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

Stock Code: 0980

Annual Report 2012

	Hypermarket	Supermarket	Convenience Store
Shanghai	40	1,600	1,262
Zhejiang	49	230	246
Jiangsu	32	366	4
Liaoning	0	0	344
Guangxi	5	211	0
Beijing	3	1	175
Anhui	11	61	0
Henan	7	6	0
Jiangxi	0	13	0
Inner Mongolia	0	9	0
Shandong	0	8	0
Tianjin	2	1	0
Sichuan	3	0	0
Hebei	0	2	0
Heilongjiang	2	0	0
Fujian	2	0	0
Guangdong	1	0	0
Hubei	0	1	0
Chongqing	0	1	0

Spans the country with 4,698 outlets in 19 provinces and municipalities

4,698

Contents

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LIANHUA SUPERMARKET HOLDINGS CO., LTD.

Lianhua Supermarket Holdings Co., Ltd. ("Lianhua Supermarket" or the "Company") commenced its business in Shanghai in 1991. In the past 22 years, it has developed into a nationwide chain retail operator with a full range of retail segments, expanding through a combination of organic growth, franchises and merger and acquisitions. As at 31 December 2012, Lianhua Supermarket and its subsidiaries (the "Group") operated a total of 4,698 outlets (excluding those operated by the Company's associated companies) spanning 19 provinces and municipalities across the nation. The Company has maintained its leading position in the fast moving consumer goods retail industry in the People's Republic of China (the "PRC"). Lianhua Supermarket was one of the first Chinese retail chain operators to be listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), on 27 June 2003.

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

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
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 (Chairman)
Mr. Wang Long-sheng
Mr. Dao Shu-rong

Company Secretary

Ms. Xu Ling-ling

Authorised Representatives

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

International Auditor

Deloitte Touche Tohmatsu

Legal Advisers to the Company

As to Hong Kong laws

Eversheds

As to PRC laws

Grandall Law Firm (Shanghai)

Investors and Media Relations Consultant

Christensen International Limited

Principal Bankers

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

Corporate Information

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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Wanchai
Hong Kong

Telephone
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Fax
86 (21) 5279 7976

Company Website
lianhua.todayir.com

Shareholder's Enquiries

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

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

Share Information

Listing Place
The Stock Exchange of Hong Kong Limited

Listing Date
27 June 2003

SEHK Stock Code
980

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

Year-end Date
31 December

Results Announcements

Interim Results for 2012 were published on 28 August 2012
Annual Results for 2012 were published on 25 March 2013

Dividends

Interim Dividends: RMB0.08 (including tax) per share
Proposed Final Dividends: RMB0.07 (including tax) per share

2012 Annual General Meeting

To be convened at 10:00 a.m. on Tuesday, 18 June 2013

Major Achievements

January

Deputy director Zhang Xiaoqiang and other representatives from National Development and Reform Commission visited Xianxia Store of Shanghai Century Lianhua Supermarket Development Company Limited ("Century Lianhua", 上海世紀聯華超市發展有限公司) of the Group.

"Lianhua", the trademark of Lianhua Supermarket, was awarded "2011 – 2013 Shanghai Famous Brand" (2011-2013年上海市著名商標) by Shanghai Administration for Industry & Commerce.

Lianhua Supermarket was awarded "2011 Outstanding Unit of Market Supervision System and Shanghai Commercial Information Work of Ministry of Commerce" (2011年商務部市場監測系統和上海商業信息工作先進單位) by Shanghai Municipal Commission of Commerce.

Century Lianhua was awarded "2011 Retail Innovation Award" (2011年零售創新獎) by China Chain Store & Franchise Association.

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Major Achievements

February

Beijing Lianhua Quik Convenience Stores Co., Ltd. (北京聯華快客便利超市有限公司) of the Group was awarded "2011 Beijing Non-local Influential Commercial Brand Award" (2011年度影響北京外埠商業品牌獎) jointly by Beijing Chamber of Commerce for the fourth time.

Hangzhou Lianhua Huashang Group Co., Ltd. ("Hangzhou Lianhua Huashang", 杭州聯華華商集團有限公司) of the Group was awarded "Top Ten Business and Trading Enterprises with Prominent Contribution in Hangzhou" (杭州市十大商貿突出貢獻企業) for 2011 and its chairman Ms. Cai Lan-ying was awarded "Top Ten Entrepreneurs with Business and Trading Contribution in Hangzhou" (杭州市十大商貿貢獻企業家) for 2011 by People's Government of Hangzhou, Zhejiang Province.

