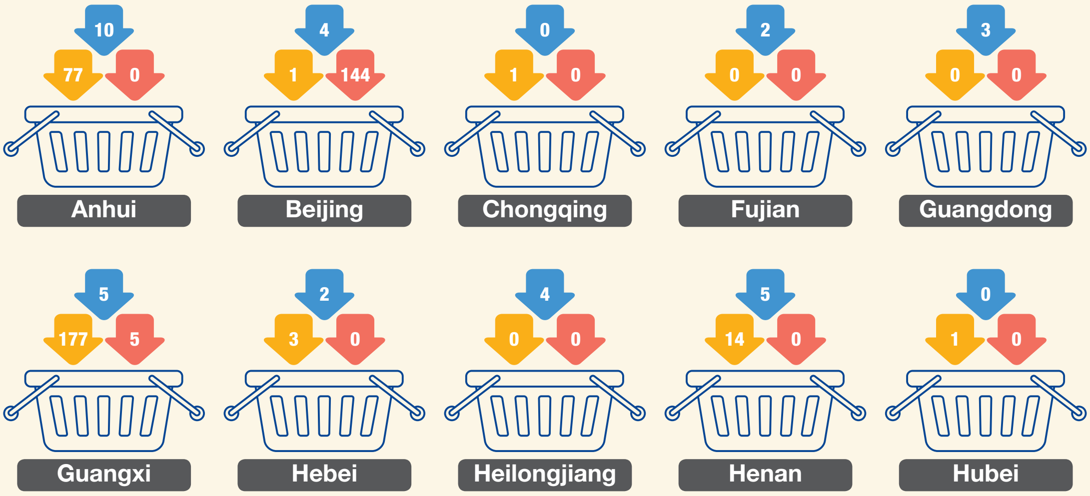
联华超市股份有限公司
LIANHUA SUPERMARKET HOLDINGS CO., LTD.

Stock Code : 0980

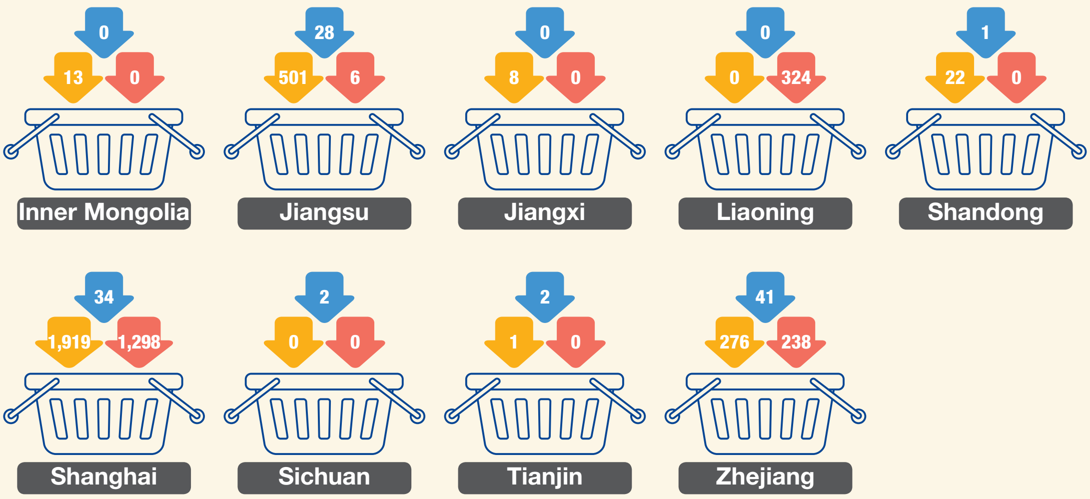
20th Anniversary

Annual Report 2010



5,172

Spans the Country with 5,172 Outlets in 19 Provinces and Municipalities



Lianhua Supermarket Holdings Co., Ltd. ("Lianhua Supermarket" or the "Company") commenced its business in Shanghai in 1991. In the past 20 years, it has developed into a nationwide chain retail operator with a full range of retail segments, expanding through a combination of organic growth, franchises, merger and acquisitions. As at 31 December 2010, Lianhua Supermarket and its subsidiaries (the "Group") operated a total of 5,172 outlets (excluding those operated by the Company's associated companies) spanning 19 provinces and municipalities across the nation. The Company has maintained its leading position in the fast moving consumer goods retail industry in the People's Republic of China (the "PRC") enterprises. Lianhua Supermarket was one of the first Chinese retail chain operators to be listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), on 27 June 2003.

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

Hypermarket *Supermarket* *Convenience Store*

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

Contents

Corporate Information

Directors

Executive Directors

Mr. Hua Guo-ping (was redesignated as executive Director on 30 March 2010)
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 (resigned on 9 March 2011)

Authorised Representatives

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

International Auditor

Deloitte Touche Tohmatsu

Legal Advisers to the Company

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

As to PRC laws
Grandall Legal Group (Shanghai)

Investors and Media Relations Consultant

Christensen International Limited

Corporate Information

Principal Bankers

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

Registered and Business Office

Registered Office in the PRC

Room 713, 7th 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
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Wanchai
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Telephone

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86 (21) 5279 7976

Company Website

www.lhok.com.cn

Shareholder's Enquiries

Contact Information of the Company

Department of Securities Affairs
Tel: 86 (21) 5278 9576
Fax: 86 (21) 5279 7976

Hong Kong Share Registrar and Transfer Office

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

Share Information

Listing Place

The Stock Exchange of Hong Kong Limited

Listing Date

27 June 2003

SEHK Stock Code

980

Number of H shares Issued

207,000,000 H shares

Year-end Date

31 December

Results Announcements

Interim Results for 2010 was published on 30 August 2010
Annual Results for 2010 was published on 9 March 2011

Dividends

Interim Dividends: RMB0.15 (including tax) per share
Proposed Final Dividends: RMB0.18 (including tax) per share

2010 Annual General Meeting

To be convened at 10:00 a.m. on Tuesday, 28 June 2011

Major Achievements

January

At the 4th Shanghai Chain Store Conference held by Shanghai Retail Chain Operations Association, the title of the "Best Chain Stores Trusted by Citizens for 2009" was given to supermarket outlets of the Group in Shanghai area, namely, Caojiadu Store, Changli Store, Dongmen Store, Dongjing Store, Huinan Store, Jinyang Store, Siping Store, Tonggang Store, Xinzha Store and Zhangqiao Store. In the supermarket segment, Qin Xiuhong, the store manager of Huinan Store and Cao Qian, the store manager of Tianlin Store, were honored with the award of "2009 Shanghai Chain Retailer Gold Medal Store Manager".

JANUARY

February

Lianhua Supermarket entered into the "Retail Service Contract" with World Expo Affairs Co-ordination Office for services in the 2010 World Expo Park area. During the event, the Group had 7 outlets franchised to sell a total of 26 series of World Expo franchised products in the World Expo Park meeting visitors' demands for souvenirs for the event.

FEBRUARY

Major Achievements

February

In the Competition of Counter Service Industries in Shanghai for Contribution to the World Expo, the sponsor committee made an assessment in the second half of 2009. 12 staff members from 7 outlets of the Group were granted the title of "Shanghai Pioneering Worker", as well as the excellence award, brand award, star award and elegance award for their contributions to the World Expo.

FEBRUARY

March

32 outlets of the Group were granted the honourable certificates of the "Shanghai Live & Fresh Food Model Supermarket Store" and the copper medals at the work conference titled "Promoting the Development of Live & Fresh Food Supermarkets" held by Shanghai Municipal Commission of Commerce.

MARCH

Major Achievements

March

The 15th Shanghai Franchised Chain Exhibition ended up with the unveiling of the results in the assessment of the "Most Influential Franchised Brand for 2010", in which Lianhua Supermarket, Huanlian Supermarket and Lianhua Quik won the title of the "Most Influential Franchised Brands" for five consecutive years for their good reputation and brand awareness.

March

Lianhua Supermarket was ranked number one in the list of "China's Top 100 Fast Moving Consumer Goods Chain Retailers" released by the PRC Retail Chain Operations Association for 13 consecutive years.

MARCH

April

In the assessment of Shanghai Model Workers for 2007 to 2009, the group title of model worker was granted to Tianlin Store of the Group, while the title of model worker was given to Zhou Yi from Shanghai Lianhua Quik Convenience Stores Company Limited ("Quik Convenience"), Wang Zhao from Shanghai Century Lianhua Supermarket Development Company Limited ("Century Lianhua") and Wang Jiajing from Hualian Supermarket Holdings Company Limited ("Hualian Supermarket").

APRIL

Major Achievements

June

At the 5th China Retailers Conference, Liang Wei, the administrative vice general manager of Lianhua Supermarket received the award of the "Annual People from PRC Retail Industry for 2009-2010" jointly granted by China General Chamber of Commerce and China Commerce Newspaper (中國商報社).

October

Lianhua Supermarket passed the accreditation of ISO9001: 2008 quality control system.

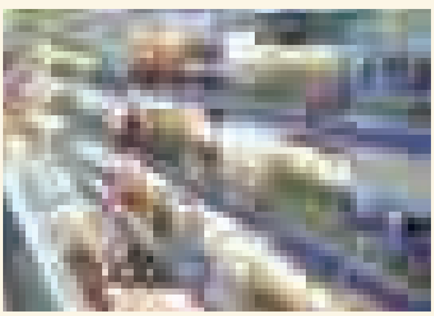
December

Hangzhou Lianhua Huashang Group Co., Ltd. ("Hangzhou Lianhua Huashang") of the Group achieved a sales amount of over RMB10 billion in 2010.

JUNE

OCTOBER AND DECEMBER

fresh& health



Chairman's Statement

In the years to come, we will continue to focus on the centralizing resources, improving efficiency, optimizing strategy and developing brand in order to improve our competitiveness as one of China's major supermarket operators.

Chairman's Statement

Dear Valued Shareholders,

I am pleased to present the annual results of Lianhua Supermarket for the year ended 31 December 2010 to our shareholders.

2010 was a busy and fruitful year for Lianhua Supermarket with business upgrade. The consolidation of Hualian Supermarket commenced along with the "assembly bugle call" for the centralised resource management that the logistics, merchandise and information flows were all integrated. And 184-day service was also offered for World Expo 2010 Shanghai. The diligence and hard work of staff were rewarded. In 2010, the Group recorded a turnover of approximately RMB25,887,432 thousand, representing an increase of 7.78% over that of last year, with steadily growing gross profit margin and consolidated income margin. An operating profit of approximately RMB775,427 thousand was earned, representing a growth of 19.74% compared with that of last year. Profit attributable to shareholders of the Company was approximately RMB622,579 thousand, an increase of 22.84% over that of 2009, while earnings per share amounted to RMB1.00. With the historical high of operating profit margin, the Group delivered satisfactory results.

In the coming year of 2011, we will celebrate the 20th anniversary of Lianhua Supermarket. Two decades ago, when we tried to open our first supermarket, we had no existing operating models to follow, nor theories or knowledge were available for reference. We explored, innovated and reformed for every step of the way from store layouts to merchandise management. Since then, we have developed a chain of supermarkets and hypermarkets, conducted an initial public offering and courted the interest of investors from around the world and pursued aggressive mergers and acquisitions and we are proud that we have been able to meet the competition that has inevitably sprung up behind us. Being an enterprise which has topped China's 100 chained retail enterprises of fast-moving consumer goods for many years, Lianhua Supermarket now attaches great importance to resources centralization, which will help us to optimize operating resources and maximize operating assets, as we continue to expand and seek new markets. It is no easy task. Such centralization involves constant refinement of our organizational structure, reallocation of resources and redevelopment of system. It requires our management to have forward-looking perspective and, be good at

Chairman's Statement

decision-making as well as teamwork. We have spent much of the last year in refining our new model, and now believe that we have achieved the objectives outlined for the year. The impact of these changes is now becoming evident throughout operations. In the years to come, we will continue to focus on the centralizing resources, improving efficiency, optimizing strategy and developing brand in order to improve our competitiveness as one of China's major supermarket operators.

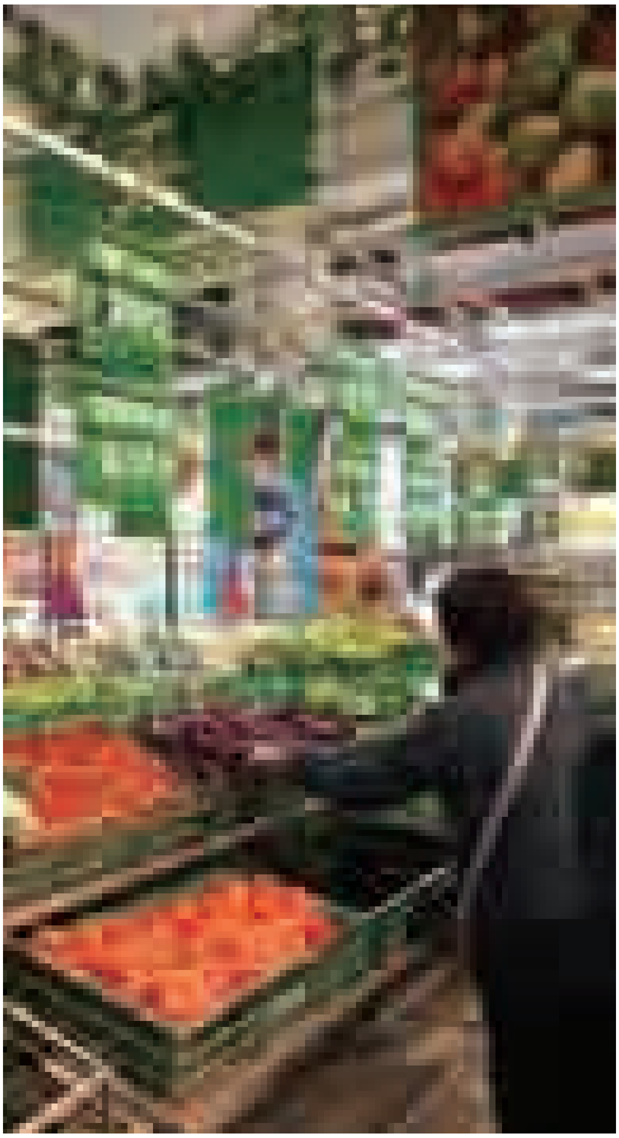
Mergers and acquisitions have been a pathway to growth for Lianhua Supermarket. They have helped us acquire a leading position in the Shanghai market, attain sales of more than RMB10 billion in the market of Zhejiang Province, and achieve dominant market share in Guangxi Province. Our most recent major acquisition, the purchase of Hualian Supermarket from the Bailian Group Co., Ltd ("Bailian Group"), involved head-office consolidation, the integration of two warehouses, unification of the merchandise coding systems, as well as integration of Hualian Supermarket's online information system into Lianhua's system. All of this took just one year, setting a new benchmark for efficiency. Over the coming year, the Group will continue to complete the acquisition from its parent company and consolidation of other assets of chain supermarket, while maintaining high sensitivity and concern in relation to the opportunities of mergers and acquisitions in the market so as to seek greater room for development.

The 184-day World Expo 2010 Shanghai created a significant market opportunity for us, as Shanghai's largest retail enterprise. Seven Lianhui Quik stores located inside the Expo Park served a customer flow of 1.48 million. Together with our online shopping platform and stores outside the Park, we dedicated to providing the best services to customers. We valued the higher vision that the World Expo has brought us as well as the opportunities for training and improvement in both hardware and software.

Over the past two decades, the dedication and devotion of Lianhua's employees have been fundamental to our success. As one of China's retail pioneers, we have followed a remarkable trajectory, and we have every intention of maintaining our momentum. It was right this group of talents who are proficient in operations and management has helped Lianhua to start in supermarket segment and expand to hypermarket and convenience stores in the past. Today, our staff, being our most valuable assets, remains the greatest impetus to move the enterprise forward. Our performance-based corporate culture rewards innovation, change, and the pursuit of excellence, as well as teamwork and cooperation. Every one of us is focused on achieving operating results, and we challenge our employees to be ambitious, to have a pioneering spirit, and to keep abreast of the times. Regardless of education, background, or the type of job, we ask just one question – have they performed? Performance, based on objective measures, is the basis of compensation and benefits. We select and motivate our staff through performance, and we apply the same standards to ourselves as a company. Our reputation is based on our performance.

Chairman's Statement

In 2011, China will adopt the 12th Five-Year Plan. One of the drivers of the national economy envisioned in this plan is expanding domestic demand, particularly household demand. We expect the retail industry to be among the main beneficiaries of the new policy, which includes support for service industries. Urbanization and rising incomes both in China's cities and countryside augur well for the retail sector. Lianhua Supermarket will take advantage of these opportunities, aiming at the success of its next 20-year milestone.



On behalf of the Board of Directors, I would like to extend my heartfelt thanks for the dedication and contributions of management and employees over the past year, as well as the support of our shareholders and business partners.

By order of the Board
Ma Xin-sheng
Chairman

9 March 2011
Shanghai, the PRC

Unit: RMB'000 For the Year Ended 31 December	**2010**	2009	2008 (restated)	2007	2006
Turnover	**25,887,432**	24,017,720	23,253,764	18,086,857	16,443,030
Hypermarkets	**14,578,596**	13,039,537	11,910,715	9,846,161	8,568,580
– Percentage to turnover(%)	**56.32**	54.29	51.22	54.44	52.11
Supermarkets	**9,414,903**	9,318,539	9,597,304	6,560,466	6,238,956
– Percentage to turnover(%)	**36.37**	38.80	41.27	36.27	37.94
Convenience stores	**1,746,729**	1,552,902	1,591,675	1,524,042	1,545,061
– Percentage to turnover(%)	**6.75**	6.47	6.85	8.43	9.40
Other businesses	**147,204**	106,742	154,070	156,188	90,433
– Percentage to turnover(%)	**0.56**	0.44	0.66	0.86	0.55
Gross profit	**3,610,950**	3,136,043	3,020,832	2,348,636	1,981,680
Gross profit margin (%)	**13.95**	13.06	12.99	12.99	12.05
Consolidated income margin (%) (note 1)	**25.0**	24.10	23.48	25.47	23.61
Operating profit	**775,427**	647,573	484,641	417,294	229,518
Operating profit margin (%)	**3.00**	2.70	2.08	2.31	1.40
Profit attributable to shareholders of the Company	**622,579**	506,802	412,489	268,301	241,599
Net profit margin (%)	**2.40**	2.11	1.77	1.48	1.47
Earning per share (RMB)	**1.00**	0.81	0.66	0.43	0.39
Interim dividend per share (RMB)	**0.15**	0.12	0.10	0.06	0.06
Final dividend per share (RMB)	**0.18**	0.16	0.15	0.12	0.07

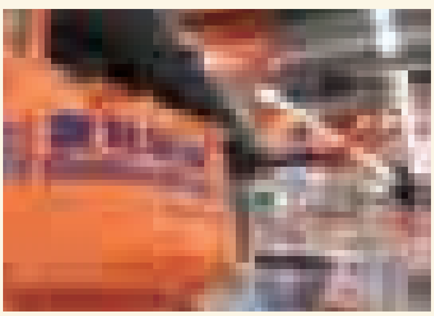
Five Years Financial Highlights

Unit: RMB'000 For the Year Ended 31 December	**2010**	2009	2008 (restated)	2007	2006
Net assets	**3,222,090**	2,928,074	3,043,994	2,715,424	2,051,500
Total assets	**18,446,863**	15,418,396	14,692,869	12,398,791	8,900,881
Total liabilities	**15,224,773**	12,490,322	11,648,875	9,683,367	6,576,062
Net cash flow	**1,389,081**	732,746	(1,639,457)	2,549,758	1,389,298
Average return on total assets (%)	**3.68**	3.37	3.05	2.52	3.38
Average return on net assets(%)	**23.25**	19.89	16.53	12.17	12.26
Gearing ratio (%) (note 2)	**–**	–	1.29	–	–
Liquidity ratio (times)	**0.80**	0.82	0.90	0.87	0.77
Turnover of trade payables (days)	**61**	59	56	60	62
Turnover of inventories (days)	**37**	37	37	35	36

Notes:

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

green life



Management Discussion and Analysis

Operating Environment

In 2010, the gross domestic product of the PRC was RMB39,798.3 billion, an increase of 10.3% over that of last year, on a comparable price basis. The growth rate of the economy was 1.1 percentage points higher than that in 2009, reflecting the economy's robust recovery from the international financial crisis. Economic growth together with the continuation and extension of policies to stimulate consumption growth constituted one of the major driving forces for the retail industry. Total retail sales of consumer products increased by 18.4% to RMB15,455.4 billion over the previous year, representing an actual growth of 14.8% if pricing effects are excluded. According to National Bureau of Statistics of China, domestic demand contributed approximately 92% of the PRC's economic growth in 2010.

In 2010, the consumer price level gradually picked up from last year and rose to 3.3%. To curb price inflation, the government adopted measures ranging from increasing supply, regulating demand, providing assistance for production and circulation, controlling market and implementing monetary controls. Therefore, the prices are controlled at a reasonable and relatively stable level.

Cities across the country raised the minimum wage level from the beginning of 2010. For example, the minimum wage level of Shanghai city increased by 16.7%. The increase in labor costs put pressure on operating expenses

Management Discussion and Analysis

of enterprises, while also created new opportunities by stimulating domestic consumption, encouraging development of the service sector, promoting upgrading of industrial chain and an acceleration of urbanization and industrialization.

