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

Stock Code : 0980

20th Anniversary

Interim Report 2011

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Corporate Information

Directors

Executive Directors

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

Non-Executive Directors

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

Independent Non-Executive Directors

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

Board Committees

Audit Committee

Mr. Lee Kwok Ming, Don *(Chairman)*
Mr. Xia Da-wei
Mr. Zhang Hui-ming

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

Company Secretary

Ms. Xu Ling-ling

Authorized Representatives

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

International Auditor

Deloitte Touche Tohmatsu

Legal Advisors to the Company

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

As to PRC laws
Grandall Law Firm (Shanghai)

Investors and Media Relations Consultant

Christensen International Limited

Principal Bankers

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

Corporate Information

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Registered Office in the PRC

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Share Information

Listing Place

The Stock Exchange of Hong Kong Limited
("Stock Exchange" or "SEHK")

Listing Date

27 June 2003

SEHK Stock Code

980

Number of H Shares Issued

207,000,000 H shares

Financial Year-end Date

31 December

Management Discussion and Analysis

Operating Environment

In 2011, China launched the "Twelfth Five-Year Plan", which, for the first time, listed Expansion of the Domestic Markets independently and clearly stated the government's intention to fully explore the significant potential of domestic markets. This provides a sound external environment for the healthy and rapid development of the retail sector. Increasing consumption, growing urbanisation, progress in the wealth distribution reform, a new development model, and accelerating economic restructuring are strong growth drivers for the domestic markets.

In the first half of the year 2011, China implemented active fiscal policies and stable monetary policies with strengthened and optimised macro-economic controls. As such, the overall economy progressed well towards the expected development direction.

During the first half of the year 2011, the gross domestic product (GDP) reached RMB20.44 trillion, representing an increase of 9.6% as compared with the corresponding period of 2010 according to the National Bureau of Statistics. This helped China consolidate its position as the second largest economy in the world. In the first half of 2011, total income per capita of urban households was RMB12,076 and disposable income per capita of urban residents amounted to RMB11,041, representing an increase of 13.2% as compared with the corresponding period of 2010 or 7.6% increase in real terms after adjusted for price factor.

As the macro economy rebounded steadily, the Consumer Confidence Index rebounded from the end of 2010 and reached 108.0 in June 2011. In the first half of 2011, total retail sales of consumer products grew by 16.8% as compared with the corresponding period of 2010, or the same growth rate as compared with the end of 2010. Price level continued to pick up and Consumers' Price Index ("CPI") remained high, rising by 5.4% as compared with the corresponding period of 2010 and hitting a record high of 6.4% in June 2011, representing opportunities for the retail sector.

On the other hand, the ever-growing CPI has generated great inflation pressures as well. Meanwhile, slowing-down consumption growth, increasing operational cost and intensified market competition among domestic and foreign players are presenting both challenges and opportunities for the retail distribution sector in 2011.

Financial Review

Growth in turnover and consolidated income

During the period under review, the Group recorded a turnover of RMB14,021 million, representing a growth of 7.8% as compared with the corresponding period of 2010, and the same store sales increased by 8.62%. Such remarkable increase, as compared with the corresponding period of 2010, was primarily attributable to the continuous efforts in all kinds of effective marketing and promotion activities, the modified fresh product operation mode and the increasing consumer prices.

During the period under review, gross profit grew steadily and reached RMB1,933 million, an increase of 10.2% as compared with the corresponding period of 2010, and gross profit margin increased by 0.30 percentage point to 13.78%. The consolidated income reached RMB3,453 million, representing an increase of 11.6% as compared with the corresponding period of 2010. The consolidated income margin reached 24.62%, representing an increase of 0.84 percentage point. The steady growth in consolidated income margin was mainly attributable to the further enhanced efficiency, resulting from the consolidation of merchandise resources and the strengthening centralised management of cash. The Group has maintained sufficient cash flow during the period, adopting prudent principles and professional management to realise steady growth in capital income. During the period under review, capital income amounted to RMB183,326 thousand, representing an increase of 36.0% over the corresponding period of 2010.

Management Discussion and Analysis

Operating cost and net profit

During the period under review, total distribution expenses of the Group amounted to RMB2,607 million, representing an increase of 10.5% over the corresponding period of 2010. Total administrative expenses amounted to RMB331,135 thousand and the overall cost ratio increased by approximately 0.33 percentage point as compared with the corresponding period of 2010. Items of major operating costs such as rental, labour and utilities charges amounted to RMB738,410 thousand, RMB1,189,767 thousand and RMB219,584 thousand, respectively. The rise in rental charge was mainly attributable to new and renewed outlets, and that in labour cost was principally due to new outlets and pay rise of the existing staff. The Group is dedicated to improving its expenses control and human resources system to bring costs under reasonable control, while seeking to increase consolidated income to cope with the challenge of rising operating cost.

During the period under review, the Group recorded an operating profit of RMB491 million, representing a growth of 22.4% as compared with the corresponding period of 2010. The operating profit margin increased by 0.42 percentage point to 3.50% as compared with the corresponding period of 2010, which is the highest level since the listing of the Company. Hence, the operational capability has been further enhanced.

During the period under review, the Group's share of revenue of associated companies was RMB74,437 thousand, representing an increase of 2.5%. Shanghai Carhua Supermarket Company Limited opened three new outlets during the period under review.

During the period under review, the Group's tax charge and effective tax rate were RMB142,285 thousand and 25.17%, respectively. Although the Group strived for preferential taxation policy, the tax preferential period for the well-developed outlets would come to expire gradually and as outlets in different regions paid tax individually, the group could not claim tax credit across regions. Therefore, effective tax rate increased by 2.35 percentage points as compared with the corresponding period of 2010.

During the period under review, the Group recorded net profit attributable to the Company's shareholders of RMB391,691 thousand, representing an increase of 20.0% over the corresponding period of 2010. The net profit margin attributable to the Company's shareholders was 2.79%. Based on 622 million of ordinary shares outstanding, basic earnings per share were RMB0.63, the ever-best level of the Company.

Cash flow

During the period under review, the Group's net cash outflow reached RMB3,671,177 thousand, mainly due to increase in term deposits. Cash and miscellaneous bank balances as at the period-end amounted to RMB9,391,528 thousand, representing a growth of RMB36,123 thousand as compared with the balances at the end of 2010.

As at 30 June 2011, the turnover period of the Group's trade payables was 63 days, and inventory turnover period was approximately 37 days, one day shorter than that in the same period of 2010.

During the period under review, the Group did not use any financial instrument for hedging purposes and the Group did not issue any hedging instrument as at 30 June 2011.

Growth in retail businesses

Hypermarkets

During the period under review, the turnover of the Group's hypermarkets increased by approximately 13.3% as compared with the corresponding period of 2010 to RMB8,232,766 thousand, which accounted for approximately 58.7% of the Group's turnover, representing a rise of approximately 2.9 percentage points as compared with the corresponding period of 2010. The gross profit margin increased by 0.25 percentage point to 13.15%. Same store sales increased by 9.61%. The segment's operating profit was RMB220,705 thousand, representing an increase of 27.7% over that in the corresponding period of 2010. The operating profit margin increased by 0.30 percentage point when compared with the corresponding period of 2010 to 2.68%. So far as hypermarkets were concerned, the Group,

Management Discussion and Analysis

actively developing new stores, boosted sales through "Key Outlets" strategy, optimised merchandise structure with continuously strengthened procurement from places of origins, and achieved increasing satisfaction of merchandise supplies at lower costs by gradually replacing part of third party distribution with its own logistics system, witnessing constant reinforcement in overall operating capability and significant improvement of business performance.