March

Peace Shopping Mall (和平購物城) of Hangzhou Lianhua Huashang of 39,000 square metres with the functions of hypermarket, exclusive shops and restaurants opened.

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Major Achievements

May

The Group solemnized its 21st anniversary.

China Chain Store & Franchise Association issued the list of "2011 Top 100 Chinese Fast Moving Consumer Goods Chain" (2011中國快速消費品連鎖百強) and the Group ranked the second.

China Chain Store & Franchise Association issued the list of top 120 Chinese franchise chain for 2011 (2011年中國特許經營連鎖120強) in the 14th China Chain Store Expo and the Group topped the list.

China Chain Store & Franchise Association issued the Ranking of Scale of Chinese Convenience Stores for 2011 (《2011年中國便利店規模排行》) and Shanghai Lianhua Quik Convenience Stores Company Limited ("Quik Convenience", 上海聯華快客便利有限公司) of the Group ranked the third.

The list of top 100 Chinese franchise chain for 2011 was released in the 14th China Chain Store Expo and Lianhua Quik was awarded "2011 – 2012 Chinese Oustanding Franchise Brand" (2011– 2012年度中國優秀特許品牌).

Liu Wei-hong, deputy general manager, and general manager of the Jiangsu Region, of Century Lianhua, was awarded "National May 1st Labour Medal" (全國五一勞動獎章) by All China Federation of Trade Unions.

Zhou Ping, store manager of the Chaohu Changjiang Road Store of Century Lianhua was awarded "Shanghai May 1st Labour Medal" (上海市五一勞動獎章) by Shanghai Federation of Trade Unions.

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Major Achievements

June

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The joint venture for cosmeceuticals Lianhua Meiriling (Shanghai) Commerce Co., Ltd. (聯華每日鈴(上海)商業有限公司), jointly established by the Company and Growell Holdings Co., Ltd (Growell) of Japan and Shanghai Meiribuy Business Trade Co., Ltd. (上海每日通販商業有限公司), opened the first cosmeceutical store "Sakura Kobo".

September

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Hangzhou Lianhua Huashang and Hangzhou Housing Security and Management Bureau entered into a Strategic Cooperation Agreement for Public Rental Housing, through which the supermarket segment of the Group will be entitled the access to the community of public rental housing of Hangzhou, exploring a new path for development of the Group.

Century Lianhua was awarded "Two Star Credible Enterprise" (二星級誠信創建企業) in Shanghai by Shanghai Corporate Integrity Organization Committee and Shanghai Chain Enterprise Association.

Major Achievements

October

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China Chain Store & Franchise Association issued the list of "CCFA Best Store Manager" (CCFA金牌店長) for 2011 and Li Lan, store manager of Qingpu Store of Century Lianhua, was awarded "CCFA Best Store Manager" (CCFA金牌店長) of the Chinese chain industry for 2011.

November

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Wuhu Zhongshan Store of Century Lianhua was awarded the bronze medal of "Pilot Integrated Project of Modern Circulation of Agricultural Products" (農產品現代流通綜合試點項目) for 2011 by the Ministry of Commerce and Ministry of Finance of PRC.

The Company became a deputy chair of the Council of China Chain Store & Franchise Association and Mr. Hua Guo-ping, the general manager of the Company, acted as deputy chairman of the association.

December

The Group was awarded "Annual Preference Demeanor Award of Retailers 2012" (2012年零售商年度惠民風範獎) in the Commercial Operation Forum and Overall Ranking List of 2012 Shanghai Retailers (商業經營論壇暨2012年上海零售商總評榜) directed by Jiefang Daily Group, hosted by Shanghai Evening Post and coordinated by Shanghai Merchandise Commercial Profession Trade Association, Shanghai Chain Enterprise Association and Shanghai Council of Shopping Centers, and Mr. Hua Guo-ping, the general manager of the Company, was awarded "2012 Annual Person of Shanghai Retailers" (上海零售商2012年度人物).

Lianhua Supermarket was awarded "2012 Outstanding Unit of Price Information Supervision of Staple Goods and Non-staple Goods" (2012年度主副食品價格信息監測先進單位) by Shanghai Municipal Commission of Commerce.