In the "Proposed Formulation of the Twelfth Five-Year Plan", issued during the Fifth Plenum of the 17th National People's Congress of the Communist Party of China convened in 2010, expansion of consumption demand is described by the government as the centerpiece of the measures to stimulate domestic demand in the 12th Five-Year Plan (2011-2015). Targets include growth in household consumption, rise of the service industry, accelerated urbanization, and fast income growth for both urban and rural residents etc. The new plan gives priority to expanding domestic demand among the ten critical tasks for next phase of economy development. The implication is that national policy will remain a driving force for development of retail industry. The improvement of the country's distribution system will provide a favorable operating environment for the retail industry. Plans call for balanced development among regions, urbanization, and strengthening of the public service sector, all of which will reinforce expansion of the retail sector.

Financial Review

Growth in turnover and consolidated income

In 2010, the Group recorded a turnover of approximately RMB25,887,432 thousand, representing a growth of 7.78% from RMB24,017,720 thousand as compared with 2009. The same store sales grew by 5.64% as compared with 2009. The increase in turnover was mainly due to sales growth in comparable outlets, and new outlets of hypermarket segment and convenience store segment.

During the period under review, the Group commenced a series of enhancement and strengthening work with a view to enhancing outlet profitability, improving fresh product operation, optimizing merchandise mix, fine-tuning supply chain and innovating marketing modes, which played an active role in enhancing the sales performance.

During the period under review, the gross profit of the Group was approximately RMB3,610,950 thousand, an increase of 15.14% from RMB3,136,043 thousand as compared with 2009. Gross profit margin was 13.95%, increased by 0.89 percentage points. The consolidated income was approximately RMB6,473,765 thousand, representing an increase of 11.83% from RMB5,788,882 thousand as compared with 2009, with a consolidated income margin of 25.01%, representing an increase of 0.91 percentage point over that of last year. The continuous improvement in consolidated income was mainly due to: (1) the commencement of the Group's regional centralization strategy in respect of merchandise resources, thereby obtaining more favorable contract terms in joint negotiation; (2) the growth in rental income generated by the continuous improvement of management and operation in concessionaire regions and the more reasonable planning of business solicitation structure and marketing strategies; and (3) the growth in commission income driven by the continuous promotion of membership

Management Discussion and Analysis

system. Meanwhile, the Group proactively utilised the sufficient capital and adopted the centralised cash management strategies to realize growth in cash income.

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

Operating cost and net profit

In 2010, total selling and distribution expenses of the Group amounted to approximately RMB4,973,881 thousand, representing an increase of 9.12% over 2009. Total administrative expenses amounted to RMB646,824 thousand, representing an increase of 15.48% as compared with the previous year and the overall cost ratio was 21.7%, increased by approximately 0.4 percentage point as compared with the previous year. Major items of operating costs were rental, labour costs, utilities charges and depreciation and amortization that the amounts of such expenses were RMB1,430,142 thousand, RMB2,014,138 thousand, RMB496,013 thousand and RMB542,326 thousand respectively. The rise in costs were primarily driven by the increase in the said items. In particular, it was due to the fact that different local governments adjusted the minimum wage level upwards since the beginning of 2010, thereby causing the labour cost to rise continuously. The Group proactively prompted internal charge control practices with an aim to improve HR system and realize reasonable control over costs. Meanwhile, the Group continuously improved consolidated income to offset cost increase and reasonably control the growth in cost ratio.

As at 31 December 2010, the Group recorded an operating profit of approximately RMB775,427 thousand, representing a growth of 19.74% as compared with 2009. The operating profit margin increased by 0.3 percentage point to 3.0% when compared with 2009, which set new height in the Group's annual operating profit margin and indicated that the main business of the Group grew healthily and continuously.

During the period under review, the Group's share of revenue of associated companies was approximately RMB178,826 thousand, representing an increase of 19.03% from the corresponding period of last year. No new store of Shanghai Carhua Supermarket Company Limited ("Shanghai Carhua") was opened during the period under review, and Shanghai Carhua had 19 outlets in total for the year ended 31 December 2010, among which the eight outlets opened in 2008 saw a healthy development with stable growth in their profits.

During the period under review, the Group recorded a total profit attributable to the Company's shareholders of approximately RMB622,579 thousand, representing an increase of 22.84% over that in 2009. In 2010, the net profit margin of the Group was 2.40%, which marked new height in annual net profit margin. Basic earnings per share amounted to RMB1.00.

Cash flow

In 2010, the Group's net cash inflow was approximately RMB1,389,081 thousand, cash and miscellaneous bank balances as at the period-end amounted to approximately RMB9,355,405 thousand, representing an increase of 33.62% over that of the previous year. Following the continuous expansion of enterprise, improvement of

Management Discussion and Analysis

profitability and stable growth in deposits of members, both cash flow and financial strength were enhanced incessantly.

For the year ended 31 December 2010, the turnover period of the Group's trade payables was approximately 61 days, and inventory turnover period was approximately 37 days. The operation quality of the Group was improved.

During the year under review, the Group did not use any financial instrument for hedging purposes and the Group did not issue any hedging instrument as at 31 December 2010.

Growth in retail businesses

Hypermarkets

During the period under review, the turnover of the Group's hypermarkets increased by approximately 11.80% when compared with the corresponding period of 2009 to approximately RMB14,578,596 thousand, which accounted for approximately 56.32% of the Group's turnover, and the gross profit margin increased by 0.84 percentage points to 13.13%. The same store sales increased by 6.86%. The turnover and same store sales of hypermarket segment were higher than the average level of the Group, which demonstrated its strong growth momentum. The segment's operating profit was RMB330,820 thousand, representing an increase of approximately RMB86,963 thousand over 2009. The operating profit margin was 2.27%, increased by 0.4 percentage point when compared with that of 2009. So far as hypermarkets are concerned, the Group will continue to implement the strategy of procurement from places of origin to reduce purchase cost, optimize the composition of suppliers and enhance the performance of its merchandises with an aim to achieve a significant growth in consolidated income margin and operating profit margin.

As at 31 December	2010	2009
Gross Profit Margin (%)	**13.13**	12.29
Consolidated Income Margin (%)	**24.46**	23.82
Operating Profit Margin (%)	**2.27**	1.87

Management Discussion and Analysis

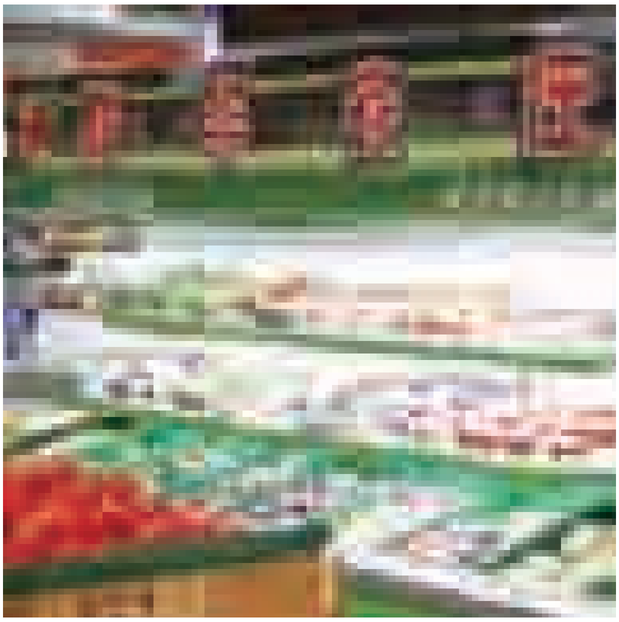
Supermarkets

During the period under review, the turnover of the Group's supermarkets increased by approximately 1.03% when compared with 2009 to approximately RMB9,414,903 thousand, which accounted for approximately 36.37% of the Group's turnover. The growth in same store sales was 5.46%. The weak growth in sales amount of supermarket segment was primarily attributable to the decrease in the number of direct operation stores after the store closure as a result of the operational rationalization and relocation of municipal services. Despite the limited growth in sales, the effects of supermarket segment consolidation were significant with the continuous improvement in revenue indicators, which recorded the gross profit of approximately RMB1,385,410 thousand and the gross profit margin of 14.72%, representing an increase of 1.11 percentage points over that of previous year. The consolidated income margin was 24.06%, representing an increase of 1.39 percentage points as compared with previous year. Segment operating profit was approximately RMB351,313 thousand, representing an increase of approximately RMB23,424 thousand, or a growth of approximately 7.14% over 2009. Operating profit margin increased to 3.73%.

As at 31 December	**2010**	2009
Gross Profit Margin (%)	**14.72**	13.61
Consolidated Income Margin (%)	**24.06**	22.67
Operating Profit Margin (%)	**3.73**	3.52

Convenience stores

During the period under review, the Group's convenience stores recorded a turnover of approximately RMB1,746,729 thousand, which accounted for approximately 6.75% of the Group's turnover, and the same store sales increased by 4.37%. In 2010, the Group's seven stores opened in World Expo Park 2010 Shanghai recorded outstanding results. Meanwhile, it continued to carry out the transformation of stores in a proactive manner and launched new-model stores on a trial basis, while providing more services



in stores continuously. Consolidated income margin increased by 0.79 percentage point. The operating profit was approximately RMB40,007 thousand, representing an increase of 59.20% over that of the previous year, and the operating profit margin increased by 0.67 percentage point to 2.29% when compared with 2009.

As at 31 December	**2010**	2009
Gross Profit Margin (%)	**16.54**	15.27
Consolidated Income Margin (%)	**24.91**	24.12
Operating Profit Margin (%)	**2.29**	1.62

Capital structure

As at 31 December 2010, the Group's cash and bank balances were mainly held in Renminbi, and the Group had no bank borrowings.

During the period under review, equity attributable to shareholders of the Group increased from RMB2,463,284 thousand to RMB2,893,043 thousand, which was mainly due to the increase in profit amounting to RMB622,579 thousand and dividends distribution amounting to RMB192,820 thousand.

Management Discussion and Analysis

Details of the Group's pledged assets

As at 31 December 2010, the Group did not pledge any assets.

Exposure to foreign exchange risk

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

Share capital

As at 31 December 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 31 December 2010, the Group did not have any material contingent liabilities.

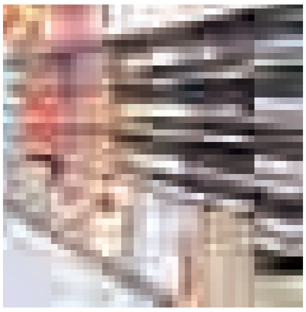
Operating Review

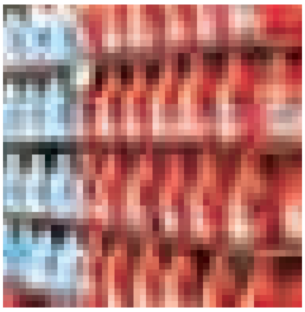
Consolidation and restructuring

2010 marked a milestone of the Group in terms of business model. The Group re-engineered and centralised in full swing the procurement system, logistics and distribution, information systems, accounting and settlement as it integrated the merchandise management system and supermarket operation. Executing on strategy, the Group has accomplished all of our major objectives in the present stage of development.

The first task was to consolidate the merchandising system. In Shanghai, the Group brought together procurement departments that were previously under different retail segments into one central organization. The six-month process involved a range of tasks from integrating merchandising and organizational codes, comparing the terms of contracts among different segments within the Group, developing a unified structure for contract negotiations, as well as optimizing organization, procedures, and assessments. The merchandise management head office achieved remarkable success in such aspects as the further centralizing procurement and building of collaborative mechanism of operation and procurement. The Group successfully took different synergic actions for resources centralization by way of joint buy-up operation, joint promotion and holding of trade fair.

The second task was to develop a new organizational structure for the supermarket segment. The Group merged the direct and franchised operational systems of both Lianhua supermarkets and Hualian supermarkets to form Shanghai Lianhua Supermarket Development Co., Ltd. After the completion of the merger, the new company gradually integrated its offices, management systems, operating regions, and human resources, as well as recruitment and compensation of managers and employees.





Management Discussion and Analysis

The third task was the consolidation of logistics and distribution system. During the period under review, in order to make the best use of existing logistics resources and to address the need for centralised distribution of hypermarket segment in Shanghai region, the Group consolidated the distribution centers of Lianhua supermarkets and Hualian supermarkets. Following the consolidation, the Taopu distribution center is responsible for the logistic and distribution of Lianhua supermarkets and Hualian supermarkets. Another distribution center ("Caoyang distribution center") previously serving Lianhua supermarkets commenced trial operations for the distribution work of the hypermarket segment in Shanghai, Jiangsu and Anhui regions during the period under review.

The fourth task was the integration of accounting treatment and settlement systems for the consolidation of supermarkets and logistics, completing the integration with operating and merchandising systems. The Group also unified the settlement system on the principles of "sophistication and high-efficiency" and "centralised management".

The fifth task was to integrate and upgrade information systems in accordance with the overall plan of centralization and consolidation during the period under review. This involved the implementation of unified settlement system, setting up online contract information platform at the headquarters and all business units. These steps aim to improve capital management. The business management system at the headquarters now has core modules on-line, including master merchandises and suppliers information system, merchandise contract management, and marketing management, for support of newly centralised merchandise management. A standard regional business management system for supermarket segment was created to address the merger of this segment, meanwhile outlet management systems were streamlined to cut down operating and maintenance costs. Lastly, a unified supply chain management platform was set up so that suppliers' logging on was simplified. This

Management Discussion and Analysis

helped to enhance the overall efficiency of the Group's supply chain by improving information exchange and order matching between the Group and its suppliers.

By undertaking these five broad tasks, the Group has set up a business model of which regional resources are centralised and national resources are shared and has laid the foundation for its strategic target of "dominating in regions and leading in the whole country".

Outlet expansion

During the period under review, the Group executed on its strategy of focused, quality development, opening new stores in the Yangtze River Delta region and other existing markets. 550 new stores were opened during the year. As at 31 December 2010, the cumulative number of outlets reached 5,172, of which 86% are located in the eastern region of China.

During the period under review, a total of 12 new hypermarkets were opened, of which 11 were new and one was converted from a supermarket store. The new stores are located in Shanghai, Jiangsu Province, Zhejiang Province, Anhui Province, Zhengzhou city in Henan Province, and Liuzhou city in Guangxi Zhuang Autonomous Region, respectively. In our hypermarkets business, the Group deepened penetration in Shanghai and Hangzhou city, where the Group already had a leading position, and sought for suburban expansion leveraging Bailian Group's suburban shopping mall development plan. To enhance competitiveness in regional markets, the Group also proactively sought opportunities of expanding network scale in the markets where we have established a foothold including Jiangsu Province, Anhui Province, Zhengzhou city of Henan Province, and Liuzhou city of Guangxi Zhuang Autonomous Region in a way of cooperating with strong partners such as large shopping malls and other urban complexes.

During the period under review, 320 new supermarkets were opened, including 21 directly-operated supermarkets and 299 franchise supermarkets. The Group's directly-operated supermarket segment sought opportunities for opening general merchandise supermarkets and high-end supermarkets in downtown areas, and opened middle-end and high-end supermarkets in both Shanghai and Hangzhou city. The merger of Lianhua supermarkets and Hualian supermarkets opened up new opportunities for franchise supermarkets, which enabled the rapid growth in this business.

During the period under review, 218 new convenience stores were opened, including 65 directly-operated stores and 153 franchise stores. The convenience store segment steadily expanded its networks in Shanghai, Beijing, Hangzhou, Ningbo and Dalian city. During the period under review, the performance of seven convenience stores in the World Expo 2010 Shanghai Park was outstanding which have achieved strong sales and helped to build positive brand image. They also provided valuable experience in operating specialty outlets and in conditions of high customer throughput. With the re-opening of China Pavilion in the Expo park, and in consideration of outstanding performance of Quik Convenience outlets during the World Expo, two convenience stores are maintained so as to provide services to visitors to the China Pavilion.

	Hypermarket	Supermarket	Convenience Store	Total
Direct operation	143	678	934	1,755
Franchised operation	–	2,336	1,081	3,417
Total	143	3,014	2,015	5,172

Note: As of 31 December 2010

Management Discussion and Analysis

Optimization of the supply chain to improve core competitiveness

During the period under review, the Group worked to improve its outlet performance and supplier mix, enhance its capability for sale of fresh produce, and optimize its merchandise mix. All of these activities played a role in expanding sales and increasing profit.

During the period under review, the Group drew upon its national supply chain, increased procurement of merchandise with highly differentiated and local features. The Group made direct purchase in numerous provinces and cities such as Zhejiang, Sichuan and Hubei provinces, and introduced more than 700 new specialty products. Leveraging on the improved scale advantages and stronger bargaining power from the consolidation of the merchandise procurement, the Group increased the buying up of merchandises so as to achieve stronger pricing advantage. Meanwhile, for development of private label products, the Group strengthened the communication with outlets and developed private label products model outlets together with strong promotional activities achieving significant increases in sales of the relevant merchandises.

The Group worked to create a fresh produce supply chain by building fresh produce supply bases and improving operational capability on fresh produce in outlets. During the period under review, the Group participated in the strategic move by the government of “agriculture super-docking”, increasing procurement from point of origin at vegetable and fruit farms. Fresh produce was supplied from 210 primary production sites throughout approximately 16 regions including suburban areas of Shanghai, Shandong Province, Jiangsu Province, Xinjiang Uygur Autonomous Region and Sichuan Province. Sales of produce, such as fresh produce, fruits and vegetables procured from primary production base increased by 37.5% compared to 2009. In order to increase the cost-effectiveness and competitiveness of the fresh produce business, the Group adopted a cost-centered rather than a profit-centered approach at its fresh produce processing center and in this way bringing about a “centralised kitchen” function for the business. As a result, the distribution volume, the varieties of processed food and the rate of merchandise replacement realised a better growth and the sales of festive merchandises rose significantly.

The Group accelerated the development of a system to ensure smooth and timely communications between operating staff at retail outlets and procurement staff. The system included convening regular meetings between operating and procurement staff, providing opportunities for the merchandising management department and the operations department to collaborate on strategies to increase sales, understand their respective areas of responsibility more clearly, and cooperate across multiple business functions. Arrangements were made for procurement staff to tour retail outlets, in order to help them solve merchandising issues and improve the service quality of the retail outlets. During the period under review, with the centralization of the merchandise department, merchandise procurement contracts will gradually be centralised by regions. These developments are expected to eliminate discrepancies in operating standards among regions.

Management Discussion and Analysis

After the integration of the offices for merchandise management, the Group obtained better terms in merchandizing by comparing the contracts among different business segments within the group. Meanwhile, the Group strengthened category management which helped us to introduce new product and rationalize our merchandise mix. Tracking was conducted on a mandatory basis for both common and key products. The Group tracked categories with top sales growth as well as top sales percentage across the country on a monthly basis and analysed the information to grasp market trends, promote sales and improve promotional activities.

Improvement in marketing and promotions to increase brand influence

Marketing has always been an important means to drive sales and expand brand influence. The Group developed joint marketing following the merger of Lianhua supermarkets and Hualian supermarkets. From the selection of merchandise to price negotiations and pricing of retail products, the advantages of operation with differentiation were fully reflected. Joint marketing resulted in significant gains in brand recognition and sales.

During the period under review, the Group proactively summed up the successful marketing experience in the past, and fully seized the opportunities arising from traditional and new festivals and holidays. The Group organised different marketing activities at various levels through centralised marketing across the country, feature marketing in regions and complementary marketing of stores. Each of the marketing activities showed distinctive features. For example, the nationwide activity of "Lucky Tiger Welcomes the Arrival of Spring and Nice Gifts for New Year (瑞虎迎春、新年送好禮)" and the regional activities of "Coupon Campaign for the Thrilling World Expo (激情迎世博酷棒抵扣大行動)" and "Go Shopping from Villages and Towns with Rebate of Transportation Cost (鄉鎮來購物增交通費)" greatly boosted the shopping interest of consumers, thereby driving the sales growth.

To maintain the attraction to consumers in fierce competition, outlets of the Group also innovated marketing means in a proactive manner. Themed marketing activities and marketing activities in main pathway were constantly renewed, complemented mutually with other promotional activities in the stores, continuously attracting the attention of customers.

Management Discussion and Analysis

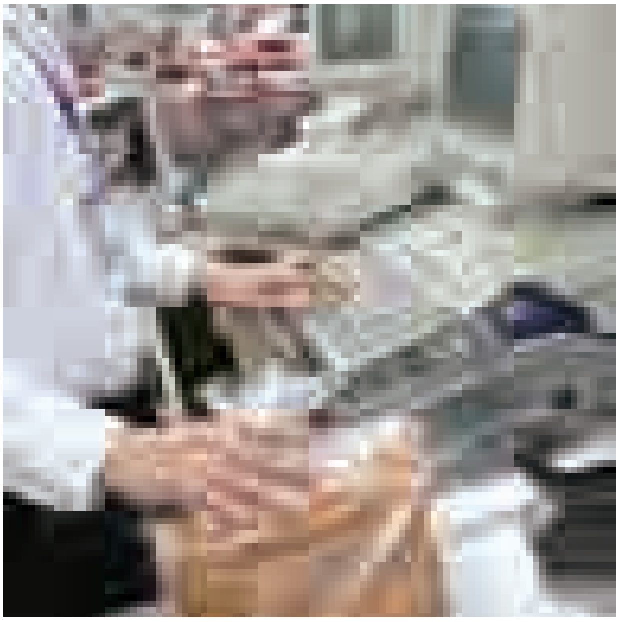
Strengthening "Strong outlet" strategy for better store performance

Strong outlet strategy is the continuous task of the Group, and the focus of which in each year will be adjusted to the changes of market and enterprise itself. While putting lots of effort to the centralization of regional resources, the Group also intensified transformation on store operation model. In 2010, on top of the strategy of stronger operational skills, management capability, service level, team and more synergies, the Group attached great importance to forging flagship outlets, model outlets and new outlets, being the focuses of strong strategy so as to improve overall operating capabilities.