	As at 30 June	
	2011	2010
Gross Profit Margin (%)	**13.15**	12.90
Consolidated Income Margin (%)	**24.57**	23.47
Operating Profit Margin (%)	**2.68**	2.38

Supermarkets

During the period under review, as business integration with the previous Hualian supermarkets was fully completed, the turnover of the supermarkets increased by 1.7% when compared with the corresponding period of 2010 to RMB4,897,719 thousand, which accounted for approximately 34.9% of the Group's turnover, representing a decline of approximately 2.1 percentage points when compared with the corresponding period of 2010. Same store sales increased by 7.21%, which was attributable to reinforced transformation of stores and improved capability for sales of fresh produce. However, sales growth was slow as affected by stores (including franchised stores) rationalisation and food safety incidents. Gross profit steadily grew by 8.0% to RMB718,053 thousand and gross profit margin was 14.66%, representing a growth of 0.85 percentage point as compared with the corresponding period of 2010. Consolidated income margin slightly decreased by 0.23 percentage point to 22.41%, which was mainly due to the decrease in income from franchising as a result of expiry and rationalisation of franchise stores of the supermarkets during the period under review. Segment operating profit was RMB220,174 thousand, representing a growth of 17.6% as compared with the corresponding period in 2010, and operating profit margin amounted to 4.5%.

	As at 30 June	
	2011	2010
Gross Profit Margin (%)	**14.66**	13.81
Consolidated Income Margin (%)	**22.41**	22.64
Operating Profit Margin (%)	**4.50**	3.89

Convenience Stores

During the period under review, due to the fall in the number of tourists after the close of World Expo 2010 and increasingly intensified competitions, the Group's convenience store segment recorded a turnover of RMB845,366 thousand, which accounted for approximately 6.0% of the Group's turnover, representing a slight decrease of approximately 0.5 percentage point as compared with the corresponding period of 2010. Through boosting differential operations by opening high-end outlets, and expanding the operating scope such as providing instant food bar, Kantodaki style fast food, ground coffee and ice drinks machine, the convenience store segment achieved an increase by 5.66% in same store sales and a gross profit margin of 15.24%, representing a decrease of 0.49 percentage point as compared with the corresponding period of 2010, and an increase of 0.46 percentage point as compared with the gross profit margin after excluding outlet sales in the World Expo Park in the corresponding period of 2010. Consolidated income margin was 23.82%, representing a decrease of 0.26 percentage point as compared with the corresponding period of 2010, and an increase of 0.26 percentage point as compared with the consolidated income margin after excluding outlet sales in the World Expo Park in the corresponding period of 2010. Due to significant rises in labour costs and rental costs, operating profit margin fell about 1.51 percentage points from that in the corresponding period of 2010 to 1.75%.

	As at 30 June	
	2011	2010
Gross Profit Margin (%)	**15.24**	15.73
Consolidated Income Margin (%)	**23.82**	24.08
Operating Profit Margin (%)	**1.75**	3.26

Management Discussion and Analysis

Analysis of financial results

	For the six months ended 30 June RMB million		
	2011	2010	Change over the corresponding period of last year (%)
Turnover	**14,021**	13,009	7.8
Gross profit	**1,933**	1,753	10.2
Consolidated income	**3,453**	3,094	11.6
Operating profit	**491**	401	22.4
Taxation	**142**	108	31.5
Profit for the period attributable to the Company's shareholders	**392**	326	20.0
Basic earnings per share (RMB)	**0.63**	0.52	21.2
Interim dividend per share (RMB)	**To be announced**	0.15	Not applicable

Capital structure

As at 30 June 2011, the Group's cash equivalents were mainly held in Renminbi, and the Group did not have any borrowings.

During the period under review, equity attributable to shareholders of the Group increased from approximately RMB2,893,043 thousand to approximately RMB3,172,774 thousand, which was mainly due to the profit amounting to approximately RMB391,691 thousand and dividends distribution amounting to approximately RMB111,960 thousand during the period.

Details of the Group's pledged assets

As at 30 June 2011, the Group did not have any pledged assets.

Exposure to foreign exchange risk

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

Share capital

As at 30 June 2011, 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

Management Discussion and Analysis

On 28 June 2011, the general meeting and the class meeting of the Company considered and approved the proposed issuance of bonus shares to the shareholders whose names appeared on the register of members of the Company on the record date, being 28 June 2011, on the basis of 8 bonus shares for every 10 shares held by shareholders on the record date (i.e., 8 domestic bonus shares, 8 unlisted foreign bonus shares or 8 H shares bonus shares for every 10 domestic shares, 10 unlisted foreign shares or 10 H shares held respectively). Bonus shares will be credited as fully paid through capitalisation of part of capital reserve of the Company. Please refer to the circular to shareholders of the Company dated 13 May 2011 for details.

As at the date of this interim report, the above bonus issue and relevant matters were still under review by the relevant government authorities of the PRC. Following completion of the bonus issue, the issued share capital of the Company will be changed as follows:

Class of shares	**Number of shares in issue**	**Percentage**
Domestic shares	639,977,400	57.16
Unlisted foreign shares	107,022,600	9.56
H shares	372,600,000	33.28
Total	1,119,600,000	100.00

Contingent liabilities

As at 30 June 2011, the Group did not have any material contingent liabilities.

Operating Review

Outlet Development

During the period under review, the Group focused on achieving both quality and quantity growth as it progressed in its efforts to become a regional leader and a strong player nationwide in the chain retail industry. The Group implemented its strategy of focused development and secured scale advantage, paving the way towards a leading position through sustainable growth.

During the period under review, six new hypermarkets were opened, one in Shanghai, one in Huai'an of Jiangsu Province, two in Hangzhou and one in Ningbo of Zhejiang Province, and one in Chengdu of Sichuan Province. The Group continued its in-depth development in Shanghai and Hangzhou, where it has dominant position, and stepped up its efforts to purchase land or properties for outlets in areas with growth potential, in order to increase its presence and market share in and around Yangtze River Delta and keep its growth momentum in other cities it had entered. In order to improve its sustainable competitiveness, the Group will adhere to its current development strategy of accelerating the development of hypermarkets in East China, particularly in Shanghai, Zhejiang, Jiangsu and Anhui provinces, and acquiring properties suitable for quality outlets in the highly sought-after development areas.

Management Discussion and Analysis

During the period under review, 92 new supermarkets were opened, including 12 directly-operated supermarkets and 80 franchised supermarkets. Based on the original double brands of "Lianhua Supermarket" and "Hualian Supermarket", the Group has begun adopting the "Lianhua Supermarket" brand for its newly opened as well as renewal operating supermarkets, and further optimised the brand strategy for those newly-opened and franchised supermarkets. The Group maintained the growth pace of its directly-operated stores, especially in the middle and high-end areas, and focused on the quality of newly established franchised supermarkets. Therefore, the Group optimised its outlets network to better cater to its customers and their various needs.

During the period under review, 108 new convenience stores were opened, including 31 directly-operated stores and 77 franchised stores. The convenience stores were developed according to the different regional characteristics of the key areas they situated. The Group concentrated on rapid development in Beijing, continuously expanding its local market share; In Zhejiang Province, while improving the quality of its existing outlets, the Group focused on the development and enhancement of franchised stores in the cities it had entered, further maintaining its leading position in number of outlets and sales volume. The Group concentrated on outlet development in high-end areas in Shanghai, and actively introduced improvement plans for existing outlets to boost sales. It also explored new ideas for outlet development in Dalian of Liaoning Province, such as cooperating with local business hotels to open stores inside the hotels and cooperating with local authorities to set up a convenience store (free of rent) in a business building as an incubation base for university students.

As at 30 June 2011, the Group had a total of 5,233 outlets, approximately 86% of which were located in the East China area.

	Hypermarkets	**Supermarkets**	**Convenience stores**	**Total**
Direct operation	146	670	943	1,759
Franchised operation		2,384	1,090	3,474
Total	146	3,054	2,033	5,233

Note: The above information was as of 30 June 2011.