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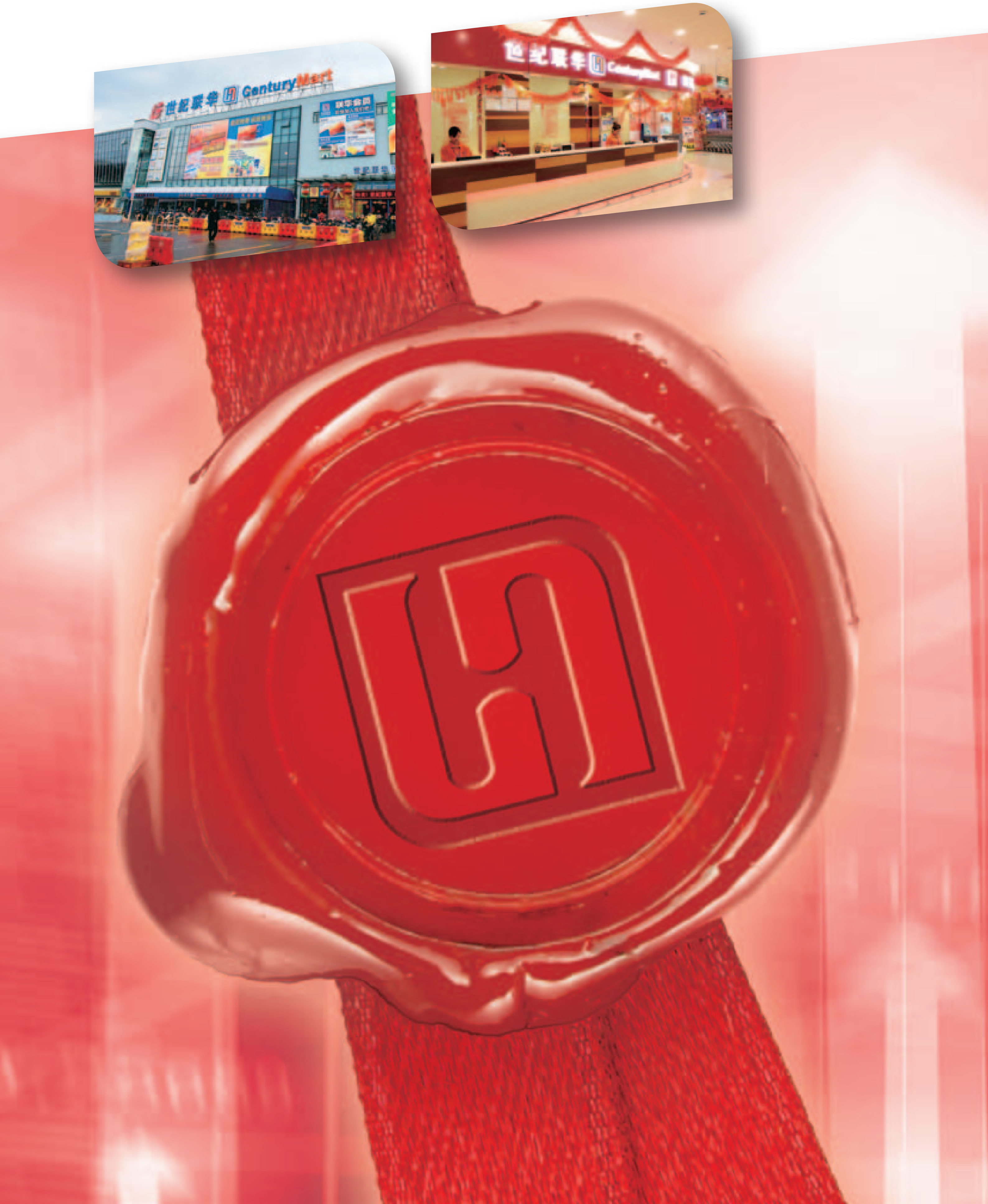

世纪联华
CenturyMart
世纪联华

Leading

Chairman's Statement

Chairman's Statement

Economic structural change provides the opportunity to drive improves in both industries and individual corporations. We'll continue to take practical steps to meet consumer demand, search for insights into the development of the retail market, benefit from reorganization synergies and efficient management, and persist in innovations that can help transform and improve our reforms and provide new avenues for growth, solidifying our industry leading position.