Innovative measures for new profit points

During the period under review, the Group further expanded its membership system. The Group offered rewards to consumers and enhanced the loyalty of OK Card members by offering point conversions and by developing business alliances across multiple channels. The total number of members was more than 6,000,000 at the year-end. At the same time, with a view of offering diversified merchandises and services to consumers and attracting the emerging groups of online shoppers, the Group promoted the online shopping system proactively. During the period under review, the Group launched a shopping website for the Zhejiang region with more than 9,000 types of merchandises as well as a range of marketing activities. The Zhejiang website accepts payment methods including bank debit, credit cards, stored payment cards, and cash on delivery. As at the end of 2010, the website had recorded 35,293 transactions, with an average spending of RMB166.25.

Management Discussion and Analysis



During the period under review, convenience store segment launched a new generation of convenience stores in the Beijing region on a trial basis, with improved instant food operations and further carried forward the services in all stores. Supermarket segment introduced a new type of "express store" on a trial basis, representing a new business model between convenience stores and supermarkets. The experiment has been satisfactory so far. Hypermarket segment continued to work for multi-functional outlets with strengthening non-food category.

Business opportunities arising from the World Expo 2010 Shanghai improved market image and operating capability

In 2010, the Group was able to realize a significant marketing opportunity from the World Expo 2010 Shanghai by stepping up efforts to train the staff, stick to standardized operation, optimize the merchandise mix and provide logistic support. The Group set up seven convenience stores outlets in the World Expo Park. As a result, the outlets perfectly completed the task of serving the World Expo. These outlets not only realised considerable sales revenue, but increased the visibility of the Lianhua brand in the course of a major national and international event. Starting from December 2009 to the end of the World Expo, licensed Expo products and tickets also performed well throughout the Group's retail network and on online shopping sites. After the World Expo, the Group rewarded participating staff for their tireless dedication. In addition to six months of customer flows and sales, the World Expo 2010 Shanghai was a learning experience for the Group in the management of retail operations under conditions of massive customer flow and high demand. The Group also acquired experience in opening specialty stores under the convenience store segment through the Expo.

Human Resources Management

During the period under review, one of the focuses of human resources management was on participating and serving for centralization and consolidation, including a comprehensive research and study on the optimization of organizational structure in the course of enterprise's restructuring. At the same time, the Group further developed the compensation policy, strengthened incentives, and improved information resources for management and organization, including the preparation of an organizational structure chart for merchandising management, a position hierarchy chart, terms of reference for all positions etc. The Group provided reliable human resource management information and instruments for consolidation and restructuring.

During the period under review, staff training centers of the Group prepared tailor-made training modules for junior and middle management staff and new staff, based on a target-oriented approach. The Group improved tracking and assessment methods in order to reinforce the effectiveness of these programs. In addition, specialised training programs designed to improve standards of frontline staff included a "Golden Supervision Training Programme as the Key to Success in Chain Store Operations", sponsored by the Group together with

Management Discussion and Analysis

Shanghai Chain Store Association. These trainings were very practical and effective with respect to the business improvement.

As an incentive to the staff, during the period under review, the Group continuously worked to improve the appraisal and award system. The Group adopted a combined appraisal approach using quantitative indices and management reports to evaluate the performance of store managers and started the appraisal of their competency. With more stores saw improved performance, they are now able to join the profit sharing scheme to share the growth and achievements of the Group. For fresh produce operations, the Group developed a contract based incentive system including allowances for employees in processing jobs, a share in gross profit, and special evaluation scheme on store managers and division heads. These measures helped to improve staff morale and boost sales in the fresh produce division.

Material Acquisitions and Disposals

During the period under review, the Company did not have any material acquisitions and disposals.

Employment

As at 31 December 2010, the Group had a total of 59,566 employees, representing an increase of 2,870 employees during the period under review. Total staff costs were approximately RMB2,014,138 thousand.

Future Strategy

2011 is the first year of China's "Twelfth Five-year Plan" (2011-2015). It is expected that the government will continue to launch various policies targeting on stability in consumer prices and property prices, staff income improvement, innovative development and enhancement of industrial structure. This is a period during which the PRC will be experiencing a shift in its pattern of economic development and during which the Group believe that the retail industry will play a fundamental role. Meanwhile, the consolidation and restructuring in the industry will be accelerating and technology innovation will be the key to the performance of retail enterprises. In addition, from the macro policy side, intermediaries in the distribution of merchandises will continue to be reduced and retailers will strengthen control over headwater through closer cooperation with suppliers and customer loyalty plans. Having understood the business environments, the Group's overall strategies for 2011 include capturing favorable market opportunities, expediting development, in-depth consolidation, optimizing and upgrading, and innovative transformation.

The group will welcome its 20th anniversary in 2011. At this point, the Group has clearly depicted the next step's development strategy, which is to continue to consolidate and extend our leading positions in regions on the guiding principle of "To be the regional leader and a stronger player nationwide". At the same time, the Group will strive to develop more such regions so as to ensure our premier position in retail market of China.

The Group will accelerate development under the premises of ensuring quality of new outlets and plan to open 15 hypermarkets in 2011. The Group expects supermarkets to further improve competitiveness of existing outlets and seek

Management Discussion and Analysis

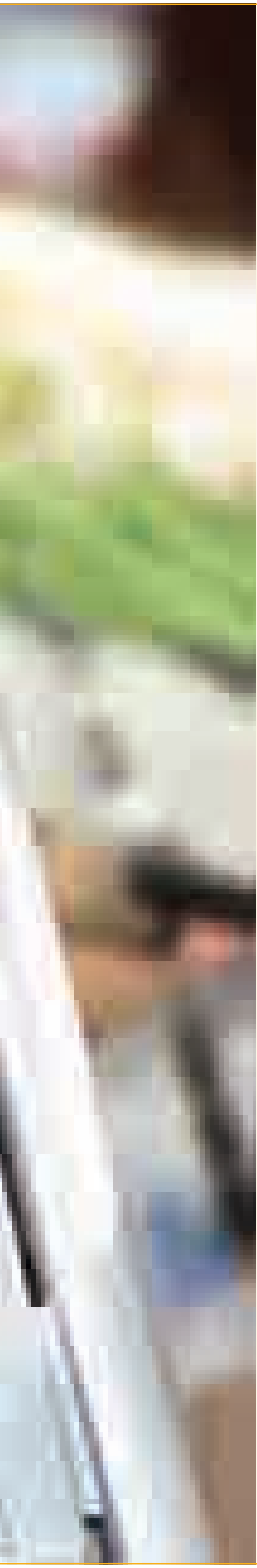
breakthroughs in fresh produce operations. The Group will also further expand convenience stores to reinforce their market positions in cities where they are already present. The Group will also pay great attention to improve new outlets' incubation mechanism and will seize opportunities to purchase property for outlets in prime locations as they arise so as to secure existing good outlets and get potential locations.

One of the Group's main avenues of growth will be through mergers and acquisitions. Taking into account the characteristics of the current mergers and acquisitions in the industry, the Group will work closely with parent company to seek appropriate takeover candidates.

The Group aims to deepen the consolidation and restructuring work based on the progress made in 2010. First of all, to complete the consolidation in supermarket segment, the Group will complete unifying information systems among the headquarters, regional offices and retail outlets. Secondly, to deepen the restructuring of merchandising system, the Group will continue on new contracts negotiation for the merged procurement department, seek better collaboration between operations and procurement divisions, and improve business process as well as personnel performance appraisal and rewards system. The third objective is to improve the management of supply chain by consolidating and enhancing the comprehensive supplier management platform and widely expanding the use of the Business-to-Business (B2B) function. The fourth is to push forward three projects in logistic system: Supermarket segment's warehouse integration will continue to optimize the existing distribution business of Taopu distribution center for supermarkets and target at improving order satisfactory rate. Hypermarket will make full use of the Caoyang distribution center to accelerate centralised distribution for areas of Shanghai, Jiangsu Province and Anhui Province under Cao Warehouse project. The Group will complete planning and design of Jiangqiao distribution center and begin its construction work. Fifthly, the Group will improve the utilization efficiency of information systems, simplify their application, and strengthen their functions in business analysis.

The work to optimize and upgrade business will focus on the improvement of professional management standards. The Group will maintain its strategy of "strong outlet", forging flagship and model outlets so as to improve overall outlets' competitiveness. In fresh produce, the Group will seek ways to improve the performance evaluation system, establish a system for controlling fresh produce operations at headquarters, regional companies, and outlets, and develop its fresh product bases. Other targets include optimizing financial management and financial services, improving the capability for concessionaire management, improving business standards and capability of buying up, enhancing human resource development and compensation system.

"Innovative transformation" refers to the conclusion and improvement of the innovative projects in ten aspects in the past two decades in celebration of the 20th anniversary of the Group. In line with this, the Group will focus on making significant progress in five aspects in 2011, namely marketing innovation for the 20th anniversary, business model transformation and innovation, e-commerce, membership databases, and corporate incentive mechanisms.



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Profiles of Directors, Supervisors and Senior Management

Executive Directors

Hua Guo-ping

Mr. Hua Guo-ping, aged 48, is the general manager of the Company. Mr. Hua is responsible for the operation and management of the Group. He graduated from Tongji University in 1986 with a Bachelor's degree in electrical appliances automation. In 1989, he graduated from Tongji University with a Master's degree in industrial enterprise engineering management. Between 1993 and 1997, Mr. Hua worked for Hong Kong Tak Shun Investment Consultancy Company Limited (香港德信投資諮詢公司), Shanghai Pudong State-owned Assets Investment Management Co., Ltd. (上海浦東國有資產投資管理公司) and Shanghai Dong Shen Economic Development Co., Ltd. (上海東申經濟發展有限公司). From 1997 to 1999, he worked for Shanghai Industrial Asset Management Company Limited as deputy general manager. In 2000, he was the deputy general manager of Shanghai Industrial United Limited. From 2001, he has been the managing director of Shanghai Industrial United (Group) Commercial Network Development Company Limited. Between May 2000 and the end of 2003, Mr. Hua was a director of the Company. He was also the deputy general manager of the Company commencing from August 2003 until the end of 2003. He was the deputy general manager of the supermarket merchandising division of Bailian Group since 2004 and became the general manager in 2006. Mr. Hua was re-elected as a non-executive director of the Company at the Annual General Meeting for the year 2004, and since June 2009, he has been appointed as the general manager of the Company. Since March 2010, Mr. Hua has been redesignated as an executive director of the Company.

Liang Wei

Mr. Liang Wei, aged 59, is a senior economist. He graduated from Heilongjiang Business School (黑龍江商學院) in 1982 with a Bachelor's degree in business and economics. In 2008, he graduated from Shanghai National Accounting Institute with an EMBA, majoring in financial management. From 1982 to 1992, he worked in Shanghai Textile Company (上海紡織品公司) as a division chief and was responsible for business planning. From 1992 to 1994, he worked in Shanghai Union Trading Corporation (上海市內外聯合貿易公司) as a manager, responsible for foreign trade business. Mr. Liang joined the Group in November 1994. From 1994 to 1997, he was the deputy general manager of the Company, and from 2000 to June 2009, he was the general manager of the Company. Mr. Liang was appointed as administrative vice general manager of the Company in June 2009. Mr. Liang has over 20 years' experience in managing different aspects of commercial enterprises. Mr. Liang was awarded as the "National Commercial Excellent Venture Entrepreneur of The Third Session" by the China Commercial Enterprise Management Association in 2004, and the title of "2003 Top Ten Outstanding People in the National Commercial Service Industry" by the China General Chamber of Commerce. In 2005, he was named as "Yangtze Delta Market Promotion Influential Person of 2005" (2005長江三角市場營銷風雲人物). In the same year, Mr. Liang was awarded as the "National Commercial Excellent Venture Entrepreneur of The Fourth Session". In 2008, Mr. Liang was recognised as the "Shanghai Commercial Excellent Venture Entrepreneur" and the "Entrepreneur for its Achievement in Leading the Business Reform and Development in China". In 2009, Mr. Liang was granted the name of one of "Top 10 Shanghai Successful Retail Businessman".

Profiles of Directors, Supervisors and Senior Management

Xu Ling-ling

Ms. Xu Ling-ling, aged 52, a PRC certified public accountant, a member of the International Certified Internal Auditor Association (國際註冊內部審計師協會) and a senior accountant, is the chief financial officer of the Company. She is responsible for the overall financial management and information management of the Group. Ms. Xu graduated from Shanghai Lixin University of Commerce (上海立信會計學院) in 1987 with a Bachelor's degree in accounting. She graduated from the graduate school of the Shanghai Academy of Social Science (上海社會科學研究院) in 2001, majoring in business administration. She graduated from Tong Ji University (同濟大學) in 2006, with an EMBA in business management. In 2008, she graduated from Shanghai National Accounting Institute with an EMBA, majoring in financial management. From 1975 to 1983, Ms. Xu was a supervisor in the second branch of Shanghai Huangpu Tobacco and Wines Company Limited (上海黃浦煙酒公司), and from 1983 to 1996, she was the head of the finance department of Shanghai Wangbaohe Corporation Tongyuan Company (上海王寶和總公司同緣公司). She joined the Company in June 1996 as a manager of the audit division and was promoted to chief financial officer in 1997, responsible for the Group's finance, auditing, statistics and investment. Ms. Xu has more than 20 years' experience in the finance and management of companies in the consumer industry. In 2007, Ms. Xu was elected as a representative of the 13th Session of the National People's Congress of Shanghai. She was awarded as the Labour's Role Model of National Commerce Industry (全國商務系統勞動模範) by the Ministry of Personnel and the Ministry of Commerce of the People's Republic of China in 2008.

Ms. Xu ceased to be the joint company secretary of the Company and was appointed as the company secretary of the Company with effect from 9 March 2011.

Cai Lan-ying

Ms. Cai Lan-ying, aged 58, a senior economist, is a deputy general manager of the Company and the chairman of the board of Hangzhou Lianhua Huashang, responsible for the overall operation and management of the Group's business in Zhejiang Province. Ms. Cai graduated from Hangzhou Commercial and Technical College (杭州商業技工學校) with a diploma specializing in non-staple goods in 1969 and completed the economics programme at the Correspondence Institute of the Party School of C.C. of C.P.C. Ms. Cai has more than 30 years' experience in the retail industry. She was a founding member of Hangzhou Huashang Group Co. Ltd. (杭州華商集團有限公司) and served as the post of general manager. She was appointed as the chairman of Hangzhou Lianhua Huashang in July 2002. Ms. Cai was awarded the prize of "Zhejiang Outstanding Entrepreneur" in 1990. She was also awarded the prize "Outstanding Operator with Prominent Contribution in Business and Trading Enterprises of Hangzhou in 2004" in March 2005.

Profiles of Directors, Supervisors and Senior Management

Tang Qi

Mr. Tang Qi, aged 58, is a senior economist. Mr. Tang graduated from Fudan University in 1989 with a college degree. From 1999 to 2001, he pursued a postgraduate degree at Research Institute of Yangtze River Development (長江流域發展研究所) of East China Normal University, majoring in regional economics. He was the division manager and deputy general manager of China Silk Domestic Sales Company at Shanghai (中國絲綢上海內銷公司) from 1988 to 1995. Mr. Tang was deputy general manager of Hualian Group Economic Development Company (華聯集團經濟發展公司) from 1995 to June 1997. Mr. Tang was the general manager of Shanghai Fashion Company (上海時裝公司), Shanghai New Hualian Mansion (上海新華聯大廈) and Hualian Supermarket from July 1997 to late 2003. From late 2003 to August 2009, he was the deputy general manager of the Supermarket Merchandising Division of Bailian Group and the chairman of Hualian Supermarket. Since October 2009, Mr. Tang was the deputy general manager of the Company and chairman of Hualian Supermarket. In June 2010, he has concurrently worked as general manager of Shanghai Lianhua Supermarket Development Co., Ltd.

Non-executive Directors

Ma Xin-sheng

Mr. Ma Xin-sheng, aged 57, a senior economist and senior engineer, is the Chairman of the Board of the Company. Mr. Ma is responsible for the overall operation and management of the Group and the formulation of the development strategies of various businesses. Mr. Ma graduated from the University of Shanghai. In 2008, he graduated from Shanghai National Accounting Institute with an EMBA, majoring in financial management. For the period from March 1979 to December 1981, Mr. Ma was the deputy party secretary, party secretary and factory manager of Shanghai Rectifier Factory (上海整流器總廠). For the period from December 1989 to January 1995, Mr. Ma was the deputy general manager of Shanghai Electric Group Co., Ltd. (上海電器股份有限公司). For the period from January 1995 to October 1996, Mr. Ma was the general manager and party secretary of Shanghai Jidian Maoyi Building (上海市機電貿易大廈). For the period from October 1996 to December 2003, Mr. Ma was the chairman of labour union, deputy party secretary, deputy chairman of the board of directors and president of Shanghai Electric (Group) Corporation, the chairman of the board of directors of Shanghai Electric (Group) Finance Co., Ltd. (上海電氣(集團)財務公司) and the chairman of the board of directors of Shanghai Electric Group Co., Ltd. (上海電器股份有限公司). For the period from December 2003 to December 2007, Mr. Ma was the deputy party secretary of Shanghai State-owned Assets Supervision and Administration Commission. Mr. Ma is the party secretary and the chairman of the board of directors of Bailian Group, the chairman of

Profiles of Directors, Supervisors and Senior Management

the board of directors of Shanghai Bailian Group Co., Ltd. (上海百聯集團股份有限公司) ("Shanghai Bailian") (a company listed on the Shanghai Stock Exchange), the chairman of the board of directors of China Bailian (Hong Kong) Limited (中國百聯(香港)有限公司) and the director of Shanghai Pudong Development Bank Co., Ltd. (a company listed on the Shanghai Stock Exchange) since about 2008. Mr Ma received a CEO Award in the first Robert A. Mundell World Executive Awards held in 2004. Mr. Ma joined the Group in May 2009 and was appointed as the Chairman of the Board of the Company since 2009.

Xu Bo

Mr. Xu Bo, aged 49, the vice president of Bailian Group. Mr. Xu was the deputy faculty dean of Shanghai Lixin Accounting College, deputy general manager and chief financial officer of Shanghai Hualian Commercial Building Co., Ltd. (上海華聯商廈股份有限公司), assistant to general manager of Hualian Group Co., Ltd. ("Hualian Group Company", 華聯(集團)有限公司), assistant to president of Bailian Group and deputy general manager and chief financial officer of Shanghai Bailian (a company listed on the Shanghai Stock Exchange) in the past. Mr. Xu was the director of Shanghai Material Trading Co., Ltd (a company listed on the Shanghai Stock Exchange) from 2005 to 2007 and Mr. Xu has been the executive director of Shanghai Bailian since 2006. Mr. Xu joined the Group in May 2009.

Kazuyasu Misu

Mr. Kazuyasu Misu, aged 54. From April 1979 to April 2004, Mr. Misu worked successively in the Foods Administration Department and the Processed Foods Department B of Mitsubishi Corporation, Mitsubishi Corporation (U.K.) and the Food Materials Department of Mitsubishi Corporation. From April 2004 to April 2009, Mr. Misu successively served as the General Manager of the Processed Foods C Unit, the General Manager of the Confectionary and Pet Foods Unit, the acting General Manager, and then the General Manager, of Living Essentials Group CEO Office of Mitsubishi Corporation. Mr. Misu held position as a director in Yonekyu Co., Ltd. (a company listed on the Tokyo Stock Exchange) for the period from May 2007 to May 2008. He also served as a director in Nippon Meat Packers, Inc. (a company listed on Osaka Securities Exchange, Tokyo Stock Exchange and the Euronext Paris S.A.) during the period from June 2008 to March 2009. Since March 2009, he has served as a director in Coca-Cola Central Japan Co., Ltd. (a company listed on Tokyo Stock Exchange and Nagoya Stock Exchange) and a director in Ryoshoku Limited (a company listed on the Tokyo Stock Exchange). Since April 2009, he has worked as the Division COO of the Foods (Products) Division of Mitsubishi Corporation. Mr. Misu joined the Group in September 2009.

Profiles of Directors, Supervisors and Senior Management

Wong Tak Hung

Mr. Wong Tak Hung, aged 59, is the president of Wong Sun Hing Investment Co., Ltd. (王新興投資有限公司). From 1970 to 1978, Mr. Wong was the manager of Sun Hing Textile Factory (新興毛紡織造廠), and from 1978 to 1990, he was the managing director of Wong Sun Hing Company Limited (王新興有限公司). Since 1990, he has been the president of Wong Sun Hing Group. He has also been the chairman of Shenzhen Xin Xing Entrepreneurship Guarantee Company Limited (深圳新興創業擔保有限公司) since 2003 and he has been acting as the chairman of Guangzhou Wanling Properties Company Limited (廣州市萬菱置業有限公司) from 2004. Since 2005, he has also been acting as the chairman of Wanling Industrial (Guangdong) Company Limited (萬菱實業(廣東)有限公司). Mr. Wong joined the Group in April 1997, and he has over 30 years of business experience.

