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

Stock Code: 0980

# LIANHUA 联华

Interim Report 2012

# CONTENTS

# Corporate Information

## Directors

**Executive Directors**

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

**Non-Executive Directors**

Mr. Ma Xin-sheng *(Chairman)*
Mr. Wang Zhi-gang *(Deputy Chairman)*
Mr. Kazuyasu Misu
Mr. Wong Tak Hung

**Independent Non-Executive Directors**

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

## Board Committees

**Audit Committee**

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

**Remuneration and Appraisal Committee**

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

**Strategic Committee**

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

**Nomination Committee**

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

## 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***

Eversheds

***As to People's Republic of China ("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

## Registered and Business Office

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

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

**Place of Business in Hong Kong**
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**Company Website**
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## Shareholders' Enquiries

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

## Share Information

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

**Listing Date**
27 June 2003

**SEHK Stock Code**
980

**Number of H Shares Issued**
372,600,000 H shares

**Financial Year-end Date**
31 December

# Management Discussion and Analysis

## Operating Environment

During the first half of 2012, the European debt crisis intensified, the recovery of the global economy still faced many uncertainties and domestic economic growth continued to slow down. Consumer confidence was hard hit, negatively impacting the consumer goods market.

The year 2012 is pivotal for the "Twelfth Five-Year Plan" of the PRC. In the face of the complicated and challenging economic environment domestically and abroad, the Chinese government has adhered to the general principle of making progress while maintaining stability, and is balancing the relationship among the three issues of maintaining stable and rapid economic development, restructuring the economy and managing inflation expectations in an appropriate manner. It is implementing proactive fiscal policies and prudent monetary policies. It has also stepped up efforts to proactively fine-tune policies. As a result, the national economy has, in general, progressed smoothly in the first half of the year.

According to the National Bureau of Statistics, the gross domestic product (GDP) of the PRC reached RMB22.71 trillion during the first half of 2012, representing a year-on-year increase of 7.8%, with the year-on-year increase of 8.1% in the first quarter and 7.6% in the second quarter. The GDP growth rate fell below 8% for the first time in three years.

After more than 30 years of rapid growth, China's economy has entered a transition phase. In the first half of 2012, structural changes in China's economic growth emerged and the contribution of consumption to GDP growth reached 57.7%, higher than the 47.5% for the same period of 2011. The income of urban and rural residents continued to grow relatively fast, and the per capita income of urban residents reached RMB13,679, with per capita disposable income of urban residents at RMB12,509, representing a nominal year-on-year growth of 13.3%; and a real growth of 9.7% after adjusting for inflation, representing a year-on-year increase of 2.1 percentage points in growth rate. The per capita cash income of rural residents was RMB4,303, representing a nominal year-on-year growth of 16.1% and a real growth of 12.4% after adjusting for inflation.

Although per capita income continued to increase, influenced by the downturn in economic growth and a series of food safety incidents, consumer confidence fluctuated. According to the data from the consumer goods industry, the consumer confidence index in June 2012 was 99.3, representing a sharp decline over the same period of 2011. In the first half of 2012, total retail sales of social consumer goods was RMB9,822.2 billion, representing a nominal year-on-year growth of 14.4% and a real growth of 11.2% after adjusting for inflation. Although higher than the GDP growth over the same period, the growth of consumer spending showed an obvious downward trend. The increase in prices slowed down with the increase in the consumer price index (CPI) remaining at a low level, increasing by 3.3% year on year in the first half of the year. It even dropped to 2.2% in June 2012, the lowest level since January 2010. With the rapid expansion of retail chain enterprises in recent years, competition in the retail chain industry became increasingly intense. At the same time, local governments adopted strict measures to ensure food quality and food safety, rationalize the relationship between retailers and suppliers, and strengthen management and discipline in the retail chain market. China's chain retailers were under great pressure in the first half of 2012, and the growth in sales and profits was sluggish.

Though the retail industry in China faced escalating challenges in the first half of 2012, the Group firmly believes that with continued introduction and implementation of a series of policies to stimulate consumption, the trend of the long-term development of retail industry should be promising.

## Financial Review

### Growth in turnover and consolidated income

During the period under review, the Group recorded a turnover of RMB14,580 million, representing a growth of 3.9% as compared to the same period of 2011, yet same store sales decreased by approximately 1.69% year on year, which was mainly constrained by the effects of the macro economic environment on the retail chain industry. More importantly, although CPI growth was at a low level, prices remained at a high level. The increase in consumption costs affected consumer expectations and behaviour. In addition, adjustments to some of the operations resulted from the strict food safety regulations imposed by the government, as well as the impact of the rapid development of online retail on physical retail chain supermarkets and the diminishing impact of consumption stimulation policies, led to weak sales growth in the whole industry, including at the Group.

# Management Discussion and Analysis

During the period under review, consolidated income reached RMB3,590 million, representing an increase of 3.9% as compared to the same period of 2011. The consolidated income margin of 24.62% was flat as compared to the same period of 2011, and would have increased by 0.3 percentage point had the gain on the disposal of a subsidiary in the same period of 2011 been excluded. The consolidated income margin was stable and managed to record slight year-on-year growth mainly because: 1. Gross profit grew steadily and reached RMB2,012 million, representing an increase of 4.0% as compared to the same period of 2011. The promotion efforts as noticed in the industry were unprecedented due to the competition environment during the first half of the year. The Group also stepped up marketing efforts and increased promotions to attract customers and boost sales. As a result, the gross profit margin of the Group slightly decreased as compared to the second half of 2011 but increased by 0.02 percentage point to 13.80% as compared to the same period of 2011; 2. The Group focused on continuous supply chain optimization, intensive consolidation of resources having a competitive edge, and full implementation of intensification and professional management, and achieved capital efficiency by further centralised cash management. During the period under review, the Group maintained sufficient cash flow, adopting prudent principles in professional management to realise steady growth in capital gains. Capital gains amounted to RMB241,380 thousand, representing an increase of 31.7% year on year.

**Operating cost and net profit**

During the period under review, total distribution expenses and total administrative expenses of the Group amounted to RMB2,802,532 thousand and RMB344,198 thousand respectively. The overall cost ratio increased by approximately 0.63 percentage point as compared with the same period of 2011. Major cost items such as rents, labour and utilities amounted to RMB815,548 thousand, RMB1,251,582 thousand and RMB244,998 thousand, respectively. The rise in overall cost was mainly attributable to the change in the business scale of the Group which led to an increase in labour cost and rental cost, the drastic increase of minimum wage level widely adopted by local governments in China due to the inflation rate, which led to a further increase in labour cost, and the change in the electricity tariff which also led to an increase in energy expenses.

During the period under review, the Group recorded an operating profit of RMB417,261 thousand, representing a decrease of 15.1% as compared with the same period of 2011. The operating profit margin decreased by 0.64 percentage point to 2.86% year on year. The decrease in operating profit was mainly attributable to lower-than-expected sales growth and continuous increases in various rigid costs. The Group dedicated itself to improving its employment system as well as its cost control through better workflow management and approval system, and unremitting application of energy-efficient equipment, thus meeting the challenge of overall cost increases.

During the period under review, the Group's share of revenue of associated companies was RMB63,405 thousand, representing a decrease of 14.8% as compared to the same period of 2011. Affected by the sluggish market environment, the sales growth of associated companies of the Group was weak. In addition, the new outlets opened in 2011 were still being developed. At the same time, due to the increase in labour cost, rental cost and advertisement expenditure, operating cost increased and profit decreased year on year. Shanghai Carhua Supermarket Company Limited ("Shanghai Carhua") opened one new outlet during the period under review. As at 30 June 2012, Shanghai Carhua had a total of 23 outlets.

During the period under review, the tax charge of the Group was RMB110,738 thousand and the tax charge as proportion of profit before taxation decreased by 2.13 percentage points as compared to the same period of 2011. The Group actively monitored the fiscal supportive policy of the Chinese government and strived to obtain the financial support funds of various local governments and pay tax on a collective (consolidated) basis in order to further lower its tax rate.

During the period under review, the Group recorded net profit attributable to shareholders of the Company of RMB331,688 thousand. The net profit margin attributable to shareholders was 2.27%. The basic earnings per share were RMB0.30 based on the issued share capital of the Company of 1,119.6 million shares.

# Management Discussion and Analysis

**Cash flow**

During the period under review, the Group's net cash outflow was RMB3,888,312 thousand mainly due to the increase in term deposits and the decrease in coupon liability. Cash and miscellaneous bank balances as at the period end was RMB9,360,059 thousand.

For the six months ended 30 June 2012, the turnover period of the Group's trade payables was 59 days, and inventory turnover period was approximately 38 days.

During the period under review, the Group did not use any financial instruments for hedging purposes and the Group did not issue any hedging instruments as at 30 June 2012.