Management Discussion and Analysis

Adopting Various Approaches in Systems' Integration and Achieving In-depth Consolidation

With the completion of reorganisation of procurement, distribution, information systems and financial accounting, which catered to management system restructuring and supermarket business integration, during the period under review, the Group furthered the integration so as to secure its momentum.

During the period under review, the Group continued to implement its Two Warehouses Integration project for distribution centers with normal temperature, namely Taopu distribution center ("Tao Warehouse") responsible for distribution to previous Lianhua supermarkets and Hualian supermarkets, while Caoyang distribution center ("Cao Warehouse") was converted from supermarket distribution center to hypermarket distribution center for Shanghai, Jiangsu Province and Anhui Province. As at 30 June 2011, the number of outlets served by Tao Warehouse increased from 1,122 as at the end of 2010 to 1,826, with the value of distributed products increased by 66.5%, while cost increased by only 43.2% as compared with the corresponding period of 2010. As a result of the Two Warehouse Integration project, the efficiency of the distribution centers improved and the distribution fee ratio decreased despite continuous increase in various costs. Despite all difficulties in the transformation, Cao Warehouse eventually solved various logistical challenges created by the mismatch between the size of household appliances and transportation equipments. Its distribution to hypermarkets, reaching approximately RMB0.45 billion in the first half of 2011, was carried out smoothly, providing better merchandise support for hypermarkets. In response to the "panic-buying" of salt and household chemical products in the first half of 2011, Cao Warehouse ensured that hypermarkets had sufficient supply by its abundant reserve. The restructuring of the Group's logistics system is expected to enable handling of an additional RMB1 billion worth of distributed products by the end of 2011, and the benefit is expected to be more remarkable in 2012 as it will be the main channel used for existing logistics before the commencement of operation of Jiangqiao Logistics Center (江橋物流中心) of the Group.

During the period under review, the Group continued the consolidation of its information systems with the construction of regional office information platform. It upgraded and integrated the OMS (Operation Management System), DMS (Distribution Management System), BMS (Business Management System), and FAS (Financial Assistant System) in succession. It also started up the transformation and integration of the franchising system for supermarkets in Shanghai by upgrading the franchising business platform systems of legacy Hualian supermarkets, such as the ordering, capital management and outlets contracting management systems. Information integration for Shanghai Lianhua Supermarket Development Co., Ltd ("New Supermarket", consolidated from the previous Lianhua supermarkets and Hualian supermarkets (both direct-operated and franchised stores)) ensured a unified flow in information, business and capital, achieving consistency, completeness and accuracy of data, and providing information sharing among headquarters, regional offices and outlets, laying solid foundation for further business development.

During the period under review, the Group upgraded all the OMS used by previous Hualian supermarket outlets to facilitate the procurement and receipt of goods, restocking, inventory management and invoice auditing in all directly-operated stores. This is all now integrated into New Supermarket's regional offices business platform, enhancing its ability for outlet operations and information management.

During the period under review, the above mentioned system consolidation further incorporated the previous Hualian supermarkets system into that of the Group. The Group acquired Hualian Supermarket Holdings Co., Ltd. in 2009 and all related business integration was completed in the first half of 2011, which effectively supported the Group's business mode of "Centralising Regional Resources, Sharing National Resources", so as to facilitate the implementation of the Group's operating strategy of "Becoming a Regional Leader and a Strong Player Nationwide".

Management Discussion and Analysis

Enhancing All-round Business and Continuingly Increasing Merchandise Competitiveness

During the period under review, the Group continued to boost the work of key outlets. After evaluating current stores based on their neighborhood markets and growth potential, it selected stores with great potential and categorised them as flagship, model, and training stores, with tailored growth targets and growth plans. With adjusted product mix, pricing strategy, fresh food strengthening and increasing marketing and promotional activities, both sales and customer traffic in the selected stores increased despite increasingly intense competitions.

During the period under review, fresh product operations were further strengthened as the Group raised its quality requirements. During the period under review, construction for fresh produce bases progressed well owing to the development of a number of bases in regions such as Guangxi Zhuang Autonomous Region, Jilin Province, Hainan Province, Fujian Province and Jiangsu Province. The Group also selected certain fresh produces for large scale cultivation to further reduce the purchase costs. By working with the local suppliers and helping them to produce vegetables which are original from other places in local production bases, the Group not only minimised purchasing and transportation costs of certain fresh products, but also improved the freshness of vegetables. Besides, the Group also focused on the launch of new fresh products, professional training and innovation mechanism. New products were introduced continuously, especially for convenience stores where instant cold and hot foods were brought in to meet customers' demands. In Shanghai, the Group implemented the contractual incentive arrangements for several fresh product categories to successfully promote sales of fresh products in outlets. Furthermore, the Group continued to strengthen the training and guidance for fresh produce operators, which further increased operational capacity of fresh products.

During the period under review, the Group bought up more merchandises to guarantee adequate supplies in outlets during peak seasons such as festivals, holidays and season shifts etc. The merchandise management department of the Group set up an operation team responsible for buying up stocks in bulk, determining buy-up plans for popular products and for such products as prepared for the Spring Festival and other holidays. Merchandises as buying up concerned were fully expanded to cover most categories from the original certain general items. The Group also placed emphasis on inventory of daily necessities and lowered the purchasing costs by buying larger quantities with more buying up procurement. The Group increased merchandise supply security and gross margin with higher frequency of monitoring product origins, and by further enhancing the market price monitoring system, improving the overall evaluation and management system for buying up merchandises, and establishing a tracking system for the sales and inventory for buying up merchandises as well.

During the period under review, the Group upgraded the quality and cost performance of its private label merchandises to maintain the competitive edges of its own brands, resulting in a substantial sales increase in this part. During the period under review, the sales attributable to the Group's own brands accounted for approximately 3% of total sales. Meanwhile, the convenience store segment of the Group focused on developing series of products branded with the cartoon image "Little Q", such as handkerchief, wet wipes, magic boxes and umbrellas which received good market response. In particular, over 2,000 "Little Q Magic Boxes" were sold in Shanghai only during a two week period upon its debut. The Group will gradually expand sales of such boxes to other cities nationwide.

Management Discussion and Analysis

During the period under review, food safety incidents had a significant impact on the Group and the industry as a whole. After careful review of its safety standards, the Group decided not to rely solely on the various legal licenses and quality inspection reports of those food suppliers, and contended that, as a market leader, it should do more than what is required by law to ensure safety and enhance its brand image. The Group raised its quality monitoring requirements on food, especially fresh produce and implemented five significant measures:

(i) Establishment of food safety department. The Group decided to invest RMB15 million in constructing an inspection center for food safety, acquiring advanced inspection equipments, introducing professional technical personnel and strengthening quality inspection of merchandises with random inspections on raw materials from food suppliers and their production process etc.;

(ii) Raising entry level of quality standards of food products. The Group purchased products from suppliers with advanced equipments, quality management, strict procedures and good reputation to limit potential risks;

(iii) Establishment and improvement of liaison-tour-plant system. Special attention was paid to dynamic management of production conditions, production qualifications and reputation of food suppliers. The Group will immediately report any illegality and compliance issues to the relevant governmental authorities and remove any suspect merchandises from store shelves in the first place;

(iv) Improvement of the food suppliers' hygiene guarantee and commitment systems. Merchandises will be withdrawn from store shelves upon any lack of compliance of the suppliers;

(v) Imposing higher inspection frequency from relevant authorities on food suppliers and largely increasing the proportion of sampling goods.