Independent Non-executive Directors

Lee Kwok Ming, Don

Mr. Lee Kwok Ming, Don, aged 53, is the financial controller of Stella International Holdings Ltd ("Stella"), which is listed on the Stock Exchange. He is a fellow of the Hong Kong Institute of Certified Public Accountants and an associate of the Chartered Institute of Management Accountants in the United Kingdom. He holds a Master's degree of Science in business administration from the University of Bath. Mr. Lee has held the position of financial controller in various listed companies on the Stock Exchange. Mr. Lee has more than 20 years of financial management experience and extensive experience in mergers and acquisitions, as well as corporate finance. He joined the Group in May 2003.

Zhang Hui-ming

Mr. Zhang Hui-ming, aged 54, is the head of the Enterprise Research Institute and deputy director of Shanghai Logistics Institute at Fudan University. Professor Zhang graduated from Fudan University with a Bachelor's degree in economics in 1982, a master's degree in economics in 1984, and a doctorate in economics in 1995. He has been teaching at Fudan University since 1984 and was promoted to the position of Professor in 1996. Since 1997, he has been a mentor for the doctorate programme on enterprise theory and practice. Professor Zhang has published seven books and over 200 research papers in various national magazines. He is an independent director of Shanhai Meilin Aquarius Co., Ltd (上海梅林正廣和股份有限公司) (a company listed on the Shanghai Stock Exchange) and Shanghai Haibo Co., Ltd (a company listed on the Shanghai Stock Exchange), and an independent non-executive director of United Gene High-Tech Group Limited (a company listed on the Stock Exchange). He joined the Group in January 2003.

Xia Da-wei

Mr. Xia Da-wei, aged 58, is a mentor for doctorate candidate, the President of Shanghai National Accounting Institute and deputy chairman of the Chinese Industrial Economic Association, a member of the Committee on Internal Control Standard of Enterprises for the Ministry of Finance, part-time professor of the School of Management of Fudan University and member of Research Council for Listed Companies Committee (上市公司專家委員會) of Shanghai Stock Exchange. Mr. Xia is also an independent non-executive director of Shanghai Jin Jiang International Hotels (Group) Company Limited

Profiles of Directors, Supervisors and Senior Management

(a company listed on the Stock Exchange), an independent director of Shanghai Electric Power Co., Ltd. (a company listed on the Shanghai Stock Exchange) and an independent director of China United Network Communications Limited (a company listed on the Shanghai Stock Exchange). He joined the Group in September 2004.

Supervisors

Chen Jian-jun

Mr. Chen Jian-jun, aged 54, a senior economist, is the chairman of the supervisory committee and the party secretary of the Company. Mr. Chen graduated from Shanghai Second Polytechnic University in 1998 with a Bachelor's degree in computer application. From 1998 to 2001, he pursued a postgraduate degree at Research Institute of Yangtze River Development ("長江流域發展研究所") of East China Normal University, majoring in regional economics. Mr. Chen was the deputy chief officer, chief officer and deputy director of the resource office of Shanghai First Commercial Bureau (上海市商業一局), deputy human resources manager and manager of Hualian Group Company. He was appointed as an assistant to general manager and deputy general manager of Hualian Group Company, in 2000 and 2002 respectively. During his tenure at Hualian Group Company, Mr. Chen held concurrent posts as a director at Hualian Supermarket and chairman at Shanghai Auction Co., Ltd. From late 2003 to April 2007, he was the supervisor and secretary of party general branch of the disposal center of Bailian Group and was appointed as the party secretary and secretary of disciplinary committee of the Supermarket Merchandising Division of Bailian Group since April 2007. Since May 2009, Mr. Chen was appointed as the chairman of the Supervisory Committee and party secretary of the Company. In 2010, he was recognised as the "Outstanding Organizer of 'Pioneering Programme of Shanghai World Expo' of Shanghai SASAC System".

Wang Long-sheng

Mr. Wang Long-sheng, aged 58, a senior economist, graduated from Shanghai East China Normal University in 1998 with a Master's degree in decision-making management. Between 1986 and 2005, Mr. Wang has worked for Shanghai Friendship Antique & Curio Store (上海友誼古玩商店), Shanghai Hongqiao Friendship Shopping Centre (上海虹橋友誼商城), Shanghai Friendship Overseas Chinese Joint Stock Company Limited (上海友誼華僑股份有限公司), China Tour Souvenir Head Company (中華旅遊紀念品總公司), Shanghai Friendship Group Decoration Company (上海友誼集團裝潢總匯), Homemart Decoration Materials Company Limited (好美家裝潢建材有限公司) (the "Homemart"), Shanghai Friendship Nanfang Shopping Center (上海友誼南方購物中心), Shanghai Bailian Xijiao Shopping Center (上海百聯西郊購物中心) and Shanghai Friendship Group Incorporated Company (the "Shanghai Friendship"). Mr. Wang was appointed as the general manager of Shanghai Friendship in January 2006. Mr. Wang was appointed as a director of Shanghai Joint Stock Company and Securities Research Committee (上海股份制與證券研究會) in March 2001. He joined the Group in December 2001.

Profiles of Directors, Supervisors and Senior Management

Dao Shu-rong

Mr. Dao Shu-rong, aged 56, a senior economist, is the Chairman of the labour union and the deputy party secretary of the Company. Mr. Dao graduated from the Shanghai TV University (上海電視大學) in 1986, majoring in corporate management and from the Graduate School of Shanghai Academy of Social Sciences in 2001, where he majored in business administration. In 2008, he graduated from Shanghai National Accounting Institute with an EMBA, majoring in financial management. Mr. Dao has more than 30 years' experience in business and human resources administration. In 1996, Mr. Dao worked as the deputy manager of the human resources division of Internal and External Commerce Association (內外聯商社). Mr. Dao joined the Company in 1997 and served as the chief of the human resources department and promoted to assistant to the general manager in 1999. He was appointed as division chief of the human resources division of the Company from 2001 till May 2009. Mr. Dao was appointed as the Chairman of the labour union and the deputy party secretary of the Company since May and July 2009 respectively. Mr. Dao was elected as the Supervisor of the Company in May 2009. In 2010, Mr. Dao was granted the name of "Outstanding Organizer of Staff Union of 'Acting as Good Leader and Making Contribution to Shanghai World Expo' in Shanghai".

Joint Company Secretaries

Xu Ling-ling

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

Stephen Mok

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

Mr. Mok resigned to be the joint company secretaries of the Company on 9 March 2011.

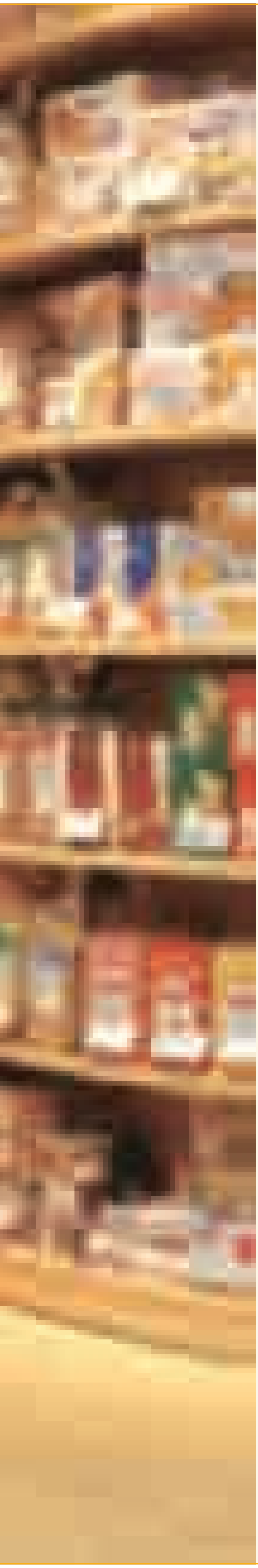
Profiles of Directors, Supervisors and Senior Management

Senior Management

Zhang Guo-hong

Mr. Zhang Guo-hong, aged 39, is a certified accountant. Mr. Zhang graduated from Shanghai University of Finance and Economics in 1999 with a master's degree in international commerce. From 1994 to 1996, he was the head of procurement division at Hubei Lvfeng Stone Co. Ltd ("湖北綠峰石材有限公司"). From April 1999 to late 2003, he was the deputy head of Zhejiang management department, deputy head of commodity management department, assistant to general manager and deputy general manager of the Company. Mr. Zhang was deputy general manager of the Supermarket Merchandising Division of Bailian Group from late 2003 to August 2009. He has worked as deputy general manager of the Company since October 2009 and concurrently acted as general manager of Hualian Supermarket from July 2005 to May 2010. In 2006, he was elected as a representative of the 14th Session of the National People's Congress of Yangpu District, Shanghai.


Shanghai Friendship Group Incorporated Company
34.03%
Shanghai Bailian Group Investment Co., Ltd.
21.17%
Mitsubishi Corporation
6.74%
Lianhua Supermarket Holdings Co., Ltd
Wong Sun Hing Investment Company Limited
2.82%
Shanghai Liding Investment Company Limited
1.96%
Public
33.28%




SHARE
HOLDING
STRUCTURE

Report of the Directors

The Board is pleased to present to the shareholders its report of the Company for the year ended 31 December 2010.

Principal activities

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

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

	2010 Percentage	2009 Percentage
Purchases		
Largest supplier	**3.84**	3.75
Five largest suppliers	**7.56**	10.67
Sales		
Largest customer	**0.07**	0.07
Five largest customers	**0.16**	0.14

During the year ended 31 December 2010, to the best knowledge of the Directors, none of the Directors, the supervisors ("Supervisors") of the Company, their respective associates, nor any shareholders of the Company (which to the knowledge of the Directors own more than 5% of the Company's share capital) had any direct or indirect interest in the share capital of the Company's suppliers and customers mentioned above.

Subsidiaries and associated companies

As at 31 December 2010, the Company's principal subsidiaries are Century Lianhua, Hualian Supermarket, Quik Convenience, Hangzhou Lianhua Huashang, Lianhua Supermarket (Jiangsu) Co., Ltd, Lianhua Supermarket Distribution Co., Ltd (the "Lianhua Supermarket Distribution"), Shanghai Lianhua Live and Fresh Food Processing and Distribution Co., Ltd. and Lianhua E-business Co., Ltd ("Lianhua E-business").

As at 31 December 2010, the Company's principal associated company is Shanghai Carhua.

Please refer to note 43 to the consolidated accounts of this annual report for the particulars of certain principal subsidiaries and associated companies of the Company.

Accounts

The audited results of the Group for the year ended 31 December 2010 are set out in the consolidated statement of comprehensive income on page 73 of the annual report.

The financial condition of the Group as at 31 December 2010 is set out in the consolidated statement of financial position on pages 74 to 75 of the annual report.

The cash flow of the Group for the year ended 31 December 2010 is set out in the consolidated statement of cash flow on pages 80 to 81 of the annual report.

Dividends Distribution

The Board of the Company recommends payment of a final dividend of RMB0.18 per share (including tax) for the year ended 31 December 2010.

The register of H shares members of the Company will be closed from Monday, 30 May 2011 to Tuesday, 28 June 2011 (both days inclusive) during which period no transfer of H shares will be effected. The final dividend will be distributed to the shareholders of H shares of the Company whose names appear on the Company's register of members on Friday, 27 May 2011. In order to be qualified for the final dividend, holders of H shares must lodge their share certificates together with the relevant share transfer documents with Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Friday, 27 May 2011.

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

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

All investors should consider the preceding contents carefully. If any investor intends to change the identity of the holders in the shareholders' register, please kindly enquire about the relevant procedures with your nominees or trustees. The Company has no responsibility and shall not be held responsible for confirming the identities of the shareholders. The Company will strictly comply with the law, and withhold and pay the corporate income tax on behalf of the relevant shareholders based on the register of H shares members of the Company as at 4:30 p.m. on 27 May 2011. Any requests relating to any delay in confirming the identity of the shareholders or any errors in the identity of the shareholders will not be accepted.

Reserves

Details of the movements in reserves during the year are set out in the consolidated statement of changes in equity on page 78 of the annual report.

Fixed assets

Movements of fixed assets during the year are set out in note 13 to the consolidated accounts of the annual report.

Bank loans, overdrafts and other borrowings

As at 31 December 2010, the Group had no bank borrowings.

Capitalised interest

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

Report of the Directors

Listing of shares and changes

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

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

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

As approved by the Board of Directors on 9 March 2011, the Company proposes to increase the total issued share capital of the Company. The additional share capital, to be transferred from part of the capital reserve fund by way of capitalization, will be credited as paid-up capital. The actual plan for such capital increase by capitalization is that: an additional 8 shares to be issued to the shareholders whose names appear on the register of members of the Company on the record date for every 10 shares held by them by way of capitalization of capital reserve fund ("Proposal of Capital Increase by Capitalization").

The Company will issue an announcement according to the requirements of the Rules Governing the Listing of Securities on the Stock Exchange regarding the plan and details of the Proposal of Capital Increase by Capitalization in due course.

Information on the performance of H shares of the Company in 2010:

Highest trading price per H share during the year	HK$39.10
Lowest trading price per H share during the year	HK$19.9
Total turnover volume of H shares during the year	169 million shares
Closing price per H share as at 31 December 2010	HK$37.15

Public float

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

Share capital

As at 31 December 2010, the classes and number of shares of the Company are as follows:

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

Report of the Directors

Number of shareholders

As at 31 December 2010, details of shareholders as recorded in the Register of Members of the Company are as follows:

Total number of shareholders	26
Holders of domestic shares	3
Holders of unlisted foreign shares	2
Holders of H shares	21

Legal status of unlisted foreign shares

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

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

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

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

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

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

Report of the Directors

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

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

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

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

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

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

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

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

Disclosure of interests

Directors, Chief Executive and Supervisors of the Company

As at 31 December 2010, none of the directors, supervisors or chief executives of the Company had any interests and short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are regarded or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules.

As at 31 December 2010, Mr. Hua Guo-ping, Mr. Xu Bo, Mr. Wang Long-sheng and Mr. Dao Shu-rong (the Directors and Supervisors of the Company) are directors, supervisors or employees of Shanghai Friendship, and/or Bailian Investment. As disclosed below, these companies had interests in the shares of the Company as at 31 December 2010 as recorded in the register required to be kept under section 336 of the SFO.

Report of the Directors

Substantial Shareholders of the Company

So far as the Directors are aware, as at 31 December 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)
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	22,638,000 (L) 10,115,000 (P)	3.64% (L) 1.63% (P)	– –	10.94% (L) 4.89% (P)
Artio Global Management LLC	H Shares	20,317,558 (L)	3.27% (L)	–	9.82% (L)
Matthews International Capital Management, LLC	H Shares	16,580,000 (L)	2.67% (L)	–	8.00% (L)
Julius Baer International Equity Fund	H Shares	12,191,558 (L)	1.96% (L)	–	5.89% (L)

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

Report of the Directors

Notes:

1. As at 31 December 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 31 December 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.

   The Company was informed that Shanghai Friendship had entered into an assets purchase agreement (the "Assets Purchase Agreement") and a merger agreement with Bailian Group and Shanghai Bailian, respectively, on 2 November 2010. The proposed acquisition (the "Proposed Acquisition") of 100% equity interest in Bailian Investment by Shanghai Friendship from Bailian Group under the Assets Purchase Agreement will increase Shanghai Friendship's shareholding in the Company from approximately 34.03% to 55.20%. As at the date of this Report, the Proposed Acquisition has not been completed.

   Please refer to the announcements of the Company dated 3 November 2010 and 22 November 2010 for details.

3. As at 31 December 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 31 December 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 31 December 2010.

Ultimate holding company

As at the date of this report, Bailian Group is the ultimate holding company of Shanghai Friendship. Accordingly, Bailian Group is the ultimate holding company of the Company.

Pre-emptive rights

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

Purchase, sale or redemption of shares

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

Share capital interests attributable to the Directors and Supervisors

As at 31 December 2010, none of the Directors, Supervisors or senior management of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of the SFO) which are required by section 352 of the SFO to be recorded in the register referred to therein, or required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors and Supervisors

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

Executive Directors:
Mr. Hua Guo-ping (Note)
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

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

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

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

Directors' and Supervisors' service contracts

The Company has entered into service contract with each of the executive Directors on 20 June 2008, terms of which correspond to their respective term of office as Director for a period of 3 years and renewable subject to applicable laws.

Directors' and Supervisors' interests in contracts

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

Interest in shares or debentures acquired by the Directors and Supervisors

During the year, no arrangement was entered by the Company or its fellow subsidiaries which enables the Directors or Supervisors to acquire the shares or bonds of the Company.

Independence of the independent Directors

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

Report of the Directors

Highest paid individuals

All the five highest paid individuals of the Company during the year were senior management members of the Company. Details of their remuneration are set out in note 10 to the consolidated accounts in this annual report.

Retirement schemes

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

Change of auditors

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

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

Deloitte Touche Tohmatsu was re-appointed as the international auditor from the conclusions of the 2009 annual general meeting of the Company, i.e., 23 June 2010, to the conclusion of the annual general meeting of the Company for the year 2010.

Significant litigation

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

Connected transactions

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

Continuing Connected Transactions – Rental Agreements

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

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

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

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

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

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

The rental agreement dated 15 September 2006 entered into between Century Lianhua as the lessee and Shanghai Bailian De Hong Shopping Mall Co., Ltd ("Bailian De Hong") as the lessor in respect of the leasing of portion of area located within Bailian Central Shopping Plaza at No.1288 Zhenguang Road, Shanghai, the PRC for a term from 21 December 2006 to 20 December 2026, the annual rent of the premises is RMB11,988,750 per year for the first year to the third year, and starting from the fourth year onwards, a 5% increment as calculated from the previous three-year period for every three-year period thereafter, and the management fee of the premises is RMB3,011,250 per year, details of which were set out in the announcement of the Company dated 2 March 2009. Since Bailian De Hong is a subsidiary of Bailian Group, an holding company of the Company's substantial shareholder, Bailian Investment, and thus such transaction constitutes continuing connected transactions of the Company.

Report of the Directors

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

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

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

Report of the Directors

Name	Transaction Particulars	Principal Terms	Annual Cap
		Depending on the type of goods purchased and the practice of the particular subsidiary of Bailian Group, the actual payment for the sale of the goods under the supply of goods framework agreement is to be made on a monthly or agreed period basis (which period shall be determined by the market practice of the payment period of such particular type of goods purchased and shall not be less favourable than those available from independent third parties). Detailed terms shall be determined in the particular contract entered into between both parties. In the event that such payment is made on an agreed period basis, such payment term shall not be less than 15 days from the date of delivery of such goods.	
Logistic services agreement	Pursuant to the logistic services agreement, Bailian Group and its subsidiaries agreed to provide logistic and distribution services, including services of in-town distribution, allocation and return of goods, out-town distribution and warehouse management, to the Company.	The fee for the provision of logistic services under the logistic services agreement is determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties with reference to the market fee of the provision of such services from time to time. Such transactions will be conducted in the ordinary and usual course of business of the Company, on normal commercial terms and on terms not less favourable to the Company than terms available from independent third parties. The fee payable by the Company to Bailian Group for the provision of logistic services is to be made by cash on a monthly or quarterly basis (as the case maybe depending on the type of logistic services rendered and the practice of the particular subsidiary of Bailian Group).	According to the supplemental logistic services agreement dated 19 November 2010, the maximum transaction amounts under the logistic services agreement for each of the three years ending 31 December 2012 are increased to RMB18 million, RMB23.40 million and RMB30.42 million, respectively.

Report of the Directors

Name	Transaction Particulars	Principal Terms	Annual Cap
Smart cards arrangement agreement	Each of the Company and Bailian Group has its own smart cards system which enables its customers to make purchases by using smart cards with prepaid values. Pursuant to the smart cards arrangement agreement, the parties agreed to accept all payments of purchases from the customers by using the smart cards of the other party within their respective sales networks. Each party shall charge the other party service fee according to the percentage ranging from 0.5% to 3% of such transaction amounts which are attributable to the other party.	The fee for the smart cards arrangement under the smart cards arrangement agreement is determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties with reference to the market fee of such arrangement from time to time. Such transactions will be conducted in the ordinary and usual course of business of the Company, on normal commercial terms and on terms not less favourable to the Company than terms available from independent third parties. The fee payable under the smart cards arrangement agreement is to be made by cash on a monthly basis.	The maximum fee payable by Bailian Group to the Company for each of the three years ending 31 December 2012 are RMB40 million, RMB48 million and RMB57.6 million, respectively. According to the supplemental smart cards arrangement agreement dated 19 November 2010, the maximum fee payable by the Company to Bailian Group for each of the three years ending 31 December 2012 are increased to RMB30.60 million, RMB39.78 million and RMB51.72 million, respectively.
Sale and purchase of mobile phones agreement	Pursuant to the sale and purchase of mobile phones agreement, Bailian Group and the Company agreed to purchase mobile phones from the suppliers together in an aggregated basis in order to obtain better procurement terms.	The payment for the purchase of the mobile phones shall be made by the parties individually and jointly to the suppliers, regardless of individual purchase or joint purchase. However, in the event that a supplier refuses to handle the purchase payments by both parties in a separate manner, the party with higher volume of purchase may make payment to the supplier for all purchases and then issue a separate value-added tax invoice to the other party for settlement based on the same terms and conditions of purchase offered by the supplier. If there is any sales rebate from the suppliers, the party responsible for making the payment to the suppliers shall provide the other party with the sales rebate in proportion to their respective actual purchase volume.	The maximum aggregate annual transaction amounts under the sale and purchase of mobile phones agreement for each of the three years ending 31 December 2012 are RMB8 million, RMB12 million and RMB16 million, respectively.

