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

Stock Code : 0980

Modern Supermarket
Better Living

# 2010
# Interim Report

# Contents

# Corporate Information

## Directors

### Executive Directors

Mr. Hua Guo-ping
Mr. Liang Wei
Ms. Xu Ling-ling
Ms. Cai Lan-ying
Mr. Tang Qi

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

### Nomination Committee

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

## Supervisors

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

## Joint Company Secretaries

Ms. Xu Ling-ling
Mr. Stephen Mok

## Authorized Representatives

Mr. Liang Wei
Ms. Xu Ling-ling

## International Auditor

Deloitte Touche Tohmatsu

## Legal Advisors 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 (Hong Kong) Limited

## Principal Bankers

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

# Corporate Information

## Registered and Business Office

**Registered Office in the PRC**

Room 713, 7th Floor
No. 1258 Zhen Guang Road
Shanghai, PRC

**Place of Business in the PRC**

5th to 14th Floors
No. 1258 Zhen Guang Road
Shanghai, PRC

**Place of Business in Hong Kong**

26th to 27th Floors
Harcourt Building
39 Gloucester Road
Wanchai
Hong Kong

**Telephone**

86 (21) 5262 9922

**Fax**

86 (21) 5279 7976

**Company Website**

www.lhok.com.cn

## Shareholders' Enquiries

**Contact Information of the Company**

Department of Securities Affairs
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**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
("Stock Exchange" or "SEHK")

**Listing Date**

27 June 2003

**SEHK Stock Code**

980

**Number of H Shares Issued**

207,000,000 H shares

**Financial Year-end Date**

31 December

# Management Discussion and Analysis

## Operating Environment

In the first half of 2010, China's economy maintained a steady growth momentum with the gross domestic product (GDP) grew by 11.1% year on year, according to the National Bureau of Statistics of China. Rapid economic growth and high employment rate were achieved with low inflation. As the macro economy stood firmly and started to rebound, consumption growth grew steadily. In the first half of 2010, the total retail sales of consumer products grew by 18.2% compared with the corresponding period of last year.

Consumers' sentiment is booming in China in 2010. The World Expo 2010 Shanghai, drawing the world's attention to China, is attracting domestic and overseas tourists to flock in Shanghai and the Yangtze River Delta, which in turn contributes to the bustling consumer market. From April 2010, a pay-rise storm started to affect Chinese enterprises. As published by the Ministry of Finance, the country's personal income tax revenue for the first half of the year posted a year-on-year growth of 22%. The increase in residents' income is one of the factors that drives consumption growth.

Price level picked up since late 2009 and the trend continued in the first half of this year. Consumers' Price Index ("CPI") rose by 2.6% year on year. On a monthly basis, however, growth fluctuations were also seen in food prices.

In 2010, China faces structural transition in its economy. Urbanization has also helped accelerate the speed of provincial developments. These developments will provide vast markets for retail enterprises in inland and the second and third tier cities. As a result, the growth and competition in the retail sector will co-exist for a long period of time.

## Financial Review

### Growth in turnover and consolidated revenues

Lianhua Supermarket Holdings Co., Ltd. (the "Lianhua Supermarket" or the "Company") and its subsidiaries (the "Group") completed the acquisition of Hualian Supermarket Holdings Company Limited ("Hualian Supermarket") in the second half of 2009. As Hualian Supermarket and the Group are under the common control of Bailian Group Co., Ltd ("Bailian Group"), the 2009 interim results of Hualian Supermarket was included in the consolidated financial statements of the Group with reference to the guidance from the relevant accounting standards for preparation of consolidated financial statements. For the purpose of providing easy reference to the investors, the Group will explain the growth in turnover, operating profit and net profit attributable to the Company's shareholders when compared to that of the interim period of 2009, respectively.

For the six months ended 30 June 2010, the Group recorded a turnover of RMB13,009,000 thousand, representing a growth of 18.5% as compared with the corresponding period of 2009 and 5.9% as compared with the combined 2009 interim results of Hualian Supermarket with the same store sales increased by 3.5%. Such increase was marked when comparing to that of 2009 which is primarily attributable to the continuous efforts in promoting sales, reviving consumers' sentiment and positive market condition.

# Management Discussion and Analysis

During the period under review, gross profit grew steadily and reached RMB1,753,000 thousand, representing a growth of 22.4% as compared with the first half of 2009 and 13.8% as compared to that in the first half of 2009 after the consolidation with Hualian Supermarket, and gross profit margin increased by 0.43 percentage point to 13.48% and increased by 0.94 percentage point as compared to that in the first half of 2009 after the consolidation with Hualian Supermarket. The consolidated revenues reached RMB3,094,000 thousand, representing a growth of 19.7% as compared with the first half of 2009 and 10.6% as compared to those in the first half of 2009 after the consolidation with Hualian Supermarket, with a consolidated revenues margin of 23.78%, representing an increase of 0.23 percentage points and increase of 1.01 percentage point as compared to that in the first half of 2009 after the consolidation with Hualian Supermarket. The sustainable and steady growth in consolidated revenues margin was attributable to the consolidation of merchandise resources and the improving merchandise operations. Furthermore, thanks to enhanced business solicitation, increased available shop space in the Group's outlets and the improvement of the related management, rental income from leasing of shop premises grew steadily by 11%. Meanwhile, the Group has maintained sufficient cash flow during the period, adopting prudent principles and professional management to realise steady growth in capital income of RMB134,760 thousand, representing an increase of 8.4% over the corresponding period last year.

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

## Operating cost and net profit

During the period under review, total selling and distribution expenses of the Group amounted to RMB2,359,000 thousand, representing an increase of 15.5% and 8.8% as compared to those in the first half of 2009 after the consolidation with Hualian Supermarket. Total administrative expenses amounted to RMB323,092 thousand, representing a year-on-year growth of 20.2% as compared to those in the first half of 2009 after the consolidation with Hualian Supermarket, and the overall cost ratio increased by approximately 0.77 percentage point as compared with the corresponding period of 2009. Items of major operating costs such as rental, labour and utilities charges are RMB710,184 thousand, RMB971,230 thousand and RMB216,823 thousand, respectively. The rise in rental charge and labour cost was mainly attributable to opening new outlets. The Group is dedicated to improving its expenditure control system to bring costs under reasonable control, while seeking to increase consolidated revenues to cope with the challenge of rising operating costs.

For the six months ended 30 June 2010, the Group recorded an operating profit of RMB401,000 thousand, representing a growth of 26.2% as compared with the first half of 2009 and 17.3% as compared to that in the first half of 2009 after the consolidation with Hualian Supermarket. The operating profit margin increased by 0.19 percentage point to 3.08% from the corresponding period of 2009 and 0.30 percentage point as compared to that in the first half of 2009 after the consolidation with Hualian Supermarket.

During the period under review, the Group's share of revenue of associated companies was RMB72,644 thousand, representing an increase of 16.5%. Shanghai Carhua recorded steady growth in its results as business environment was recovering and the number of matured outlets increased. No new outlets were opened during the first half of the year.

During the period under review, the Group's tax charge and effective tax rate were 108,130 thousand and 22.82%, respectively. As the new outlets became mature in recent years, profit for the period sufficiently offset the loss recorded in the previous years. Meanwhile, the Group strived for preferential taxation policy, which reduced the tax rate by 0.65 percentage point compared to that of the corresponding period of 2009.

# Management Discussion and Analysis

During the period under review, the Group recorded net profit attributable to the Company's shareholders of RMB326,464 thousand, representing an increase of 30.7% over the corresponding period of 2009 and 22.8% as compared to that in 2009 after the consolidation with Hualian Supermarket. For the first half of 2010, the net profit margin attributable to the Company's shareholders was 2.51% and earnings per share were RMB0.52.

## Cash flow

During the period under review, the Group's net cash outflow reached RMB2,202,064 thousand, mainly attributable to the increase of term deposits. Cash and miscellaneous bank balances as at the end of the period amounted to RMB7,588,855 thousand.

As at 30 June 2010, the turnover of the Group's trade payables was 60 days, and inventory turnover was approximately 38 days.

During the period under review, the Group did not use any financial instrument for hedging purposes and the Group did not issue any financial instrument for hedging as at 30 June 2010.