**Growth in retail businesses**

***Hypermarkets***

During the period under review, the turnover of the Group's hypermarket segment increased by approximately 5.8% year on year to RMB8,709,503 thousand, accounting for approximately 59.7% of the Group's turnover, representing an increase of approximately 1.0 percentage point as compared to the same period of 2011. The gross profit margin increased by 0.32 percentage point to 13.47%. Same store sales decreased by approximately 3.7% due to the slowdown of economic growth and increasingly fierce competition nationwide. The consolidated income margin was 24.82%, representing an increase of 0.25 percentage point as compared to the same period of 2011. The operating profit was RMB200,256 thousand, representing a decrease of 9.3% as compared to the same period of 2011. The operating profit margin decreased by 0.38 percentage point when compared to the same period of 2011 to 2.30%. Excluding the one-off gain from the disposal of a subsidiary in the same period of 2011, operating profit increased by 11.8% year on year. Despite the downturn in the sales growth of hypermarkets segment as affected by the slowdown of the macro-economy growth and the increasing competition, in particular continuous opening of new outlets in the neighborhood of the Group's developed business areas by competitors, concurrent and continued increases in operating costs, and heightened pressure in operations, based on the circumstances of the competition in the market, the Group continued to strengthen the supply chain, source procurement and synergies between operation and procurement, and scientifically formulated marketing and pricing strategies, thereby securing the solid improvement of consolidated income margin and consolidating its business performance.

| | As of 30 June | |
|---|---|---|
| | **2012** | 2011 |
| Gross Profit Margin (%) | **13.47** | 13.15 |
| Consolidated Income Margin (%) | **24.82** | 24.57 |
| Operating Profit Margin (%) | **2.30** | 2.68 |

***Supermarkets***

During the period under review, the turnover of the Group's supermarket segment increased by approximately 1.5% when compared to the same period of 2011 to RMB4,982,803 thousand, which accounted for approximately 34.2% of the Group's turnover. Same store sales increased by approximately 1.44%. Gross profit decreased by 2.1% to RMB704,234 thousand over the same period of 2011, and gross profit margin decreased by 0.52 percentage point to 14.13%, which was mainly attributable to stronger marketing efforts in the supermarket segment during the period under review. Despite the foregoing, the consolidated income margin of the supermarket segment was not affected by the decrease of gross profit margin and remained flat at 22.36% when compared to the same period of 2011, mainly benefiting from the continuous supply chain consolidation. The operating profit was RMB201,039 thousand, and the operating profit margin was 4.03%. During the period under review, although constrained by the effects of the operating environment, including competition pressure from hypermarkets and convenience stores, the escalating rigid costs and in particular, continuous adjustment of the operation models well-received by consumers impacted the competitiveness of the supermarket segment and induced great pressure on performance

# Management Discussion and Analysis

improvement, the supermarket segment concentrated primarily on fresh produce operations, deepened outlet transformation, forged ahead with the key outlet strategy, made progress in merchandise optimisation through enhancing core merchandises, established a price monitoring mechanism, enhanced the effects of joint sales and consolidated the market share.

| | As of 30 June | |
|---|---|---|
| | **2012** | 2011 (restated) |
| Gross Profit Margin (%) | **14.13** | 14.65 |
| Consolidated Income Margin (%) | **22.36** | 22.40 |
| Operating Profit Margin (%) | **4.03** | 4.49 |

***Convenience Stores***

During the period under review, the convenience store segment recorded a turnover of RMB874,791 thousand, representing an increase of approximately 3.5% year on year, which accounted for 6.0% of the Group's turnover, remaining stable as compared to the same period of 2011. The convenience store segment actively responded to the challenges from foreign competitors by speeding up the transformation of existing outlets and, concurrently, segregating the market and trying to establish a niche in the high-end market, deepening the optimisation of merchandise mix, implementing a marketing mode of operation with core merchandise and core services, and exploring to make use of the outlet advantage to provide more value-added services. Same store sales increased by approximately 4.36%. Gross profit margin was 15.26%, remaining stable basically as compared to the same period of 2011. Consolidated income margin was 23.99%, representing a slight increase of 0.17 percentage point as compared to the same period of 2011. Yet due to a substantial rise in labour cost and rental cost, which could not be absorbed by the increase in same store sales, operating profit fell significantly when compared to the same period of 2011 and operating profit margin was only 0.19%.

| | As of 30 June | |
|---|---|---|
| | **2012** | 2011 |
| Gross Profit Margin (%) | **15.26** | 15.24 |
| Consolidated Income Margin (%) | **23.99** | 23.82 |
| Operating Profit Margin (%) | **0.19** | 1.75 |

**Financial results analysis**

| | Six months ended 30 June *RMB million* | | |
|---|---|---|---|
| | **2012** | 2011 (restated) | Year-on-year change (%) |
| Turnover | **14,580** | 14,032 | 3.9 |
| Gross profit | **2,012** | 1,934 | 4.0 |
| Consolidated income | **3,590** | 3,455 | 3.9 |
| Operating profit | **417** | 491 | -15.1 |
| Taxation | **111** | 142 | -22.2 |
| Profit attributable to shareholders of the Company for the period | **332** | 392 | -15.3 |
| Basic earnings per share (RMB) | **0.30** | 0.35 Note 1 | -14.3 Note 2 |
| Interim dividend per share (RMB) | **0.08** | 0.08 | 0 |

Note 1: The relevant figure has been recalculated based on the total number of share capital after the issue of bonus shares of the Company in 2011.

Note 2: Basic earnings per share were corrected by rounding and its actual rate of change was the same as that of profit attributable to shareholders of the Company for the period.

**Capital structure**

As at 30 June 2012, the Group's cash equivalents were mainly held in Renminbi, and the Group had no other bank borrowings, except for the borrowings of RMB2,000,000 due within one year from a non-wholly-owned subsidiary of the Group.

During the period under review, equity of the Group increased from approximately RMB3,621,646 thousand to approximately RMB3,823,959 thousand, which was mainly due to the profit for the period amounting to approximately RMB369,928 thousand, dividends distribution amounting to approximately RMB134,352 thousand, dividend payment to non-controlling interests amounting to RMB10,312 thousand and the amount of RMB22,951 thousand paid for the acquisition of the equity interest in the Group's subsidiaries.

# Management Discussion and Analysis

**Details of the Group's pledged assets**

As at 30 June 2012, the Group did not pledge any assets.

**Exposure to foreign exchange risk**

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

**Share capital**

As at 30 June 2012, the issued share capital of the Company was 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 2012, the Group did not have any material contingent liabilities.

## Operating Review

**Outlet development**

In line with its guideline of "Becoming a Regional Leader and a National Strong Player", the Group executed its strategy of focused development. The Group emphasized the quality of new outlets, gradually increased its investment in new outlets and stepped up efforts to improve competitiveness and merchandise display of new outlets in accordance with the market conditions in 2012, ensuring steady and high-quality outlet development.

During the period under review, 3 new hypermarkets were opened, one in Shanghai, one in Hangzhou, Zhejiang Province and one in Tonglu, Zhejiang Province. The Group continued its in-depth development in Shanghai and in Zhejiang Province, where it has a dominant position. Meanwhile, the Group committed itself to exploring suitable commercial outlets and satisfying the surrounding consuming need of each business location. The Group continued to consolidate its market share in East China, thereby increasing its brand influence.

During the period under review, 67 new supermarkets were opened, including 6 directly-operated stores and 61 franchised stores. The Group consistently gave top priority to the quality of the outlet development to uphold the good brand image amid heightened food safety regulation and industry consolidation. The Group strictly monitored and controlled the renewed outlets, especially the franchised stores, and standardised the procedures for the opening of new franchised stores, thereby ensuring the quality of these stores. During the period under review, the Group maintained the growth pace of its directly-operated stores in supermarket segment, especially in the middle and high-end areas. Meanwhile, the Group gradually optimized the franchised stores through outlet segregation and standardisation in accordance with its franchised store optimisation programme.

During the period under review, in the convenience store segment, the Group emphasized both quantity and quality of outlet development. 100 new convenience stores were opened, including 27 directly-operated stores and 73 franchised stores. During the period under review, it not only opened new outlets but also steadily promoted the renovation of existing directly-operated stores and gradually optimised the outlet positioning and merchandise display by implementing three strategies for orderly development, reinforcing transformation and opening high-end outlets. While enhancing the profitability of each store, the convenience store segment also focused on the development of high-end stores.

# Management Discussion and Analysis

As at 30 June 2012, the Group had a total of 5,058 outlets, spanning 19 provinces and municipalities across the nation. There was a decrease of 92 outlets in store number over the end of 2011 mainly due to the consolidation of some franchised stores according to the franchised store optimisation programme in the supermarket segment, which resulted in a net decrease of 84 franchised supermarkets. Approximately 85% of the Group's outlets were located in East China, keeping the leading position in this region.

| | Hypermarkets | Supermarkets | Convenience Stores | Total |
|---|---|---|---|---|
| Direct operation | 153 | 653 | 958 | 1,764 |
| Franchised operation | – | 2,231 | 1,063 | 3,294 |
| Total | 153 | 2,884 | 2,021 | 5,058 |

*Note:* The above information was as at 30 June 2012.

**Operation improvement**

During the period under review, the Group actively improved its operation system and paid attention to changes in consumer demand against the backdrop of slower growth in the overall economy and in the consumption market due to subdued consumer sentiment. The Group enhanced its consolidated income by improving the operating capabilities of outlets, promoting the establishment of fresh produce supply bases and increasing the proportion of imported merchandise and private label merchandise to satisfy increasingly diversified consumer demand.

