,191 | 1,975,191 |

(c) ***Fair value***

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 end of the reporting period. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group and the Company use a variety of methods and makes assumptions that are based on market conditions existing at the end of the reporting period. The carrying value less impairment provision of receivables and payables are a reasonable approximation of their fair values.

Fair value measurements recognised in the statement of financial position.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 39. FINANCIAL INSTRUMENTS (continued)

### (c) *Fair value* (continued)

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

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

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

| **Group** | **31/12/2009** | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Financial assets at FVTPL** | | | | |
| Non-derivative financial assets at fair value through profit and loss | 1,874 | – | – | 1,874 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



## 40. ACQUISITION OF SUBSIDIARIES

### (1) *Acquisition of Hangzhou Zhongdu Supermarket Management Co., Ltd.*

On 9 February 2009, the Group acquired the entire interest in Hangzhou Zhongdu Supermarket Management Co., Ltd. ("Zhongdu") at a consideration of RMB96,973,000.

Zhongdu was engaged in the business of property investment. The only property of Zhongdu was rented by the Group under operating lease as hypermarket. This acquisition transaction has been accounted for as acquisition of assets as the major assets of Zhongdu are land and buildings.

Assets and liabilities recognised at the date of acquisition:

| | RMB'000 |
|---|---|
| ***Current assets*** | |
| Cash and cash equivalents | 40,027 |
| Trade and other receivables | 29,924 |
| ***Non-current assets*** | |
| Property, plant and equipment | 144,899 |
| ***Current liabilities*** | |
| Bank borrowings | (38,800) |
| Trade and other payables | (35,877) |
| ***Non-current liabilities*** | |
| Bank borrowings | (43,200) |
| | 96,973 |
| Satisfied by: | |
| Cash consideration | 96,973 |
| Net cash out flow arising on acquisition: | |
| Consideration paid in cash | 96,973 |
| Less: cash and cash equivalent acquired | (40,027) |
| | 56,946 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 40. ACQUISITION OF SUBSIDIARIES (continued)

### (2) *Acquisition of Hualian Group*

The Group acquired 100% of Hualian Supermarket Holdings Company Limited and its subsidiaries. (the "Hualian Group") during the year ended 31 December 2009. The acquisition was accounted for using merger accounting as it represents a business combination involving entities under common control (note 2), and was completed on 15 October 2009.

The assets and liabilities of Hualian Group at the date of acquisition are summarised as follows:

| | RMB'000 |
|---|---|
| ***Non-current assets*** | |
| Available-for-sale financial assets | 1,113 |
| Property, plant and equipment | 126,892 |
| Intangible assets | 12,938 |
| Land use right | 12,659 |
| Deferred tax assets | 18,331 |
| ***Current assets*** | |
| Cash and cash equivalents | 300,604 |
| Trade and other receivables | 185,590 |
| Inventories | 270,786 |
| ***Current liabilities*** | |
| Trade and other payables | (753,459) |
| Minority interests | (10,561) |
| | 164,893 |
| Satisfied by: | |
| Cash paid | 498,036 |
| Consideration payable | 10,023 |
| Total consideration | 508,059 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 41. CAPITAL COMMITMENTS

| | 31/12/2009 RMB'000 | 31/12/2008 RMB'000 |
|---|---|---|
| Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment, construction of buildings and land use rights | **254,087** | 389,040 |

## 42. OPERATING LEASE

*(1) The Group as lessee*

| | 31/12/2009 RMB'000 | 31/12/2008 RMB'000 (restated) |
|---|---|---|
| Minimum lease paid under operating leases during the year: | | |
| – Land and buildings | **1,330,294** | 1,275,985 |

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

| | 31/12/2009 RMB'000 | 31/12/2008 RMB'000 (restated) |
|---|---|---|
| With in one year | **1,180,764** | 1,077,934 |
| In the second to fifth years inclusive | **4,073,974** | 4,129,190 |
| Over five years | **7,743,977** | 6,782,220 |
| | **12,998,715** | 11,989,344 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 42. OPERATING LEASE

*(2)* ***The Group as lessor***

The Group had aggregate minimum lease receipts under non-cancellable operating leases in respect of shop premises as follows:

| | **31/12/2009** RMB'000 | 31/12/2008 RMB'000 (restated) |
|---|---|---|
| Minimum lease received under operating leases during the year: | | |
| – Shop premises | **457,532** | 408,255 |