Transformation Promoting Breakthrough and Innovation Diversifying Marketing

During the period under review, all segments of the Group continued to undergo transformation. In the hypermarket segment, two outlets in Shanghai and Zhejiang Province were closed for renovation during the period under review in order to be transformed into flagship stores. Internal decoration, functional layout, product mix and quality of commercial tenants in the two outlets will be totally modified to adapt to the most recent trends as these hypermarkets are striving to become leaders in their respective neighborhoods. In the supermarket segment, the Group not only pushed forward the transformation of the directly-operated outlets of previous Hualian supermarket outlets, but also continued to test other operation models such as "express store", "fresh product supermarket" and "franchised store with strict consistency". At the same time, the Group opened a high-end supermarket, branded City Life, which was the first in Hangzhou. Since the day it started business, City Life has been dedicated to expanding market share and building good reputation through constant innovations including unique categories structure, abundant and fashionable marketing activities and excellent customer service, etc., thereby securing a great success. As for the convenience store segment, focus was also put on the development and design of high-end stores. The Group set up a management head office for high-end stores, and opened the first high-end outlet on 1 May 2011, incorporating more facilities for on-site cooking of certain instant goods, such as instant food bar, mobile canteen for Kanto cooking, ground coffee, ice drinks machine and sausage griller, aiming to expand instant food sales. Meanwhile, in convenience outlets with a high customer traffic, the Group concentrated resources on improving sales of instant foods and proactively refurbished outlets to build a new image.

The 20th anniversary of the Group was celebrated during the period under review. Taking advantage of this opportunity, the Group launched a series of marketing activities across different segments in various areas. For example, five rounds of direct mail (DM) marketing activities with the theme of "Prosperous 20 Years" (綻放20年) were launched by the Group's supermarket segment. The convenience store segment carried out a number of special marketing activities for various festivals, such as baskets for the Spring Festival, flowers for Valentine's Day, Qingtuan rice roll (青團) for Ching Ming Festival, coupons for Labour Day and rice dumpling for Dragon Boat Festival, etc. In addition, thanks to the promotion of product combinations, wholesale and barter, the Group raised its customer traffic and increased brand recognition and client stickiness to build a stable client base. The convenience store segment conducted a three-month sales exhibition covering special merchandises from across the nation starting from May, through which, 19 popular local merchandises were selected from Dalian, Beijing, Hangzhou and Ningbo for promotion and sales in outlets across Shanghai. In Shanghai, the Group also organised automobile sweepstakes with the theme of "Driving a Car back Home without Shopping" (無需購物，贏取臻榮座駕) and scratch card marketing activities with the theme of "Winning Shopping Rewards with Surprise Coming out Every Week" (購物贏大獎，周周有驚喜). In Zhejiang Province, sales of general merchandises were promoted through a series of marketing schemes for snack foods like "Free Taste + Recommended Products on Sale" (試吃推廣+促銷推薦). In Guangxi Zhuang Autonomous Region, the Group carried out activities like sweepstakes and gift coupon dispatch for high-spending-per-ticket customers, so as to attract customers and increase overall spending. The 20th anniversary promotional activities further enhanced the brand image among consumers.

During the period under review, the Group further developed its e-business. The integrated shopping website is expected to go live in the second half of 2011. Besides, Zhejiang's online shopping service was the first to go live in 2010, pushing its strategy of "Quality Image for Imported Merchandises and High Cost Performance for Private Label Brands" (進口商品樹立品質形象，自有品牌樹立高性價比的形象) and resulting in about 64,000 online purchases, with average transaction price of RMB182 during the period under review.

Employment, Training and Development

As at 30 June 2011, the Group had a total of 58,161 employees, representing a decrease of 1,405 employees during the period under review. Total staff costs were RMB1,189,767 thousand.

During the period under review, the Group continued to optimise the integration of merchandise distribution and logistics, and completed the restructuring of procurement and logistics departments. It also established a food safety management department in order to better control merchandise quality while making revisions and adjustments to the functions and responsibilities of the relevant departments so as to ensure smooth progress of relevant projects.

During the period under review, the Group improved its remuneration system and introduced the annual package salary system for procurement staff to link remunerations to their performance. It also improved performance evaluation methods and formulated the propulsive plan for the year's key projects in accordance with the long-term development plan of the Group, and used it as a key indicator for staff's annual appraisal.

Management Discussion and Analysis

During the period under review, the Group formulated the successor cultivation plan and the career planning of fresh graduates in an effort to support the development of its backup management team. Meanwhile, the Group continued the training of business development capabilities and management skills for management of all levels. In order to support the development and motivation of highly skilled personnel, the Group has established five staff skill development associations and will hold specific trainings and labour competitions to solve the problems found in management and operations to meet the requirements of improving the employees' operating skills, so as to improve the general quality of its staff and enhance their operating and management skills.

Strategy and Plan

The economy of China maintained a stable and rapid growth in the first half of 2011. A dip of 0.2 percentage point was recorded in the GDP growth rate for the second quarter when compared with the first one, while CPI grew by 6.4% in June as compared with the corresponding period of 2010, the highest for the past three years.

In the second half of 2011, China's economy is expected to face a number of challenges. Confronted with increasing inflationary pressure, slowing demand growth, rising transportation costs, emerging bottlenecks in operations and intensified competition in the industry, the Group will, in accordance with the general working principle of "Accelerating Development, Further Consolidation, Optimising and Upgrading the Business, Innovative Transformation", continue to commit itself to practical transformation from extensive expansion mode characterised as "Quantity First" to the intensive development mode characterised as "People First".

The Group will follow the new Five-Year Development Plan of "Becoming a Regional Leader and a Stronger Player Nationwide", and constantly elaborate, by types of operation and functional departments, the programmes in respect of segment development, business mode, supply chain construction, and information system, etc., thereby further consolidating its market position in leading regions and enhancing its position in Jiangsu Province, Anhui Province and North China. In the second half of 2011, the Group's development strategy will focus on managing quantity and quality. The Group will strive to establish 15 hypermarkets in strategic regions. The supermarket segment will focus on expanding franchised operations with strict consistency to ensure a quality development while the convenience store segment shall continue to develop at a faster pace. The Group will formulate its outlet development strategy in collaboration with Bailian Group Co., Ltd ("Bailian Group") to benefit from synergies in business integration and mergers and acquisitions.

From the second half of 2010 to the first half of 2011, the Group completed the restructuring of merchandise, information, finance, distribution and supermarkets. Up until now, all business integration has been completed. However, the course of integration has resulted in some ongoing procedure issues, which need to be resolved in the second half of 2011 and thereafter. At the same time, as the last round of business restructuring came to an end, the basic management restructuring with regard to the Group's internal information system construction, supplier service system, ERP system and corporate management platform will be launched gradually to improve and strengthen the Group's management.

Management Discussion and Analysis

To speed up business optimisation and enhance integration in the second half of 2011, the Group will optimise its business procedures pursuant to principles to increase sales and profitability, further implement key outlets strategies, accelerate store transformation among all business segments, study consumer demands, and undertake targeted marketing activities to increase customer traffic and sales. All along, the Group will continue to increase operational efficiency and merchandise competitiveness through measures including strengthened procurement from places of origin and construction and development of new fresh produce bases.

With changing consumers demands, the Group must continue to innovate. It has already decided to actively pursue cosmeceutical stores, high-end convenience stores, express stores, fresh products supermarkets, department store+hypermarket, e-commerce and other segments. The Group hopes that these attempts will not only further enhance its existing business model to spur another development stage, but also become new drivers for sales and profits growth.

Faced with the widespread concerns over product quality and safety, ever-increasing product and labour costs, the government is to adopt a series of macro-control measures. Retail and manufacturing enterprises will experience a new round of restructuring and consolidation, which should be beneficial to those enterprises with strict internal controls, sound capital position and a strong sense of social responsibilities. The Group, committed to achieving these goals, is confident that this round of restructuring will be beneficial to its growth.