## Growth in various retail businesses

### Hypermarkets

During the period under review, the turnover of the Group's hypermarkets reached approximately RMB7,265,257 thousand, which accounted for approximately 55.8% of the Group's turnover and represented a growth of 9.3% when comparing to that of the corresponding period of 2009, and the gross profit margin increased by 1.06 percentage points to 12.90%. Same store sales increased by 3.9%. The segment's operating profit was RMB172,795 thousand, increased by RMB58,707 thousand over the corresponding period of 2009. The operating profit margin increased by 0.66 percentage point to 2.38% when compared with the corresponding period of 2009. The efforts of hypermarkets in recent years to enhance quality of new outlets, to improve operations of individual outlet and to construct supply chains brought fruitful results. The sustainable growth in overall operation capability laid a foundation for long-term development.

| **As at 30 June** | **2010** | 2009 |
|---|---|---|
| Gross Profit Margin (%) | **12.90** | 11.84 |
| Consolidated Revenues Margin (%) | **23.47** | 22.35 |
| Operating Profit Margin (%) | **2.38** | 1.72 |

# Management Discussion and Analysis

## Supermarkets

During the period under review, business consolidation in the supermarket segment led to complementary strengths, continuous transformation and enhancement while growth in same store sales increased by 2.6% from that of 2009. These efforts weathered out the sales growth pressure brought by the closure of Grand Gateway Plaza Store and the suspended operation and transformation of Taopu Store, both of which were major sales contributors, together with the decrease in the number of direct operation stores in supermarket business due to closure of certain stores upon expiry of the leases and active streamlining. During the period under review, the turnover of the Group's supermarket business slightly decreased by 0.3% when compared with the first half of 2009 after the consolidation with Hualian Supermarket to RMB4,814,326 thousand, which accounted for approximately 37% of the Group's turnover. Gross profit recorded growth of 6% to RMB664,845 thousand with gross profit margin of 13.81%, representing an increase of 0.82 percentage points as compared with the first half of 2009 after the consolidation with Hualian Supermarket. Consolidated revenues margin was 22.64%, representing a year-on-year increase of 1.25 percentage points as compared with the first half of 2009 after the consolidation with Hualian Supermarket, mainly attributable to the in-depth transformation and the supplier optimisation strategy. The segment's operating profit was RMB187,292 thousand.

| As at 30 June | 2010 | 2009 |
|---|---|---|
| Gross Profit Margin (%) | **13.81** | 12.99 |
| Consolidated Revenues Margin (%) | **22.64** | 21.39 |
| Operating Profit Margin (%) | **3.89** | 3.62 |

During the period under review, Hualian Supermarket recorded a turnover of RMB1,370,906 thousand, representing a year-on-year increase of 4.9%. The steady increase of consolidated revenues margin of 1.88 percentage points to 18.44% was attributable to the consolidation of merchandise resources. The operating profit margin rose by 0.26 percentage point to 2.07%.

## Convenience Stores

During the period under review, the Group's convenience stores recorded a turnover of RMB849,323 thousand, which accounted for approximately 6.5% of the Group's turnover. The World Expo Park stores recorded outstanding sales with highest sales per unit area. More importantly, the success of World Expo Park stores will become treasurable experiences for future expansion of convenience store business. Benefiting from favourable consumer sentiment, same store sales of the convenience store segment increased by 3.8%. In order to obtain the benefits of the network, value-added services were put in convenience stores in recent years, and were well-received by consumers, thereby raising the relevant commission income and the consolidated revenues margin substantially increased to 24.08%. The operating profit margin increased rapidly by 1.17 percentage points to 3.26%.

| As at 30 June | 2010 | 2009 |
|---|---|---|
| Gross Profit Margin (%) | **15.73** | 15.00 |
| Consolidated Revenues Margin (%) | **24.08** | 23.60 |
| Operating Profit Margin (%) | **3.26** | 2.10 |

# Management Discussion and Analysis

## Analysis of financial results

| | For the six months ended 30 June RMB million | | |
|---|---|---|---|
| | **2010** | 2009 | Change to the corresponding period of last year *(%)* |
| Turnover | **13,009** | 12,283 | 5.9 |
| Gross profit | **1,753** | 1,541 | 13.8 |
| Consolidated revenues | **3,094** | 2,798 | 10.6 |
| Operating profit | **401** | 342 | 17.3 |
| Taxation | **108** | 95 | 13.7 |
| Profit for the period attributable to the Company's shareholders | **326** | 266 | 22.6 |
| Earnings per share (RMB) | **0.52** | 0.43 | 20.9 |
| Interim dividend per share (RMB) | **0.15** | 0.12 | 25 |

## Capital structure

As at 30 June 2010, the Group's cash equivalents were mainly held in Renminbi, and the Group did not have any borrowings.

During the period under review, equity attributable to shareholders of the Group increased from approximately RMB2,463,284 thousand to approximately RMB2,690,228 thousand which was mainly due to the increase in profit of RMB326,464 thousand and dividends distribution amounting to RMB99,520 thousand during the period.

## Details of the Group's pledged assets

As at 30 June 2010, the Group did not have any pledged 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 exposed to the Group. The directors believes that the Group is able to meet its foreign exchange requirements.

# Management Discussion and Analysis

### Share capital

As at 30 June 2010, 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 |

### Contingent liabilities

As at 30 June 2010, the Group did not have any material contingent liabilities.

## Operating Review

### Consolidation and Restructuring

The year 2010 marked a milestone for consolidation and restructuring of the Group. During the period under review, the Group embarked on the consolidation with Hualian Supermarket and the business restructuring involving merchandise flows, logistics and information flows.

**Consolidation with Hualian Supermarket.** Following the successful acquisition of Hualian Supermarket in 2009, the Group initiated an all-around consolidation with it in early 2010.

The consolidation with Hualian Supermarket started with the unification of financial accounting and coding system. In the first half of the year, the Group completed the consolidation of the financial statements and settlement system of Hualian Supermarket, as well as the unification of 160,000 codes for suppliers/organisations/merchandises in the financial information management system.

Meanwhile, the franchising business was consolidated with that of Hualian Supermarket. The consolidation of franchising business under “Lianhua” and “Hualian”, two supermarket brands with most recognition and strength, resulted in a synergy of merchandise resources, outlet resources, marketing strategies and operation superintendence. The order amount from franchisees at the two joint procurement conferences held after the consolidation achieved a growth of 24.5% year-on-year.

In June 2010, “Lianhua” supermarkets in Shanghai and “Hualian” supermarkets were merged to form Shanghai Lianhua Supermarket Development Co., Ltd. and the franchising business of the above two brands were also consolidated and merged marking the establishment of a new organisational structure and management team.

# Management Discussion and Analysis

**Consolidation of merchandise flows.** To further consolidate merchandise resources and draw upon its economies of scale in domestic market, the Group resolved to proactively reform its merchandise management system after meticulous argumentation. A centralised procurement department for Shanghai area was established to consolidate the six procurement departments previously under different retail segments there. As Shanghai, being one of the most important markets for the Group, contributes more than 40% to the total sales, the centralised management on merchandise procurement will further highlight the Group's market share which ranks No.1 in Shanghai, thereby making better play of its market influence.

**Consolidation of logistics.** Hualian Supermarket owns the Taopu distribution centre, which is located in Shanghai and has more than 40,000 square metres of storage area and therefore strengthens the Group's distribution system for Shanghai area after consolidation. Combining the Jiangqiao distribution centre (which is at the planning stage), the Group has preliminarily completed the distribution system consolidation scheme for Shanghai area. Under the scheme, Taopu distribution centre will replace the Caoyang Road distribution centre of Lianhua Supermarket to function as the logistic distributor for the supermarket segment in Shanghai area, thereby releasing Caoyang Road distribution centre to support the distribution work of hypermarkets in Shanghai and Jiangsu Province area. The adoption of centralised distribution of hypermarkets will lay a solid foundation for the opening of the Jiangqiao logistics centre in the future.