During the period under review, the Group continued to promote its key outlets strategy with a view to enhancing the core competitiveness of each selected store to improve operating capabilities by persistently improving and developing outlet services. The hypermarket segment focused on further improving its operating capabilities. Progress towards each key outlet project target was tracked and benchmarked monthly with corresponding reinforcement programmes formulated for the enhancement of competitiveness. The supermarket segment facilitated its sales with measures such as introduction of new fresh produce and adjustment in normal temperature product mix. It also formulated and executed the "Double-Hundred" project – the reputation of one hundred outlets significantly enhanced and the sales of one hundred outlets significantly increased within a year. The convenience store segment accelerated outlet renovation and transformation with an emphasis on establishing "lean but reinforced" outlets, i.e. accelerating the adjustment of merchandise categories and items of slower turnover through reducing their stocks based on the characteristics of the business area where the outlet was located to achieve "leanness", and replenishing the stocks of best-selling merchandise categories and items timely and increasing the provision of ancillary merchandise to have outlet "reinforced" at the same time. This strategy proved to be effective. The convenience store segment also proactively developed high-end outlets, opening two new high-end outlets during the period under review.

During the period under review, the Group further improved its operating capacity for fresh produce and enhanced the quality of its fresh produce. For the procurement of fresh produce, the Group added 11 new supply bases. As at 30 June 2012, the Group had a total of 343 fresh produce supply bases, whose produce contributed 35.6% of total sales of produce in the same categories. During the period under review, the Group introduced a fresh produce regular operation and procurement communication mechanism, liaison mechanism, and joint market research system between operation and procurement function for fresh produce to improve the quotation procedure, and assigned personnel responsible for integrating quotes from suppliers to generate the final quotes, which made the procedure more stringent and the bidding among the suppliers fairer. For the operations of fresh produce, in order to ensure the supply of fresh produce during festivals, the Group placed an emphasis on the production and processing of various fresh produce items for festivals to ensure quality and adequate supply in the outlets. During the period under review, the Group improved its fresh produce operation by substituting a direct operation model for the joint operation model for the vegetable business to reinforce the self-operation capabilities of fresh produce. During the period under review, sales of the Group's fresh produce grew year on year.

# Management Discussion and Analysis

During the period under review, the Group continued to expand the procurement and sales promotion of imported merchandise based on consumer demand and achieved sales of RMB532 million, representing a significant year-on-year increase of approximately 51.4%, which accounted for approximately 3.65% of the Group's turnover. During the period under review, the Group also continued to strengthen the research and development and sales promotion of its private label products. The sales of private label products increased by approximately 17.38% year on year, which accounted for approximately 3.35% of the Group's turnover, enjoying steady growth as compared to the same period of 2011.

During the period under review, the Group expanded its strategic alliance with suppliers, jointly launching a series of major events to attract customers and boost sales. For example, the Group offered about 50 daily necessities on sale in over 500 outlets in Shanghai during the "Lianhua-Liangyou Livelihood Festival" (聯華・良友民生節). The Group also introduced various Western fancy food of over 600 types with different tastes during "Western Food Festival" (歐美食品節), achieving significant year-on-year increase in both sales and gross profit of imported goods. The Group held the "Outstanding 21st Anniversary (非凡21周年) programme for the anniversary celebration of the Company with the participation of a wider range of merchandises. For example, the supermarket segment offered 100 merchandise items and the hypermarket segment 1,000 merchandise items. In addition, the Group organised various sub-activities such as "Specially Supplied Merchandise (專供商品)", "Suppliers Week (廠商周商品)", "21% off merchandise (79折商品)" and "21 RMB special merchandise (21元特惠商品)". The merchandise on sale sold during the "Outstanding 21st Anniversary Event" programme aggregated RMB71,500 thousand, representing a year-on-year increase of more than 200%. Meanwhile, the Group stepped up efforts to promote the sales of daily necessities with improved price image and became more attractive to customers. Despite that the Group put plenty of efforts into product mix and promotion events, the overall sales growth during the marketing activities was slightly lower than the Group's expectation due to, among other things, the slowdown of overall economy, greater competition, lower purchasing power among consumers and shrinking demand.

During the period under review, the Group continued to strengthen its operation and management and enhance its brand image. The Group strengthened the management of the procurement business to optimise its performance by formulating measures such as new item plan, sales promotion plan and effect evaluation. The Caoyang Distribution Center of the Group further researched the execution of a more efficient distribution process, and the value of distributed products carried out by this warehouse to hypermarkets increased by 48% year on year, improving store merchandising satisfaction rate. The Group furthered the execution of EAS fund management system, strengthened budget control and authority supervision and stepped up efforts to strictly review all expenses, grounding responsibility assessment and further controlling costs. The Group continued to strengthen food safety through regular verification of the qualification of the suppliers, random on-site examinations of the production of the suppliers with tests of specific items, on-site quick inspections for levels of, among other things, pesticide residue in fresh products, and commissioning third party institutions to test items randomly picked up at outlets. The Group also introduced the mode of "Supermarket+Agricultural Investment Company+Farmer" for the direct supply of vegetables, ensuring that vegetable supplies are pollution free. The vegetable tracking system commenced operation on 15 March 2012. Various preparations such as establishing the pork tracking system for the supermarket segment and the beef and mutton tracking system for hypermarkets were completed. The food safety monitoring system of the Group was further upgraded and optimised.

**Business development**

During the period under review, the Group tested the invigorated hypermarket business model in its hypermarket segment. It opened a one-stop outlet of approximately 39,000 square meters with the functions of hypermarket, exclusive shops, restaurants and other services in March 2012 in Hangzhou, which was the largest store in the hypermarket segment of the Group. Through this trial, the Group acquired experience in developing larger outlets, which also help reinforcing the Group's market share in Hangzhou.

# Management Discussion and Analysis

During the period under review, the Group increased its marketing efforts to enroll customers into its membership system – upgrading its membership system, analyzing customer demand, and continuously improving the promotion events designed for members. By offering "members only" products, the Group was able to increase the appetite and loyalty of its members, and enhanced the contribution by its members as a percentage of total sales.

During the period under review, the construction of the Group's Jiangqiao logistics center proceeded as planned. The Group further detailed its overall supply chain system design to support its future business development plan. The Group's new fresh products processing and distribution center in Gouzhuang district, Yuhang, Zhejiang Province was fully put in operation, which further increased the satisfaction rate of fresh products for outlets in Zhejiang Province.

The Group's brand new shopping website, "Lianhua Mart" (www.lhmart.com) was formally launched in December 2011. During the period under review, "Lianhua Mart" steadily pushed forward the accumulation of users by adjusting its product mix. "Lianhua Mart" will continue to offer new functions, improve operation processes, build a better membership system and provide more value-added services for our members.

During the period under review, after careful market research and planning, the Group opened its first cosmeceutical store "Sakura Kobo" in Shanghai on 1 June 2012. "Sakura Kobo" offers more than 7,000 merchandise items, about 70% of which are Japanese products, including many well-known Japanese cosmetic products. The store also set up Japanese and Korean products counters, and introduced, for the first time, 19 "Sakura Kobo" branded products, providing a new space for consumers who are interested in health care and beauty products.

**Enhancement in consolidation**

Although the Group's integration with Hualian Supermarket Holdings Co., Ltd. was basically completed, further integration of the business flow, logistics, information flow, capital flow and other resources were still in progress.

During the period under review, the Group optimised the merchandise management function by changing the original model that managed merchandise by segment to a system based on merchandise category. The Group further optimised the work flow from procurement of merchandise to sales in stores. To ensure implementation, employees were held accountable and asked to follow the process strictly. The Group formulated a merchandise operating strategy in line with its practical realities and the market situation and segmented and optimised the merchandise management system, laying a good foundation to further enhance the competitiveness of its merchandise.

During the period under review, the group improved its information technology management through the integration of information and application systems from all segments, with respects to procurement, operations and logistics. During the period under review, as part of the B2B supply chain management platform, the Group launched certification and credit checking services, which collect and save various types of licenses and certificates of suppliers, and further extended the application of the platform from the hypermarket segment to the supermarket and convenience store segments. During the period under review, the Group further improved the core business system platform to support the Company's centralised procurement, maximise the integration of the Group's existing resources and improve the efficiency of merchandise and marketing management. During the period under review, the Group, through a unified billing platform, launched an online unified settlement system to enhance analysis and evaluation ability of supplier information. This unified billing platform further improved and intensified the capital settlement and management with capital use effectively planned and capital efficiency significantly improved.

# Management Discussion and Analysis

## Employment, Training and Development

As at 30 June 2012, the Group had a total of 58,230 employees, representing a decrease of 2,360 employees. Total staff costs were RMB1,251,582 thousand.

During the period under review, the Group focused on advancing the process optimisation and position responsibility specification. Through field research in outlets, the human resource management department fully understood the workflow, post setting, job responsibilities and staff deployment of the outlets and conducted an in-depth optimization of the allocation of human resources in order to reasonably control labour costs and improve work efficiency.

During the period under review, the Group incorporated the concept of serving business departments into the performance assessment of the headquarters departments. In accordance with the assessment results for 2011 and the work focus of 2012, departments in the headquarters specified their performance goals, and planned for improving their service quality through tailored improvement measures.