Other Data

Disclosure of interests

Directors, Chief Executive and Supervisors of the Company

As at 30 June 2011, none of the directors, chief executive or supervisors of the Company had any interests and short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (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 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

As at 30 June 2011, Mr. Hua Guo-ping, Mr. Xu Bo, Mr. Wang Long-sheng and Mr. Dao Shu-rong (being directors and supervisors of the Company) are directors, supervisors or employees of Shanghai Friendship Group Incorporated Company ("Shanghai Friendship") and/or Shanghai Bailian Group Investment Co., Ltd. ("Bailian Investment"). As disclosed below, these companies had interests in the shares of the Company as at 30 June 2011 as recorded in the register required to be kept under section 336 of the SFO.

Substantial Shareholders of the Company

So far as the Directors are aware, as at 30 June 2011, 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)

Other Data

Name of shareholders	Class of shares	No. of domestic shares/unlisted foreign shares/ H shares	Approximate percentage of total voting rights of the Company	Approximate percentage of voting rights of domestic shares and unlisted foreign shares	Approximate percentage of voting rights of H shares
Cooper Lindsay William Ernest (Note 4)	H shares	34,160,000(L)	5.49%(L)	–	16.50%(L)
JPMorgan Chase & Co.	H shares	20,908,000(L) 6,108,000(P)	3.36%(L) 0.98%(P)	– –	10.10%(L) 2.95%(P)
Artio Global Management LLC	H shares	18,384,558(L)	2.96%(L)	–	8.88%(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)
FIL Limited	H shares	10,432,000(L)	1.68%(L)	–	5.04%(L)

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

Notes:

1. As at 30 June 2011, Bailian Group beneficially owns 100% interests in Bailian Investment. Accordingly, Bailian Group is deemed to have the interests of the Company. Mr. Xu Bo, a non-executive Director of the Company, is the chairman of the board of directors of Bailian Investment.

2. As at 30 June 2011, Mr. Hua Guo-ping, an executive director of the Company, is an executive director of Shanghai Friendship. Mr. Wang Long-sheng, a supervisor of the Company, is an executive director and general manager of Shanghai Friendship. Mr. Dao Shu-rong, a supervisor of the Company, is a supervisor of Shanghai Friendship.

3. As at 30 June 2011, Mr. Ma Xin-sheng, a non-executive director of the Company, is the chairman of the board of directors of Bailian Group.

4. As at 30 June 2011, Arisaig Asia Consumer Fund Limited is the beneficial owner of the 34,160,000 shares. Arisaig Partners (Mauritius) Limited is the fund manager of Arisaig Asia Consumer Fund Limited and holds such shares as an investment manager. Cooper Lindsay William Ernest has a deemed interest in these shares through his interest in his controlled corporations, including Arisaig Partners (Mauritius) Limited.

Save as disclosed above, the directors are not aware of any persons holding any interests or short positions in the shares or underlying shares of the Company which were required to be recorded in the register pursuant to section 336 of the SFO as at 30 June 2011.

Other Data

The legal status of unlisted foreign shares

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

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

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

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

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

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

As advised by Grandall Law Firm (Shanghai), the following conditions must be satisfied before the Unlisted Foreign Shares can be converted into new H Shares:

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

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

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

Other Data

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

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

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

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

Purchase, sales or redemption of shares

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

Interim dividend

As set out in the interim results announcement of the Company dated 10 August 2011, the Company would distribute the interim dividend for 2011. Since the proposal on capitalisation of part of the capital reserve for the bonus issue as approved by the shareholders of the Company in 2010 annual general meeting and relevant class meetings was still under review by the relevant authorities in the PRC and the total share capital of the Company after the capitalisation has not yet come into effect in accordance with the relevant laws and regulations of the PRC as at the date of this interim report, the Board decided that the dividend distribution plan will be formulated by the Board after the capitalisation proposal has been considered by the relevant authorities in the PRC and will be submitted to the general meeting for shareholders' approval (as appropriate). The Company will publish an announcement as appropriate in accordance with the requirements of the Listing Rules upon finalisation of the terms of such dividend distribution plan.

Other Data

Connected transactions

During the period under review, the Group did not enter into any new connected transactions under Chapter 14A of the Listing Rules.

Audit Committee

The audit committee of the Company (the "Audit Committee") has considered and reviewed the accounting principles and practices adopted by the Group and has discussed the matters in relation to internal control and financial reporting with the management, including the review of the unaudited condensed interim accounts for 2011 of the Company. The Audit Committee considered that the interim accounts for the six months ended 30 June 2011 is in compliance with the relevant accounting standards, the requirements of the Stock Exchange and the Laws of Hong Kong, and the Company has made appropriate disclosures thereof.

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

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

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

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

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

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

10 August 2011, Shanghai, The PRC

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2011

	Notes	Six months ended 30 June **2011** **(Unaudited)** **RMB'000**	 2010 (Unaudited) RMB'000
Turnover	4	**14,020,650**	13,008,912
Cost of sales		**(12,087,943)**	(11,255,493)
Gross profit		**1,932,707**	1,753,419
Other revenues	4	**1,232,497**	1,145,134
Other income	5	**287,359**	195,494
Selling and distribution expenses		**(2,606,706)**	(2,359,252)
Administrative expenses		**(331,135)**	(323,092)
Other operating expenses		**(23,821)**	(10,599)
Operating profit		**490,901**	401,104
Share of profits of associates	11	**74,437**	72,644
Profit before taxation	6	**565,338**	473,748
Taxation	7	**(142,285)**	(108,130)
Profit and total comprehensive income for the period		**423,053**	365,618
Profit and total comprehensive income for the period attributable to:			
Owners of the Company		**391,691**	326,464
Non-controlling interests		**31,362**	39,154
		423,053	365,618
Earnings per share – Basic	9	**RMB0.63**	RMB0.52

Condensed Consolidated Statement of Financial Position

At 30 June 2011

	Notes	**30 June 2011 (Unaudited) RMB'000**	31 December 2010 (Audited) RMB'000
Non-current assets			
Property, plant and equipment	10	**2,996,809**	2,882,638
Construction in progress	10	**150,732**	220,730
Land use rights	10	**306,910**	249,419
Intangible assets	10	**180,670**	177,615
Interests in associates	11	**434,884**	503,567
Available-for-sale financial assets	15	**237,158**	167,158
Held-to-maturity financial assets		**341,104**	377,295
Term deposits	16		
– restricted		**1,763,000**	293,000
– unrestricted		**1,230,000**	1,200,000
Prepaid lease payments	12	**104,269**	108,193
Deferred tax assets		**122,806**	120,739
Other non-current assets		**23,892**	24,654
		7,892,234	6,325,008
Current assets			
Inventories		**2,194,263**	2,785,242
Trade receivables	13	**99,744**	117,370
Deposits, prepayments and other receivables		**608,659**	598,851
Amounts due from fellow subsidiaries	20	**10,893**	8,092
Amounts due from associates	14	**104**	29
Available-for-sale financial assets	15	**280,000**	500,000
Held-to-maturity financial assets		**56,693**	45,777
Financial assets at fair value through profit or loss		**–**	204,089
Term deposits	16		
– restricted		**920,200**	1,621,400
– unrestricted		**3,568,500**	660,000
Cash and cash equivalents		**1,909,828**	5,581,005
		9,648,884	12,121,855
Total assets		**17,541,118**	18,446,863

Condensed Consolidated Statement of Financial Position

At 30 June 2011
(continued)