**Consolidation of information flows.** To provide systematic support to the consolidation in light of the long term development strategy, the Group aligned its information system construction with the needs from the consolidation of operations, merchandise flows and logistics under centralised management and deployment of resources. Progresses were made in information system construction during the period, focusing on building centralized headquarter business system, standardized regional business system, unified supply chain platform and unified settlement and contract management platform. Core modules of merchandise management came on-streaming. While establishing standard regional business management system, the accuracy and timeliness of information are enhanced and outlet management systems were streamlined to cut down operating and maintenance costs. The unified settlement platform as well as merchandise, leasing, business solicitation and asset contract platforms were adopted across business segments and areas. The construction and assessment of the unified supply chain platform were completed to facilitate the consolidation of distribution centres in the second half year.

## Outlet Development

During the period under review, the Group continued to open new outlets and looked for potential sites for new outlets under its centralised development strategy.

During the period under review, four new hypermarkets were opened and one supermarket store was transformed to hypermarket, of which two were located in Jiangsu Province (Suzhou and Yancheng city respectively) and two in Hangzhou city of Zhejiang Province. The centralised and in-depth development plan in Yangtze River Delta will secure the market share of the existing outlets and establish profound market influence in the long run. Leveraging the suburb shopping mall development plan of Bailian Group in the second half year, the Group will extend its hypermarket arm to Jinshan district and Fengxian district in Shanghai.

# Management Discussion and Analysis

During the period under review, 133 new supermarkets were opened, including 10 directly-operated supermarkets and 123 franchised operation supermarkets. The Group was seeking opportunities in opening general merchandise supermarkets in downtown. During the period under review, the Group opened the second "Lianhua Premier Foods Market", targeting mid to high-end customers in the southwest part of Shanghai.

During the period, 120 new convenience stores were opened, including 30 directly-operated stores and 90 franchised operation stores. The network of convenience stores in all five cities has been expanding steadily. In June 2010, the Group contracted to open its first convenience store in Liuzhou city of Guangxi Province, the city that the Group enjoys the biggest market share, thus expanding the network to cover six cities. During the period under review, proactive preparations were made for the opening of 6 new stores in the World Expo Park to provide convenient services to tourists in the park. These new stores recorded remarkable sales and established a positive enterprise image for the Group.

As at 30 June 2010, the Group had a total of 5,040 outlets, 86% of which were located in the eastern region of China.

| | Supermarkets | | | | |
|---|---|---|---|---|---|
| | Hypermarkets | Lianhua Supermarket | Hualian Supermarket | Convenience Stores | Total |
| Direct operation | 136 | 483 | 210 | 935 | 1,764 |
| Franchised operation | | 1,230 | 955 | 1,091 | 3,276 |
| Total | 136 | 1,713 | 1,165 | 2,026 | 5,040 |

*Note:* The above information was as of 30 June 2010

## Transformation and Key Outlets

During the period under review, the Group continued to boost business transformation with a view to enhance outlet profitability, explore new business model, optimise supplier structure, improve fresh product operation and optimise merchandise mix.

During the period under review, the Group constantly promoted transformation and re-transformation of outlets and its strong outlet strategy to uplift store image and profitability. The strong outlet strategy aims at the improvement in overall competitiveness by forging flagship and model outlets as well as upgrading outlets.

During the period under review, the Group sped up market study on express store and cosmeceutical shop to seek innovative business model.

# Management Discussion and Analysis

Fresh product operation transformation was further strengthened and a scientific assessment system was established. The Group promoted centralised procurement of fresh products, as well as the shift from joint operation to self operation, expanding the scope of procurement from production base and optimising the procurement process. Seeking to identify the key links in fresh product operation, the Group strengthened training and guidance to relevant employees to improve their operating capability. Meanwhile, an assessment system on fresh product operation was developed, including regular monthly tracking system, and the multi-dimension satisfaction scoring on operation, procurement and consumers. Notable progress was made in fresh product operation in an orderly manner. Despite the price fluctuations in the first half of 2010, all business segments recorded a steady growth in gross profit from fresh product operation, with gross profit margin growth to different extents.

The category management concept and techniques were strengthened. Based on regular category analysis, merchandises of the previous year were reviewed and analysed by category to track sales of staples, providing category information for merchandise business strategic decision-making and promotions of outlets. Efficient merchandise portfolio strategy was studied and carried out among major categories. List of staples was generated by pushing ahead category management techniques for major categories. The best practice for display of related merchandise was developed and promoted. Due to its multi-segment operations, cross-region presence and the difference in retail space among various types of store, the Group introduced the shelf management and merchandise allocation table by store clusters to match the positioning of each business segment.

To further improve consolidated revenues, the Group took efforts in optimising suppliers portfolio in the period. While tapping the source to increase direct supply ratio together with buy-out operation, the Group sought mutual growth with key suppliers based on optimised supply channels, aiming to increase its revenue.

During the period under review, the Group increased its efforts in developing private label products to uplift brand value. Series packaging and designs were promoted for private label products to forge the image of private label brand “Lianhua”. Proven performance in display and sales were achieved from the development of series products in the first half year. At the same time, the promotion of private label brand merchandises should be supported by outlet operation, such as specific promotion upon special days and during change of seasons.

During the period under review, imported and specialty merchandises were still the strongholds for the Group to build up its differentiated merchandise mix and improve consolidated revenues. With variegated marketing modes, the Group hosted a range of events for such merchandises including “Food Festival”, “Promo”, “Low Price Storm” and “Trade-in”, which stimulated the desire to buy and contributed to sound growth in sales.

### Capturing opportunities arising from World Expo 2010 Shanghai

During the period under review, the Group pressed ahead with all-around staff training and business operations at all levels to prepare for and capture the opportunities arising from World Expo 2010 Shanghai. Efforts were made by the Group in improving inside and outside shopping environment, merchandise mix, service skills and operation management. Franchised World Expo retail counters were set up at the Group’s key outlets in Shanghai and east China. As at 30 June 2010, the six Lianhua Quik stores in the Expo park recorded sales of over RMB40 million in total and set a record for the highest sales based on unit area.

# Management Discussion and Analysis

## Employment, training and development

As at 30 June 2010, the Group had a total of 56,055 employees, representing a decrease of 641 employees during the period under review. Total staff costs were RMB971,230 thousand.

During the period under review, the Group strengthened the training of management staff and the cultivation of human resources. Two training courses were held for young and middle-aged management staff, a “staff capacity and quality upgrade class” was organized for stepping up the training and utilization of young staff as reserve executives.

During the period under review, the Group improved the performance appraisal methods for the year. Based on the Company’s long-term development objectives, the Group formulated plans for carrying out key projects during the year, which will serve as major performance indicators for the annual evaluation.

## Strategy and planning

The slower GDP growth in the second quarter of 2010 as compared to its first quarter and the 0.3% month-by-month decline in total retail sales growth rate of consumer products in June 2010 as compared to May 2010 indicated a slowdown of growth momentum in the economy. Uncertainties exist in the development of the economy. Given the mixed economic outlook, challenges still exist for retail enterprises which cannot afford to be slack in sale promotion and further development.

Following the overall guideline of “Strategic Development, Transformation and Upgrading, Reform and Consolidation, Breakthrough in Key Business Areas” initiated in the beginning of the year, the Group will promote consolidation and restructuring to boost sales and improve business results in the second half of 2010.

Advancing the intensive development in eastern region of China and other markets where the Group has established a foothold, the Group will make itself well prepared for constructing and opening new outlets. With a view to securing the established market share, the Group will seek potential outlet expansion and acquisition opportunities.

Strategy to further boost the sales. The Group will press ahead with its outlet transformation and strong outlet strategy by optimising merchandise mix, enhancing market promotion, innovating in marketing modes and adopting flexible pricing strategy to attract customers. The outlets in eastern region of China will seize the opportunities from World Expo 2010 Shanghai, Shanghai Shopping Festival, and consolidation of supermarkets segment, logistics and franchising and seasonal holidays to boost sales.

Further optimise and advance the consolidation. Following the first step in the restructuring and consolidation, the Group will carry out reengineering of operation process, alignment of assessment mechanism, optimisation of organisational structure and team building, which will be a long-term mission for the Group. Progress will be made in consolidation and optimisation of merchandise, logistics and information flows in the second half of this year. We will focus on the enhancement of regional centralized procurement and distribution and the optimization of outlet operational management so as to further increase the consolidated income margin level effectively.

Work on the proposals for acquisition and consolidation. The acquisition of business of Hualian Group GMS Shopping Centre Company Limited (“Hualian GMS”) by Bailian Group has been completed, and the Group will perform due diligence and justify the timing and mode of the acquisition and consolidation of Hualian GMS.