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

| | **31/12/2009** RMB'000 | 31/12/2008 RMB'000 (restated) |
|---|---|---|
| Not later than one year | **209,708** | 222,705 |
| Later than one year and not later than five years | **330,423** | 315,991 |
| Later than five years | **258,594** | 209,805 |
| | **798,725** | 748,501 |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 43. RELATED PARTY TRANSACTIONS

Apart from those disclosed under notes 27, 29 and 35, the Group entered into significant related party transactions during the year, which were carried out in the normal course of the Group's business, as follows:

*(a) Related party transactions*

| | NOTES | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|---|
| Sales to fellow subsidiaries | | **2,950** | – |
| Purchases from associates | | | |
| – Shanghai Lianhua Supermarket, Food Co., Ltd., Shanghai Gude Commercial Trading Co., Ltd. and Sanming Taige Information Technology Co., Ltd. | (i) | **24,271** | 31,788 |
| Purchases from fellow subsidiaries (restated) | (i) | **89,206** | 91,799 |
| Logistic expense paid to a fellow subsidiary | (i) | **10,215** | 8,205 |
| Rental expenses and property management fee paid to fellow subsidiaries (restated) | (ii) | **45,864** | 38,922 |
| Interest expenses charged by immediate holding company | | **–** | 979 |
| Interest income received from fellow subsidiaries (restated) | | **–** | 3,209 |
| Interest income received from the ultimate holding company (restated) | | **5,273** | 12,273 |
| Commission income received from fellow subsidiaries (restated) | (iii) | **8,370** | 17,121 |
| Commission charges arising from the usage of online trading system of a fellow subsidiary | | **1,374** | – |
| Commission income arising from the redemption of coupon liabilities with a fellow subsidiary | (iv) | **20,544** | 9,076 |
| Commission charges arising from the redemption of coupon liabilities with a fellow subsidiary | (iv) | **19,587** | 10,670 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 43. RELATED PARTY TRANSACTIONS (continued)

### (a) *Related party transactions* (continued)

Notes:

(i) The purchase price and logistic service price were determined with reference to the prevailing market prices and the prices charged by those associates and related companies to third parties.

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

(iii) The commission income was received from fellow subsidiaries controlled by the ultimate holding company in relation to the redemption of the coupons issued by the Group in retail outlets of these related companies. The commissions were charged at rates ranging from 1.5% to 3% 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 fellow subsidiary controlled by the ultimate holding company (the "counterparty"), when the coupons issued by one party are redeemed in exchange for products or services to the retailers contracted by the other party or when the coupon liabilities are settled through the other party's network, a commission would be charged at a rate of 0.5% as agreed by the two parties, based on the gross transaction amount on a monthly basis. The gross transaction amount owed by each other and the related commission income/charge are settled on a net basis each month.

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

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("government related entities"). In addition, the Group's ultimate holding company, Bailian Group Co., Ltd, is controlled by the PRC government. Apart from the transactions with Bailian Group Co., Ltd, Shanghai Friendship Group Incorporated Company, and fellow subsidiaries disclosed above, the Group also conducts business with other government related entities.

In establishing its pricing strategies and approval process for transactions with other government related entities, the Group does not differentiate whether the counter-party is a government related entities or not.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 43. RELATED PARTY TRANSACTIONS (continued)

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

Material transactions/balances with other government related entities are as follows:

| | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|
| Purchase of goods | **3,144,142** | 3,045,893 |
| Interest income received | **203,485** | 152,586 |
| Bank charges | **22,421** | 21,210 |
| Interest expenses | **6,323** | 14,247 |

| | 31/12/2009<br>RMB'000 | 31/12/2008<br>RMB'000 |
|---|---|---|
| Current liabilities | | |
| Trade payable and other liabilities | **229,511** | 258,470 |

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

In addition, all cash at bank of the Group is deposited at government related banks.

Related party transactions with other government related enterprises were conducted in the normal course of business at market rates.