During the period under review, the Group developed a personalised training development program for management reserve team. The Group organised the fifth young managers training programme in order to enhance the building of management reserve team. The Group accelerated the rotating practice of key personnel in key positions in order to train young officers, stimulating creativity by elevating passion and exploring their potentials. In view of the increasingly serious food quality and safety problems, the Group stepped up training for all levels of management and staff, carried out a series of training on *Quality Control of Merchandise* in order to ensure safety at the source, which was effective in eliminating all kinds of food safety incidents.

## Strategy and Plan

In the second half of 2012, the economic environment is expected to remain unstable. For retail enterprises, the challenges and pressures will continue. To secure steady growth, the government shall introduce more policies and measures to stimulate consumption. It is also expected that the government will further strengthen regulations affecting retail enterprises management, including a series of measures on food safety, production safety, regulation on fees between retailers and suppliers, price controls, and operational models. The retail industry is to embrace a new environment, from which a number of large and medium-sized enterprises will stand out. Since the industrial adjustment started from the second half of last year, the retail industry has stood through the most difficult operating environment in the first quarter of this year and witnessed improvements in the second quarter. As the government is now working on the policies and tools to stimulate the retail market, the Group is confident that the retail industry will recover along with improvements in the general economy and favorable stimulus policies.

In view of the above, the Group's key strategies in the second half of 2012 are:

**Break operational bottlenecks and accelerate management improvement.** In the second half of the year, the Group's focus for management and business improvement is to further improve the synergies between the operation and procurement systems, including more standardized and centralized management; reinforce operation departments' management over outlets to improve execution; continue to promote supply chain management; improve the satisfaction rate of merchandise supply to stores; and strengthen the construction of information systems to support business development and standardised management.

**Improve pricing strategy and increase sales capacity.** The Group will continue to optimise its product mix, improve pricing strategy, implement the business concept of combination of quality, price and volumes by adjusting the portfolio of sensitive products with special features and selective items. The Group will also try to change consumers' perceptions about its price levels at expected gross profit to increase same store sales; further reduce procurement costs through source procurement and buyout procurement; enhance profitability by increasing fresh produce bases and increase the proportion of private label products and imported goods; improve marketing strategy; conduct research on consumer demand; focus on exploring membership resources to promote and improve the customer relationship management platform (CRM); and increase the value-added services in outlets, improving the outlets' attractiveness to consumers.

# Management Discussion and Analysis

**Improve quality of development and develop new business model.** In the second half of the year, the Group will adhere to the focused development strategy of "Becoming a Regional Leader and a National Strong Player" by establishing new outlets in East China and existing markets through parallel development of direct operation and franchises, and will continue to develop in cooperation with its controlling shareholder, Bailian Group Co., Ltd., strengthening cooperation in acquisition and integration and resource sharing. In the second half of the year, the Group will continue to give first priority to the quality of development by improving the processes for opening new outlets and focusing on performance improvement of new and sub-new outlets. In expansion of new business, 2012 will be the introduction period of cosmeceutical stores. The Group will conclude its experience in pilot cosmeceutical stores and open five to eight "Sakura Kobo" stores in high-end areas of Shanghai. In e-commerce business, the Group will optimise its product mix and increase merchandise categories to orderly and steadily promote the marketing efforts of Lianhua Mart website.

**Reinforce restructuring and seize opportunities for development.** Major business restructuring of the Group in recent years in business flow, logistics and information flow has now reached a crucial stage. In the second half of the year, the Group will continue to consolidate the restructuring achievements and deepen the improvement of each business internally. The Group will continue to promote the construction of Jiangqiao logistics center, and study and improve the design plan for the future segmentation of the overall supply chain system. In line with the overall strengthening of the government's efforts to support the retail industry, factors such as food safety, slotting fee income, taxation, business mode and price regulation of the industry are moving towards legalisation and standardisation. The Group, as one of the leading enterprises in the domestic retail industry, will focus on promoting consumption and steady growth, and will comply with the latest regulatory requirements and improve its internal management. With a close eye on the various consumption-stimulating policies introduced by the government, the Group shall actively grasp the opportunities for development.

The Group will improve operational efficiency by fine tuning management practices, re-focusing on the essence of retail industry, and improving service quality to enhance customer loyalty and store traffic. It will continue to improve sales capacity and promote growth in consolidated income margin to improve operations and procurement. The Group will strive to open new outlets and optimise sub-new outlets in accordance with all business characteristics. The Group will improve new merchandise negotiations, outlet inspections, operation supervision, promotion management, commodities clean-up, and product test in order to streamline and standardise operations, thus improving controls and efficiency.

# Other Data

## Disclosure of interests

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

As at 30 June 2012, none of the directors, supervisors or chief executive 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 2012, Mr. Ma Xin-sheng, Mr. Hua Guo-ping, Mr. Chen Jian-jun and Mr. Wang Long-sheng (Mr. Ma Xin-sheng and Mr. Hua Guo-ping are the Directors of the company and Mr. Chen Jian-jun and Mr. Wang Long-sheng are the Supervisors of the Company) are directors, supervisors or employees of Shanghai Friendship Group Incorporated Company ("Shanghai Friendship"). As disclosed below, Shanghai Friendship had interests in the shares of the Company as at 30 June 2012 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 2012, 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 1 & 2) | domestic | 617,981,400 | 55.20% | 82.73% | – |
| Shanghai Bailian Group Investment Co., Ltd. (Note 1) | domestic | 237,029,400 | 21.17% | 31.73% | – |
| Bailian Group Co., Ltd. (Notes 2 & 3) | domestic | 617,981,400 | 55.20% | 82.73% | – |
| Mitsubishi Corporation | unlisted foreign shares | 75,420,000 | 6.74% | 10.10% | – |
| The Bank of New York Mellon Corporation | H shares | 37,806,503(L)<br>13,863,399(P) | 3.38%(L)<br>1.24%(P) | –<br>– | 10.15%(L)<br>3.72%(P) |
| Matthews International Capital Management, LLC | H shares | 29,844,000(L) | 2.67%(L) | – | 8.00%(L) |
| The Boston Company Asset Management | H shares | 22,672,000(L) | 2.03%(L) | – | 6.08%(L) |
| Invesco Hong Kong Limited | H shares | 22,441,000(L) | 2.00%(L) | – | 6.02%(L) |
| Julius Baer International Equity Fund | H shares | 21,944,804(L) | 1.96%(L) | – | 5.89%(L) |

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

# Other Data

Notes:

1. As at 30 June 2012, Shanghai Friendship owned 100% interests in Shanghai Bailian Group Investment Co., Ltd. ("Bailian Investment").

2. As at 30 June 2012, Bailian Group Co., Ltd. ("Bailian Group") directly and indirectly held approximately 49.26% of the shares in Shanghai Friendship. Therefore, Bailian Group is deemed to have interest in the Company.

   As at 30 June 2012, Shanghai Friendship held an aggregate of 617,981,400 shares of the Company, out of which 380,952,000 shares of the Company were held directly, and 237,029,400 shares of the Company were held through Bailian Investment.

   As at 30 June 2012, Mr. Ma Xin-sheng, chairman of the Company, was chairman of Shanghai Friendship, Mr. Hua Guo-ping, an executive Director of the Company, was the director of Shanghai Friendship. Mr. Chen Jian-jun, a supervisor of the Company, was the supervisor of Shanghai Friendship, and Mr. Wang Long-sheng, a supervisor of the Company, was the director of Shanghai Friendship.

3. The Company has been informed that Shanghai Liding Investment Company Limited("Shanghai Liding"), a shareholder of the Company, has entered into an equity transfer agreement (the "Equity Transfer Agreement") with Bailian Group on 29 June 2012.

   Pursuant to the Equity Transfer Agreement, Shanghai Liding conditionally agreed to transfer approximately 1.96% equity interest of the Company to Bailian Group. The afore-mentioned equity transfer of the Company is subject to the satisfaction of the conditions precedent to the Equity Transfer Agreement, including but not limited to obtaining the approval by the board of directors of Shanghai Liding and Bailian Group at their respective board meetings and obtaining the approval of the equity transfer by the relevant government authorities in the People's Republic of China. Please refer to the announcement of the Company dated 6 July 2012 for details of such equity transfer.

   As at the date of this interim report, the procedures in relation to the equity transfer under the Equity Transfer Agreement are still in progress.

   As at 30 June 2012, Mr. Ma Xin-sheng, the Chairman of the Company, was the chairman of the board of directors of Bailian Group.

4. As the Company issued 8 additional shares to the shareholders whose names appeared on the register of shareholders of the Company on the record date, i.e. 28 June 2011, for every 10 shares held by them by way of capitalization of the capital reserve fund on 8 September 2011, the numbers of H shares of the Company held as at 30 June 2012 by holders of H shares have been adjusted accordingly, if necessary.

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 2012.

## The legal status of unlisted foreign shares

Set out below is the summary of legal opinions given by Grandall Law Firm (Shanghai) on the rights attached to unlisted foreign shares (the "Unlisted Foreign Shares"). Although the Prerequisite Clauses for Articles of Association of Companies to be Listed Overseas (the "Prerequisite Clauses") provides 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 ("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 under the existing PRC laws or regulations. However, the Company's creation of Unlisted Foreign Shares and the subsistence of the Unlisted Foreign Shares does not contravene any PRC laws or regulations.