Report of the Directors

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

Report of the Directors

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

As each of the percentage ratios in respect of the respective aggregate annual transaction amounts of the abovementioned framework agreements from 2010 to 2012 entered between the Company and Bailian Group is less than 2.5%, the abovementioned framework agreements are only subject to the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules but are exempt from the independent shareholders' approval requirement. Details of which please refer to the announcements of the Company dated 23 December 2009 and 19 November 2010, respectively.

New Continuing Connected Transactions – Leasing Agreements

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

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

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

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

The relevant details were set out in the announcement of the Company dated 1 July 2010. Century Lianhua is a subsidiary of the Company, and Bailian Nanqiao is accounted for and consolidated as a subsidiary of Bailian Group. As Bailian Group is the controlling shareholder of Bailian Investment (a substantial shareholder of the Company), such transactions constitute continuing connected transactions of the Company. Given that each of the applicable percentage ratios in respect of the aggregated annual rent and management fee under the leasing agreement is below 5%, the leasing agreement is only subject to the reporting and announcement requirements but are exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The leasing agreement dated 1 July 2010 entered into between Century Lianhua as the lessee and Shanghai Jinshan Baibei Shopping Centre Co., Ltd. (上海金山百倍購物中心有限公司) ("Jinshan Baibei") as the lessor in respect 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 maximum annual transaction amounts payable by Century Lianhua under this leasing agreement are set out as follows:

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

Report of the Directors

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

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

The relevant details were set out in the announcement of the Company dated 1 July 2010. Century Lianhua is a subsidiary of the Company, and Jinshan Baibei is accounted for and consolidated as a subsidiary of Bailian Group. As Bailian Group is the controlling shareholder of Bailian Investment (a substantial shareholder of the Company), such transactions constitute continuing connected transactions of the Company. Given that each of the applicable percentage ratios in respect of the aggregated annual rent and management fee under the leasing agreement is below 5%, the leasing agreement is only subject to the reporting and announcement requirements but are exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

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

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

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

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

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

(1) have been approved by the Board;

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

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

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

By order of the Board

Ma Xin-sheng
Chairman

9 March 2011
Shanghai, the PRC

Report of Corporate Governance

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

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

Board

The Board consists of 12 Directors, five of whom are executive Directors and four of whom are non-executive Directors including the chairman of the Board and three of whom are independent non-executive Directors. The Company has increased the number of independent non-executive Directors to at least three in accordance with the requirements of the Listing Rules. Profiles and particulars of the chairman of the Company and other Directors are set out under the section headed Profiles of Directors, Supervisors and Senior Management in this report. As approved by an ordinary resolution at the annual general meeting on 20 June 2008, the third session of the Board was established and the term of service of each Director (including non-executive Directors) is three years, which will expire on the date of 2010 annual general meeting of the Company. Corresponding to the term of service, all executive Directors have entered into service contracts, which are valid for a term of 3 years and renewable subject to the applicable laws. The names of Directors referred herein are members of the third session of the Board.

The principal responsibilities of the Board include:

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

– to oversee and review the Company's internal control system;

Report of Corporate Governance

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

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

– the management has received clear guidelines and instructions in respect of their authorities, particularly in relation to the matters such as reporting to the Board and seeking the Board's approval prior to making any decision or entering into any commitment on behalf of the Company; and

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

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

Executive Directors	**5**
Name	**Attendance**
Mr. Hua Guo-ping	4/4
Mr. Liang Wei	4/4
Ms. Xu Ling-ling	4/4
Ms. Cai Lan-ying	4/4
Ms. Tang Qi	3/4

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

Independent Non-executive Directors	**3**
Name	**Attendance**
Mr. Lee Kwok Ming, Don	4/4
Mr. Zhang Hui-ming	4/4
Mr. Xia Da-wei	4/4

Notes: Mr. Hua Guo-ping was redesignated as an executive Director from 30 March 2010.

Mr. Tang Qi was appointed as executive Director of the Company at the general meeting of the Company held on 23 June 2010. As such, he did not attend the Board meeting held on 30 March 2010 in his capacity as Director.

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

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

Provision A4.2 of the Code requires that every director (including those appointed for a specific term) of a listed issuer shall be subject to retirement by rotation at least once every three years. The Articles of Association of the Company provides that each Director shall be appointed at the general meeting of the Company and for a term of not more than 3 years, subject to re-election. Having taken into account of the continuity of the implementation of the Company's operation and management policies, the Articles of Association contains no express provision for the mechanism of Directors' retirement by rotation thus deviating from the aforementioned provision of the Code.

Duties of the Board and the management of the Company

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

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

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

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

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

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

(5) formulates the basic rules of the Company;

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

(7) handles the appointment or removal of management personnel except those required to be appointed or removed by the Board;

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

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

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

Report of Corporate Governance

Professional Committees

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

As approved by ordinary resolutions at the annual general meeting on 20 June 2008, the third session of the Board was established. On the same day, the Board established the third session of the professional committees in accordance with the requirements of the Code. The third session of the Audit Committee comprised Mr. Lee Kwok Ming, Don, Mr. Zhang Hui-ming, Mr. Xia Da-wei and Mr. Hua Guo-ping (Note) and is chaired by Mr. Lee Kwok Ming, Don. The third session of the Remuneration and Appraisal Committee of the Company comprised Mr. Xia Da-wei, Mr. Zhang Hui-ming and Mr. Hua Guo-ping and is chaired by Mr. Xia Da-wei. The third session of the Strategic Committee of the Company comprised Mr. Wang Zhi-gang, Mr. Lu Ming-fang, Mr. Koichi Narita and Mr. Zhang Hui-ming and is chaired by Mr. Wang Zhi-gang. The third session of the Nomination Committee of the Company comprised Mr. Zhang Hui-ming, Mr. Xia Da-wei and Mr. Hua Guo-ping and is chaired by Mr. Zhang Hui-ming. The Board has authorised the committees to formulate their respective terms of reference.

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

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

Audit Committee

The Board of the Company passed a resolution on 20 June 2008 to establish the third session of the Audit Committee. The Board confirms that each member of the Audit Committee has extensive business experience and the Audit Committee has a desirable mix of operational, accounting and financial expertise. The primary duties of the Audit Committee of the Company are to review the financial reporting procedures, internal control system and completeness of financial reports of the Company. The Audit Committee holds meetings on a regular basis to review the financial and other information to be reported to the shareholders, internal control system, risk management and the effectiveness and objectivity of audit procedures. The Audit Committee is also responsible for the relationship between the Board and the auditors of the Company with respect to any matters falling into its terms of reference and for making recommendations regarding the appointment, re-appointment and removal of external auditors, and approval of the relevant terms of engagement and reviewing the independence and objectivity of the auditors.

The Audit Committee of the Company held a meeting on 17 March 2010 to review and discuss matters such as the internal controls of the Company, financial reports, remuneration and reappointment of domestic and overseas auditors and continuing connected transactions for 2009, including the review of the Company's annual financial report prepared in accordance with the Hong Kong Financial Reporting Standards (the "HKFRS"). The Audit Committee is of the view that the annual financial report of the Group for the year 2009 has complied with the accounting standards and requirements of the Stock Exchange and the relevant laws and has made adequate disclosures. The Audit Committee also conducted a review on the internal control system of the Company and its subsidiaries and is of the view that the Company had an effective internal control system. The Audit Committee is of the view that domestic and overseas auditor of the

Report of Corporate Governance

Company had carried out their work with professionalism and independence, and agreed to make recommendations to the Board in respect of their remuneration for 2009 and suggested to re-appoint the domestic and overseas auditors for 2010. The Audit Committee confirmed that the continuing connected transactions of the Company in 2009 did not exceed their respective caps.

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

The Audit Committee of the Company held a meeting on 13 August 2010 to review and discuss with the management the matters such as internal controls, interim financial report and continuing connected transactions up to 30 June 2010, including review of the Company's condensed interim accounts prepared in accordance with the HKFRSs. The Audit Committee is of the view that the Group's interim financial report for the six months ended 30 June 2010 has complied with the applicable accounting standards, requirements of the Stock Exchange and legal requirements, and has made adequate disclosures. In relation to its review of the Company's internal controls, the Audit Committee concluded that the Company's internal control system was effective.

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

Set out below is the attendance record of the meetings of the Audit Committee in 2010:

Name	**17 March 2010**	**13 August 2010**
Independent Non-executive Directors		
Mr. Lee Kwok Ming, Don *(chairman)*	Present	Present
Mr. Zhang Hui-ming	Present	Present
Mr. Xia Da-wei	Present	Present
Then Non-executive Director		
Mr. Hua Guo-ping (Note)	Present	Not Applicable

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

Remuneration and Appraisal Committee

On 20 June 2008, the Board passed a resolution for the election and establishment of the third session of the Remuneration and Appraisal Committee. The Remuneration and Appraisal Committee advises the Board on the overall remuneration policy and framework of the Directors and senior management and makes recommendations for a set of proper and transparent procedures for formulating such policy. The Remuneration and Appraisal Committee ensures that none of the Directors or any of their associates is involved in the determination of their own remuneration. The Remuneration and Appraisal Committee also ensures that effective policies and procedures are being followed in respect of incentives provided to the Directors and senior management of the company. The Remuneration and Appraisal Committee currently comprises three members, including two independent non-executive Directors (including the Chairman) and one executive Director.

Report of Corporate Governance

The Remuneration and Appraisal Committee held a meeting on 17 March 2010. Having taken into account the factors including, but not limited to, the remuneration level paid by comparable companies, amount of time required to be spent by the Director and the Director's duties, remuneration packages of other positions within the Group and performance-based remuneration, the Committee determined the remuneration package of all executive Directors and approved the remuneration to three executive Directors, two Supervisors (Note), the senior management formed by deputy general managers and assistants to general manager for 2009.

Note: As from July 2009, Mr. Zhang Zeng-yong ceased to be a supervisor due to age reason and Mr. Dao Shu-rong was appointed to take over the position of supervisor. Therefore, there were a total of two supervisors receiving remunerations from the Company in 2009.

The Remuneration and Appraisal Committee of the Company held a meeting on 29 August 2010. Considering that the staged work in relation to the consolidation of the Group would be completed and the new senior management was determined, and in order to make continuous remuneration incentive to the Group's senior management, the whole committee agreed to recommend the Board of Directors to approve Supervisor Chen Jian-jun, Director Hua Guo-ping and Director Tang Qi to receive remuneration from the Company in 2010, after taking into account the appropriateness and relative stability of remuneration distribution policy of the Group for the senior management. It also determined the specific remuneration packages of Supervisor Chen Jian-jun, Director Hua Guo-ping and Director Tang Qi for the approval by the Board of Directors.

Set out below is the attendance record of the meetings of the Remuneration and Appraisal Committee in 2010:

Name	**17 March 2010**	**29 August 2010**
Independent Non-executive Directors		
Mr. Xia Da-wei *(chairman)*	Present	Present
Mr. Zhang Hui-ming	Present	Present
Executive Director		
Mr. Hua Guo-ping (Note)	Present	Present

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

Nomination Committee

On 20 June 2008, the Board passed a resolution for the election and establishment of the third session of the Nomination Committee. The primary duties of the Nomination Committee are to advise the Board on the size and composition of the Board with regard to the operating positions, scale of assets and shareholding structure of the Company, to study and advise the Board on the selection criteria and procedures of Directors and managers, to extensively seek qualified candidates for directorship and managerial positions, and to review and advise on the candidates for directorship, managerial position or other senior management posts subject to approval of the Board. The Nomination Committee currently comprises three members, including two independent non-executive Directors (including the Chairman) and one executive Director.

Report of Corporate Governance

The Nomination Committee of the Company held a meeting on 29 March 2010. Since Mr. Hua Guo-ping, the then non-executive of the Company, has been appointed as general manager of the Company, the Nomination Committee of the Company nominated Mr. Hua Guo-ping as the executive Director of the Company. Since Mr. Wang Zhi-gang resigned from being the executive Director of the Company due to work reasons, according to the recommendation by Shanghai Friendship, a shareholder of the Company, the Nomination Committee of the Company nominated Mr. Tang Qi as the executive Director of the third session of the Board.

The Nomination Committee of the Company held a meeting on 23 June 2010. Since Mr. Wang Zhi-gang resigned from being a member of the third session of the Strategic Committee of the Company automatically when he resigned from being an executive Director of the Company, the Nomination Committee of the Company nominated Mr. Ma Hua Guo-ping as a member of the third session of the Strategic Committee.

Set out below is the attendance record of the meetings of the Nomination Committee in 2010:

Name	**29 March 2010**	**23 June 2010**
Independent Non-executive Directors		
Mr. Zhang Hui-ming *(chairman)*	Present	Present
Mr. Xia Da-wei	Present	Present
Executive Director		
Mr. Hua Guo-ping (Note)	Present	Present

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

Directors' and auditors' responsibilities for the accounts

The Directors hereby confirm their responsibilities for preparing the accounts of the Company. The Directors confirm that the preparation of the financial statements of the Company for the year complied with the relevant laws and applicable accounting standards and that the Company would publish the financial statements of the Company on timely basis. The responsibilities of external auditors to the shareholders are set out on page 72.

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

The Company has adopted the Model Code for Securities Transactions by Directors ("Model Code") as set out in Appendix 10 to the Listing Rules as code of conduct for securities transactions by all Directors of the Company. After specific enquiries to the Directors, the Board is pleased to confirm that all the Directors have fully complied with the provisions under the Model Code during the year ended 31 December 2010.

Remuneration of auditors

The Audit Committee is responsible for considering the appointment of auditors and reviewing their remuneration. For the year under review, RMB5,697 thousand was payable by the Company to the external auditors (including the PRC and overseas auditors) as service charge for their audit and due diligence consultancy services. For the year under review, the external overseas auditors had not provided any non-auditing service to the Company.

Internal control

The Board is solely responsible for ensuring that the internal control system of the Group is stable and efficient. The Group's internal control system comprises defined management structure and related authorizations, so as to facilitate the Group to achieve its business objectives, to safeguard its assets against any unauthorised usage or

Report of Corporate Governance

handling, to ensure proper keeping of accounting records and to provide reliable financial information for internal use or external distribution, as well as to ensure compliance with relevant laws and regulations. The purpose of the afore-mentioned internal control system is to provide reasonable, but not absolute, assurance that there are no material misrepresentations or omissions, and to manage, but not eliminating at all, malfunctions of operating system and risks that the Group may not achieve its goals.

The Board, through the Company's Audit Committee, reviews the internal control systems of the Company and its subsidiaries on an semi-annual basis to ensure its effectiveness. Discussions cover all material control aspects, including financial controls, operating controls, compliance control and risk management. The Board has conducted a review of the effectiveness of the internal control system of the Group for 2010 and confirms that the internal control system of the Group is effective.

Organizational structure

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

Authorizations and controls

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

Training on internal controls

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

Accounting system management

The Group has put in place a comprehensive accounting management system, so as to provide the management with indicators to evaluate its financial and operating performance and financial information for reporting and disclosure purposes. Any deviation from expectation will be analysed and explained, and appropriate steps will be taken to address issues where necessary.

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

Internal audit

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

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

Continuing operation

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

Investor relations

The Company reports to the shareholders regarding the corporate information of the Group on a timely and accurate basis. Printed copies of the 2009 annual report and 2010 interim report have been sent to all shareholders.

The Company places great emphasis on communication with shareholders and investors of the Company and improving the Company's transparency of information disclosure. As such, a dedicated department has been set up and designated officers are assigned to handle relations with investors and analysts. During the year under review, the Company received 115 batches of fund managers and analysts and answered their inquiries. Site visits to stores, distribution centres, etc, were arranged for them so as to enhance their understanding of the Company's operation and also its latest business developments. The Company made disclosures in a faithful, true, accurate, complete and timely manner in strict accordance with applicable laws and regulations, Articles of Association and Listing Rules; at the same time, the Company places great importance in collecting and analyzing various comments and recommendations of analysts and investors on the Company's operations, which would be compiled into reports regularly and adopted selectively in its operations. The Company has set up a website, allowing investors to access updates on the Company's particulars, statutory announcements, management and recent operating affairs. All published annual reports, interim reports, circulars and announcements since its listing are included in the "Investors Relations" section of the website. The Company persistently adheres to its disclosure principle of honesty and integrity and actively initiates communications with various parties. In particular, it held corporate presentations, press conferences and one-on-one investor meetings following the announcement of interim and annual results and decisions to major investments. The Company also participates in a series of investor relation activities and conducts one-on-one communication with investors on a regular basis.

Report of the Supervisory Committee

Dear shareholders,

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

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

During the year under review, the Supervisory Committee held four meetings. On 30 March 2010, the third session of the Supervisory Committee held a meeting, at which the Supervisory Committee objectively evaluated the Group's business operation for the period under review, and was fully satisfied with the works done by the Group during the year, including the Group's development plan, network expansion and improvement of the internal control systems. The Supervisory Committee also received reports on the financial position of the Group for 2009 and discussed and adopted its report for 2009. On 23 June 2010, the third session of the Supervisory Committee of the Company reviewed two leasing connected transactions between the Group and Bailian Nanqiao and Jinshan Baibei, subsidiaries of Bailian Group, and had confirmed the aforesaid matters were transactions made in the ordinary course of the Company's business and on normal commercial terms, and the terms were fair and reasonable and in the interest of the Company's shareholders as a whole. On 30 August 2010, the third session of the Supervisory Committee of the Company held a meeting regarding the operating conditions of the first half of the year ended 30 June 2010 and had gathered reports from the management relating to the financial condition of the first half of 2010. On 17 December 2010, the third session of the Supervisory Committee of the Company reviewed the proposed connected transaction of the Group relating to the proposed acquisition of the 98% interest in Shanghai Hualian Supermarket Tengzhou Co., Ltd from Bailian Group, and had confirmed that the aforesaid matters were in the ordinary course of the Company's business and on normal commercial terms, and the proposed terms were fair and reasonable and in the interest of the Company's shareholders as a whole.