	Notes	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Capital and reserves			
Share capital		**622,000**	622,000
Reserves		**2,550,774**	2,271,043
Equity attributable to owners of the Company		**3,172,774**	2,893,043
Non-controlling interests		**345,793**	329,047
Total equity		**3,518,567**	3,222,090
Non-current liability			
Deferred tax liabilities		**48,290**	49,318
Current liabilities			
Trade payables	17	**3,603,056**	4,154,603
Other payables and accruals	18	**1,693,375**	1,870,587
Dividend payable to non-controlling interest of subsidiaries		**–**	203,569
Dividend payable to shareholders of the Company		**111,960**	–
Coupon liabilities	19	**8,353,944**	8,707,110
Deferred income		**17,098**	21,260
Amounts due to associates	14	**10,453**	5,399
Amounts due to fellow subsidiaries	20	**92,180**	105,172
Taxation payable		**92,195**	107,755
		13,974,261	15,175,455
Total liabilities		**14,022,551**	15,224,773
Total equity and liabilities		**17,541,118**	18,446,863
Net current liabilities		**(4,325,377)**	(3,053,600)
Total assets less current liabilities		**3,566,857**	3,271,408

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2011

	Attributable to owners of the Company							
	Share capital RMB'000 (note a)	Capital reserve RMB'000 (note b)	Other reserve RMB'000 (note c)	Statutory common reserve fund RMB'000 (note d)	Retained profits RMB'000	Total attributable to owners of the Company RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2010 (audited)	622,000	755,953	(204,464)	214,711	1,075,084	2,463,284	464,790	2,928,074
Profit for the period	–	–	–	–	326,464	326,464	39,154	365,618
2009 final dividend	–	–	–	–	(99,520)	(99,520)	–	(99,520)
Dividends paid to non-controlling interests	–	–	–	–	–	–	(10,246)	(10,246)
At 30 June 2010 (unaudited)	622,000	755,953	(204,464)	214,711	1,302,028	2,690,228	493,698	3,183,926
At 1 January 2011 (audited)	**622,000**	**755,953**	**(204,464)**	**300,492**	**1,419,062**	**2,893,043**	**329,047**	**3,222,090**
Profit for the period	**-**	**-**	**-**	**-**	**391,691**	**391,691**	**31,362**	**423,053**
2010 final dividend	**-**	**-**	**-**	**-**	**(111,960)**	**(111,960)**	**-**	**(111,960)**
Dividends paid to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**(13,702)**	**(13,702)**
Closure of a subsidiary	**-**	**-**	**-**	**-**	**-**	**-**	**(914)**	**(914)**
At 30 June 2011 (unaudited)	**622,000**	**755,953**	**(204,464)**	**300,492**	**1,698,793**	**3,172,774**	**345,793**	**3,518,567**

Notes:

(a) On 28 June 2011, the shareholders of the Company has passed a resolution approving the increase in the registered share capital of the Company from RMB622,000,000 to RMB1,119,600,000 by way of capitalisation of the Company's capital reserve amounting to RMB497,600,000 on the basis of 8 bonus shares to be issued for every 10 shares held by such shareholders (the "Bonus Issue"). As of the date of approval for issuance of the condensed consolidated financial statements, the Bonus Issue is still pending for the approval by the relevant authorities in the People's Republic of China ("PRC") and accordingly the bonus shares have not been issued.

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

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

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

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

No transfer has been made to the statutory common reserve fund in respect of the net profit for the six months ended 30 June 2011 (six months ended 30 June 2010: Nil). The transfer will be made at the year ended based on the annual profit and upon directors' approval.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2011

	Six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Net cash (used in) from operating activities	**(548,154)**	503,361
Investing activities		
Additions of property, plant and equipment and construction in progress	**(297,415)**	(244,374)
Purchase of available-for-sale financial assets	**(448,000)**	(790,000)
Proceeds on redemption of available-for-sale financial assets	**598,000**	600,900
Dividends received from associates	**143,301**	123,621
Increase in unrestricted term deposits	**(2,938,500)**	(2,351,095)
Disposal of a subsidiary	**50,235**	–
Other investing outflows	**(12,686)**	(24,789)
Net cash used in investing activities	**(2,905,065)**	(2,685,737)
Financing activities		
Dividends paid to non-controlling shareholders	**(217,044)**	(9,665)
Other financing outflows	**(914)**	(10,023)
Net cash used in financing activities	**(217,958)**	(19,688)
Net decrease in cash and cash equivalents	**(3,671,177)**	(2,202,064)
Cash and cash equivalents at 1 January	**5,581,005**	4,191,924
Cash and cash equivalents at 30 June	**1,909,828**	1,989,860

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2011

1. Basis of preparation

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

2. Principal accounting policies

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2011 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010 except as described below.

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

- Improvements to HKFRSs issued in 2010
- HKAS 24 (as revised in 2009) *Related Party Disclosure*
- Amendments to HKAS 32 *Classification of Rights Issues*
- Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
- HK(IFRIC)-Int 19 *Extinguishing Financial Liabilities with Equity Instruments.*

The Group has applied HKAS 24 *Related Party Disclosure* (as revised in 2009) for the first time in the current period. The application of HKAS 24 (as revised in 2009) has resulted in changes in related party disclosures.

The Group is a government-related entity as defined in HKAS 24 (as revised in 2009). HKAS 24 (as revised in 2009) provides a partial exemption from the disclosure requirements for government-related entities whilst the previous version of HKAS 24 did not contain specific exemption for government-related entities. Under HKAS 24 (as revised in 2009), the Group has been exempted from making the disclosures required by paragraph 18 of HKAS 24 (as revised in 2009) in relation to related party transactions and outstanding balances (including commitment) with (a) the government that has control, joint control or significant influence over the Group and (b) other entities that are controlled, jointly controlled, significantly influenced by the same government. Rather, in respect of these transactions and balances, HKAS 24 (as revised in 2009) requires the Group to disclose (a) the nature and amount of each individually significant transaction, and (b) a qualitative or quantitative indication of the extent of transactions that are collectively, but not individually, significant.

HKAS 24 (as revised in 2009) requires retrospective application. The application of HKAS 24 (as revised in 2009) has had no effect on the amounts recognised or recorded in the condensed consolidated financial statements for the current and prior periods. However, the related party disclosures set out in note 24 to the condensed consolidated financial statements have been changed to reflect the application of HKAS 24 (as revised in 2009).

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2011

2. Principal accounting policies (continued)

The Group has not early applied new and revised standards that have been issued but are not yet effective. The following new or revised standards have been issued after the date the consolidated financial statements for the year ended 31 December 2010 were authorised for issuance and are not yet effective:

HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 27 (Revised 2011)	Separate Financial Statements[1]
HKAS 28 (Revised 2011)	Investments in Associates and Joint Ventures[1]

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

The directors of the Company anticipate that the application of these new or revised standards and interpretations will have no material impact on the results and the financial position of the Group.

3. Segment information

Information reported to the Group's general manager who is the chief operating decision maker for the purposes of resource allocation and assessment of performance is focused on three main operations 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 operating segments. Other operations of the Group mainly comprise sales of merchandise to wholesalers; provision of logistic services for wholesale business; and sales through internet. All other operations of the Group are aggregated when the information is reported to the Group's general manager.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2011

3. Segment information (continued)

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

	Segment revenue		**Segment results**	
	Six months ended 30 June		**Six months ended 30 June**	
	2011	2010	**2011**	2010
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	RMB'000	RMB'000	**RMB'000**	RMB'000
Hypermarkets	**9,023,113**	7,951,059	**220,705**	172,795
Supermarkets	**5,236,474**	5,188,638	**220,174**	187,292
Convenience stores	**909,247**	910,907	**14,764**	27,705
Other operations	**84,313**	103,442	**37,527**	25,281
	15,253,147	14,154,046	**493,170**	413,073

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

	Six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Segment results	**493,170**	413,073
Interest income	**40,424**	10,749
Unallocated income	**28,571**	20,527
Unallocated expenses	**(71,264)**	(43,245)
Share of profits of associates	**74,437**	72,644
Consolidated profit before taxation	**565,338**	473,748

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

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

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

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For the six months ended 30 June 2011