At present, there are no express laws and regulations in the PRC governing the rights attached to Unlisted Foreign Shares. Grandall Law Firm (Shanghai) advised that until new laws or regulations are introduced in this aspect, holders of the Unlisted Foreign Shares shall be treated the same as holders of domestic shares ("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 holders of Domestic Shares), except that the holders of the Unlisted Foreign Shares enjoy the following rights to which the holders of Domestic Shares are not entitled:

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

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

# Other Data

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

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

As advised by Grandall Law Firm (Shanghai), the Unlisted Foreign Shares can be converted into new H Shares subject to satisfaction of the following conditions:

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

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

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

(d) approval granted by the Stock Exchange for the listing and trading of the new H Shares converted from the Unlisted Foreign Shares;

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

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

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

## Purchase, Sale or Redemption of Shares

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

## Interim Dividend and Closure of Books

The board of directors (the "Board") of the Company declares payment of an interim dividend of RMB0.08 per share (including tax) for the six months ended 30 June 2012.

The register of H shares members of the Company will be closed from 17 September 2012, Monday to 21 September 2012, Friday (both days inclusive) during which period no transfer of H shares will be effected. The interim dividend will be distributed to the shareholders of H shares of the Company whose names appear on the Company's register of members on 21 September 2012, Friday. In order to qualify for the interim dividend, holders of H shares must lodge the relevant share transfer documents together with their share certificates with the share registrar of the Company, namely Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Friday, 14 September 2012.

The interim dividends to be distributed will be denominated and declared in Renminbi. Distribution to domestic shareholders of the Company will be made in Renminbi, while distribution to holders of unlisted foreign shares of the Company will be made in relevant foreign currencies and distribution to holders of H shares of the Company will be made in Hong Kong dollars on or before 21 November 2012. The dividends to be distributed in Hong Kong dollars will be converted into Hong Kong dollars at the average exchange rate of Renminbi to Hong Kong dollars announced by the People's Bank of China in the week prior

# Other Data

to the dividend declaration date, which is RMB1.00 to HKD1.224290. At such, the interim dividend per ordinary share denominated in HKD is HKD0.0979 (including tax).

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

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

Pursuant to the rules of exemption to individual foreigners from individual income tax on dividend from foreign-invested enterprises, which are set out in the "Notice of the Ministry of Finance and the State Administration of Taxation on Certain Policies Regarding Individual Income Tax (Caishui [1994]20) (《財政部國家稅務總局關於個人所得稅若干政策問題的通知》(財稅「1994」20號)) dated 13 May 1994, when the Company distribute the 2012 interim dividend to its individual shareholders whose names appear on the register of members of H shares of the Company as at the relevant record day, the Company will distribute in full the 2012 interim dividend to its individual shareholders of H shares.

Shareholders are recommended to consult their taxation advisors regarding PRC, Hong Kong and other tax implications arising from their holding and disposal of H shares of the Company.

## 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 2012 of the Company. The Audit Committee considered that the interim accounts for the six months ended 30 June 2012 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 Model Code for Securities Transactions by Directors in Appendix 10 of the Listing Rules

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

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

The Board is pleased to confirm that save and except for the matters as set out below, the Company has complied with all the code provisions in the "Code on Corporate Governance Practices" (formerly set out in Appendix 14 of the Listing Rules) for the period from 1 January 2012 to 31 March 2012 and all the code provisions in the "Corporate Governance Code" (the "Code") (the new edition of the Code on Corporate Governance Practices which is applicable to financial reports covering a period after 1 April 2012) for the period from 1 April 2012 to 30 June 2012. Apart from the following deviation, 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 and Code on Corporate Governance Practices. Details of the deviation are set out as follows:

# Other Data

Provision A4.2 of the Code and Code on Corporate Governance Practices 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.

For Provision A.6.7 of the Code, Mr. Wang Zhi-gang and Mr. Wong Tak Hung, non-executive directors, were unable to attend the fifth meeting of the fourth session of the Board convened on 15 June 2012 by the Company due to their work duties. After receiving the relevant materials for the Board meeting, they have authorized other directors of the Company to attend the meeting and vote on their behalf. The Board meeting considered and approved ordinary matters and all resolutions were passed smoothly. The Company had sent the related minutes to all members of the Board after the Board meeting so any director who was unable to attend the meeting was able to understand the resolutions passed at the meeting.

Further, for Provision A.6.7 of the Code, Mr. Kazuyasu Misu and Mr. Wong Tak Hung, non-executive directors, and Mr. Xia Da-wei, independent non-executive director, were unable to attend the sixth meeting of the fourth session of the Board convened on 28 August 2012 by the Company due to their work duties. After receiving the relevant materials for the Board meeting, they have authorized other directors of the Company to attend the meeting and vote on their behalf. The Board meeting considered and approved ordinary matters and all resolutions were passed smoothly. The Company had sent the related minutes to all members of the Board after the Board meeting so any director who was unable to attend the meeting was able to understand the resolutions passed at the meeting.

For Provisions A.6.7 and E.1.2 of the Code, Mr. Wang Zhi-gang and Mr. Wong Tak Hung, non-executive directors, were unable to attend the 2011 annual general meeting of the Company convened on 15 June 2012 due to their work duties. Mr. Lee Kwok Ming, Don, the chairman of the audit committee and an independent non-executive director, attended the annual general meeting through telephonic conference. The Company has provided the relevant materials relating to the 2011 annual general meeting to all members of the Board before the meeting. All ordinary resolutions and special resolutions were passed smoothly at the annual general meeting. The Company had sent the related minutes to all members of the Board after the annual general meeting so any director who was unable to attend the meeting was able to understand the resolutions passed at the meeting.

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

28 August 2012, Shanghai, The PRC

# Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2012

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2012** | 2011 |
| | | **(Unaudited)** | (Unaudited and restated) |
| | NOTES | **RMB'000** | RMB'000 |
| | | | (note 1) |
| Turnover | 4 | **14,580,095** | 14,031,763 |
| Cost of sales | | **(12,567,886)** | (12,098,013) |
| Gross profit | | **2,012,209** | 1,933,750 |
| Other revenue | 4 | **1,260,938** | 1,233,373 |
| Other income and gains | 5 | **316,548** | 287,388 |
| Selling and distribution expenses | | **(2,802,532)** | (2,608,205) |
| Administrative expenses | | **(344,198)** | (331,281) |
| Other operating expenses | | **(25,628)** | (23,821) |
| Interest on bank borrowings wholly repayable within five years | | **(76)** | – |
| Operating profit | | **417,261** | 491,204 |
| Share of profits of associates | | **63,405** | 74,437 |
| Profit before taxation | 6 | **480,666** | 565,641 |
| Income tax expense | 7 | **(110,738)** | (142,389) |
| Profit and total comprehensive income for the period | | **369,928** | 423,252 |
| Profit and total comprehensive income for the period attributable to: | | | |
| Owners of the Company | | **331,688** | 391,886 |
| Non-controlling interests | | **38,240** | 31,366 |
| | | **369,928** | 423,252 |
| Earnings per share – basic and diluted | 9 | **RMB0.30** | RMB0.35 |

# Condensed Consolidated Statement of Financial Position

At 30 June 2012

| | NOTES | **30 June 2012 (Unaudited) RMB'000** | 31 December 2011 (Audited) RMB'000 |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 10 | **3,251,186** | 3,337,975 |
| Construction in progress | 10 | **138,640** | 67,765 |
| Land use rights | 10 | **301,926** | 304,559 |
| Intangible assets | 10 | **183,504** | 186,863 |
| Deposits paid for acquisition of property, plant and equipment | | **300,000** | 300,000 |
| Interests in associates | | **461,334** | 517,087 |
| Available-for-sale financial assets | 11 | **37,158** | 252,808 |
| Held-to-maturity financial assets | 12 | **246,072** | 238,365 |
| Term deposits | 13 | | |
| – restricted | | **826,500** | 1,893,500 |
| – unrestricted | | **3,050,000** | 850,000 |
| Prepaid lease payments | | **117,150** | 134,750 |
| Deferred tax assets | | **148,497** | 142,213 |
| Other non-current assets | 14 | **22,369** | 23,131 |
| | | **9,084,336** | 8,249,016 |
| Current assets | | | |
| Inventories | | **2,407,960** | 3,420,822 |
| Trade receivables | 15 | **119,135** | 86,056 |
| Deposits, prepayments and other receivables | | **898,041** | 884,861 |
| Amounts due from fellow subsidiaries | 16 | **10,763** | 10,810 |
| Amounts due from associates | 17 | **173** | 129 |
| Available-for-sale financial assets | 11 | **616,702** | 237,975 |
| Held-to-maturity financial assets | 12 | **99,637** | 145,191 |
| Term deposits | 13 | | |
| – restricted | | **2,926,500** | 1,087,700 |
| – unrestricted | | **879,000** | 625,000 |
| Cash and cash equivalents | | **1,678,059** | 5,566,371 |
| | | **9,635,970** | 12,064,915 |
| Total assets | | **18,720,306** | 20,313,931 |