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

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

Report of the Supervisory Committee

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

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

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

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

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

Independent Auditor's Report

TO THE SHAREHOLDERS OF LIANHUA SUPERMARKET HOLDINGS CO., LTD.
(a joint stock limited company incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Lianhua Supermarket Holdings Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 73 to 144, which comprise the consolidated and Company's statements of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated and Company's statements of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
9 March 2011

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	NOTES	**2010** **RMB'000**	2009 RMB'000
Turnover	5	**25,887,432**	24,017,720
Cost of sales		**(22,276,482)**	(20,881,677)
Gross profit		**3,610,950**	3,136,043
Other revenue	5	**2,415,375**	2,280,322
Other income	7	**447,440**	372,517
Selling and distribution expenses		**(4,973,881)**	(4,558,202)
Administrative expenses		**(646,824)**	(560,117)
Other operating expenses		**(77,633)**	(16,667)
Finance costs		**–**	(6,323)
Operating profit		**775,427**	647,573
Share of profits of associates		**178,826**	150,240
Profit before taxation	9	**954,253**	797,813
Taxation	8	**(243,654)**	(208,430)
Profit and total comprehensive income for the year		**710,599**	589,383
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		**622,579**	506,802
Non-controlling interests		**88,020**	82,581
		710,599	589,383
Earnings per share – Basic	12	**RMB1.00**	RMB0.81

Consolidated Statement of Financial Position

At 31 December 2010

	NOTES	31/12/2010 RMB'000	31/12/2009 RMB'000
Non-current assets			
Property, plant and equipment	13	**2,882,638**	3,031,153
Construction in progress	14	**220,730**	86,921
Land use rights	15	**249,419**	254,717
Intangible assets	16	**177,615**	183,917
Investments in associates	18	**503,567**	449,885
Available-for-sale financial assets	19	**167,158**	31,271
Held-to-maturity financial assets	20	**377,295**	377,615
Term deposits	29		
– restricted		**293,000**	–
– unrestricted		**1,200,000**	480,000
Prepaid rental	22	**108,193**	138,481
Deferred tax assets	36	**120,739**	104,661
Other non-current assets	21	**24,654**	25,839
		6,325,008	5,164,460
Current assets			
Inventories	23	**2,785,242**	2,459,506
Trade receivables	24	**117,370**	74,302
Deposits, prepayments and other receivables	25	**598,851**	487,723
Amounts due from fellow subsidiaries	26	**8,092**	–
Amounts due from associates	28	**29**	34
Available-for-sale financial assets	19	**500,000**	610,900
Held-to-maturity financial assets	20	**45,777**	97,873
Financial assets at fair value through profit or loss	27	**204,089**	1,874
Term deposits	29		
– restricted		**1,621,400**	1,219,800
– unrestricted		**660,000**	1,110,000
Cash and cash equivalents	30	**5,581,005**	4,191,924
		12,121,855	10,253,936
Total assets		**18,446,863**	15,418,396

Consolidated Statement of Financial Position

At 31 December 2010
(continued)

	NOTES	**31/12/2010 RMB'000**	31/12/2009 RMB'000
Capital and reserves			
Share capital	35	**622,000**	622,000
Reserves		**2,271,043**	1,841,284
Equity attributable to owners of the Company		**2,893,043**	2,463,284
Non-controlling interests		**329,047**	464,790
Total equity		**3,222,090**	2,928,074
Non-current liabilities			
Deferred tax liabilities	36	**49,318**	51,375
Current liabilities			
Trade payables	31	**4,154,603**	3,490,098
Other payables and accruals	32	**1,870,587**	1,773,257
Dividend payable to non-controlling interest of subsidiaries		**203,569**	–
Coupon liabilities	33	**8,707,110**	6,944,234
Deferred income		**21,260**	30,388
Amounts due to associates	28	**5,399**	4,791
Amount due to ultimate holding company	34	**–**	10,023
Amounts due to fellow subsidiaries	34	**105,172**	93,696
Taxation payable		**107,755**	92,460
		15,175,455	12,438,947
Total liabilities		**15,224,773**	12,490,322
Total equity and liabilities		**18,446,863**	15,418,396
Net current liabilities		**(3,053,600)**	(2,185,011)
Total assets less current liabilities		**3,271,408**	2,979,449

The consolidated financial statements on pages 73 to 144 were approved and authorised for issue by the Board of Directors on 9 March 2011 and are signed on its behalf by:

Ma Xin-sheng
DIRECTOR

Xu Ling-ling
DIRECTOR

Statement of Financial Position

At 31 December 2010

	NOTES	31/12/2010 RMB'000	31/12/2009 RMB'000
Non-current assets			
Property, plant and equipment	13	**260,183**	264,040
Construction in progress	14	**8,488**	7,702
Land use rights	15	**31,889**	32,818
Intangible assets	16	**7,240**	3,866
Investments in subsidiaries	17	**1,326,863**	1,327,063
Investments in associates	18	**192,871**	192,871
Available-for-sale financial assets	19	**134,535**	4,535
Held-to-maturity financial assets	20	**377,295**	372,615
Term deposits	29		
– restricted		**10,000**	–
– unrestricted		**170,000**	–
Deferred tax assets	36	**8,730**	20,177
Other non-current assets	21	**3,361**	3,549
		2,531,455	2,229,236
Current assets			
Inventories	23	**407,026**	127,113
Trade receivables	24	**5**	75
Deposits, prepayments and other receivables	25	**47,908**	30,512
Dividend receivable		**276,831**	5,388
Amounts due from subsidiaries	17	**5,187,662**	4,555,091
Amounts due from associates	28	**29**	34
Available-for-sale financial assets	19	**500,000**	610,900
Held-to-maturity financial assets	20	**40,085**	97,873
Financial assets at fair value through profit or loss	27	**30**	–
Term deposits			
– unrestricted	29	**120,000**	280,000
Cash and cash equivalents	30	**624,705**	521,042
		7,204,281	6,228,028
Total assets		**9,735,736**	8,457,264

Statement of Financial Position

At 31 December 2010
(continued)

	NOTES	31/12/2010 RMB'000	31/12/2009 RMB'000
Capital and reserves			
Share capital	35	**622,000**	622,000
Reserves		**2,362,210**	1,741,375
Total equity		**2,984,210**	2,363,375
Current liabilities			
Trade payables	31	**2,044,338**	1,504,099
Other payables and accruals	32	**131,698**	252,794
Coupon liabilities	33	**3,567,162**	4,137,492
Amounts due to subsidiaries	17	**989,107**	166,199
Amounts due to associates	28	**5,399**	1,227
Amount due to ultimate holding company	34	**–**	10,023
Amounts due to fellow subsidiaries	34	**13,822**	16,340
Taxation payable		**–**	5,715
		6,751,526	6,093,889
Total liabilities		**6,751,526**	6,093,889
Total equity and liabilities		**9,735,736**	8,457,264
Net current assets		**452,755**	134,139
Total assets less current liabilities		**2,984,210**	2,363,375

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Attributable to owners of the Company							
	Share capital RMB'000	Capital reserve RMB'000 (note a)	Other reserve RMB'000	Statutory common reserve fund RMB'000 (note b)	Retained profits RMB'000	Total attributable to owners of the Company RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 31 December 2008 and 1 January 2009	622,000	755,953	303,595	173,755	777,178	2,632,481	411,513	3,043,994
Profit for the year	–	–	–	–	506,802	506,802	82,581	589,383
Profit appropriations	–	–	–	40,956	(40,956)	–	–	–
Dividends paid to non-controlling interests	–	–	–	–	–	–	(25,781)	(25,781)
2008 final dividend (note 11)	–	–	–	–	(93,300)	(93,300)	–	(93,300)
2009 interim dividend (note 11)	–	–	–	–	(74,640)	(74,640)	–	(74,640)
Consideration for Acquisition of Hualian Group (note c)	–	–	(508,059)	–	–	(508,059)	–	(508,059)
Closure of subsidiaries	–	–	–	–	–	–	(4,873)	(4,873)
Equity interest contributed by non-controlling shareholder of a subsidiary	–	–	–	–	–	–	1,350	1,350
At 31 December 2009	622,000	755,953	(204,464)	214,711	1,075,084	2,463,284	464,790	2,928,074

	Attributable to owners of the Company							
	Share capital RMB'000	**Capital reserve RMB'000 (note a)**	**Other reserve RMB'000**	**Statutory common reserve fund RMB'000 (note b)**	**Retained profits RMB'000**	**Total attributable to owners of the Company RMB'000**	**Non-controlling interests RMB'000**	**Total RMB'000**
At 31 December 2009 and 1 January 2010	**622,000**	**755,953**	**(204,464)**	**214,711**	**1,075,084**	**2,463,284**	**464,790**	**2,928,074**
Profit for the year	**-**	**-**	**-**	**-**	**622,579**	**622,579**	**88,020**	**710,599**
Profit appropriations	**-**	**-**	**-**	**85,781**	**(85,781)**	**-**	**-**	**-**
Dividends paid/payable to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**(227,683)**	**(227,683)**
2009 final dividend (note 11)	**-**	**-**	**-**	**-**	**(99,520)**	**(99,520)**	**-**	**(99,520)**
2010 interim dividend (note 11)	**-**	**-**	**-**	**-**	**(93,300)**	**(93,300)**	**-**	**(93,300)**
Equity interest contributed by non-controlling shareholder of a subsidiary	**-**	**-**	**-**	**-**	**-**	**-**	**3,920**	**3,920**
At 31 December 2010	**622,000**	**755,953**	**(204,464)**	**300,492**	**1,419,062**	**2,893,043**	**329,047**	**3,222,090**

Notes:

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

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

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

(c) The amount represents cash consideration for acquisition of Hualian Supermarket Holdings Co.,Ltd..

Statement of Changes in Equity

For the year ended 31 December 2010

	Share capital RMB'000	Capital reserve RMB'000	Other reserve RMB'000	Statutory common reserve fund RMB'000	Retained profits RMB'000	Total RMB'000
At 31 December 2008 and 1 January 2009	622,000	755,953	3,595	173,755	532,561	2,087,864
Profit for the year	–	–	–	–	443,451	443,451
Profit appropriations	–	–	–	40,956	(40,956)	–
2008 final dividend (note 11)	–	–	–	–	(93,300)	(93,300)
2009 interim dividend (note 11)	–	–	–	–	(74,640)	(74,640)
At 31 December 2009	622,000	755,953	3,595	214,711	767,116	2,363,375

	Share capital RMB'000	**Capital reserve RMB'000**	**Other reserve RMB'000**	**Statutory common reserve fund RMB'000**	**Retained profits RMB'000**	**Total RMB'000**
At 31 December 2009 and 1 January 2010	**622,000**	**755,953**	**3,595**	**214,711**	**767,116**	**2,363,375**
Profit for the year	**–**	**–**	**–**	**–**	**813,655**	**813,655**
Profit appropriations	**–**	**–**	**–**	**85,781**	**(85,781)**	**–**
2009 final dividend (note 11)	**–**	**–**	**–**	**–**	**(99,520)**	**(99,520)**
2010 interim dividend (note 11)	**–**	**–**	**–**	**–**	**(93,300)**	**(93,300)**
At 31 December 2010	**622,000**	**755,953**	**3,595**	**300,492**	**1,302,170**	**2,984,210**

The amount of the Company's retained profits available for distribution to shareholders as at 31 December 2010 amounted to RMB1,302,170,000 (2009: RMB767,116,000).

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	2010	2009
	RMB'000	RMB'000
Profit before taxation	**954,253**	797,813
Adjustments for:		
Depreciation of property, plant and equipment	**517,675**	476,345
Amortisation of land use rights	**5,262**	4,456
Amortisation of intangible assets	**18,204**	23,999
Amortisation of other non-current assets	**1,185**	858
Loss on disposal of property, plant and equipment	**5,511**	5,923
Impairment loss on property, plant and equipment recognised	**16,487**	9,056
Write-down of inventories	**5,065**	–
Interest income from available-for-sale financial assets	**(31,991)**	(16,735)
Interest income from held-to-maturity financial assets	**(26,307)**	(4,188)
Share of results of associates	**(178,826)**	(150,240)
Provision (reversal) of allowance for doubtful debts	**214**	(4,870)
Interest income	**(194,195)**	(208,758)
Interest expense	**–**	6,323
Operating profit before movements in working capital	**1,092,537**	939,982
(Increase) decrease in inventories	**(330,801)**	108,392
(Increase) decrease in trade and other receivables	**(121,210)**	110,049
Decrease (increase) in prepaid rental	**36,380**	(3,576)
Decrease in amounts due from associates	**5**	498
Increase in amounts due from fellow subsidiaries	**(8,092)**	–
Increase in amounts due to fellow subsidiaries	**11,476**	88,542
(Increase) decrease of financial assets at fair value through profit or loss	**(202,215)**	25,832
(Decrease) increase in deferred income	**(9,128)**	5,805
Increase in restricted term deposits	**(694,600)**	(570,800)
Increase (decrease) in trade and other payables	**790,206**	(8,777)
Increase in coupon liabilities	**1,762,876**	887,899
(Decrease) increase in amounts due to associates	**608**	(19,890)
Cash generated from operations	**2,328,042**	1,563,956
Income taxes paid	**(246,494)**	(200,246)
Interest received	**153,429**	208,758
Interest paid	**–**	(6,323)
Net cash from operating activities	**2,234,977**	1,566,145

Consolidated Statement of Cash Flows

For the year ended 31 December 2010
(continued)

	2010	2009
	RMB'000	RMB'000
Investing activities		
Purchase of property, plant and equipment and construction in progress	**(592,534)**	(501,228)
Purchase of land use right	**(770)**	(91,649)
Proceeds from disposal of land use right	**–**	36,359
Proceeds from disposal of property, plant and equipment	**39,196**	3,987
Purchase of intangible assets	**(11,902)**	(10,321)
Acquired on acquisition of a subsidiary	**–**	(56,946)
Purchase of available-for-sale financial assets	**(1,100,000)**	(895,900)
Other dividends received	**2,111**	–
Proceeds on redemption of available-for-sale financial assets	**1,104,893**	516,735
Purchase of held-to-maturity financial assets	**(35,000)**	(462,500)
Interest received from held-to-maturity financial assets	**16,723**	–
Proceeds from held-to-maturity financial assets	**97,000**	–
Dividends received from associates	**125,113**	137,578
Decrease in amount due from ultimate holding company	**–**	156,110
Decrease in amounts due from fellow subsidiaries	**–**	116,156
Decrease (increase) in unrestricted term deposits	**(270,000)**	1,224,500
Net cash from (used in) investing activities	**(625,170)**	172,881
Financing activities		
Repayment of bank borrowings	**–**	(272,000)
Dividends paid to owners of the Company	**(192,820)**	(167,940)
Repayment of capital contributions to non-controlling shareholders	**(10,023)**	(4,873)
Dividends paid to non-controlling shareholders	**(21,803)**	(25,781)
Equity interest contributed by non-controlling shareholder of a subsidiary	**3,920**	1,350
Decrease in amount due to immediate holding company	**–**	(39,000)
Cash consideration paid upon acquisition of Hualian Group	**–**	(498,036)
Net cash used in financing activities	**(220,726)**	(1,006,280)
Increase (decrease) in cash and cash equivalents	**1,389,081**	732,746
Cash and cash equivalents at 1 January	**4,191,924**	3,459,178
Cash and cash equivalents at 31 December	**5,581,005**	4,191,924
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	**5,581,005**	4,191,924

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

1. Principal Activities

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

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

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

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

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")

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

HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (as revised in 2008)	Business Combinations
HKAS 27 (as revised in 2008)	Consolidated and Separate Financial Statements
HKAS 39 (Amendments)	Eligible Hedged Items
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners
HK – Int 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

The application of the new and revised HKFRSs in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") (continued)

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

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010 except for the amendments to HKFRS 3(as revised in 2008), HKAS 1 and HKAS 28[1]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[3]
HKFRS 9	Financial Instruments[4]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[5]
HKAS 24 (as revised in 2009)	Related Party Disclosures[6]
HKAS 32 (Amendments)	Classification of Rights Issues[7]
HK (IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[6]
HK (IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[2]

[1] Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.
[2] Effective for annual periods beginning on or after 1 July 2010.
[3] Effective for annual periods beginning on or after 1 July 2011.
[4] Effective for annual periods beginning on or after 1 January 2013.
[5] Effective for annual periods beginning on or after 1 January 2012.
[6] Effective for annual periods beginning on or after 1 January 2011.
[7] Effective for annual periods beginning on or after 1 February 2010.

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") (continued)

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

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 will be adopted in the Group's consolidated financial statements for financial year ending 31 December 2013 and that the application of the new Standard may have a significant impact on amounts reported in respect of the Groups' financial assets and financial liabilities.

HKAS 24 *Related Party Disclosures* (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities. The disclosure exemptions introduced in HKAS 24 (as revised in 2009) may affect the Group because the Group is a government-related entity. Disclosures regarding related party transactions and balances in these consolidated financial statements may also be affected when the revised version of the Standard is applied in future accounting periods.

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

3. Significant Accounting Policies

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

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

The principal accounting policies are set out below.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. Significant Accounting Policies (continued)

Basis of consolidation

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

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

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

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

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interest in existing subsidiaries

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

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured as revaluated amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. Significant Accounting Policies (continued)

Business combinations

Business combinations that took place on or after 1 January 2010

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquire and the equity interests issued by the Group in exchange for control of the acquire. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment transaction of the acquire or the replacement of an acquiree's share-based payment transaction with share-based payment transactions of the Group are measured in accordance with HKFRS 2 *Share-based Payment*; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquire, and the fair value of the acquirer's previously held equity interest in the acquire (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration-transferred, the amount of any non-controlling interests in the acquire and the fair value of the acquirer's previously held interest in the acquire (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another Standard.

3. Significant Accounting Policies (continued)

Business combinations (continued)

Business combinations that took place prior to 1 January 2010

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that met the relevant conditions for recognition were generally recognised at their fair value at the acquisition date.

Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the recognised amounts of the identifiable assets, liabilities and contingent liabilities recognised. If, after assessment, the Group's interest in the recognised amounts of the acquiree's identifiable assets, liabilities and contingent liabilities exceeded the cost of the acquisition, the excess was recognised immediately in profit or loss.

The minority interest in the acquiree was initially measured at the minority interest's proportionate share of the recognised amounts of the assets, liabilities and contingent liabilities of the acquiree.

Merger accounting for business combination involving entities under common control

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. Significant Accounting Policies (continued)

Goodwill

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

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

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

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

Investments in associates

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. Significant Accounting Policies (continued)

Investments in associates (continued)

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

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

Revenue recognition

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

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

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

Service income is recognised when services are provided.

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. Significant Accounting Policies (continued)

Property, plant and equipment

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

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

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

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

Leasing

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

The Group as lessor

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

The Group as lessee

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

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

3. Significant Accounting Policies (continued)

Leasehold land and building

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

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

Borrowing costs

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

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

Government grants

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

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

Retirement benefit costs

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. Significant Accounting Policies (continued)

Taxation

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. Significant Accounting Policies (continued)

Intangible assets

Intangible assets acquired separately

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

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

Inventories

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

Financial instruments

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

Financial assets

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Effective interest method

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

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

Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trading if:

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

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

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

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

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Loans and receivables

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

Held-to-maturity investments

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

Available-for-sale financial assets

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Impairment of financial assets

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

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

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

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

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

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

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

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

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Impairment of financial assets (continued)

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

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

Financial liabilities and equity

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

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Financial liabilities

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

Equity instruments

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

Derecognition

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

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

Provisions

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Key sources of estimation uncertainty

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

Deferred taxation

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

Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 3. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

Useful lives and residual values of property, plant and equipment

The Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. The Group will increase the depreciation charge where useful lives are less than previously estimated lives, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Net realisable value of inventories

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty (continued)

Key sources of estimation uncertainty (continued)

Estimated impairment of non-financial assets other than goodwill

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

Estimated store closure provision

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

5. Turnover and Other Revenue

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

	2010	2009
	RMB'000	RMB'000
Turnover		
Sales of merchandise	**25,887,432**	24,017,720
Other revenue		
Income from suppliers	**1,815,567**	1,727,035
Gross rental income from leasing of shop premises	**479,763**	457,532
Royalty income from franchised stores	**66,526**	63,140
Commission income from coupon redemption in other retailers	**53,519**	32,615
	2,415,375	2,280,322
Total revenue	**28,302,807**	26,298,042

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

6. Segment Information

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

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

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

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

	Segment revenue		**Segment results**	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Hypermarkets	**16,055,573**	14,414,598	**330,820**	243,857
Supermarkets	**10,170,676**	10,040,750	**351,313**	327,889
Convenience stores	**1,870,978**	1,676,987	**40,007**	25,128
Other operations	**205,580**	165,707	**102,741**	99,890
	28,302,807	26,298,042	**824,881**	696,764

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

6. Segment Information (continued)

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

	2010	2009
	RMB'000	RMB'000
Segment results	**824,881**	696,764
Interest income	**22,919**	34,254
Unallocated income	**47,779**	18,279
Unallocated expenses	**(120,152)**	(101,724)
Share of profits of associates	**178,826**	150,240
Consolidated profit before taxation	**954,253**	797,813

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

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

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

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

	31/12/2010	31/12/2009
	RMB'000	RMB'000
Segment assets		
– Hypermarkets	**9,603,936**	8,077,369
– Supermarkets	**5,636,381**	4,539,038
– Convenience Stores	**314,422**	333,052
– Other operations	**175,673**	89,760
Total segment assets	**15,730,412**	13,039,219
Investments in associates	**503,567**	449,885
Other unallocated assets	**2,212,884**	1,929,292
Total assets	**18,446,863**	15,418,396

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

6. Segment Information (continued)

Other segment information

2010

	Hypermarkets RMB'000	Supermarkets RMB'000	Convenience stores RMB'000	Other operations RMB'000	Total RMB'000
Amounts included in the measure of segment results or segment assets:					
Addition to non-current assets (note)	**351,619**	**202,534**	**22,239**	**443**	**576,835**
Depreciation	**331,823**	**149,093**	**22,621**	**14,138**	**517,675**
Amortisation	**13,458**	**5,861**	**929**	**4,403**	**24,651**
Impairment losses on property, plant and equipment	**6,525**	**7,012**	**2,950**	**–**	**16,487**
Loss (gain) on disposal of property, plant and equipment	**4,257**	**690**	**577**	**(13)**	**5,511**
Interest income	**61,965**	**66,595**	**205**	**42,511**	**171,276**

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

2009

	Hypermarkets RMB'000	Supermarkets RMB'000	Convenience stores RMB'000	Other operations RMB'000	Total RMB'000
Amounts included in the measure of segment results or segment assets:					
Addition to non-current assets	510,987	247,350	32,072	–	790,409
Depreciation	306,577	133,026	20,933	15,809	476,345
Amortisation	18,210	7,044	841	3,218	29,313
Impairment losses on property, plant and equipment	–	9,056	–	–	9,056
Loss (gain) on disposal of property, plant and equipment	2,554	3,314	121	(66)	5,923
Interest income	34,578	68,413	123	71,390	174,504
Finance costs	560	2,703	–	3,060	6,323

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

6. Segment Information (continued)

Geographical information

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

Information about major customers

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

7. Other Income

	2010	2009
	RMB'000	RMB'000
Interest income on cash and term deposits	**194,195**	208,758
Government subsidies	**48,118**	20,324
Fair value change of financial assets at fair value through profit or loss	**31,250**	18,539
Interest income from available-for-sale financial assets	**31,991**	16,735
Interest income from held-to-maturity financial assets	**26,307**	4,188
Compensation for relocation or rental	**7,941**	11,910
Salvage sales	**27,230**	19,756
Others	**80,408**	72,307
Total	**447,440**	372,517

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

8. Taxation

	2010	2009
	RMB'000	RMB'000
PRC income tax		
– Current taxation	**261,789**	230,959
– Deferred taxation	**(18,135)**	(22,529)
	243,654	208,430

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

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the EIT tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards. Certain subsidiaries are taxed at preferential rate of 15% to 22% (2009: 15% to 20%).