## Disclosure of interests

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

As at 30 June 2010, none of the directors, chief executive or supervisors 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) 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 of the Rules Governing the Listing of Securities on the Stock Exchange.

As at 30 June 2010, Mr. Hua Guo-ping, Mr. Xu Bo, Mr. Wang Long-sheng and Mr. Dao Shu-rong (being directors and supervisors of the Company) are directors, supervisors or employees of Shanghai Friendship Group Incorporated Company ("Shanghai Friendship") and/or Shanghai Bailian Group Investment Co., Ltd. ("Bailian Investment"). As disclosed below, these companies had interests in the shares of the Company as at 30 June 2010 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 30 June 2010, 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% | – |
| Bailian Investment (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 Asia Consumer Fund Limited (Note 4) | H shares | 34,160,000 (L) | 5.49% (L) | – | 16.50% (L) |

# Other Data

| Name of shareholders | Class of shares | No. of domestic shares/unlisted foreign shares/ H shares | Approximate percentage of total voting rights of the Company | Approximate percentage of voting rights of domestic shares and unlisted foreign shares | Approximate percentage of voting rights of H shares |
|---|---|---|---|---|---|
| Arisaig Partners (Mauritius) Limited (Note 4) | H shares | 34,160,000 (L) | 5.49%(L) | – | 16.50%(L) |
| Cooper Lindsay William Ernest (Note 4) | H shares | 34,160,000 (L) | 5.49%(L) | – | 16.50%(L) |
| JPMorgan Chase & Co. | H shares | 24,714,000 (L)<br>11,258,000 (P) | 3.97%(L)<br>1.81%(P) | –<br>– | 11.94%(L)<br>5.44%(P) |
| 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 | 12,407,000 (L) | 1.99%(L) | – | 5.99%(L) |
| Julius Baer International Equity Fund | H shares | 12,191,558 (L) | 1.96%(L) | – | 5.89%(L) |
| Artio Global Management LLC | H shares | 10,625,558 (L) | 1.71%(L) | – | 5.13%(L) |

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

Notes:

1. As at 30 June 2010, Bailian Group beneficially owns 100% interests in Bailian Investment. 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 Bailian Investment.

2. As at 30 June 2010, Mr. Hua Guo-ping, an executive director of the Company, is an executive director of Shanghai Friendship. Mr. Wang Long-sheng, a supervisor of the Company, is an executive director and general manager of Shanghai Friendship. Mr. Dao Shu-rong, a supervisor of the Company, is a supervisor of Shanghai Friendship.

3. As at 30 June 2010, Mr. Ma Xin-sheng, a non-executive director of the Company, is the chairman of the board of directors of Bailian Group.

4. As at 30 June 2010, Arisaig Asia Consumer Fund Limited is the beneficial owner of the 34,160,000 shares. Arisaig Partners (Mauritius) Limited is the fund manager of Arisaig Asia Consumer Fund Limited and holds such shares as an investment manager. Cooper Lindsay William Ernest has a deemed interest in these shares through his interest in his controlled corporations, including Arisaig Partners (Mauritius) Limited.

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 30 June 2010.

### The legal status of unlisted foreign shares

The summary of legal opinion given by Grandall Legal Group on the rights attached to unlisted foreign shares (the "Unlisted Foreign Shares") is set out as follows. Although the Mandatory Provisions for Articles of Association of Companies to be Listed Overseas (the "Mandatory Provisions") provide 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 "Articles of Association")), the rights attached to the Unlisted Foreign Shares (which are subject to certain restrictions on transfer as referred to the prospectus and may become H shares of the Company (the "H Shares") upon obtaining the requisite approvals from, among others, the China Securities Regulatory Commission (the "CSRC") and the Stock Exchange, are not expressly provided for under the existing PRC laws or regulations. However, the creation by the Company and the subsistence of the 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 the Unlisted Foreign Shares. Grandall Legal Group advises that until new laws or regulations are introduced in this aspect, the holders of the Unlisted Foreign Shares shall enjoy the same ranking as the holders of the domestic shares of the Company (in particular, in respect of the rights to attend and vote at general meetings and class meetings and to receive notice of such meetings in the same manner as the holders of the Domestic Shares), except that the holders of the Unlisted Foreign Shares enjoy the following rights to which the holders of the Domestic Shares are not entitled:

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

(b) in the event of the 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 in the PRC.

No provision is made for the settlement of disputes between the holders of the Unlisted Foreign Shares and the holders of the Domestic Shares in the Mandatory Provisions or in the Articles of Association. According to the PRC laws, in the case of disputes between the holders of the Unlisted Foreign Shares and the holders of the Domestic Shares, if there is no 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 disputes, either party may bring suit in the PRC courts with competent jurisdiction.

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

# Other Data

As advised by Grandall Legal Group, the following conditions must be satisfied before the Unlisted Foreign Shares can be converted into new H Shares:

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

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

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

(f) full compliance with the relevant PRC laws, rules, regulations and policies governing companies incorporated in the PRC which seek permission to list their shares outside the PRC and with the Articles of Association and any agreement among the shareholders of the Company.

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

### Purchase, sales and redemption of shares

Since the listing of the Company's shares on 27 June 2003 on The Stock Exchange of Hong Kong Limited to the date of this interim report, the Company and its subsidiaries have not purchased, sold or redeemed any of the Company's listed securities.

# Other Data

## Interim dividend

On 30 August 2010, the Board has declared the payment of an interim dividend of RMB0.15 per share (including tax) for the six months ended 30 June 2010.

The register of H shares members of the Company will be closed from 20 September 2010 to 24 September 2010 (both days inclusive) during which period no transfer of H shares will be effected. The interim dividend will be distributed to the shareholders of H shares of the Company whose names appear on the Company's register of members on 20 September 2010. In order to qualify for the interim dividend, holders of shares must lodge the relevant share transfer documents together with their share certificates with the share registrar of the Company, namely Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Friday, 17 September 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 on or before 29 October 2010. The dividends to be distributed in Hong Kong dollars will be converted into Hong Kong dollars at the average exchange rate of Renminbi to Hong Kong dollars announced by the People's Bank of China in the week prior to the dividend declaration date, which is RMB100 to HKD114.3432. As such, the interim dividend per ordinary share denominated in HKD is HKD0.1715 (including tax).

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

All investors should consider the above contents carefully. If any investor intends to change the identity of the holders in the shareholders register, please kindly enquire about the relevant procedures with your nominees or trustees. The Company has no responsibility and shall not be held responsible for confirming the identities of the shareholders. The Company will strictly comply with the law, and withhold and pay the corporate income tax on behalf of the relevant shareholders based on the H shares share register of members of the Company as at 20 September 2010. The Company will not accept any requests relating to any delay in confirming the identity of the shareholders or any errors in the identity of the shareholders.

# Other Data

## Connected transactions

From 1 January 2010 to the date of this interim report, the following transactions entered into by the Group constitute connected transactions under Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), mainly concerning:

### *Rental agreements*

The rental agreement dated 1 July 2010 entered into between Shanghai Century Lianhua Supermarket Development Co., Ltd ("Century Lianhua"), a subsidiary of the Company, as the lessee and Shanghai Bailian Nanqiao Shopping Centre Co., Ltd. ("Bailian Nanqiao") as the lessor in respect of the leasing of the property located at room G41-B01-1-001 at B1 floor and a portion of area at first and second floors of Shanghai Bailian Nanqiao Shopping Centre, No. 228-288 Bai Qi Lu, Shanghai, the PRC. The rent under this rental agreement for the period from 28 September 2010 to 27 September 2013 is RMB3,363,574.28 per annum, and such annual rent will increase by 5% thereafter for every three-year period, the management fee under this rental agreement for the period from 28 September 2010 to 27 May 2025 is RMB731,211.8 per annum, details of which were set out in the announcement of the Company dated 1 July 2010. Bailian Nanqiao is a subsidiary of Bailian Group, a holding company of a substantial shareholder of the Company and thus such transactions constitute continuing connected transactions of the Company.