Dear Valued Shareholders,

I am pleased to present the annual results of Lianhua Supermarket Holdings Co., Ltd. for the year ended 31 December 2012 to our shareholders.

In 2012, the supermarket chain industry saw new developments amid the complicated and changing economic environment domestically and abroad. Transformation, adjustment and optimization that had emerged since the global financial crisis in 2008 were key topics for the industry and there have been significant changes seen in market expansion, business strategies and profit models.

Strategically, the Group positioned ourselves as "Becoming a Regional Leader and National Strong Player", based on our analysis of the market trends. While staying mindful of changing trends in the market and our own business, we have further reformed our business, focusing on improving sales, reinforcing restructuring and streamlining bottlenecks in our operations. We've been able to maintain our market position, despite the challenging market environment, by adhering to our strategy and bringing a sound and scientific approach to our development.

Chairman's Statement

In 2012, the Group recorded a turnover of RMB28.99 billion, representing an increase of 5.33% over 2011. Gross profit margin and consolidated income margin saw slight decrease due to price inflation, fierce market competition and the Group's rationalization of structure of income from suppliers and standardization of criteria of charges on suppliers. In the meantime, due to rigidly rising costs, operating profit was RMB512 million, representing a decrease of 38.24% over 2011. Profit attributable to shareholders of the Company was approximately RMB340 million, representing a decrease of 45.77% over 2011. Earnings per share amounted to RMB0.30.

Although supermarket chains have only existed for around two decades in China, competition has turned white hot. This competition was not just limited to the supermarket chain industry. Competition among suppliers, property developers and other related areas also posed a significant pressure on the industry as was directly shown in laws and regulations, price level, costs and consumer behavior. Changes in the operating environment arising from competition started to have a profound impact on the financial performance of supermarket chains. Many of the outlets that the Group developed years ago started to experience rising rents, while competition from nearby stores and aging properties caused sales to stagnate.

In response to this situation, starting in 2010, the Group began to step up efforts in reform. For market expansion, the Group emphasized on development and transformation as we continue to search for economies of scale. As for business expansion, we centralized the management of our operations and worked to increase the level of professionalism in order to strengthen the economics of scale.

As the second year of the Goup's five-year plan, 2012 was a crucial year for the Group to change the ways of development and start to reap the benefits of reorganization that commenced in prior years. We focused our advantageous resources on optimizing the process and improving the quality of outlet development in every details to ensure the success of each of our new store. We also worked to renovate and improve existing stores, mature ones with stable customer traffic in particular, while opening new stores. On the internal improvement side, we strengthened our operations by taking advantage of procurement synergies and reinforced our execution capabilities by capitalizing on existing advantages of scale. First, we streamlined key processes within our business by introducing standardized measures to facilitate coordinated operations and procurement activities. Second, we improved the management of various segments through professionalized management, consolidated the management of our operations at our headquarters, and worked to build a unified value among the three segments and business departments. Through these measures, we were able to lay a solid foundation that should help to optimize our company's performance in the future.

Chairman's Statement

In response to requirements of the Chinese government to regulate fees that supermarkets charges on suppliers, we worked to rationalize the structure of income from suppliers and promoted a cooperative and mutually beneficial relationship that should help increase the profits for both suppliers and retailers through self-inspection and policing. Meanwhile, we continued to improve our business structure and operating performance by standardizing contracts, rationalizing supplier mix, increasing the coverage of direct purchase, and expanding the use of exclusive bulk purchase arrangements.

Innovation has always been a primary focus of the Group. In the supermarket chain industry, there has been a shift in industry dynamic, including standardization of merchandise safety, tax policies and store security. To cope with these changes, the traditional business ideas, methods and profit models also need to be changed. As a leader in the industry and a commercial enterprise supported by the government, we intend to be a pioneer in adhering to new policies and rules, and play an exemplary role. However, the road of reform is never easy. On one hand, traditional consumption habits still prevail in China against which our competitiveness shall be challenged. On the other hand, new consumption habits are in formation, asking for guidance and cultivation. This effort will inevitably require more resources from us.

In 2012, the Group continued to work on the construction of the tracking system in food safety and the automatic platform for the management of supplier licenses and certificates. A major effort was made to strengthen the scale of franchises, streamline certain weak franchised stores and complete upgrades of the IT system for

Chairman's Statement

franchised stores within the supermarket segment in order to enhance the management of their self-procured merchandise. At the same time, we implemented rules for franchisers' self-procured merchandises thus to lay a good foundation for improved record keeping of self-procured merchandise at franchised stores.