	2010		2009	
	RMB'000	%	RMB'000	%
Profit before tax	**954,253**		797,813	
Tax at the PRC statutory income tax rate of 25% (2009: 25%)	**238,563**	**25.0**	199,453	25.0
Tax effect of share of profit of associates	**(44,707)**	**(4.7)**	(37,560)	(4.7)
Tax effect of expenses not deductible for tax purpose	**18,103**	**1.9**	16,755	2.0
Tax effect of income not taxable for tax purpose	**(18,596)**	**(1.9)**	(5,081)	(0.6)
Tax effect of tax losses not recognised	**76,760**	**8.0**	39,553	5.0
Utilisation of tax losses previously not recognised	**(18,988)**	**(2.0)**	(1,857)	(0.2)
Effect of tax exemptions and preferential tax rates granted to certain PRC subsidiaries	**(7,481)**	**(0.8)**	(2,833)	(0.4)
Tax charge and effective tax rate for the year	**243,654**	**25.5**	208,430	26.1

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

9. Profit Before Taxation

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

	2010 RMB'000	2009 RMB'000
Amortisation and depreciation		
Amortisation of other non-current assets (note 21)	**1,185**	858
Amortisation of intangible assets (note 16)	**18,204**	23,999
Amortisation of land use rights (note 15)	**5,262**	4,456
Depreciation of property, plant and equipment (note 13)	**517,675**	476,345
Total amortisation and depreciation	**542,326**	505,658
Share of profits of associates		
Share of profit before taxation	**(238,784)**	(204,480)
Share of taxation	**59,958**	54,240
	(178,826)	(150,240)
Auditors' remuneration	**5,697**	4,092
Loss on disposal of property, plant and equipment	**5,511**	5,923
Impairment loss on property, plant and equipment recognised (included in other operating expenses)	**16,487**	9,056
Director's remuneration (note 10)	**12,710**	8,814
Salaries, wages and other employee benefits of other staff	**1,810,758**	1,651,096
Retirement benefit scheme contribution of other staff (note 41)	**190,670**	165,743
Total Staff costs	**2,014,138**	1,825,653
Allowance for doubtful debt	**214**	(4,870)
Cost of inventories recognised as expenses	**22,276,482**	20,881,677

10. Directors', Supervisors' and Employees' Remuneration

(a) Directors' emoluments

The remuneration of each Director for the year ended 31 December 2010 is set out below:

Name of Director	Fees RMB'000	Basic salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000 (note)	Retirement benefit costs RMB'000	Medical benefits RMB'000	2010 RMB'000	2009 RMB'000
Executive/Non-executive Directors:							
Mr. Hua Guo-ping	–	277	1,173	41	15	**1,506**	–
Mr. Liang Wei	–	333	1,099	41	15	**1,488**	1,284
Ms. Xu Ling-ling	–	277	1,155	41	15	**1,488**	1,126
Ms. Cai Lan-ying	–	277	6,391	67	10	**6,745**	6,044
Mr.Tang Qi	–	277	790	41	15	**1,123**	–
Mr. Ma Xin-sheng	–	–	–	–	–	**–**	–
Mr. Xu Bo	–	–	–	–	–	**–**	–
Mr. Kazuyasu Misu	–	–	–	–	–	**–**	–
Mr. Wong Tak Hung	–	–	–	–	–	**–**	–
Independent non-executive Directors:							
Mr. Lee Kwok Ming, Don	120	–	–	–	–	**120**	120
Mr. Zhang Hui Ming	120	–	–	–	–	**120**	120
Mr. Xia Da Wei	120	–	–	–	–	**120**	120
2010	**360**	**1,441**	**10,608**	**231**	**70**	**12,710**	**8,814**
2009	360	887	7,386	143	38		**8,814**

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

None of the Directors waived any emoluments during the years ended 31 December 2010 and 2009.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

10. Directors', Supervisors' and Employees' Remuneration (continued)

(b) Supervisory committee members' emoluments

The remuneration of each supervisor for the year ended 31 December 2010 is set out below:

Name of Director	Fees RMB'000	Basic salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000 (note)	Retirement benefit costs RMB'000	Medical benefits RMB'000	2010 RMB'000	2009 RMB'000
Mr.Chen Jian-jun	–	277	823	41	15	**1,156**	–
Mr.Wang Long-sheng	–	–	–	–	–	**–**	–
Mr.Dao Shu-rong	–	277	893	41	15	**1,226**	521
Mr.Zhang Zeng-yong	–	–	–	–	–	**–**	415
2010	**–**	**554**	**1,716**	**82**	**30**	**2,382**	**936**
2009	–	277	607	38	14		**936**

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

None of the Supervisors waived any emoluments during the years ended 31 December 2010 and 2009.

10. Directors', Supervisors' and Employees' Remuneration (continued)

(c) Five highest paid individuals

All five individuals whose emoluments were the highest in the Group during the year were executives of the Group. Except for Ms. Cai Lan-ying(2009: Ms. Cai Lan-ying) who is the director of the Company, none of them was a Director or Supervisor of the Company. The emoluments of these five highest paid individuals are as follows:

	2010	2009
	RMB'000	RMB'000
Basic salaries, allowances and benefits-in-kind	**1,393**	1,393
Discretionary bonuses	**26,205**	23,069
Retirement benefit costs	**336**	336
Medical benefits	**52**	49
	27,986	24,847

The emoluments fell within the following band:

	Number of Supervisors	
	2010	2009
HK$4,000,001 – HK$4,500,000	**–**	2
HK$4,500,001 – HK$5,000,000	**–**	1
HK$5,000,001 – HK$5,500,000	**–**	1
HK$5,500,001 – HK$6,000,000	**2**	–
HK$6,000,001 – HK$6,500,000	**1**	1
HK$6,500,001 – HK$7,000,000	**–**	–
HK$7,000,001 – HK$7,500,000	**1**	–
HK$7,500,001 – HK$8,000,000	**1**	–

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

11. Dividend

	2010	2009
	RMB'000	RMB'000
Dividend recognised as distribution during the year:		
2010 interim dividend RMB0.15 (2009: 2009 interim dividend RMB0.12) per share	**93,300**	74,640
2009 final dividend RMB0.16 (2009: 2008 final dividend RMB0.15) per share	**99,520**	93,300
	192,820	167,940

At a meeting held on 9 March 2011, the Directors proposed a final dividend of RMB0.18 (2009: RMB0.16) per share for the year ended 31 December 2010, totalling RMB111,960,000 (2009: RMB99,520,000). The proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings in the year ending 31 December 2011 upon approval by the shareholders at the forthcoming Annual General Meeting.

12. Earnings Per Share

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

	2010	2009
Earnings		
Profit for the year attributable to owners of the Company (RMB'000)	**622,579**	506,802
Number of shares		
Number of ordinary shares in issue during the year	**622,000,000**	622,000,000

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

13. Property, Plant and Equipment

Group	Buildings RMB'000	Leasehold improvements RMB'000	Transportation vehicles and equipment RMB'000	Operating and office equipment RMB'000	operations Total RMB'000
COST					
At 1 January 2009	1,358,457	1,799,720	243,446	1,432,569	4,834,192
Additions	19,817	240,378	17,267	124,240	401,702
Acquired on acquisition of a subsidiary	144,899	–	–	–	144,899
Transfer from construction in progress	187,266	10,941	–	9,973	208,180
Disposals	(8,000)	(97,849)	(11,948)	(68,689)	(186,486)
At 31 December 2009	1,702,439	1,953,190	248,765	1,498,093	5,402,487
Additions	–	192,370	32,881	178,989	404,240
Transfer from construction in progress	–	23,841	–	2,273	26,114
Disposals	(2,207)	(159,992)	(18,408)	(169,764)	(350,371)
At 31 December 2010	1,700,232	2,009,409	263,238	1,509,591	5,482,470
DEPRECIATION					
At 1 January 2009	216,421	954,390	93,986	664,456	1,929,253
Provided for the year	51,074	229,077	29,007	167,187	476,345
Eliminated on disposals	(8,000)	(41,431)	(3,019)	(57,210)	(109,660)
At 31 December 2009	259,495	1,142,036	119,974	774,433	2,295,938
Provided for the year	56,396	246,653	27,355	187,271	517,675
Eliminated on disposals	(883)	(152,346)	(14,392)	(127,513)	(295,134)
At 31 December 2010	**315,008**	**1,236,343**	**132,937**	**834,191**	**2,518,479**
IMPAIRMENT					
At 1 January 2009	–	90,016	1,512	41,728	133,256
Provided for the year	–	4,656	–	4,400	9,056
Eliminated on disposals	–	(55,904)	–	(11,012)	(66,916)
At 31 December 2009	–	38,768	1,512	35,116	75,396
Provided for the year	–	5,572	–	10,915	16,487
Eliminated on disposals	–	(4,656)	–	(5,874)	(10,530)
At 31 December 2010	**–**	**39,684**	**1,512**	**40,157**	**81,353**
CARRYING VALUES					
At 31 December 2010	**1,385,224**	**733,382**	**128,789**	**635,243**	**2,882,638**
At 31 December 2009	1,442,944	772,386	127,279	688,544	3,031,153

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

13. Property, Plant and Equipment (continued)

Notes:

(a) An impairment loss of RMB16,487,000 (2009: RMB9,056,000) on certain items of property plant and equipment has been recognised during the year mainly due to certain loss making of hypermarkets and supermarkets.

(b) Amongst the depreciation expense of RMB517,675,000(2009: RMB476,345,000), RMB482,659,000 (2009: RMB436,242,000) and RMB35,016,000(2009: RMB40,103,000) were included in selling and distribution expenses and administrative expenses respectively.

(c) As of 31 December 2010, the Group have not obtained building ownership certificates for certain buildings with carrying amount of RMB193,631,000 (2009: RMB194,212,000).

Company	**Buildings RMB'000**	**Leasehold improvements RMB'000**	**Transportation vehicles and equipment RMB'000**	**Operating and office equipment RMB'000**	**Total RMB'000**
COST					
At 1 January 2009	290,902	144,823	5,383	41,949	483,057
Additions	–	1,719	1,263	1,939	4,921
Transfer from construction in progress	–	–	–	9,973	9,973
Disposals	–	(146,542)	(744)	(26,277)	(173,563)
At 31 December 2009	290,902	–	5,902	27,584	324,388
Additions	–	690	1,063	4,906	6,659
Transfer from construction in progress	–	2,049	–	2,273	4,322
Disposals	–	(1,870)	(288)	(2,358)	(4,516)
At 31 December 2010	**290,902**	**869**	**6,677**	**32,405**	**330,853**
DEPRECIATION					
At 1 January 2009	37,072	107,742	2,397	19,899	167,110
Provided for the year	6,980	3,259	1,161	5,494	16,894
Eliminated on disposals	–	(111,001)	(651)	(12,004)	(123,656)
At 31 December 2009	44,052	–	2,907	13,389	60,348
Provided for the year	6,088	1,935	891	4,847	13,761
Eliminated on disposals	–	(1,870)	(231)	(1,338)	(3,439)
At 31 December 2010	50,140	65	3,567	16,898	70,670
CARRYING VALUES					
At 31 December 2010	**240,762**	**804**	**3,110**	**15,507**	**260,183**
At 31 December 2009	246,850	–	2,995	14,195	264,040

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

13. Property, Plant and Equipment (continued)

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

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

14. Construction in Progress

Group	**Construction in progress RMB'000**
At 1 January 2009	153,963
Additions	141,838
Transfer to property, plant and equipment (note 13)	(208,180)
Transfer to intangible assets (note 16)	(700)
At 31 December 2009	86,921
Additions	159,923
Transfer to property, plant and equipment (note 13)	(26,114)
At 31 December 2010	**220,730**

Company	**RMB'000**
At 1 January 2009	8,374
Additions	10,001
Transfer to property, plant and equipment (note 13)	(9,973)
Transfer to intangible assets (note 16)	(700)
At 31 December 2009	7,702
Additions	5,108
Transfer to property, plant and equipment (note 13)	(4,322)
At 31 December 2010	**8,488**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

15. Land Use Rights

Group	Land use rights RMB'000
COST	
At 1 January 2009	242,690
Additions	91,649
Disposals	(36,359)
At 31 December 2009	297,980
Additions	770
At 31 December 2010	**298,750**
AMORTISATION	
At 1 January 2009	34,351
Charge for the year	4,456
At 31 December 2009	38,807
Charge for the year	5,262
At 31 December 2010	**44,069**
CARRYING VALUES	
At 31 December 2010	**254,681**
At 31 December 2009	259,173

	31/12/2010 RMB'000	31/12/2009 RMB'000
Analysed for reporting purposes as:		
Non-current portion	**249,419**	254,717
Current portion to be charged to the profit or loss next year included in deposits, prepayments and other receivables (note 25)	**5,262**	4,456
Total	**254,681**	259,173

Note:

In relation to the amortisation charge for the year of RMB5,262,000 (2009: RMB4,456,000), RMB2,636,000 (2009: RMB2,237,000) and RMB2,626,000 (2009: RMB2,219,000) were included in selling and distribution expenses and administrative expenses respectively.

15. Land Use Rights (continued)

Company	**Land use rights RMB'000**
COST	
At 1 January 2009, 31 December 2009 and 31 December 2010	43,035
AMORTISATION	
At 1 January 2009	8,359
Charge for the year	929
At 31 December 2009	9,288
Charge for the year	929
At 31 December 2010	**10,217**
CARRYING VALUES	
At 31 December 2010	**32,818**
At 31 December 2009	33,747

	31/12/2010 RMB'000	31/12/2009 RMB'000
Analysed for reporting purposes as:		
Non-current portion	**31,889**	32,818
Current portion to be charged to the profit or loss next year included in deposits, prepayments and other receivables (note 25)	**929**	929
	32,818	33,747

The Group's interests in land use rights represent prepaid operating lease payment for the land in the People's Republic of China with land use right period ranging from 10 to 50 years.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

16. Intangible Assets

Group	Software RMB'000	Goodwill RMB'000	Total RMB'000
COST			
At 1 January 2009	111,781	172,000	283,781
Additions	10,321	–	10,321
Transfer from construction in progress	700	–	700
Disposals	(1,960)	–	(1,960)
At 31 December 2009	120,842	172,000	292,842
Additions	11,902	–	11,902
Disposals	(743)	–	(743)
At 31 December 2010	**132,001**	**172,000**	**304,001**
AMORTISATION AND IMPAIRMENT			
At 1 January 2009	66,827	20,059	86,886
Charge for the year	23,999	–	23,999
Eliminated on disposals	(1,960)	–	(1,960)
At 31 December 2009	88,866	20,059	108,925
Charge for the year	18,204	–	18,204
Eliminated on disposals	(743)	–	(743)
At 31 December 2010	**106,327**	**20,059**	**126,386**
CARRYING VALUES			
At 31 December 2010	**25,674**	**151,941**	**177,615**
At 31 December 2009	31,976	151,941	183,917

Notes:

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

(b) In relation to the amortisation charge for the year of RMB18,204,000 (2009:RMB23,999,000), RMB11,682,000 (2009: RMB17,046,000) and RMB6,522,000 (2009: RMB6,953,000) were included in selling and distribution expenses and administrative expenses respectively.

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

16. Intangible Assets (continued)

Impairment tests for goodwill

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

	31/12/2010	31/12/2009
	RMB'000	RMB'000
Supermarkets	**101,731**	101,731
Hypermarkets	**45,944**	45,944
Others	**4,266**	4,266
	151,941	151,941

The recoverable amounts of the groups of cash-generating units are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rate and growth rate. These calculations are based on cash flow forecasts prepared by the Group, which is derived from the one year financial budgets and extrapolated for the following 15 years using an estimated growth rate of 3% to 10% and a pre-tax discount rate of 9% (2009: 9%). This pre-tax discount rate is equivalent to a post-tax discount rate of 7% (2009: 7%). The growth rate used does not exceed the average long-term growth rate for the relevant markets.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

16. Intangible Assets (continued)

Impairment tests for goodwill (continued)

Company	**Software**
	RMB'000
COST	
At 1 January 2009	15,071
Additions	1,057
Transfer from construction in progress	700
At 31 December 2009	16,828
Additions	6,656
Disposals	(922)
At 31 December 2010	22,562
AMORTISATION	
At 1 January 2009	9,947
Charge for the year	3,015
At 31 December 2009	12,962
Charge for the year	3,282
Disposals	(922)
At 31 December 2010	15,322
CARRYING VALUES	
At 31 December 2010	7,240
At 31 December 2009	3,866

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

17. Investments in Subsidiaries/Balances with Subsidiaries

Company	**31/12/2010**	31/12/2009
	RMB'000	RMB'000
Unlisted equity investments, at cost	**1,406,453**	1,406,653
Less: Impairment losses	**(79,590)**	(79,590)
	1,326,863	1,327,063

Particulars of the Company's principal subsidiaries at 31 December 2010 are set out in note 43.

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

18. Investments in Associates

Group	**31/12/2010**	31/12/2009
	RMB'000	RMB'000
Unlisted equity investments, at cost	**194,060**	194,060
Share of post – acquisition profits, net of dividends received	**309,507**	255,825
	503,567	449,885

Company	**31/12/2010**	31/12/2009
	RMB'000	RMB'000
Unlisted equity investments, at cost	**192,871**	192,871

Investments in associates as at 31 December 2010 include goodwill of RMB6,787,000 (2009: RMB6,787,000).

Particulars of the Company's principal associates at 31 December 2010 and 2009 are set out in note 43.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

18. Investments in Associates (continued)

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

Group	**31/12/2010**	31/12/2009
	RMB'000	RMB'000
Total assets	**4,463,337**	4,187,981
Total liabilities	**3,047,330**	2,979,044
Net assets	**1,416,007**	1,208,937
Group's share of net assets of associates	**496,780**	443,098

	31/12/2010	31/12/2009
	RMB'000	RMB'000
Revenue	**8,890,659**	6,916,811
Profit for the year	**486,219**	387,749
Group's share of profits of associates for the year	**178,826**	150,240

19. Available-for-sale Financial Assets

Group	**31/12/2010**	31/12/2009
	RMB'000	RMB'000
Non-current		
Legal person shares (note a)	**1,112**	1,112
Unlisted equity investments (note b)	**36,046**	30,159
Unlisted money market investments (note c)	**130,000**	–
	167,158	31,271
Current		
Unlisted money market investments (note c)	**500,000**	610,900
Total	**667,158**	642,171

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

19. Available-for-sale Financial Assets (continued)

Company	**31/12/2010 RMB'000**	31/12/2009 RMB'000
Non-current		
Legal person shares (note a)	**1,112**	1,112
Unlisted equity investments (note b)	**3,423**	3,423
Unlisted money market investment (note c)	**130,000**	–
	134,535	4,535
Current		
Unlisted money market investment (note c)	**500,000**	610,900
Total	**634,535**	615,435

Notes:

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

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

(c) The fair value of the unlisted money market investments issued by the banks and trust companies approximate the amounts of their principals and accrued interest income. The effective interest rate of the money market investments ranges from 2.0% to 7.80% (2009: 1.9% to 4.14%) per annum.

20. Held-to-maturity Financial Assets

Group	**31/12/2010 RMB'000**	31/12/2009 RMB'000
Non-current		
Unlisted government certificate bonds with fixed interest of 3.73%-5.74% and maturity date of over one year from the end of financial reporting period – PRC	**174,850**	177,615
Listed corporate bond with fixed interest of 7.1% and maturity date of over one year from the end of financial reporting period	**202,445**	200,000
	377,295	377,615
Current		
Unlisted government certificate bonds with fixed interest of 2.6%-5.74% and maturity date of less than one year from the end of financial reporting period – PRC	**45,777**	97,873
Total	**423,072**	475,488

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

20. Held-to-maturity Financial Assets (continued)

Company	**31/12/2010**	31/12/2009
	RMB'000	RMB'000
Non-current		
Unlisted government certificate bonds with fixed interest of 3.73%-5.74% and maturity date of over one year from the end of financial reporting period – PRC	**174,850**	172,615
Listed corporate bond with fixed interest of 7.1% and maturity date of over one year from the end of financial reporting period	**202,445**	200,000
	377,295	372,615
Current		
Unlisted government certificate bonds with fixed interest of 2.6%-5.74% and maturity date of less than one year from the end of financial reporting period – PRC	**40,085**	97,873
Total	**417,380**	470,488

The carrying amounts of the unlisted held-to-maturity financial assets of the Group and the Company approximate their fair value. The carrying amounts of the listed held-to-maturity financial assets of the Group and the Company approximate their fair value which is determined by quoted price in active market.

21. Other Non-current Assets

Other non-current assets of the Group and the Company include payments to government for obtaining the rights to use certain buildings, which may or may not have a specified period of time limit, and are being amortised over the shorter of the contract period or the estimated useful lives of the buildings. The carrying amount of other non-current assets of the Group has been reduced to its recoverable amount through recognition of an impairment loss of RMB3,197,000 in 2007. In 2009 and 2010, no additional impairment loss associated with other non-current assets of the Group has been recognised.