The rental agreement dated 1 July 2010 entered into between Century Lianhua as the lessee and Shanghai Jinshan Baibei Shopping Centre Co., Ltd. ("Jinshan Baibei") as the lessor in respect of the leasing of the property located at room 1-101 at B1 floor and rooms 1-102 & 1-103 at first floor of Shanghai Jinshan Baibei Shopping Centre, No.18 West Wei Qing Lu, Shanghai, the PRC. The rent under this rental agreement for the period from 28 September 2010 to 27 September 2013 is RMB6,102,012 per annum, and such annual rent will increase by 5% thereafter for every three-year period, the management fee under this rental agreement for the period from 28 September 2010 to 27 April 2025 is RMB910,748 per annum, details of which were set out in the announcement of the Company dated 1 July 2010. Jinshan Baibei is a subsidiary of Bailian Group, a holding company of a substantial shareholder of the Company and thus such transactions constitute continuing connected transactions of the Company.

The independent non-executive directors of the Company have reviewed the above transactions and confirmed that:

(1) such transactions have been entered into by the Group in the ordinary and usual course of its business;

(2) the transactions have been entered into either on normal commercial terms (where there are available comparisons) or where there is no available comparison to determine whether such transactions are on normal commercial terms, in accordance with the terms which are not less favourable to the Company than terms available to or from independent third parties (if applicable) during the period under review; and

(3) in accordance with the terms of the relevant agreement governing such transactions and on terms that are fair and reasonable so far as the shareholders of the Company as a whole are concerned.

# Other Data

## Audit Committee

The audit committee of the Company (the "Audit Committee") has considered and reviewed the accounting principles and practices adopted by the Group and has discussed the matters in relation to internal control and financial reporting with the management, including the review of the unaudited condensed interim accounts for 2010 of the Company. The Audit Committee considered that the interim accounts for the six months ended 30 June 2010 is in compliance with the relevant accounting standards, the requirements of the Stock Exchange and the Laws of Hong Kong, and the Company has made appropriate disclosures thereof.

## Compliance with the Model Code

The Company has adopted "the model code for securities transactions by directors of listed issuers" (the "Model Code") as set out in Appendix 10 of the Listing Rules as the code of conduct for securities transactions by all directors of the Company. After making specific enquiries to all the directors, the Board is pleased to announce that all the directors have fully complied with the provisions under the Model Code during the period under review.

## Compliance with the Code on Corporate Governance Practices under Appendix 14 of the Listing Rules

The Board is pleased to confirm that save and except for the Company's practice relating to the directors' retirement by rotation as set out below, the Company has complied with "the Code on Corporate Governance Practices" (the "Code") set out in Appendix 14 of the Listing Rules for the period under review and, save as set out below, none of the directors is aware of any information that would reasonably indicate that the Company is not or was not for any time of the period under review in compliance with the Code. Details of the deviation are set out as follows:

Provision A4.2 of the Code requires that every director (including those appointed for a specific term) of a listed issuer shall be subject to retirement by rotation at least once every three years. The articles of association of the Company provides that each director shall be appointed at the general meeting of the Company and for a term of not more than 3 years, and eligible for re-election. Having taken into account 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.

By Order of the Board
**Mr. Ma Xin-sheng**
*Chairman*

30 August 2010, Shanghai, The PRC

# Condensed Consolidated Statement of Comprehensive Income

*For the six months ended 30 June 2010*

| | Notes | Six months ended 30 June 2010 (Unaudited) RMB'000 | 2009 (Unaudited and restated) RMB'000 |
|---|---|---|---|
| Turnover | 4 | **13,008,912** | 12,282,874 |
| Cost of sales | | **(11,255,493)** | (10,742,195) |
| Gross profit | | **1,753,419** | 1,540,679 |
| Other revenues | 4 | **1,145,134** | 1,080,579 |
| Other income | 5 | **195,494** | 176,646 |
| Selling and distribution expenses | | **(2,359,252)** | (2,169,143) |
| Administrative expenses | | **(323,092)** | (268,784) |
| Other operating expenses | | **(10,599)** | (11,832) |
| Finance costs | | **–** | (6,097) |
| Operating profit | | **401,104** | 342,048 |
| Share of profits of associates | 11 | **72,644** | 62,371 |
| Profit before taxation | 6 | **473,748** | 404,419 |
| Taxation | 7 | **(108,130)** | (94,943) |
| Profit and total comprehensive income for the period | | **365,618** | 309,476 |
| Profit and total comprehensive income for the period attributable to: | | | |
| Owners of the Company | | **326,464** | 265,944 |
| Non-controlling interests | | **39,154** | 43,532 |
| | | **365,618** | 309,476 |
| Earnings per share – Basic | 9 | **RMB0.52** | RMB0.43 |

# Condensed Consolidated Statement of Financial Position

*At 30 June 2010*

| | Notes | 30 June 2010 (Unaudited) RMB'000 | 31 December 2009 (Audited) RMB'000 |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 10 | **2,899,843** | 3,031,153 |
| Construction in progress | 10 | **159,265** | 86,921 |
| Land use rights | 10 | **252,050** | 254,717 |
| Intangible assets | 10 | **177,661** | 183,917 |
| Investments in associates | 11 | **398,908** | 449,885 |
| Available-for-sale financial assets | 15 | **30,158** | 31,271 |
| Held-to-maturity financial assets | | **390,483** | 377,615 |
| Term deposits – unrestricted | 16 | **1,560,000** | 480,000 |
| Prepaid lease payment | 12 | **126,142** | 138,481 |
| Deferred tax assets | | **110,822** | 104,661 |
| Other non-current assets | | **25,417** | 25,839 |
| | | **6,130,749** | 5,164,460 |
| Current assets | | | |
| Inventories | | **2,114,022** | 2,459,506 |
| Trade receivables | 13 | **97,173** | 74,302 |
| Deposits, prepayments and other receivables | | **532,360** | 487,723 |
| Amount due from fellow subsidiaries | 20 | **130** | – |
| Amounts due from associates | 14 | **42** | 34 |
| Available-for-sale financial assets | 15 | **800,000** | 610,900 |
| Held-to-maturity financial assets | | **134,437** | 97,873 |
| Financial assets at fair value through profit or loss | | **1,362** | 1,874 |
| Term deposits | 16 | | |
| – restricted | | **1,657,900** | 1,219,800 |
| – unrestricted | | **2,381,095** | 1,110,000 |
| Cash and cash equivalents | | **1,989,860** | 4,191,924 |
| | | **9,708,381** | 10,253,936 |
| Total assets | | **15,839,130** | 15,418,396 |

# Condensed Consolidated Statement of Financial Position

*At 30 June 2010*

| | Notes | 30 June 2010 (Unaudited) RMB'000 | 31 December 2009 (Audited) RMB'000 |
|---|---|---|---|
| Capital and reserves | | | |
| Share capital | | **622,000** | 622,000 |
| Reserves | | **2,068,228** | 1,841,284 |
| Equity attributable to owners of the Company | | **2,690,228** | 2,463,284 |
| Non-controlling interests | | **493,698** | 464,790 |
| Total equity | | **3,183,926** | 2,928,074 |
| Non-current liabilities | | | |
| Deferred tax liabilities | | **50,347** | 51,375 |
| Current liabilities | | | |
| Trade payables | 17 | **3,392,412** | 3,490,098 |
| Other payables and accruals | 18 | **1,699,951** | 1,773,257 |
| Dividend payable | | **99,520** | – |
| Coupon liabilities | 19 | **7,218,900** | 6,944,234 |
| Deferred income | | **23,257** | 30,388 |
| Amounts due to associates | 14 | **4,546** | 4,791 |
| Amount due to ultimate holding company | 20 | **–** | 10,023 |
| Amounts due to fellow subsidiaries | 20 | **90,441** | 93,696 |
| Taxation payable | | **75,830** | 92,460 |
| | | **12,604,857** | 12,438,947 |
| Total liabilities | | **12,655,204** | 12,490,322 |
| Total equity and liabilities | | **15,839,130** | 15,418,396 |
| Net current liabilities | | **(2,896,476)** | (2,185,011) |
| Total assets less current liabilities | | **3,234,273** | 2,979,449 |