The Group proactively made improvements and innovations in operations and opened a comprehensive community hypermarket of 39,000 square meters featuring flagship brands, boutiques, food and restaurants and public services in Zhejiang. Overall, it has been a tremendous experience for developing one-stop commercial outlets with multi-functions and suitable for communities.

In 2012, construction of our Jiangqiao logistics center continued as planned as we saw the facility's roof put in place and we accelerated the construction of correspondent new logistics system and processing centre for fresh food. We believe that the Group's development will be propelled forward once the Jiangqiao logistics center is completed. At the same time, our membership system saw a transformation from a focus on size to quality. We consolidated membership data, constructed a members-only price system and boosted a variety of other value-added services. With the optimization of this system, it is expected to play a bigger role for us in the future.

The essence of the supermarket chain industry is to provide the public with high quality goods at inexpensive prices. As such, our management team is keenly focused on reducing costs of goods by building scale, standardizing operations and improving operating efficiency through retail technology innovation. We've always strived to achieve our mission of "Working for the people, offering convenience, and benefiting society (為民、便民、利民)", and we remain committed to this, even in the face of sharp cost increase. Accordingly, we initiated large marketing campaigns for "Beneficial Life (惠生活)" and "Preferential Merchandise (惠商品)", bringing the business goal into practice. While achieving a primary objective of boosting sales, we were also able to enhance consumer recognition, win reputation in the market, and establish a distinctive brand image, which has achieved a harvest of both social effects and economic benefits.

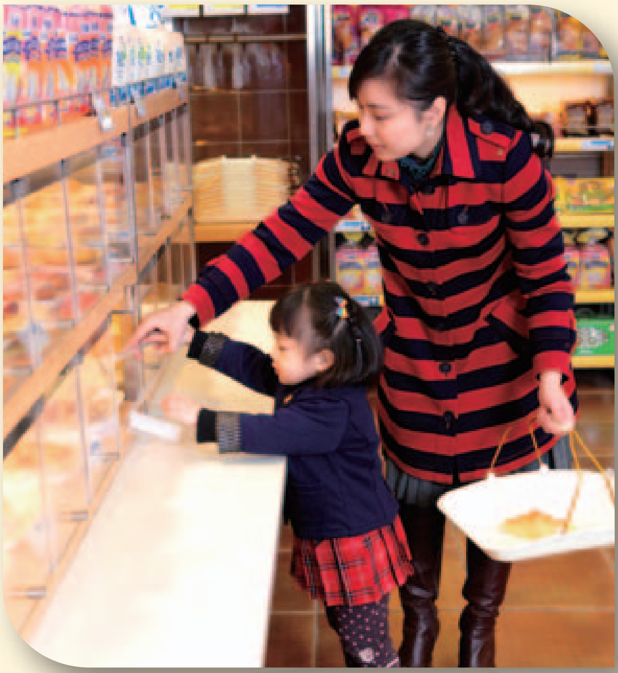
Chairman's Statement

In 2013, the government will promote a series of policies including those to speed up urbanization, increase consumer income, and strengthen public investment to further expand domestic demand and stimulate consumption. We believe the retail industry will surely benefit from many of these policies. However, sharp increases in operating costs in the industry, constant centralization in related industries such as property and manufacturing, and flourishing e-commerce are imposing significant pressures on the operations of supermarket chains.

To gain a sustainable competitive advantage, we shall have solid foundation, keen market judgment, scientific operation strategies and passion to deal with challenges that lies ahead. We have established a clear direction for our development and reform, focusing on market-oriented reforms, an integrated value chain, specialized operations, and standardized management. These reforms will take time, but we firmly believe we will be able to succeed!

In the past decade, we persevered in face of all the challenges and every step today counts in our future success. In 2013, we'll celebrate the 10th anniversary of our company's listing on the Stock Exchange. We will try to use the joy of this event to further propel our business forward, implement retail technologies to enhance competitive advantages, deepen business reform to accelerate growth, strengthen market awareness to respond to competitive challenges, promote a corporate culture focused on performance to reinforce synergy effect, and step up efforts to provide assessments and incentives that motivate our employees.