Amongst the amortisation of RMB1,185,000 (2009: RMB858,000), RMB997,000 (2009: RMB670,000) and RMB188,000 (2009: RMB188,000) were included in selling and distribution expenses and administrative expenses respectively.

22. Prepaid Rental

Prepaid rental represents prepaid rental for store premises which will be charged to the statement of comprehensive income after 1 year. Prepaid lease payments which will be charged to the statement of comprehensive income within 1 year amounting to RMB223,303,000 (2009: RMB240,152,000) are included in prepayments in current assets (see note 25).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

23. Inventories

Group	**31/12/2010**	31/12/2009
	RMB'000	RMB'000
Merchandise for resale	**2,773,289**	2,439,893
Write-down for obsolescence	**(6,821)**	(1,756)
	2,766,468	2,438,137
Low value consumables	**18,774**	21,369
	2,785,242	2,459,506

Company	**31/12/2010**	31/12/2009
	RMB'000	RMB'000
Merchandise for resale	**405,114**	126,364
Write-down for obsolescence	**–**	(1,072)
	405,114	125,292
Low value consumables	**1,912**	1,821
	407,026	127,113

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

24. Trade Receivables

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

Group	**31/12/2010**	31/12/2009
	RMB'000	RMB'000
Within 30 days	**105,198**	59,958
31 – 60 days	**1,196**	14,082
61 – 90 days	**3,254**	176
91 days – one year	**7,722**	86
	117,370	74,302

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

	2010	2009
	RMB'000	RMB'000
1 January	**12,274**	13,336
Amounts reversed during the year	**(118)**	(1,062)
31 December	**12,156**	12,274

Company	**31/12/2010**	31/12/2009
	RMB'000	RMB'000
Within 30 days	**5**	75

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

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

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

25. Deposits, Prepayments and Other Receivables

Group	**31/12/2010**	31/12/2009
	RMB'000	RMB'000
Land use right – current portion (note 15)	**5,262**	4,456
Deposits and prepayments	**361,002**	314,115
Other receivables net of allowance for doubtful debts	**232,587**	169,152
	598,851	487,723

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

	2010	2009
	RMB'000	RMB'000
1 January	**6,432**	10,240
Impairment losses recognised on receivables	**332**	–
Amounts recovered during the year	**–**	(3,808)
31 December	**6,764**	6,432

Company	**31/12/2010**	31/12/2009
	RMB'000	RMB'000
Land use right – current portion (note 15)	**929**	929
Deposits and prepayments	**36,080**	19,484
Other receivables net of allowance for doubtful debts	**10,899**	10,099
	47,908	30,512

26. Amounts Due from Fellow Subsidiaries

Amounts due from fellow subsidiaries were unsecured, interest free and repayable on demand.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

27. Financial Assets at Fair Value through Profit or Loss

Group	31/12/2010	31/12/2009
	RMB'000	RMB'000
Financial assets held for trading		
Equity securities listed in the PRC	**4,089**	1,874
Open ended money market funds	**200,000**	–
	204,089	1,874

Company	31/12/2010	31/12/2009
	RMB'000	RMB'000
Financial assets held for trading		
Equity securities listed in the PRC held for trading, at market value	**30**	–

28. Amounts Due from/to Associates

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

29. Term Deposits

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

As at 31 December 2010, term deposits of the Group included restricted deposits amounting to RMB1,914,400,000 (2009: RMB1,219,800,000). The restricted deposits represent deposits placed by a subsidiary with various banks which are held as security for coupon issued to customers and are not available for other use by the Group.

The effective interest rate on term deposits was ranged from 2.25% to 5.13% (2009: 1.71% to 5.13%) per annum. The carrying amounts of the term deposits of the Group and the Company approximate their fair value.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

30. Cash and Cash Equivalents

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

Bank balances carry interest at prevailing market rates ranging from 0.36% to 2.79% per annum for the year ended 31 December 2010 (2009: ranging from 0.36% to 2.79% per annum).

31. Trade Payables

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

Group	**31/12/2010**	31/12/2009
	RMB'000	RMB'000
Within 30 days	**2,343,656**	2,982,348
31 – 60 days	**804,083**	296,485
61 – 90 days	**370,184**	104,145
91 days – one year	**636,680**	107,120
	4,154,603	3,490,098

Company	**31/12/2010**	31/12/2009
	RMB'000	RMB'000
Within 30 days	**1,062,100**	1,344,133
31 – 60 days	**504,993**	81,393
61 – 90 days	**178,048**	27,320
91 days – one year	**299,197**	51,253
	2,044,338	1,504,099

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

32. Other Payables and Accruals

Group	31/12/2010	31/12/2009
	RMB'000	RMB'000
Payroll, staff welfare and other staff cost payable	292,237	258,630
Value added tax and other payable	266,436	237,668
Rental receipt in advance	432,400	356,764
Deposits from lessees, franchisees and other third parties	121,883	145,222
Amount payable to other retailers upon customers' redemption of coupon issued by the Group	210,087	138,801
Prepayments from franchisees	197,479	229,585
Payables for acquisition of property, plant and equipment	142,982	171,353
Store closure provision	58,358	58,162
Accruals	46,957	41,543
Advance from customers	35,389	56,336
Other miscellaneous payables	66,379	79,193
	1,870,587	1,773,257

Company	31/12/2010	31/12/2009
	RMB'000	RMB'000
Payables for acquisition of property, plant and equipment	61,048	79,973
Accruals	3,287	226
Advance from customers	–	1,645
Other miscellaneous payables	67,363	170,950
	131,698	252,794

33. Coupon Liabilities

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

34. Amounts due to Ultimate Holding Company/Fellow Subsidiaries

Amount due to ultimate holding company and amounts due to fellow subsidiaries are unsecured, interest free and payable on demand.

35. Share Capital

	Number of shares of RMB1.00 each	Nominal value RMB'000
Registered, issued and fully paid		
At 1 January 2009, 31 December 2009 and 31 December 2010	622,000,000	622,000

The share capital of the Company as at 1 January 2009, 31 December 2009 and 2010 comprised of:

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

36. Deferred Taxation

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

Group	**31/12/2010**	31/12/2009
	RMB'000	RMB'000
Deferred tax assets	**120,739**	104,661
Deferred tax liabilities	**(49,318)**	(51,375)
	71,421	53,286

Company	**31/12/2010**	31/12/2009
	RMB'000	RMB'000
Deferred tax assets	**8,730**	20,177

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

Group	**Fair value adjustments on buildings RMB'000**	**Pre-operating expenses RMB'000**	**Bad debt and inventory provisions RMB'000**	**Accrued expenses RMB'000**	**Total RMB'000**
At 1 January 2009	(53,432)	452	6,883	76,854	30,757
Credit (charge) to profit or loss	2,057	124	(1,767)	22,115	22,529
At 31 December 2009	(51,375)	576	5,116	98,969	53,286
Credit (charge) to profit or loss	2,057	672	(256)	15,662	18,135
At 31 December 2010	**(49,318)**	**1,248**	**4,860**	**114,631**	**71,421**

36. Deferred Taxation (continued)

Company	**Deferred tax assets in respect of bad debt and accrued expenses RMB'000**
At 1 January 2009	438
Credit to profit and loss	19,739
At 31 December 2009	20,177
Charge to profit and loss	(11,447)
At 31 December 2010	**8,730**

The Group has unutilised tax losses of approximately RMB477,782,000 (2009: RMB349,535,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unutilised tax losses due to the unpredictability of future profit streams. The unrecognised tax losses will expire as follows:

Group	**31/12/2010 RMB'000**	31/12/2009 RMB'000
Year of expiry		
2010	**–**	45,628
2011	**54,714**	75,680
2012	**18,268**	25,251
2013 and afterwards	**404,800**	202,976
	477,782	349,535

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

37. Capital Risk Management

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

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

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

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

38. Financial Instruments

(a) Categories of financial instruments

Financial assets

Group	**31/12/2010**	31/12/2009
	RMB'000	RMB'000
Financial assets at fair value through profit or loss	**204,089**	1,874
Held-to-maturity investments	**423,072**	475,488
Available-for-sale financial assets	**667,158**	642,171
Loans and receivables (including cash and cash equivalents)	**9,713,483**	7,245,212
	11,007,802	8,364,745

Company	**31/12/2010**	31/12/2009
	RMB'000	RMB'000
Financial assets at fair value through profit or loss	**30**	–
Held-to-maturity investments	**417,380**	470,488
Available-for-sale financial assets	**634,535**	615,435
Loans and receivables (including cash and cash equivalents)	**5,943,300**	5,366,341
	6,995,245	6,452,264

38. Financial Instruments (continued)

(a) Categories of financial instruments (continued)

Financial liabilities

Group	**31/12/2010**	31/12/2009
	RMB'000	RMB'000
Other financial liabilities, at amortised cost	**6,303,941**	5,315,529

Company	**31/12/2010**	31/12/2009
	RMB'000	RMB'000
Other financial liabilities, at amortised cost	**3,184,582**	1,949,037

(b) Financial risk management objectives and policies

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

Currency risk

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

Interest rate risk

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

The Group's and the Company's cash flow interest rate risk exposure to changes in interest rates is mainly attributable to its bank balances. Bank balances at variable rates expose the Group and the Company to cash flow interest-rate risk. With all other variables held constant, if the average interest rate on bank balances subject to floating interest rate, held by the Group and the Company at the end of reporting period had been 25 basis(2009: 50 basis) point higher/lower, the Group's profit before tax and equity would increase/decrease by approximately RMB22,656,000 (2009: RMB35,009,000) and the Company's profit before tax and equity would increase/decrease by approximately RMB1,862,000 (2009: RMB4,005,000).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

38. Financial Instruments (continued)

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

Interest rate risk (continued)

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

Other price risk

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

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

Credit risk

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

The Group and the Company maintain substantially most of its cash and cash equivalents and term deposits in interest bearing accounts in several nationwide and regional renowned financial institutions in the PRC without significant credit risk. As at 31 December 2010, the five largest bank balances accounted for 69.34% of total term deposits and cash and cash equivalents of the Group (2009: 63.0%). As at 31 December 2010, the five largest bank balances accounted for 95.6% of total term deposits and cash and cash equivalents of the Company (2009: 98.5%). The remaining bank balances of the Group and the Company are also held in high quality financial institutions and the management are of the opinion that there is no significant credit risk on such assets.

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

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

38. Financial Instruments (continued)

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

Liquidity risk

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

As of 31 December 2010, the Group has net current liabilities of RMB3.1billion (2009: RMB2.2 billion). Taking into account of the existing banking facilities and cash flows from operations, the directors of the Company consider the liquidity risk is properly monitored.

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

Group

Financial liabilities	Weighted average interest rate %	Less than 6 months RMB'000	6 months to 1 year RMB'000	Over 1 year RMB'000	Undiscounted cash flows RMB'000	Carrying amount RMB'000
As at 31 December 2010						
Trade payables	**–**	**4,154,603**	**–**	**–**	**4,154,603**	**4,154,603**
Other payables and accruals	**–**	**1,835,198**	**–**	**–**	**1,835,198**	**1,835,198**
Amounts due to associates	**–**	**5,399**	**–**	**–**	**5,399**	**5,399**
Dividend payable to non-controlling interest	**–**	**203,569**	**–**	**–**	**203,569**	**203,569**
Amounts due to fellow subsidiaries	**–**	**105,172**	**–**	**–**	**105,172**	**105,172**
		6,303,941	–	–	**6,303,941**	**6,303,941**
As at 31 December 2009						
Trade payables	–	3,490,098	–	–	3,490,098	3,490,098
Other payables and accruals	–	1,716,921	–	–	1,716,921	1,716,921
Amounts due to associates	–	4,791	–	–	4,791	4,791
Amount due to ultimate holding company	–	10,023	–	–	10,023	10,023
Amounts due to fellow subsidiaries	–	93,696	–	–	93,696	93,696
		5,315,529	–	–	5,315,529	5,315,529

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

38. Financial Instruments (continued)

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

Liquidity risk (continued)

Company

Financial liabilities	Weighted average interest rate %	Less than 6 months RMB'000	6 months to 1 year RMB'000	Over 1 year RMB'000	Undiscounted cash flows RMB'000	Carrying amount RMB'000
As at 31 December 2010						
Trade payables	**–**	**2,044,338**	**–**	**–**	**2,044,338**	**2,044,338**
Other payables and accruals	**–**	**131,916**	**–**	**–**	**131,916**	**131,916**
Amounts due to associates	**–**	**5,399**	**–**	**–**	**5,399**	**5,399**
Amounts due to fellow subsidiaries	**–**	**13,822**	**–**	**–**	**13,822**	**13,822**
Amounts due to subsidiaries	**–**	**989,107**	**–**	**–**	**989,107**	**989,107**
		3,184,582	**–**	**–**	**3,184,582**	**3,184,582**
As at 31 December 2009						
Trade payables	–	1,504,099	–	–	1,504,099	1,504,099
Other payables and accruals	–	251,149	–	–	251,149	251,149
Amounts due to associates	–	1,227	–	–	1,227	1,227
Amount due to ultimate holding company	–	10,023	–	–	10,023	10,023
Amounts due to fellow subsidiaries	–	16,340	–	–	16,340	16,340
Amounts due to subsidiaries	–	166,199	–	–	166,199	166,199
		1,949,037	–	–	1,949,037	1,949,037

38. Financial Instruments (continued)

(c) Fair value

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

Fair value measurements recognised in the statement of financial position.

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

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

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

Group	**31/12/2010**			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Financial assets at FVTPL				
Non-derivative financial assets at fair value through profit and loss	204,089	–	–	204,089
Available-for-sale financial assets				
Legal person shares	1,112	–	–	1,112
Unlisted money market investments	630,000	–	–	630,000
Total	835,201	–	–	835,201

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

39. Capital Commitments

(a) Purchase of assets

	31/12/2010	31/12/2009
	RMB'000	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	**148,505**	254,087

(b) Share capital investment

According to the resolution by the board of directors, the company proposes to acquire the 33.64% non-controlling shares of Lianhua E-business Co., Ltd. and 30% non-controlling shares of Lianhua Quik Stores Co., Ltd., the company's subsidiaries, but the consideration hasn't been determined.

40. Operating Lease

(1) The Group as lessee

	31/12/2010	31/12/2009
	RMB'000	RMB'000
Minimum lease payments recognised as an expense under operating leases during the year:		
– Land and buildings	**1,433,176**	1,330,294

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

	31/12/2010	31/12/2009
	RMB'000	RMB'000
Within one year	**1,041,275**	1,180,764
In the second to fifth years inclusive	**3,937,955**	4,073,974
Over five years	**7,852,179**	7,743,977
	12,831,409	12,998,715

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

40. Operating Lease (continued)

(2) The Group as lessor

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

	31/12/2010	31/12/2009
	RMB'000	RMB'000
Minimum lease received under operating leases during the year:		
– Shop premises	**479,763**	457,532

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

	31/12/2010	31/12/2009
	RMB'000	RMB'000
Within one year	**198,262**	209,708
In the second to fifth years inclusive	**287,624**	330,423
Over five years	**128,224**	258,594
	614,110	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.

41. Retirement Benefit Plans

Defined contribution plans

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

The total cost charged to income of RMB190,670,000 (2009: RMB165,743,000) represents contributions payable to these schemes by the Group in respect of the current accounting period. As at 31 December 2010, the outstanding payable for the retirement benefits scheme amounted to RMB14,795,000 (31 December 2009: RMB14,036,000).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

42. Related Party Transactions

Apart from those disclosed under notes 26, 28 and 34, the Group entered into significant related party transactions during the year, which were carried out in the normal course of the Group's business, as follows:

(a) Related party transactions

	NOTES	**2010** **RMB'000**	2009 RMB'000
Sales to fellow subsidiaries		**3,569**	2,950
Purchases from associates			
– Shanghai Lianhua Supermarket, Food Co., Ltd., Shanghai Gude Commercial Trading Co., Ltd. and Sanming Taige Information Technology Co., Ltd.	(i)	**27,007**	24,271
Purchases from fellow subsidiaries	(i)	**118,818**	89,206
Logistic expense paid to a fellow subsidiary	(i)	**14,558**	10,215
Rental expenses and property management fee paid to fellow subsidiaries	(ii)	**49,605**	45,864
Interest income received from the ultimate holding company		**–**	5,273
Commission income received from fellow subsidiaries	(iii)	**8,710**	8,370
Commission charges arising from the usage of online trading system of a fellow subsidiary		**311**	1,374
Commission income arising from the redemption of coupon liabilities with a fellow subsidiary	(iv)	**25,810**	20,544
Commission charges arising from the redemption of coupon liabilities with a fellow subsidiary	(iv)	**24,728**	19,587

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

42. Related Party Transactions (continued)

(a) Related party transactions (continued)

Notes:

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

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

(iii) The commission income was received from fellow subsidiaries controlled by the ultimate holding company in relation to the redemption of the coupons issued by the Group in retail outlets of these related companies. The commissions were charged at rates ranging from 1.5% to 3% of the sales made through the coupons in the retail outlets of these companies.

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

42. Related Party Transactions (continued)

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

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

	2010	2009
	RMB'000	RMB'000
Purchase of goods	**4,238,457**	3,144,142
Interest income	**194,195**	203,485
Bank charges	**23,018**	22,421
Interest expenses	**–**	6,323

	31/12/2010	31/12/2009
	RMB'000	RMB'000
Current liabilities		
Trade payable and other liabilities	**329,635**	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 year was as follows:

	2010	2009
	RMB'000	RMB'000
Salaries and other short-term employee benefits	**15,320**	14,057
Post-employment benefits	**355**	465
Other long-term benefits	**118**	159
	15,793	14,681

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

43. Particulars of Principal Subsidiaries and Associates

Details of the Company's principal subsidiaries and associates at 31 December 2010 and 31 December 2009 are as follows:

Name of Entities	Date of establishment	Registered and fully paid capital RMB'000	Proportion voting power &ownership interest held by the Company Directly 2010 %	Directly 2009 %	Indirectly 2010 %	Indirectly 2009 %	Principal activities
(a) Subsidiaries							
Shenyang Century Lianhua Supermarket Co., Ltd.	26 May 2004	3,000	**90.00**	90.00	**9.94**	9.94	Hypermarket
Tianjin Yishang Lianhua Supermarket Co., Ltd.	1 September 2002	30,000	**80.00**	80.00	**–**	–	Hypermarket
Shanghai Century Lianhua Supermarket Development Co., Ltd.	24 November 1997	100,000	**100.00**	100.00	**–**	–	Hypermarket
Hangzhou Lianhua Huashang Group Co., Ltd.	1 June 2001	120,500	**74.19**	74.19	**–**	–	Supermarket and hypermarket
Lianhua Supermarket Jiangsu Co., Ltd.	21 March 2003	50,000	**85.00**	85.00	**14.40**	14.40	Supermarket and hypermarket
Guangxi Lianhua Supermarket Joint Stock Co., Ltd.	18 November 2001	68,670	**92.00**	92.00	**2.59**	2.59	Supermarket and hypermarket
Shanghai Lianhua Supermarket Jiading Co., Ltd.	9 October 1996	3,290	**81.76**	81.76	**18.24**	18.24	Supermarket
Shanghai Lianhua Xinxin Supermarket Co., Ltd.	22 April 1997	13,300	**55.00**	55.00	**–**	–	Supermarket
Shanghai Lianhua Supermarket Development Co., Ltd.	8 April 2006	10,000	**100.00**	100.00	**–**	–	Supermarket
Lianhua Quik Stores Co., Ltd.	25 November 1997	63,000	**70.00**	70.00	**–**	–	Convenience store
Shanghai Lianhua Commercial Trading Co., Ltd.	27 June 2001	3,000	**30.00**	30.00	**56.45**	56.45	Wholesaling
Shanghai Lianhua Supermarket Distribution Co., Ltd.	29 October 1998	5,000	**90.00**	90.00	**10.00**	10.00	Purchase and distribution
Lianhua Logistic Co., Ltd.	17 October 2007	50,000	**100.00**	100.00	**–**	–	Purchase and distribution
Shanghai Lianhua Supermarket Jilin Purchase and Distribution Co., Ltd.	9 August 2000	1,000	**51.00**	51.00	**–**	–	Purchase and distribution
Shanghai Lianhua Live and Fresh Food Processing and Distribution Co., Ltd.	29 December 1999	5,000	**90.00**	90.00	**–**	–	Fresh food processing and distribution
Lianhua E-business Co., Ltd.	4 October 1995	55,000	**57.27**	57.27	**–**	–	Trading
Hualian Supermarket Holdings Company Limited	15 August 2006	300,000	**99.40**	99.40	**0.60**	0.60	Supermarket

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

43. Particulars of Principal Subsidiaries and Associates (continued)

Name of Entities	Date of establishment	Registered and fully paid capital RMB'000	Proportion voting power &ownership interest held by the Company Directly 2010 %	2009 %	Indirectly 2010 %	2009 %	Principal activities
(b) Associates							
Shanghai Carhua Supermarket Co., Ltd.	8 February 1995	356,824	**45.00**	45.00	**–**	–	Hypermarket
Tianjin Yishang Development	27 October 1998	200,277	**20.00**	20.00	**–**	–	Department stores

Note:

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

44. Authorisation for the Issue of The Accounts

These consolidated financial statements were authorised for issue by the Company's Board of Directors on 9 March 2011.

LIANHUA SUPERMARKET HOLDINGS CO., LTD.

Annual Report 2010