# Condensed Consolidated Statement of Financial Position

At 30 June 2012
(Continued)

| | NOTES | 30 June 2012 (Unaudited) RMB'000 | 31 December 2011 (Audited) RMB'000 |
|---|---|---|---|
| Capital and reserves | | | |
| Share capital | 18 | **1,119,600** | 1,119,600 |
| Reserves | | **2,371,489** | 2,194,309 |
| Equity attributable to owners of the Company | | **3,491,089** | 3,313,909 |
| Non-controlling interests | | **332,870** | 307,737 |
| Total equity | | **3,823,959** | 3,621,646 |
| Non-current liability | | | |
| Deferred tax liabilities | | **46,233** | 47,261 |
| Current liabilities | | | |
| Trade payables | 19 | **3,647,868** | 4,419,446 |
| Bank borrowing | | **2,000** | 2,000 |
| Other payables and accruals | 20 | **1,863,533** | 2,204,370 |
| Dividend payable to shareholders of the Company | | **134,352** | – |
| Dividend payable to non-controlling interest of subsidiaries | | **113** | – |
| Coupon liabilities | 21 | **9,035,870** | 9,756,029 |
| Deferred income | | **12,272** | 15,517 |
| Amounts due to fellow subsidiaries | 16 | **57,567** | 72,630 |
| Amounts due to associates | 17 | **10,524** | 13,014 |
| Taxation payable | | **86,015** | 162,018 |
| | | **14,850,114** | 16,645,024 |
| Total liabilities | | **14,896,347** | 16,692,285 |
| Total equity and liabilities | | **18,720,306** | 20,313,931 |
| Net current liabilities | | **(5,214,144)** | (4,580,109) |
| Total assets less current liabilities | | **3,870,192** | 3,668,907 |

# Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2012

| | Attributable to owners of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Share capital** RMB'000 (note a) | **Capital reserve** RMB'000 (note a) | **Other reserve** RMB'000 (note b) | **Statutory common reserve fund** RMB'000 (note c) | **Retained profits** RMB'000 | **Total attributable to owners of the Company** RMB'000 | **Non-controlling interests** RMB'000 | **Total** RMB'000 |
| At 1 January 2011 (audited and restated) | 622,000 | 755,953 | (194,664) | 300,492 | 1,411,919 | 2,895,700 | 329,101 | 3,224,801 |
| Profit for the period (restated) | – | – | – | – | 391,886 | 391,886 | 31,366 | 423,252 |
| 2010 final dividend declared (note 8) | – | – | – | – | (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 and restated) | 622,000 | 755,953 | (194,664) | 300,492 | 1,691,845 | 3,175,626 | 345,851 | 3,521,477 |
| At 1 January 2012 (audited) | **1,119,600** | **258,353** | **(201,653)** | **365,931** | **1,771,678** | **3,313,909** | **307,737** | **3,621,646** |
| Profit for the period | **–** | **–** | **–** | **–** | **331,688** | **331,688** | **38,240** | **369,928** |
| 2011 final dividend declared (note 8) | **–** | **–** | **–** | **–** | **(134,352)** | **(134,352)** | **–** | **(134,352)** |
| Dividends paid to non-controlling interests | **–** | **–** | **–** | **–** | **–** | **–** | **(10,312)** | **(10,312)** |
| Acquisition of additional equity interests in subsidiaries | **–** | **–** | **(20,156)** | **–** | **–** | **(20,156)** | **(2,795)** | **(22,951)** |
| **At 30 June 2012 (unaudited)** | **1,119,600** | **258,353** | **(221,809)** | **365,931** | **1,969,014** | **3,491,089** | **332,870** | **3,823,959** |

Notes:

(a) On 28 June 2011, the shareholders of the Company 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 for every 10 shares held by then shareholders (the "Bonus Issue"). On 11 August 2011, the Bonus Issue was approved by the relevant authorities in the People's Republic of China ("PRC") and accordingly, upon the Bonus Issue, the share capital of the Company increased by RMB497,600,000 and the capital reserve, which mainly represents premium arising from issue of H shares net of share issuance expenses, decreased correspondingly by the same amount.

(b) Other reserve of the Group mainly represents:

i. the fair value difference of a subsidiary's net assets, arising from a business combination during the year ended 31 December 2005, and the Group's original equity interest of that subsidiary;

ii. the financial impact of adopting merger accounting to account for the acquisition of subsidiaries during the year ended 31 December 2009 and 31 December 2011, respectively; and

iii. acquisition of additional equity interests in subsidiaries.

(c) 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 2012 (six months ended 30 June 2011: Nil) as such transfer will be made, upon directors' approval, at the year end based on the annual profit.

# Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2012

| | Six months ended 30 June | |
|---|---|---|
| | **2012 (Unaudited)** | 2011 (Unaudited and restated) |
| | **RMB'000** | RMB'000 |
| Net cash used in operating activities | **(991,130)** | (547,991) |
| Investing activities | | |
| Increase in unrestricted term deposits | **(2,454,000)** | (2,938,500) |
| Purchase of available-for-sale financial assets | **(400,000)** | (448,000) |
| Addition of property, plant and equipment and construction in progress | **(322,800)** | (297,449) |
| Additional investment in an associate | **(3,070)** | – |
| Proceeds on redemption of available-for-sale financial assets | **260,241** | 616,062 |
| Proceeds on redemption of held-to-maturity financial assets | **47,812** | 35,218 |
| Dividends received from associates | **6,824** | 143,301 |
| Disposal of a subsidiary | **–** | 50,235 |
| Other investing cash inflows (outflows) | **961** | (65,966) |
| Net cash used in investing activities | **(2,864,032)** | (2,905,099) |
| Financing activities | | |
| Dividends paid to non-controlling interests | **(10,199)** | (217,044) |
| Other financing outflows | **(22,951)** | (914) |
| Cash used in financing activities | **(33,150)** | (217,958) |
| Net decrease in cash and cash equivalents | **(3,888,312)** | (3,671,048) |
| Cash and cash equivalents at 1 January | **5,566,371** | 5,581,234 |
| Cash and cash equivalents at 30 June | **1,678,059** | 1,910,186 |

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

## 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (HKAS 34) *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Pursuant to the resolution passed at the board of directors' meeting on 15 April 2011, the Group acquired the equity interests of Shanghai Hualian Supermarket Tengzhou Limited ("Tengzhou") at a cash consideration of RMB4,282,000 (the "Acquisition of Tengzhou"). As both the Group and Tengzhou are under the control of Bailian Group, the ultimate holding company of the Company, the Acquisition of Tengzhou has been accounted for in the condensed consolidated financial statements using the principle of merger accounting. The Acquisition of Tengzhou was completed on 29 September 2011. Accordingly,

a. the consolidated net assets of Tengzhou have been accounted for in the condensed consolidated statements of changes in equity of the Group at 1 January 2011 at their existing book values without recognition of any goodwill nor adjustments in respect of the difference between the fair values and the carrying amounts of Tengzhou's identifiable assets, liabilities and contingent liabilities; and

b. the condensed consolidated statement of comprehensive income for the six months ended 30 June 2011 includes the results of Tengzhou from 1 January 2011,

as if they had been combined from 1 January 2011.

The effects on the results of the Group for the six months ended 30 June 2011 as a result of adopting merger accounting to account for the Acquisition of Tengzhou are as follows:

| | Six months ended 30 June 2011 RMB'000 |
|---|---|
| Increase in turnover | 11,113 |
| Increase in cost of sales | (10,070) |
| Increase in other revenue | 876 |
| Increase in other income | 29 |
| Increase in selling and distribution expenses | (1,499) |
| Increase in administrative expenses | (146) |
| Increase in taxation | (104) |
| Increase in profit and total comprehensive income for the period | 199 |
| Increase in profit and total comprehensive income for the period attributable to: | |
| Owners of the Company | 195 |
| Non-controlling interests | 4 |
| | 199 |
| Increase in earnings per share – basic and diluted | – |

The effect of Acquisition of Tengzhou on the condensed consolidated financial positions of the Group as at 1 January 2011 has been disclosed in the Group's annual financial statements for the year ended 31 December 2011.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

## 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 2012 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011.

In the current interim period, the Group has applied, for the first time, the following amendments issued by the HKICPA.

| | |
|---|---|
| Amendments to HKFRS 7 | Financial Instruments: Disclosures – Transfers of Financial Assets |
| Amendments to HKAS 12 | Deferred Tax: Recovery of Underlying Assets |

The application of the above amendments in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and disclosures set out in these condensed consolidated financial statements.