China is undergoing a comprehensive change in the structure of its national economy. While uncommon, it is an extraordinarily exciting time and it provides the opportunity to drive improvements in both industries and individual corporations. We will continue to take practical



steps to meet consumer demand, search for insights into the development of the retail market, benefit from reorganization synergies and efficient management, and persist in innovations that can help transform and improve our reforms and provide new avenues for growth. We will also make every effort to solidify our industry leading position while creating greater value for our shareholders.

On behalf of the board of directors of the Company ("Board"), I would like to extend my heartfelt thanks to our management team, employees, shareholders and business partners for their dedicated support.

By order of the Board
Ma Xin-sheng
Chairman

25 March 2013
Shanghai, the PRC

Five Years Financial Highlights

Unit: RMB'000 For the year ended 31 December	**2012**	2011	2010	2009	2008
Turnover	**28,987,545**	27,520,176	25,905,343	24,017,720	23,253,764
Hypermarkets	**17,253,783**	16,082,043	14,578,596	13,039,537	11,910,715
– Percentage to turnover(%)	**59.52**	58.44	56.28	54.29	51.22
Supermarkets	**9,819,043**	9,617,432	9,432,815	9,318,539	9,597,304
– Percentage to turnover(%)	**33.87**	34.95	36.41	38.80	41.27
Convenience stores	**1,837,821**	1,733,631	1,746,729	1,552,902	1,591,675
– Percentage to turnover(%)	**6.34**	6.30	6.74	6.47	6.85
Other businesses	**76,898**	87,070	147,203	106,742	154,070
– Percentage to turnover(%)	**0.27**	0.31	0.57	0.44	0.66
Gross profit	**3,929,064**	3,956,440	3,612,966	3,136,043	3,020,832
Gross profit margin (%)	**13.55**	14.38	13.95	13.06	12.99
Consolidated income margin (%) (Note 1)	**24.68**	25.71	25.01	24.10	23.48
Operating profit	**512,487**	829,373	775,200	647,573	484,641
Operating profit margin (%)	**1.77**	3.01	2.99	2.70	2.08
Profit attributable to shareholders of the Company	**339,947**	626,727	622,414	506,802	412,489
Net profit margin (%)	**1.17**	2.28	2.40	2.11	1.77
Earnings per share (RMB) (Note 2)	**0.30**	0.56	0.56	0.45	0.37
Interim dividend per share (RMB) (Note 3)	**0.08**	0.08	0.15	0.12	0.10
Final dividend per share (RMB) (Note 3)	**0.07**	0.12	0.18	0.16	0.15

Five Years Financial Highlights

Unit: RMB'000 As at 31 December	**2012**	2011	2010	2009	2008
Net assets	**3,768,680**	3,621,646	3,224,801	2,928,074	3,043,994
Total assets	**20,804,186**	20,313,931	18,452,840	15,418,396	14,692,869
Total liabilities	**17,035,506**	16,692,285	15,228,039	12,490,322	11,648,875
Net cash flow	**(2,977,217)**	(14,863)	1,389,208	732,746	(1,639,457)
Average return on total assets (%)	**1.65**	3.23	3.68	3.37	3.05
Average return on net assets(%)	**10.12**	20.19	23.23	19.89	16.53
Gearing ratio (%) (Note 4)	**0.01**	0.01	–	–	1.29
Liquidity ratio (times)	**0.67**	0.73	0.80	0.82	0.90
Turnover of trade payables (days)	**59**	62	61	59	56
Turnover of inventories (days)	**37**	38	37	37	37

Notes:

1. Consolidated income margin (%) = (Gross profit + Other income + Other revenues)/Turnover

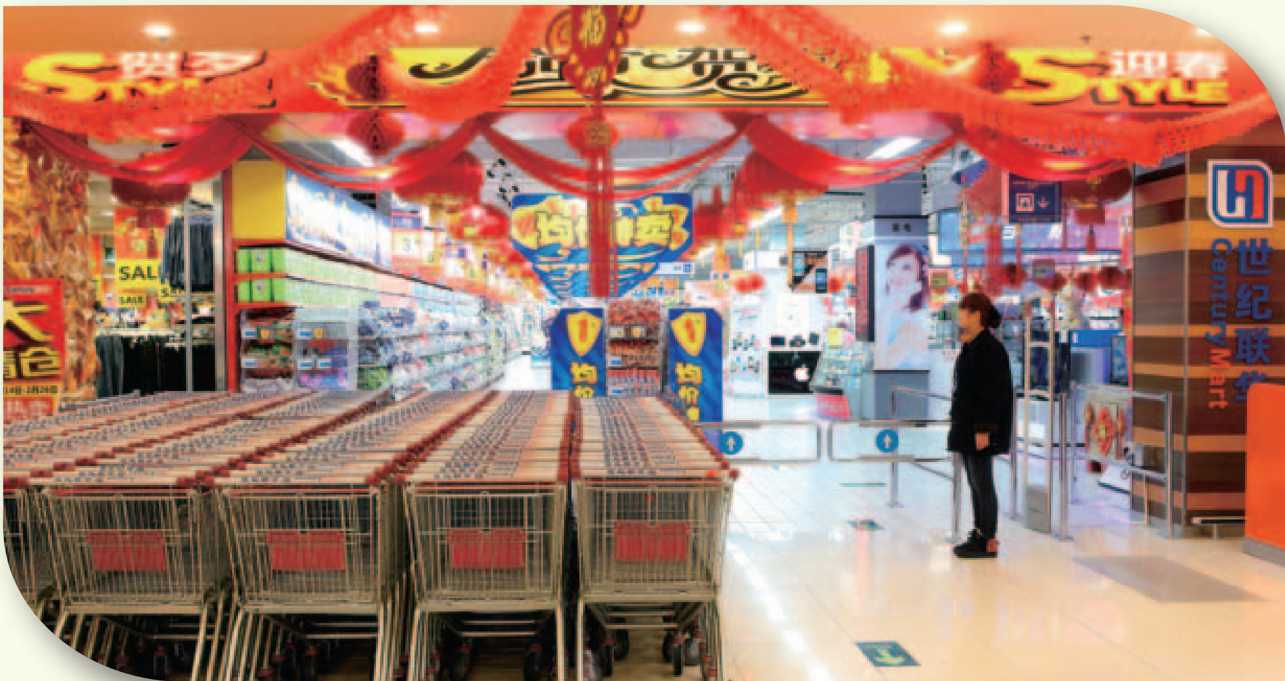
2. Earnings per share for each of the year ended 31 December 2010, 2009 and 2008 have been adjusted retrospectively for the bonus issue effective in September 2011.

3. The total shares of the Company increased to 1,119,600,000 shares from 622,000,000 shares due to the bonus issue effective in September 2011. Meanwhile, at the Board meeting held on 25 March 2013, the Board proposed the payment of a final dividend of RMB0.07 per share (tax inclusive) for the year ended 31 December 2012 amounting to RMB78,372,000, which representing an decrease of 41.67% as compared to the final dividend amounting to RMB134,352,000 for 2011.

4. Gearing ratio (%) = Loans/Total assets

Growing

Management Discussion and Analysis



Operating Environment

In 2012, the global and domestic economic environment in the People's Republic of China ("PRC" or "China") was extremely complex. With respect to the international environment, the foundation of the global economic recovery was fragile, and a number of instabilities and uncertainties remained. In terms of domestic environment, although the Chinese economy achieved steady but declining growth, there were still a number of serious economic structural problems. Economic growth was weak while environmental constraints on resources and inflationary pressure were still intense. Consumer confidence was hit hard, consequently bringing challenges to the consumer goods market.

As for the macro economic statistics of 2012, China's GDP (gross domestic product) increased by 7.8% over 2011, representing a decline of 1.5 percentage points in growth rate over 2011. Total retail sales of social consumer goods increased by 14.3% over 2011, representing a decline of 6.8 percentage points in growth rate over 2011. The sales amount of 3,000 key retailers nationwide monitored by the Ministry of Commerce of the PRC ("Ministry of Commerce") increased by 8.3% over 2011, representing a decline of 7.6 percentage points in growth rate over 2011.

In 2012, the income of urban and rural residents continued to grow relatively fast. Per capita income of urban residents reached RMB26,959 and per capita disposable income of urban residents was RMB24,565, representing nominal year-on-year growth of 12.6% and real growth of 9.6% net of inflation. Real growth was 1.2 percentage points higher than in 2011. Per capita cash income of rural residents reached RMB7,917, representing nominal year-on-year growth of 13.5% and real growth of 10.7% net of inflation. With the incomes of both urban and rural residents growing faster than GDP and the real growth rate of income of rural residents outpacing that of urban residents, the fundamental environment for consumption growth remains favorable.