# Condensed Consolidated Statement of Changes in Equity

*For the six months ended 30 June 2010*

| | Attributable to owners of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 | Capital reserve RMB'000 (note a) | Other reserve RMB'000 (note b) | Statutory common reserve fund RMB'000 (note c) | Retained profits RMB'000 | Total attributable to owners of the Company RMB'000 | Non-controlling interests RMB'000 | Total RMB'000 |
| At 1 January 2009 (audited and restated) | 622,000 | 755,953 | 303,595 | 173,755 | 777,178 | 2,632,481 | 411,513 | 3,043,994 |
| Profit for the period | – | – | – | – | 265,944 | 265,944 | 43,532 | 309,476 |
| 2008 final dividend | – | – | – | – | (93,300) | (93,300) | – | (93,300) |
| Dividends paid to non-controlling interests | – | – | – | – | – | – | (23,430) | (23,430) |
| At 30 June 2009 (unaudited and restated) | 622,000 | 755,953 | 303,595 | 173,755 | 949,822 | 2,805,125 | 431,615 | 3,236,740 |
| At 1 January 2010 (audited) | **622,000** | **755,953** | **(204,464)** | **214,711** | **1,075,084** | **2,463,284** | **464,790** | **2,928,074** |
| Profit for the period | **–** | **–** | **–** | **–** | **326,464** | **326,464** | **39,154** | **365,618** |
| 2009 final dividend | **–** | **–** | **–** | **–** | **(99,520)** | **(99,520)** | | **(99,520)** |
| Dividends paid to non-controlling interests | **–** | **–** | **–** | **–** | **–** | **–** | **(10,246)** | **(10,246)** |
| At 30 June 2010 (unaudited) | **622,000** | **755,953** | **(204,464)** | **214,711** | **1,302,028** | **2,690,228** | **493,698** | **3,183,926** |

Notes:

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

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

(c) Pursuant to the relevant regulations of the People's Republic of China ("PRC") 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 operations, or to increase its capital. The statutory common reserve fund may be converted into the capital, provided the balance of the reserve fund after such conversion is not less than 25% of the registered capital.

No transfer has been made to the statutory common reserve fund in respect of the net profit for the six months ended 30 June 2010 (six months ended 30 June 2009: Nil). The transfer will be made at the year end based on the annual profit and upon Directors' approval.

# Condensed Consolidated Statement of Cash Flows

*For the six months ended 30 June 2010*

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | **(Unaudited)** | (Unaudited and restated) |
| | **RMB'000** | RMB'000 |
| Net cash from (used in) operating activities | **503,361** | (78,513) |
| Net cash used in investing activities | **(2,685,737)** | (1,159,429) |
| Net cash (used in) from financing activities | **(19,688)** | 104,226 |
| Net decrease in cash and cash equivalents | **(2,202,064)** | (1,133,716) |
| Cash and cash equivalents at 1 January | **4,191,924** | 3,459,178 |
| Cash and cash equivalents at 30 June | **1,989,860** | 2,325,462 |

# Notes to the Condensed Consolidated Financial Statements

*For the six months ended 30 June 2010*

## 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

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 Company Limited (the "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.

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

| | Six months ended 30 June 2009 RMB'000 |
|---|---|
| Increase in turnover | 1,306,774 |
| Increase in cost of sales | (1,198,489) |
| Increase in other revenues | 83,885 |
| Increase in other income | 20,071 |
| Increase in selling and distribution expenses | (126,067) |
| Increase in administrative expenses | (57,843) |
| Increase in other operating expenses | (1,409) |
| Increase in finance costs | (2,618) |
| Increase in taxation | (6,760) |
| Increase in profit and total comprehensive income for the period | 17,544 |

# Notes to the Condensed Consolidated Financial Statements

*For the six months ended 30 June 2010*

## 1. BASIS OF PREPARATION (continued)

| | Six months ended 30 June 2009 RMB'000 |
|---|---|
| Increase in profit and total comprehensive income for the period attributable to: | |
| Owners of the Company | 16,244 |
| Non-controlling interests | 1,300 |
| | 17,544 |
| Increase in earnings per share – Basic | RMB0.03 |

The effect of Acquisition of Hualian Group described above on the financial positions of the Group as at 1 January 2009 has been disclosed in the Group's annual financial statements for the year ended 31 December 2009.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention, except for financial instruments that are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2009 except as described below.

In the current interim period, 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").

| | |
|---|---|
| HKFRSs (Amendments) | Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008 |
| HKFRSs (Amendments) | Improvements to HKFRSs 2009 |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements |
| HKAS 39 (Amendment) | Eligible Hedged Items |
| HKFRS 1 (Amendment) | Additional Exemptions for First-time Adopters |
| HKFRS 2 (Amendment) | Group Cash-settled Share-based Payment Transactions |
| HKFRS 3 (Revised) | Business Combinations |
| HK(IFRIC)-Int 17 | Distributions of Non-cash Assets to Owners |

# Notes to the Condensed Consolidated Financial Statements

*For the six months ended 30 June 2010*

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

As part of Improvements to HKFRSs issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. Before the amendment to HKAS 17, leasees were required to classify leasehold land as operating leases and presented as land use rights in the consolidated statement of financial position. The amendment has removed such a requirement. Instead, the amendment requires the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which substantially all the risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee.

In accordance with the transitional provisions of HKAS 17 Lease, the Group reassessed the classification of land elements of unexpired leases at 1 January 2010 based on information which existed at the inception of these leases, the directors of the Company considered the application of the amendment had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

The Group applies HKFRS 3 (Revised) *Business Combinations* prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (Revised) *Consolidated and Separate Financial Statements* in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

As there was no transaction during the current interim period in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

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

# Notes to the Condensed Consolidated Financial Statements

*For the six months ended 30 June 2010*

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group has not early applied the following new or revised standards, amendments or interpretations that have been issued but are not yet effective:

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs 2010[1] |
| HKAS 24 (Revised) | Related Party Disclosures[4] |
| HKAS 32 (Amendment) | Classification of Rights Issues[2] |
| HKFRS 1 (Amendment) | Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[3] |
| HKFRS 9 | Financial Instruments[5] |
| HK(IFRIC)-Int 14 (Amendment) | Prepayments of a Minimum Funding Requirement[4] |
| HK(IFRIC)-Int 19 | Extinguishing Financial Liabilities with Equity Instruments[3] |

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
2 Effective for annual periods beginning on or after 1 February 2010
3 Effective for annual periods beginning on or after 1 July 2010
4 Effective for annual periods beginning on or after 1 January 2011
5 Effective for annual periods beginning on or after 1 January 2013

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 application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

## 3. SEGMENT INFORMATION

Information reported to the Group's general manager who is the chief operating decision maker 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

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

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

| | **Segment revenue Six months ended 30 June** | | **Segment results Six months ended 30 June** | |
|---|---|---|---|---|
| | **2010 (Unaudited) RMB'000** | 2009 (Unaudited and restated) RMB'000 | **2010 (Unaudited) RMB'000** | 2009 (Unaudited and restated) RMB'000 |
| Hypermarkets | **7,951,059** | 7,290,768 | **172,795** | 114,089 |
| Supermarkets | **5,188,638** | 5,177,844 | **187,292** | 174,956 |
| Convenience Stores | **910,907** | 820,983 | **27,705** | 15,973 |
| Other operations | **103,442** | 73,858 | **25,281** | 58,115 |
| | **14,154,046** | 13,363,453 | **413,073** | 363,133 |

# Notes to the Condensed Consolidated Financial Statements

*For the six months ended 30 June 2010*

## 3. SEGMENT INFORMATION (continued)

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

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | **(Unaudited)** | (Unaudited and restated) |
| | **RMB'000** | RMB'000 |
| Segment results | **413,073** | 363,133 |
| Interest income | **10,749** | 17,746 |
| Other unallocated corporate income | **20,527** | – |
| Unallocated corporate expenses | **(43,245)** | (38,831) |
| Share of profits of associates | **72,644** | 62,371 |
| Consolidated profit before taxation | **473,748** | 404,419 |

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

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

Segment results did not include share of results 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:

| | **30 June 2010** | 31 December 2009 |
|---|---|---|
| | **(Unaudited)** | (Audited) |
| | **RMB'000** | RMB'000 |
| Segment assets | | |
| – Hypermarkets | **8,163,664** | 8,077,369 |
| – Supermarkets | **4,634,555** | 4,539,038 |
| – Convenience Stores | **354,625** | 333,052 |
| – Other operations | **168,898** | 89,760 |
| Total segment assets | **13,321,742** | 13,039,219 |
| Investments in associates | **398,908** | 449,885 |
| Other unallocated assets | **2,118,480** | 1,929,292 |
| Total assets | **15,839,130** | 15,418,396 |