3. Segment information (continued)

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

	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Segment assets		
– Hypermarkets	**9,184,108**	9,603,936
– Supermarkets	**4,976,937**	5,636,381
– Convenience stores	**317,544**	314,422
– Other operations	**67,457**	175,673
Total segment assets	**14,546,046**	15,730,412
Interests in associates	**434,884**	503,567
Other unallocated assets	**2,560,188**	2,212,884
Total assets	**17,541,118**	18,446,863

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

4. Turnover and other revenues

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

	Six months ended 30 June	
	2011 (Unaudited) RMB'000	2010 (Unaudited) RMB'000
Turnover		
– Sales of merchandise	**14,020,650**	13,008,912
Incomes from suppliers	**909,739**	839,288
Gross rental income from leasing of shop premises	**252,378**	252,543
Royalty income from franchised stores	**30,623**	32,623
Commission income from coupon redemption in other retailers	**39,757**	20,680
	1,232,497	1,145,134
Total revenues	**15,253,147**	14,154,046

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For the six months ended 30 June 2011

5. Other income

	Six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Interest income on cash and term deposits	**154,099**	98,947
Government subsidies	**10,828**	8,913
Fair value change of financial assets at fair value through profit or loss	**1,222**	12,973
Interest income from available-for-sale financial assets	**18,062**	8,408
Interest income from held-to-maturity financial assets	**9,943**	14,432
Gain on disposal of a subsidiary (Note 23)	**41,619**	–
Gain on disposal of property, plant and equipment	**2,528**	–
Salvage sales	**16,179**	11,911
Others	**32,879**	39,910
Total	**287,359**	195,494

6. Profit before taxation

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

	Six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Amortisation and depreciation		
Amortisation of other non-current assets	**762**	422
Amortisation of intangible assets – software (included in selling and distribution expenses/administrative expense) (Note 10)	**5,031**	8,918
Amortisation of land use rights (Note 10)	**2,631**	2,631
Depreciation of property, plant and equipment (Note 10)	**260,297**	255,547
	268,721	267,518
(Gain) Loss on disposal of property, plant and equipment (included in (other income) other operating expenses)	**(2,528)**	2,535
Share of profits of associates		
Profit before taxation	**(99,266)**	(99,197)
Taxation	**24,829**	26,553
	(74,437)	(72,644)
Operating lease rental in respect of land and buildings	**738,410**	710,184
Staff costs	**1,189,767**	971,230

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2011

7. Taxation

	Six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
PRC income tax		
– Current taxation	**145,380**	115,319
– Deferred taxation	**(3,095)**	(7,189)
	142,285	108,130

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

PRC income tax is calculated based on the statutory income tax rate of 25% (six months ended 30 June 2010: 25%) of taxable income of the subsidiaries based on the relevant PRC tax rules and regulations except for certain subsidiaries which are taxed at preferential rates of 15% to 24% (six months ended 30 June 2010: 15% to 22%).

8. Dividend

At a meeting held on 10 August 2011, the directors have determined that 2011 interim dividend will be distributed, however, the detailed distribution amount and plan will be determined by the Board of Directors upon completion of the Bonus Issue. An interim dividend in respect of 2010 of RMB0.15 per share amounting to a total of RMB93,300,000 was declared by the Board on 30 August 2010.

At a meeting held on 9 March 2011, the directors proposed a final dividend of RMB0.18 per share for the year ended 31 December 2010, totalling RMB111,960,000 (six months ended 30 June 2010: a final dividend of RMB0.16 per share and totalling RMB99,520,000 for the year ended 31 December 2009), which was approved by the shareholders on 28 June 2011 and has been reflected as an appropriation of retained profits for the six months ended 30 June 2011. The amount has not yet been paid as at 30 June 2011.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2011

9. Earnings per share

The calculation of the basic earnings attributable to the owners of the Company per share is based on the following data:

	Six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purposes of basic earnings per share (profit for the period attributable to owners of the Company, RMB'000)	**391,691**	326,464
Number of shares		
Number of ordinary shares for the purpose of basic earnings per share	**622,000,000**	622,000,000

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2011

10. Major capital expenditure

	Property, plant and equipment	Construction in progress	Land use rights	Intangible assets		
				Goodwill	**Software**	**subtotal**
	RMB'000	RMB'000	RMB'000 (note)	RMB'000	RMB'000	RMB'000
Opening carrying amount as at 1 January 2010 (audited)	3,031,153	86,921	259,173	151,941	31,976	183,917
Additions	117,843	85,395	770	–	2,293	2,293
Transfers	12,682	(13,051)	–	–	369	369
Disposals	(6,288)	–	–	–	–	–
Depreciation/amortisation charge (Note 6)	(255,547)	–	(2,631)	–	(8,918)	(8,918)
Closing carrying amount as at 30 June 2010 (unaudited)	2,899,843	159,265	257,312	151,941	25,720	177,661
Opening carrying amount as at 1 January 2011 (audited)	**2,882,638**	**220,730**	**254,681**	**151,941**	**25,674**	**177,615**
Additions	**244,828**	**110,157**	**60,122**	**–**	**3,232**	**3,232**
Transfers	**175,259**	**(180,155)**	**–**	**–**	**4,896**	**4,896**
Disposal of a subsidiary	**(44,779)**	**–**	**–**	**–**	**–**	**–**
Disposals	**(840)**	**–**	**–**	**–**	**(42)**	**(42)**
Depreciation/amortisation charge (Note 6)	**(260,297)**	**–**	**(2,631)**	**–**	**(5,031)**	**(5,031)**
Closing carrying amount as at 30 June 2011 (unaudited)	**2,996,809**	**150,732**	**312,172**	**151,941**	**28,729**	**180,670**

Note: Land use rights analysed for reporting purposes as:

	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Non-current assets	**306,910**	249,419
Current assets (included in deposits, prepayments and other receivables)	**5,262**	5,262
	312,172	254,681

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For the six months ended 30 June 2011

11. Interests in associates

	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Unlisted equity investment, at cost	**194,060**	194,060
Share of post-acquisition profits, net of dividends received	**240,824**	309,507
	434,884	503,567

Interests in associates as at 30 June 2011 include goodwill of RMB6,787,000 (31 December 2010: RMB6,787,000).

The summarised financial information in respect of the Group's associates, all of which are unlisted, is as follows:

	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Assets	**4,166,456**	4,463,337
Liabilities	**2,846,608**	3,047,330
Net assets	**1,319,848**	1,416,007
Group's share of net assets of associates	**428,097**	496,780

	Six months ended 30 June	
	2011 (Unaudited) RMB'000	2010 (Unaudited) RMB'000
Turnover	**4,852,404**	4,165,271
Profit for the period	**234,554**	180,914
Group's share of profits of associates for the period	**74,437**	72,644

12. Prepaid lease payments

Prepaid lease payments represent prepaid rental for store premises which will be charged to profit or loss after 1 year.