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

| | |
|---|---|
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2009-2011 Cycle[1] |
| Amendments to HKFRS 7 | Disclosures – Offsetting Financial Assets and Financial Liabilities[1] |
| Amendments to HKFRS 9 and HKFRS 7 | Mandatory Effective Date of HKFRS 9 and Transition Disclosures[2] |
| Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 | Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1] |
| HKFRS 9 | Financial Instruments[2] |
| 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] |
| Amendments to HKAS 1 | Presentation of Items of Other Comprehensive Income[3] |
| HKAS 19 (Revised 2011) | Employee Benefits[1] |
| HKAS 27 (Revised 2011) | Separate Financial Statements[1] |
| HKAS 28 (Revised 2011) | Investments in Associates and Joint Ventures[1] |
| Amendments to HKAS 32 | Offsetting Financial Assets and Financial Liabilities[4] |
| HK(IFRIC)-Int 20 | Stripping Costs in the Production Phase of a Surface Mine[1] |

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

[2] Effective for annual periods beginning on or after 1 January 2015

[3] Effective for annual periods beginning on or after 1 July 2012

[4] Effective for annual periods beginning on or after 1 January 2014

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

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

## 3. SEGMENT INFORMATION

The following is an analysis of the Group's revenue (include turnover and other revenue) and results by operating segments, which the Group's General Manager, being the Group's chief operating decision maker, reviews when making decisions about allocating resources and assessing performance:

| | Segment revenue Six months ended 30 June | | Segment results Six months ended 30 June | |
|---|---|---|---|---|
| | **2012 (Unaudited) RMB'000** | 2011 (Unaudited and restated) RMB'000 | **2012 (Unaudited) RMB'000** | 2011 (Unaudited and restated) RMB'000 |
| Hypermarkets | **9,546,229** | 9,023,113 | **200,256** | 220,705 |
| Supermarkets | **5,333,146** | 5,248,463 | **201,039** | 220,477 |
| Convenience stores | **937,628** | 909,247 | **1,671** | 14,764 |
| Other operations | **24,030** | 84,313 | **20,810** | 37,527 |
| | **15,841,033** | 15,265,136 | **423,776** | 493,473 |

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

| | Six months ended 30 June | |
|---|---|---|
| | **2012 (Unaudited) RMB'000** | 2011 (Unaudited and restated) RMB'000 |
| Segment results | **423,776** | 493,473 |
| Interest income | **39,103** | 40,424 |
| Unallocated income | **28,560** | 28,571 |
| Unallocated expenses | **(74,178)** | (71,264) |
| Share of profits of associates | **63,405** | 74,437 |
| Profit before taxation | **480,666** | 565,641 |

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

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

Segment results did not include share of profits of associates, allocation of corporate income and expenses (including certain interest income relating to funds managed centrally).

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

## 4. TURNOVER AND OTHER REVENUE

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

| | Six months ended 30 June | |
|---|---|---|
| | **2012 (Unaudited) RMB'000** | 2011 (Unaudited and restated) RMB'000 |
| Turnover on sales of merchandises | **14,580,095** | 14,031,763 |
| Incomes from suppliers | **950,605** | 910,020 |
| Gross rental income from leasing of shop premises | **272,995** | 252,973 |
| Royalty income from franchised stores | **28,150** | 30,623 |
| Commission income from coupon redemption at other retailers | **9,188** | 39,757 |
| | **1,260,938** | 1,233,373 |
| Total revenue | **15,841,033** | 15,265,136 |

## 5. OTHER INCOME AND GAINS

| | Six months ended 30 June | |
|---|---|---|
| | **2012 (Unaudited) RMB'000** | 2011 (Unaudited and restated) RMB'000 |
| Interest income on cash and term deposits | **205,718** | 154,100 |
| Government subsidies (note) | **29,595** | 10,828 |
| Gain on fair value change on financial assets at fair value through profit or loss | **2,379** | 1,222 |
| Interest income from available-for-sale financial assets | **23,318** | 18,062 |
| Interest income from held-to-maturity financial assets | **9,965** | 9,943 |
| Gain on disposal of a subsidiary (note 24) | **–** | 41,619 |
| Gain on disposal of property, plant and equipment | **73** | 2,528 |
| Salvage sales | **16,034** | 16,206 |
| Others | **29,466** | 32,880 |
| | **316,548** | 287,388 |

Note: The Group received subsidies from PRC local governments as an encouragement for the operation of certain subsidiary companies.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

## 6. PROFIT BEFORE TAXATION

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

| | Six months ended 30 June | |
|---|---|---|
| | **2012** | 2011 |
| | **(Unaudited)** | (Unaudited and restated) |
| | **RMB'000** | RMB'000 |
| Amortisation and depreciation | | |
| – Amortisation of other non-current assets | **762** | 762 |
| – Amortisation of intangible assets – software (included in selling and distribution expenses/administrative expense) (note 10) | **5,430** | 5,031 |
| – Amortisation of land use rights (note 10) | **2,633** | 2,631 |
| – Depreciation of property, plant and equipment (note 10) | **277,046** | 260,348 |
| | **285,871** | 268,772 |
| Cost of inventories recognised as an expense | **12,567,886** | 12,098,013 |
| Share of profits of associates | | |
| Profit before taxation | **(85,272)** | (99,266) |
| Taxation | **21,867** | 24,829 |
| | **(63,405)** | (74,437) |
| Operating lease rental in respect of rented premises | **815,548** | 739,173 |
| Staff costs | **1,251,582** | 1,190,364 |

## 7. INCOME TAX EXPENSE

| | Six months ended 30 June | |
|---|---|---|
| | **2012** | 2011 |
| | **(Unaudited)** | (Unaudited and restated) |
| | **RMB'000** | RMB'000 |
| PRC income tax | | |
| – Current taxation | **118,050** | 145,380 |
| – Deferred taxation | **(7,312)** | (2,991) |
| | **110,738** | 142,389 |

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 2011: 25%) of taxable income of the subsidiaries based on the relevant PRC tax rules and regulations except for certain subsidiaries which are taxed at a preferential rate of 15% (six months ended 30 June 2011: 15% to 24%).

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

## 8. DIVIDEND

An interim dividend in respect of 2012 of RMB0.08 (six months ended 30 June 2011: RMB0.08) per share amounting to a total of RMB89,568,000 (six months ended 30 June 2011: RMB89,568,000) has been declared by the board of directors on 28 August 2012. This interim dividend has not been included as a liability in these condensed consolidated financial statements as it was declared after the end of the reporting period.

At a meeting held on 21 March 2012, the directors proposed a final dividend of RMB0.12 per share with the share number of 1,119,600,000 for the year ended 31 December 2011, totalling RMB134,352,000 (six months ended 30 June 2011: a final dividend of RMB0.18 per share with the share number of 622,000,000 for the year ended 31 December 2010, totalling RMB111,960,000), which was approved by the shareholders on 15 June 2012 and has been reflected as an appropriation of retained profits for the six months ended 30 June 2012. The amount has not yet been paid as at 30 June 2012.

## 9. EARNINGS PER SHARE

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

| | **Six months ended 30 June** | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited and restated) |
| ***Earnings*** | | |
| Profit for the period attributable to owners of the Company | **331,688** | 391,886 |

| | **Six months ended 30 June** | |
|---|---|---|
| | **2012** | 2011 |
| | **(Unaudited)** | (Unaudited and restated) |
| ***Number of shares (note)*** | | |
| Number of ordinary shares in issue for the purpose of basic and diluted earnings per share | **1,119,600,000** | 1,119,600,000 |

Note: For the six months ended 30 June 2011, the number of ordinary shares for the purpose of basic and diluted earnings per share has been adjusted retrospectively for the Bonus Issue.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

## 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 2011 (audited and restated) | 2,883,016 | 220,730 | 254,681 | 151,941 | 25,674 | 177,615 |
| Additions | 244,862 | 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) | (260,348) | – | (2,631) | – | (5,031) | (5,031) |
| Closing carrying amount as at 30 June 2011 (unaudited and restated) | 2,997,170 | 150,732 | 312,172 | 151,941 | 28,729 | 180,670 |
| Opening carrying amount as at 1 January 2012 (audited) | **3,337,975** | **67,765** | **309,826** | **151,941** | **34,922** | **186,863** |
| Additions | **176,770** | **104,295** | **–** | **–** | **2,071** | **2,071** |
| Transfers | **33,420** | **(33,420)** | **–** | **–** | **–** | **–** |
| Disposals | **(2,959)** | **–** | **–** | **–** | **–** | **–** |
| Depreciation/amortisation charge (note 6) | **(277,046)** | **–** | **(2,633)** | **–** | **(5,430)** | **(5,430)** |
| Impairment | **(16,974)** | **–** | **–** | **–** | **–** | **–** |
| Closing carrying amount as at 30 June 2012 (unaudited) | **3,251,186** | **138,640** | **307,193** | **151,941** | **31,563** | **183,504** |

Note: Land use rights analysed for reporting purposes as:

| | 30 June 2012 (Unaudited) RMB'000 | 31 December 2011 (Audited) RMB'000 |
|---|---|---|
| Non-current assets | **301,926** | 304,559 |
| Current assets (included in deposits, prepayments and other receivables) | **5,267** | 5,267 |
| | **307,193** | 309,826 |

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

## 11. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | 30 June 2012 (Unaudited) RMB'000 | 31 December 2011 (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) | **–** | 215,650 |
| | **37,158** | 252,808 |
| *Current* | | |
| Unlisted investments (note d) | **204,510** | 104,942 |
| Unlisted managed investment funds (note c) | **412,192** | 133,033 |
| | **616,702** | 237,975 |
| Total | **653,860** | 490,783 |

Notes:

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

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

c) The investments represent funds placed into certain licensed trust companies in the PRC, which in turn placed the funds in certain corporations in the PRC (the "PRC Corporations"). The principal and interests derived from the placing of the funds into the PRC Corporations by the licensed trust companies are (i) secured by listed or unlisted securities held by the PRC Corporations; (ii) guaranteed by related companies of the PRC Corporations; and (iii) guaranteed by land use rights of the PRC Corporations (2011: (i) secured by listed or unlisted securities held by the PRC Corporations; and (ii) guaranteed by related companies of the PRC Corporations). The investments carry interest rates ranging from 9.0% to 9.2% (31 December 2011: 7.0% to 9.0%) per annum.

d) The investments are managed by licensed financial institutions in the PRC to principally invest in certain financial assets including notes or bonds issued and circulated in the PRC in accordance with the entrusted agreements entered into between the concerned parties. The entrusted institutions undertake return of principal and a yield rate ranging from 6.2% to 6.5% (31 December 2011: 5.4%) per annum upon maturity, which is stipulated to be one year.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

## 12. HELD-TO-MATURITY FINANCIAL ASSETS

| | **30 June 2012 (Unaudited) RMB'000** | 31 December 2011 (Audited) RMB'000 |
|---|---|---|
| *Non-current* | | |
| Unlisted PRC government certificate bonds with fixed interest of 4.0% (2011:4.0%) and maturity date of over one year from the end of the reporting period | **36,566** | 35,920 |
| Listed corporate bonds with fixed interest of 7.1% (2011:7.1%) and maturity date of over one year from the end of the reporting period | **209,506** | 202,445 |
| | **246,072** | 238,365 |
| *Current* | | |
| Unlisted PRC government certificate bonds with fixed interest of 3.73% (2011:3.73%) and maturity date of less than one year from the end of the reporting period | **99,637** | 145,191 |
| Total | **345,709** | 383,556 |

## 13. TERM DEPOSITS

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

As at 30 June 2012, included in the term deposits is RMB3,753,000,000 (31 December 2011: RMB2,981,200,000) in aggregate restricted for other use by the Group as they were placed by a subsidiary company to various banks as security for coupons issued to customers.