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

# Notes to the Condensed Consolidated Financial Statements

*For the six months ended 30 June 2010*

## 4. TURNOVER AND OTHER REVENUES

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

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | **(Unaudited)** | (Unaudited and restated) |
| | **RMB'000** | RMB'000 |
| Turnover | | |
| – Sales of merchandise | **13,008,912** | 12,282,874 |
| Gross rental income from leasing of shop premises | **252,543** | 227,432 |
| Royalty income from franchised stores | **32,623** | 32,069 |
| Commission income from coupon redemption in other retailers | **20,680** | 19,495 |
| | **1,145,134** | 1,080,579 |
| Total revenues | **14,154,046** | 13,363,453 |

## 5. OTHER INCOME

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | **(Unaudited)** | (Unaudited and restated) |
| | **RMB'000** | RMB'000 |
| Interest income | **98,947** | 122,852 |
| Government subsidies | **8,913** | 7,920 |
| Gain on disposal of financial assets at fair value through profit or loss | **12,973** | 203 |
| Gain on disposal of available-for-sale financial assets | **8,408** | 1,258 |
| Interest income on held-to-maturity financial assets | **14,432** | – |
| Salvage sales | **11,911** | 13,063 |
| Others | **39,910** | 31,350 |
| Total | **195,494** | 176,646 |

# Notes to the Condensed Consolidated Financial Statements

*For the six months ended 30 June 2010*

## 6. PROFIT BEFORE TAXATION

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

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | **(Unaudited)** | (Unaudited and restated) |
| | **RMB'000** | RMB'000 |
| Amortisation and depreciation | | |
| Amortisation of other non-current assets | **422** | 761 |
| Amortisation of intangible assets – software (included in selling and distribution expenses/administrative expense) (Note 10) | **8,918** | 9,377 |
| Amortisation of land use rights (Note 10) | **2,631** | 4,044 |
| Depreciation of property, plant and equipment (Note 10) | **255,547** | 254,483 |
| | **267,518** | 268,665 |
| Loss on disposal of property, plant and equipment (included in other operating expenses) | **2,535** | 1,788 |
| Share of profits of associates | | |
| Profit before taxation | **(99,197)** | (86,954) |
| Taxation | **26,553** | 24,583 |
| | **72,644** | (62,371) |
| Operating lease rental in respect of land and buildings | **710,184** | 663,237 |
| Staff costs | **971,230** | 864,618 |
| Store closure expenses and provision | **760** | 1,166 |

# Notes to the Condensed Consolidated Financial Statements

*For the six months ended 30 June 2010*

## 7. TAXATION

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | **(Unaudited)** | (Unaudited and restated) |
| | **RMB'000** | RMB'000 |
| PRC income tax | | |
| – Current taxation | **115,319** | 104,233 |
| – Deferred taxation | **(7,189)** | (9,290) |
| | **108,130** | 94,943 |

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

PRC income tax is calculated based on the statutory income tax rate of 25% (six months ended 30 June 2009: 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 rates ranging from 15% to 22% (six months ended 30 June 2009: 15% to 20%).

## 8. DIVIDEND

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) |
| Interim dividend, declared, of RMB0.15 (2009: RMB0.12) per share | **93,300** | 74,640 |

An interim dividend in respect of 2010 of RMB0.15 (six months ended 30 June 2009: RMB0.12) per share amounting to a total of RMB93,300,000 (six months ended 30 June 2009: RMB74,640,000) has been declared by the Board on 30 August 2010. This interim dividend has not been included as a liability in these condensed consolidated financial statements as it was declared after the end of the reporting period.

At a meeting held on 30 March 2010, the Directors proposed a final dividend of RMB0.16 per share for the year ended 31 December 2009, totalling RMB99,520,000 (RMB0.15 per share and totaling RMB93,300,000 for the year ended 31 December 2008), which was approved by the shareholders on 23 June 2010 and has been reflected as an appropriation of retained profits for the six months ended 30 June 2010. The amount has not yet been paid as at 30 June 2010.

# Notes to the Condensed Consolidated Financial Statements

*For the six months ended 30 June 2010*

## 9. EARNINGS PER SHARE

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

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | **(Unaudited)** | (Unaudited) |
| **Earnings** | | |
| Earnings for the purposes of basic earnings per share (profit for the period attributable to owners of the Company, RMB'000, restated) | **326,464** | 265,944 |
| **Number of shares** | | |
| Number of ordinary shares for the purpose of basic earnings per share | **622,000,000** | 622,000,000 |

# Notes to the Condensed Consolidated Financial Statements

*For the six months ended 30 June 2010*

## 10. MAJOR CAPITAL EXPENDITURE

| | | | | Intangible assets | | |
|---|---|---|---|---|---|---|
| | Property, plant and equipment RMB'000 | Construction in progress RMB'000 | Land use rights RMB'000 (note) | Goodwill RMB'000 | Software RMB'000 | subtotal RMB'000 |
| Opening carrying amount as at 1 January 2009 (audited) | 2,771,683 | 153,963 | 208,339 | 151,941 | 44,954 | 196,895 |
| Additions | 126,530 | 33,885 | 90,440 | – | 1,225 | 1,225 |
| Acquisition of a subsidiary | 144,899 | – | – | – | – | – |
| Transfers | 8,945 | (9,415) | – | – | 470 | 470 |
| Disposals | (4,387) | – | (36,359) | – | – | – |
| Depreciation/amortisation charge (Note 6) | (254,483) | – | (4,044) | – | (9,377) | (9,377) |
| Closing carrying amount as at 30 June 2009 (unaudited and restated) | 2,793,187 | 178,433 | 258,376 | 151,941 | 37,272 | 189,213 |
| Opening carrying amount as at 1 January 2010 (audited) | **3,031,153** | **86,921** | **259,173** | **151,941** | **31,976** | **183,917** |
| Additions | **117,843** | **85,395** | **770** | **–** | **2,293** | **2,293** |
| Transfers | **12,682** | **(13,051)** | **–** | **–** | **369** | **369** |
| Disposals | **(6,288)** | **–** | **–** | **–** | **–** | **–** |
| Depreciation/amortisation charge (Note 6) | **(255,547)** | **–** | **(2,631)** | **–** | **(8,918)** | **(8,918)** |
| Closing carrying amount as at 30 June 2010 (unaudited) | **2,899,843** | **159,265** | **257,312** | **151,941** | **25,720** | **177,661** |

Note: Land use rights analysed for reporting purposes as:

| | **30 June 2010 (Unaudited) RMB'000** | 31 December 2009 (Audited) RMB'000 |
|---|---|---|
| Non-current assets | **252,050** | 254,717 |
| Current assets (included in deposits, prepayments and other receivables) | **5,262** | 4,456 |
| | **257,312** | 259,173 |

# Notes to the Condensed Consolidated Financial Statements

*For the six months ended 30 June 2010*

## 11. INVESTMENTS IN ASSOCIATES

| | **30 June 2010 (Unaudited) RMB'000** | 31 December 2009 (Audited) RMB'000 |
|---|---|---|
| Share of net assets other than goodwill | **392,121** | 443,098 |
| Goodwill | **6,787** | 6,787 |
| | **398,908** | 449,885 |

The aggregated amounts of the Group's share of interests in the assets, liabilities, turnover and profit of its associates, all of which are unlisted, were as follows:

| | **30 June 2010 (Unaudited) RMB'000** | 31 December 2009 (Audited) RMB'000 |
|---|---|---|
| Assets | **4,109,644** | 4,187,981 |
| Liabilities | **(2,990,869)** | (2,979,044) |
| Net assets | **1,118,775** | 1,208,937 |
| Group's share of net assets of associates | **392,121** | 443,098 |

| | **Six months ended 30 June** | |
|---|---|---|
| | **2010 (Unaudited) RMB'000** | 2009 (Unaudited) RMB'000 |
| Turnover | **4,165,271** | 3,082,810 |
| Profit for the period | **180,914** | 152,817 |
| Group's share of profits of associates for the period | **72,644** | 62,371 |

## 12. PREPAID LEASE PAYMENTS

Prepaid lease payments represent prepaid rental for store premises which will be charged to income statement after 1 year.