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For the six months ended 30 June 2011

13. Trade receivables

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

	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Within 30 days	**64,336**	105,198
31-60 days	**18,792**	1,196
61-90 days	**8,552**	3,254
91 days – one year	**8,064**	7,722
	99,744	117,370

14. Amounts due from/to associates

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

15. Available-for-sale financial assets

	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Non-current		
Legal person shares (note a)	**1,112**	1,112
Unlisted equity investments (note b)	**36,046**	36,046
Unlisted managed investment funds (note c)	**200,000**	130,000
	237,158	167,158
Current		
Unlisted investments (note d)	**150,000**	450,000
Unlisted managed investment funds (note c)	**130,000**	50,000
Total	**517,158**	667,158

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) These investments represent funds placed to and managed by licensed trust companies in the PRC, whose underlying investments are equity securities of unlisted companies. The investments carry expected interest of 7.0% – 9.0% (31 December 2010: 7.0% – 7.8%) per annum. As at 30 June 2011, the unlisted managed investment fund amounting to RMB130,000,000 with the maturity date of less than one year from the end of financial reporting period is shown as current, and the unlisted managed investment fund amounting to RMB200,000,000 with the maturity date of over two year but less than three year from the end of financial reporting period is shown as non-current.

d) These investments are managed by licensed financial institutions in the PRC, mainly investing in short to medium term notes or bonds issued by corporations, financial institutions or governments, trust loans, or deposits due from banks. The investments carry fixed interest of 4.1% – 5.4% (31 December 2010: 2.0% – 4.2%) per annum and maturity date of less than one year from the end of financial reporting period.

e) During the period, the Group purchased available for sale financial assets of RMB448,000,000 (six months ended 30 June 2010: RMB790,000,000) and received proceeds on redemption of available for sale financial assets of RMB598,000,000 (six months ended 30 June 2010: RMB600,900,000), which are included in the investing activities of the condensed consolidated statement of cash flows.

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16. Term deposits

All term deposits, which are denominated in Renminbi, are placed with banks in the PRC. The deposits in current assets are the deposits with maturity over 3 months but within 1 year. The deposits in non-current assets are those with maturity over 1 year but not exceeding 5 years. The net increase in term deposits during the period amounted to RMB3,707,300,000 (six months ended 30 June 2010: RMB2,789,195,000), of which RMB2,938,500,000 (six months ended 30 June 2010, RMB2,351,095,000) is included in the investing activities of the condensed consolidated statement of cash flows.

As at 30 June 2011, term deposits included restricted deposits amounting to RMB2,683,200,000 (31 December 2010: RMB1,914,400,000). The restricted deposits represent deposits placed by a subsidiary to various banks which are held as security for coupon issued to customers and are not available for other use by the Group.

The effective interest rate on these term deposits was ranged from 2.25% to 5.13% (31 December 2010: 2.25% to 5.13%) per annum. The carrying amounts of the term deposits of the Group approximate their fair value.

17. Trade payables

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

	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Within 30 days	**2,012,507**	2,343,656
31-60 days	**559,634**	804,083
61-90 days	**465,915**	370,184
91 days – one year	**565,000**	636,680
	3,603,056	4,154,603

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For the six months ended 30 June 2011

18. Other payables and accruals

	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Payroll, staff welfare and other staff cost payable	**235,435**	292,237
Value added tax payables	**25,064**	189,963
Other tax payables	**44,419**	76,473
Rental receipt in advance	**452,732**	432,400
Deposits from lessees, franchisees and other third parties	**138,625**	121,883
Amount payable to other retailers upon customers' redemption of coupon issued by the Group	**125,742**	210,087
Prepayments from franchisees	**232,698**	197,479
Payables for acquisition of property, plant and equipment	**156,244**	142,982
Store closure provision	**50,114**	58,358
Accruals	**137,935**	46,957
Advance from customers	**28,526**	35,389
Other miscellaneous payables	**65,841**	66,379
	1,693,375	1,870,587

19. Coupon liabilities

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

20. Amounts due from/to fellow subsidiaries

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

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For the six months ended 30 June 2011

21. Capital commitments

	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of		
(i) acquisition of property, plant and equipment, construction of buildings and land use rights	**54,352**	148,505
(ii) acquisition of additional interest in the subsidiaries of the Company (note)	**35,769**	–
Capital expenditure in respect of acquisition of property, plant and equipment authorised but not contracted for	**90,000**	–

Note: As of the date of approval for issuance of the condensed consolidated financial statements, the completion of the above acquisition is subject to the approval by the relevant authorities in the PRC.

22. Operating lease

(1) The Group as leasee

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

	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Not later than one year	**1,234,193**	1,041,275
Later than one year and not later than five years	**4,793,162**	3,937,955
Later than five years	**8,374,346**	7,852,179
	14,401,701	12,831,409

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22. Operating lease (continued)

(2) The Group as lessor

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

	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Not later than one year	**292,502**	198,262
Later than one year and not later than five years	**387,514**	287,624
Later than five years	**93,504**	128,224
	773,520	614,110

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.

23. Disposal of a subsidiary

On 25 May 2011, the Group disposed of a subsidiary, Luoyang Lianhua Xinyu Real Estate Co., Ltd, at a net consideration of RMB50,292,000. The transaction has been completed and the consideration has been received as of 30 June 2011. During the period from 1 January 2011 to 25 May 2011, the revenue and expenses of the subsidiary contributed to the Group are insignificant.

Analysis of assets and liabilities over which control was lost

	25 May 2011 (unaudited) RMB'000
Current assets	
Cash and cash equivalents	**57**
Trade and other receivables	**751**
Non-current asset	
Property, plant and equipment	**44,779**
Current liability	
Trade and other payables	**(36,914)**
Net assets disposed of	**8,673**

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23. Disposal of a subsidiary (continued)

Gain on disposal of a subsidiary

	25 May 2011 (unaudited) RMB'000
Net consideration received	**50,292**
Net assets disposed of	**(8,673)**
Gain on disposal	**41,619**

Net cash inflow on disposal of a subsidiary

Consideration received in cash and cash equivalents	**50,292**
Less: cash and cash equivalent balances disposed of	**(57)**
Net cash inflow on disposal of a subsidiary included in the investing activities of the condensed consolidated statement of cash flows	**50,235**

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For the six months ended 30 June 2011

24. Related party transactions

Apart from those disclosed under notes 14 and 20, the Group entered into significant related party transactions during the period as follows:

(a) Transactions with related companies

	Notes	Six months ended 30 June 2011 (Unaudited) RMB'000	2010 (Unaudited) RMB'000
Sales to fellow subsidiaries	(i)	**9,200**	1,587
Purchases from associates			
– Shanghai Lianhua Supermarket, Food Co., Ltd., Shanghai Gude Commercial Trading Co., Ltd., Sanming Taige Information Technology Co., Ltd. and Shantou Lianhua South Purchase and Distribution Co., Ltd.	(i)	**24,917**	9,277
Purchases from fellow subsidiaries	(i)	**73,721**	52,002
Logistic expense paid to a fellow subsidiary	(i)	**5,226**	6,360
Rental expenses and property management fee paid to fellow subsidiaries	(ii)	**31,350**	22,911
Commission income received from fellow subsidiaries	(iii)	**4,538**	4,536
Commission charges arising from the usage of online trading system of a fellow subsidiary		**2**	220
Commission income arising from the redemption of coupon liabilities with a fellow subsidiary	(iv)	**14,646**	13,723
Commission charges arising from the redemption of coupon liabilities with a fellow subsidiary	(iv)	**13,706**	12,403

Fellow subsidiaries referred to above are subsidiaries of Bailian Group Co., Ltd, the ultimate holding company of the Company.

Notes:

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

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

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

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

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24. Related party transactions (continued)

(b) Transactions 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 fellow subsidiaries disclosed above, the Group has also entered into various transactions, including sales, purchase, and deposits placement, with other government related entities.

In view of the nature of the retail business operated by the Group, the directors are of the opinion that it is impracticable to identify the identity of the counterparties from the the sales of merchandise.

In respect of purchase of merchandise, during the period about RMB1,629,000,000 (six months ended 30 June 2010: RMB1,783,000,000) are with government related entities.

In respect of deposits placement, 100% (31 December 2010: 100%) of the the Group's deposits are placed with banks which are government related entities

24. Related party transactions (continued)

(c) Key management compensation

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

	Six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Salaries and other short-term employee benefits	**6,941**	5,927
Post-employment benefits	**110**	118
Other long-term benefits	**136**	146
	7,187	6,191

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

25. Authorisation for the issue of the accounts

These unaudited condensed consolidated financial statements were authorised for issue by the Company's Board of Directors on 10 August 2011.