The effective interest rate on these term deposits ranged from 3.00% to 5.13% (31 December 2011: 2.75% to 5.13%) per annum.

## 14. OTHER NON-CURRENT ASSETS

Other non-current assets represent prepaid rental to government for buildings, which are amortised over the shorter of the contract period of the leases and the estimated useful lives of the buildings.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

## 15. TRADE RECEIVABLES

The aged analysis of the trade receivables, arising mainly from sales of merchandise to franchised stores and wholesalers and presented based on the invoice date at the reporting date, are as follows:

| | 30 June 2012 (Unaudited) RMB'000 | 31 December 2011 (Audited) RMB'000 |
|---|---|---|
| Within 30 days | **109,341** | 81,582 |
| 31-60 days | **4,812** | 698 |
| 61-90 days | **2,197** | 114 |
| 91 days – one year | **2,785** | 3,662 |
| | **119,135** | 86,056 |

## 16. AMOUNTS DUE FROM (TO) FELLOW SUBSIDIARIES

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

## 17. AMOUNTS DUE FROM (TO) ASSOCIATES

Amounts due from (to) associates, arising from expenses paid on behalf and purchase of merchandises respectively, are unsecured, interest free and aged within 90 days.

## 18. SHARE CAPITAL

| | Number of shares | Nominal value RMB'000 |
|---|---|---|
| RMB1.00 each | | |
| Registered: | | |
| As at 1 January 2012 and 30 June 2012 | 1,119,600,000 | 1,119,600 |
| Issued and fully paid: | | |
| As at 1 January 2012 and 30 June 2012 | 1,119,600,000 | 1,119,600 |

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

## 19. TRADE PAYABLES

The following is an aged analysis of trade payables, at the end of the reporting periods:

| | 30 June 2012 (Unaudited) RMB'000 | 31 December 2011 (Audited) RMB'000 |
|---|---|---|
| Within 30 days | **1,578,860** | 2,547,329 |
| 31-60 days | **817,299** | 839,162 |
| 61-90 days | **410,831** | 365,848 |
| 91 days – one year | **840,878** | 667,107 |
| | **3,647,868** | 4,419,446 |

## 20. OTHER PAYABLES AND ACCRUALS

| | 30 June 2012 (Unaudited) RMB'000 | 31 December 2011 (Audited) RMB'000 |
|---|---|---|
| Payroll, staff welfare and other staff cost payable | **211,411** | 310,248 |
| Value added tax and other payable | **70,898** | 316,387 |
| Rental payable | **587,907** | 546,454 |
| Deposits from lessees, franchisees and other third parties | **164,089** | 162,206 |
| Amount payable to other retailers upon customers' redemption of coupon issued by the Group | **31,421** | 49,325 |
| Prepayments | **279,973** | 224,475 |
| Payables for acquisition of property, plant and equipment | **176,320** | 221,205 |
| Store closure provision | **45,111** | 49,046 |
| Accruals | **176,348** | 108,398 |
| Advance from customers | **48,094** | 139,392 |
| Other miscellaneous payables | **71,961** | 77,234 |
| | **1,863,533** | 2,204,370 |

## 21. COUPON LIABILITIES

The Group incurred coupon liabilities when coupons were sold and the coupon liabilities decreased upon redemption as a result of sales of the Group's merchandises, the value of which is recognised as revenue in the profit or loss for the period the transactions taken place. Coupon liabilities redeemed in exchange for products or services of other retailers are settled after deducting the Group's commission based on the agreements entered into between the Group and the retailers.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

## 22. CAPITAL COMMITMENTS

| | 30 June 2012 (Unaudited) RMB'000 | 31 December 2011 (Audited) RMB'000 |
|---|---|---|
| Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment, construction of buildings and land use rights | **348,908** | 155,056 |

On 15 June 2012, the board of directors approved the establishment of a logistic centre in the PRC not exceeding RMB600 million, which was not contracted for by the Group as at 30 June 2012 (2011: Nil).

## 23. OPERATING LEASE

### (1) The Group as lessee

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

| | 30 June 2012 (Unaudited) RMB'000 | 31 December 2011 (Audited) RMB'000 |
|---|---|---|
| Not later than one year | **1,404,698** | 1,346,413 |
| Later than one year and not later than five years | **4,932,942** | 4,770,129 |
| Later than five years | **8,879,061** | 8,441,395 |
| | **15,216,701** | 14,557,937 |

### (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 2012 (Unaudited) RMB'000 | 31 December 2011 (Audited) RMB'000 |
|---|---|---|
| Not later than one year | **261,791** | 303,105 |
| Later than one year and not later than five years | **284,816** | 337,921 |
| Later than five years | **137,949** | 343,646 |
| | **684,556** | 984,672 |

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

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

## 24. DISPOSAL OF A SUBSIDIARY

On 25 May 2011, the Group disposed of a subsidiary, Luoyang Lianhua Xinyu Real Estate Co., Ltd., at a consideration of RMB50,292,000. The net assets of Luoyang Lianhua Xinyu Real Estate Co., Ltd. at the date of disposal were as follows:

| | 25 May 2011<br>(Audited)<br>RMB'000 |
|---|---|
| *Analysis of assets and liabilities over which control was lost* | |
| Cash and cash equivalents | 57 |
| Trade and other receivables | 751 |
| Property, plant and equipment | 44,779 |
| Trade and other payables | (36,914) |
| Net assets disposed of | 8,673 |
| *Gain on disposal of a subsidiary* | |
| 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 |

During the period from 1 January 2011 to 25 May 2011 (date of disposal), Luoyang Lianhua Xinyu Real Estate Co., Ltd.'s contribution to the Group's results and cash flows was insignificant.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

## 25. RELATED PARTY TRANSACTIONS

Apart from those disclosed under notes 16 and 17, the Group entered into significant related party transactions during the period as follows:

### (a) Transactions with related companies

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2012** | 2011 |
| | | **(Unaudited)** | (Unaudited) |
| | NOTES | **RMB'000** | RMB'000 |
| Sales to fellow subsidiaries | (i) | – | 9,200 |
| 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) | **14,387** | 24,917 |
| Purchases from fellow subsidiaries | (i) | **86,347** | 73,721 |
| Logistic expense paid to a fellow subsidiary | (i) | **910** | 5,226 |
| Rental expenses and property management fee paid to fellow subsidiaries | (ii) | **30,920** | 29,649 |
| Commission income received from fellow subsidiaries | (iii) | **693** | 4,538 |
| Commission charges arising from the usage of online trading system of a fellow subsidiary | | – | 2 |
| Commission income arising from the redemption of coupon liabilities with a fellow subsidiary | (iv) | **5,060** | 14,646 |
| Commission charges arising from the redemption of coupon liabilities with a fellow subsidiary | (iv) | **4,514** | 13,706 |

Fellow subsidiaries referred above are subsidiaries of Bailian Group.

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 in relation to redemption of coupons issued by the Group in retail outlets belonging to these related companies. The commissions were charged at rates ranging from 0.5% to 1.2% (six months ended 30 June 2011: 1.5% to 3%) of the sales made through the utilisation of the coupons.

(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% (six months ended 30 June 2011: 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.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

## 25. 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, including Bailian Group, directly or indirectly owned or controlled by the PRC government ("Government Related Entities"). Apart from the transactions with fellow subsidiaries and associates 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 identities of the counterparties from the sales of merchandises.

During the period, significant amounts of the Group's purchase were from Government Related Entities.

At the end of the reporting period, most of the Group's deposits are placed with banks which are Government Related Entities.

### (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 | |
|---|---|---|
| | **2012** | 2011 |
| | **(Unaudited)** | (Unaudited) |
| | **RMB'000** | RMB'000 |
| Salaries and other short-term employee benefits | **7,467** | 6,941 |
| Post-employment benefits | **122** | 110 |
| Other long-term benefits | **152** | 136 |
| | **7,741** | 7,187 |

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

## 26. 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 2012.