# Notes to the Condensed Consolidated Financial Statements

*For the six months ended 30 June 2010*

## 13. TRADE RECEIVABLES

The aged analysis of the trade receivables at the reporting date arising mainly from sales of merchandise to franchised stores and wholesalers and with credit terms ranging from 30 to 60 days, are as follows:

| | **30 June 2010 (Unaudited) RMB'000** | 31 December 2009 (Audited) RMB'000 |
|---|---|---|
| Within 30 days | **66,856** | 59,958 |
| 31-60 days | **15,799** | 14,082 |
| 61-90 days | **8,668** | 176 |
| 91 days – one year | **5,850** | 86 |
| | **97,173** | 74,302 |

## 14. AMOUNTS DUE FROM/TO ASSOCIATES

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

## 15. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | **30 June 2010 (Unaudited) RMB'000** | 31 December 2009 (Audited) RMB'000 |
|---|---|---|
| Non-current | | |
| Legal person shares (note a) | **1,112** | 1,112 |
| Unlisted equity investments (note b) | **29,046** | 30,159 |
| | **30,158** | 31,271 |
| Current | | |
| Unlisted money market investments (note c) | **800,000** | 610,900 |
| Total | **830,158** | 642,171 |

Notes:

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

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

c) The effective interest rate of the money market investments were ranged from 2.9% to 7.8% (31 December 2009: 1.9% to 4.14%) per annum. Based on the terms, the investments will be repaid within 1 year. The net cash paid to acquire unlisted money market investment during the period and included in the investing activities of condensed consolidated statement of cash flows amounted to RMB189,100,000 (six months ended 30 June 2009: RMB185,000,000).

# Notes to the Condensed Consolidated Financial Statements

*For the six months ended 30 June 2010*

## 16. 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. The net increase in term deposits during the period amounted to RMB2,789,195,000 (six months ended 30 June 2009: RMB1,102,100,000), of which balance of RMB2,351,095,000 (six months ended 30 June 2009, RMB649,500,000) is included in the investing activities of the condensed consolidated statement of cash flows.

As at 30 June 2010, term deposits included restricted cash amounting to RMB1,657,900,000 (31 December 2009: RMB1,219,800,000). The restricted cash represents deposits placed by a subsidiary to 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 time deposits was ranged from 1.98% to 5.13% (31 December 2009: 2.25% to 5.40%) per annum. The carrying amounts of the term deposits of the Group approximate their fair value.

## 17. TRADE PAYABLES

The following is an aged analysis of trade payables at the reporting date:

| | **30 June 2010 (Unaudited) RMB'000** | 31 December 2009 (Audited) RMB'000 |
|---|---|---|
| Within 30 days | **2,228,355** | 2,982,348 |
| 31-60 days | **947,253** | 296,485 |
| 61-90 days | **110,589** | 104,145 |
| 91 days – one year | **106,215** | 107,120 |
| | **3,392,412** | 3,490,098 |

# Notes to the Condensed Consolidated Financial Statements

*For the six months ended 30 June 2010*

## 18. OTHER PAYABLES AND ACCRUALS

| | **30 June 2010 (Unaudited) RMB'000** | 31 December 2009 (Audited) RMB'000 |
|---|---|---|
| Other payables | **1,339,133** | 1,445,863 |
| Payables for acquisition of property, plant and equipment | **130,217** | 171,353 |
| Store closure provision | **38,066** | 58,162 |
| Accruals | **130,839** | 41,543 |
| Advance from customers | **61,696** | 56,336 |
| | **1,699,951** | 1,773,257 |

## 19. COUPON LIABILITIES

Coupon liabilities are recorded as liabilities when coupons are sold. Coupons redeemed in exchange for products of the Group during the period 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.

## 20. AMOUNT DUE TO ULTIMATE HOLDING COMPANY/AMOUNTS DUE FROM/TO FELLOW SUBSIDIARIES

Amount due to ultimate holding company for the last year 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.

Amount due from/to fellow subsidiaries are unsecured, interest free and repayable on demand.

## 21. CAPITAL COMMITMENTS

| | **30 June 2010 (Unaudited) RMB'000** | 31 December 2009 (Audited) 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 | **322,427** | 254,087 |

# Notes to the Condensed Consolidated Financial Statements

*For the six months ended 30 June 2010*

## 22. OPERATING LEASE

### (1) *The Group as leasee*

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

| | **30 June 2010 (Unaudited) RMB'000** | 31 December 2009 (Audited) RMB'000 |
|---|---|---|
| Not later than one year | **1,172,133** | 1,180,764 |
| Later than one year and not later than five years | **4,246,061** | 4,073,974 |
| Later than five years | **7,537,941** | 7,743,977 |
| | **12,956,135** | 12,998,715 |

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

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

| | **30 June 2010 (Unaudited) RMB'000** | 31 December 2009 (Audited) RMB'000 |
|---|---|---|
| Not later than one year | **290,395** | 209,708 |
| Later than one year and not later than five years | **525,820** | 330,423 |
| Later than five years | **360,800** | 258,594 |
| | **1,177,015** | 798,725 |

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 Condensed Consolidated Financial Statements

*For the six months ended 30 June 2010*

## 23. RELATED PARTY TRANSACTIONS

Apart from those disclosed under notes 14 and 20, the Group entered into significant related party transactions during the period, which were carried out in the normal course of the Group's business, as follows:

### *(a) Transactions with related companies*

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2010** | 2009 |
| | | **(Unaudited)** | (Unaudited and restated) |
| | Note | **RMB'000** | RMB'000 |
| Sales to fellow subsidiaries | (i) | **1,587** | 1,681 |
| Purchases from associates – Shanghai Lianhua Supermarket, Food Co., Ltd., Shanghai Gude Commercial Trading Co., Ltd. and Sanming Taige Information Technology Co., Ltd. | (i) | **9,277** | 7,730 |
| Purchases from fellow subsidiaries | (i) | **52,002** | 36,859 |
| Logistic expense paid to a fellow subsidiary | (i) | **6,360** | 4,580 |
| Rental expenses and property management fee paid to fellow subsidiaries | (ii) | **22,911** | 25,095 |
| Interest income received from the ultimate holding company | | **–** | 5,273 |
| Commission income received from fellow subsidiaries | (iii) | **4,536** | 4,631 |
| Commission charges arising from the usage of online trading system of a fellow subsidiary | | **220** | 1,077 |
| Commission income arising from the redemption of coupon liabilities with a fellow subsidiary | (iv) | **13,723** | 10,133 |
| Commission charges arising from the redemption of coupon liabilities with a fellow subsidiary | (iv) | **12,403** | 9,816 |

# Notes to the Condensed Consolidated Financial Statements

*For the six months ended 30 June 2010*

## 23. RELATED PARTY TRANSACTIONS (continued)

### (a) *Transactions with related companies* (continued)

Notes:

(i) The sales, purchase and logistic service prices were determined with reference to the prevailing market prices and the prices charged 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.

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

| | **30 June 2010 (Unaudited) RMB'000** | 31 December 2009 (Audited) RMB'000 |
|---|---|---|
| Purchase of goods | **1,782,593** | 1,594,354 |
| Interest income received | **98,947** | 117,579 |
| Bank charges | **10,684** | 10,421 |
| Interest expenses | **–** | 6,097 |

# Notes to the Condensed Consolidated Financial Statements

*For the six months ended 30 June 2010*

## 23. RELATED PARTY TRANSACTIONS (continued)

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

| | **30 June 2010 (Unaudited) RMB'000** | 31 December 2009 (Audited) RMB'000 |
|---|---|---|
| Current liabilities | | |
| Trade payable and other liabilities | **191,403** | 229,511 |

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 period was as follows:

| | **Six months ended 30 June** | |
|---|---|---|
| | **2010 (Unaudited) RMB'000** | 2009 (Unaudited and restated) RMB'000 |
| Salaries and other short-term employee benefits | **5,927** | 6,788 |
| Post-employment benefits | **118** | 162 |
| Other long-term benefits | **146** | 189 |
| | **6,191** | 7,139 |

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

## 24. AUTHORISATION FOR THE ISSUE OF THE ACCOUNTS

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