*(c)* ***Key management compensation***

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

| | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|
| Salaries and other short-term employee benefits | **14,057** | 13,368 |
| Post-employment benefits | **465** | 260 |
| Other long-term benefits | **159** | 311 |
| | **14,681** | 13,939 |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

## 44. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES

Details of the Company's principal subsidiaries and associates at 31 December 2009 and 31 December 2008 are as follows:

| Name of Entities | Date of establishment | Registered and fully paid capital RMB'000 | Proportion of voting power &ownership interest held by the Company Directly 2009 % | Directly 2008 % | Indirectly 2009 % | Indirectly 2008 % | Principal activities |
|---|---|---|---|---|---|---|---|
| (a) Subsidiaries | | | | | | | |
| Shenyang Century Lianhua Supermarket Co., Ltd. (note b) | 26 May 2004 | 3,000 | 90.00 | 90.00 | 9.94 | 9.89 | Hypermarket |
| Tianjin Yishang Lianhua Supermarket Co., Ltd. | 1 September 2002 | 30,000 | 80.00 | 80.00 | – | – | Hypermarket |
| Shanghai Century Lianhua Supermarket Development Co., Ltd. (note b) | 24 November 1997 | 100,000 | 100.00 | 77.91 | – | 16.39 | Hypermarket |
| Hangzhou Lianhua Huashang Group Co., Ltd. | 1 June 2001 | 120,500 | 74.19 | 74.19 | – | – | Supermarket and hypermarket |
| Lianhua Supermarket Jiangsu Co., Ltd. (note b) | 21 March 2003 | 50,000 | 85.00 | 85.00 | 14.40 | 13.89 | Supermarket and hypermarket |
| Guangxi Lianhua Supermarket Joint Stock Co., Ltd. | 18 November 2001 | 68,670 | 92.00 | 92.00 | 2.59 | 2.59 | Supermarket and hypermarket |
| Shanghai Lianhua Supermarket Jiading Co., Ltd. (note b) | 9 October 1996 | 3,290 | 81.76 | 81.76 | 18.24 | 17.20 | Supermarket |
| Shanghai Lianhua Xinxin Supermarket Co., Ltd. | 22 April 1997 | 13,300 | 55.00 | 55.00 | – | – | Supermarket |
| Shanghai Lianhua Supermarket Development Co., Ltd. | 8 April 2006 | 10,000 | 100.00 | 100.00 | – | – | Supermarket |
| Lianhua Quik Stores Co., Ltd. | 25 November 1997 | 63,000 | 70.00 | 70.00 | – | – | Convenience store |
| Shanghai Lianhua Commercial Trading Co., Ltd. | 27 June 2001 | 3,000 | 30.00 | 30.00 | 56.45 | 56.45 | Wholesaling |
| Shanghai Lianhua Supermarket Distribution Co., Ltd. (note b) | 29 October 1998 | 5,000 | 90.00 | 90.00 | 10.00 | 9.43 | Purchase and distribution |
| Lianhua Logistic Co., Ltd. | 17 October 2007 | 50,000 | 100.00 | 100.00 | – | – | Purchase and distribution |
| Shanghai Lianhua Supermarket Jilin Purchase and Distribution Co., Ltd. | 9 August 2000 | 1,000 | 51.00 | 51.00 | – | – | Purchase and distribution |
| Shanghai Lianhua Live and Fresh Food Processing and Distribution Co., Ltd. | 29 December 1999 | 5,000 | 90.00 | 90.00 | – | – | Fresh food processing and distribution |
| Lianhua E-business Co., Ltd. | 4 October 1995 | 55,000 | 57.27 | 57.27 | – | – | Trading |
| Hualian Supermarket Holdings Company Limited | 15 August 2006 | 300,000 | 99.40 | 99.40 | 0.60 | 0.60 | Supermarket |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year Ended 31 December 2009*

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

| Name of Entities | Date of establishment | Registered and fully paid capital RMB'000 | Proportion of voting power &ownership interest held by the Company Directly 2009 % | Directly 2008 % | Indirectly 2009 % | Indirectly 2008 % | Principal activities |
|---|---|---|---|---|---|---|---|
| (b) Associates | | | | | | | |
| Shanghai Carhua Supermarket Co., Ltd. | 8 February 1995 | 356,824 | 45.00 | 45.00 | - | – | Hypermarket |
| Tianjin Yishang Development | 27 October 1998 | 200,277 | 20.00 | 20.00 | - | – | Department stores |

Note:

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

(b) The changes of direct and indirect proportion of voting power and ownership interest held by the Company arose from structure reorganisation within the Group which have no material impact on the consolidated financial statements.

## 45. AUTHORISATION FOR THE ISSUE OF THE ACCOUNTS

These consolidated financial statements were authorised for issue by the Company's Board of Directors on 30 March 2010.

LIANHUA SUPERMARKET HOLDINGS CO., LTD

Annual Report 2009