The year 2012 was pivotal for the "Twelfth Five-Year Plan" of the PRC. After more than 30 years of rapid growth, the Chinese economy has entered a critical period of structural adjustment, where the strong momentum in demand resulted from loose money supply and real estate development has become more consumption-driven. In 2012, the contribution of consumption to GDP growth reached 51.8%, representing an increase of 0.2 percentage point over 2011. Investment contributed

50.4%, while net exports of goods and services contributed negative 2.2%. According to the data released by the National Bureau of Statistics of China, total retail sales of social consumer goods in 2012 reached RMB20,716.7 billion, representing a nominal year-on-year growth of 14.3% and a real growth of 12.1% net of inflation. Although higher than the GDP growth over the same period, the consumption growth rate showed an obvious downward trend. Meanwhile, the government adopted strict measures to restore market order, ensure food safety, rationalize the relationship between retailers and suppliers, and tighten regulations on the fees that suppliers have to pay retail enterprises for product positioning. Growth in China's chain supermarket retailers was sluggish.

In 2012, "Guiding Opinions on Promoting the Development of Retail Industry during the Twelfth Five-Year Plan Period" of the Ministry of Commerce put forward a goal for the "Twelfth Five-Year Plan" period to maintain a steady and relatively rapid growth of retail sales of goods, aiming for the total retail sales of social consumer goods to achieve an average annual growth of 15% and reach RMB32 trillion by 2015. The "18th Party Congress" held in November 2012 drew up a blueprint for the future: doubling the GDP and per capita income of urban and rural residents by 2020 as compared with 2010. The Group believes that with the introduction of a series of policies to accelerate urbanization, lift residents' income and expand public investment, the consumer spending will become the main pulling power of economic growth during the "Twelfth Five-Year Plan" period. Amidst these strategic opportunities and challenges, the retail industry should be promising.

Financial Review

Growth in turnover and consolidated income

During the period under review, the Group recorded a turnover of approximately RMB28.99 billion, representing a growth of 5.33% over 2011, mainly benefiting from development of new hypermarkets as well as effective promotions in stores that resulted in higher sales. Same store sales decreased by 0.72%, primarily caused by: (1) a slow-down in macro economic growth which dragged down sales in the retail chain industry, and more importantly, prices remained high despite lower Consumer Price Index("CPI"). Consumer's expectations and behavior were affected by the high costs, leading to a weak retail sales growth; (2) the elimination of certain suppliers who were disqualified under the Group's improved merchandise qualification operations and the restructuring of sales of certain traditional but popular operation models due to stricter regulations; and (3) the rapid development of Business to Consumer ("B2C") e-commerce business also had an impact on supermarkets network, seizing a larger market share. Thus, the whole industry, including the Group, experienced a downward trend in sales growth.

During the period under review, the gross profit was approximately RMB3.93 billion, representing a slight decrease of 0.68% over 2011, while the gross profit margin decreased by 0.83 percentage point to 13.55%. The main reasons were: (1) Price inflation. CPI increased by approximately 2.64% during the period under review, leading to increasing purchase cost of merchandise; and (2) fierce competition with continuous challenges from peer competitors. In order to keep customer traffics, the Group adjusted its marketing strategy on a timely basis and increasingly carried a series of promotional activities to improve price perception instead of increasing merchandise prices to keep up with inflation, leading to a slight decrease in gross profit margin over 2011.

During the period under review, consolidated income reached RMB7.15 billion, representing an increase of 1.13% over 2011, mainly because of an increase in the number of hypermarkets, resulting in higher sales,

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corresponding increases in income from suppliers and rents from subleases of shop premises. The increase in income from suppliers also benefited from the optimised business operation structure and the sharing of merchandise resources that generated economies of scale. The overall rental income from sublease of shop premises increased mainly due to the net addition of five outlets in the hypermarket segment as well as rental increases for renewed sublease contracts. The consolidated income margin of 24.68% decreased by 1.03 percentage points over 2011, mainly because of the decreasing gross profit margin as a result of fierce competition. Meanwhile, income from suppliers did not meet the Group's annual target and did not grow in line with sales growth after the Group rationalised the existing structure of income from suppliers and standardised criteria of charges on suppliers according to the "Notice of 'Implementation Works on Cracking Down Illegal Charges by Retail Enterprises to the Suppliers'" issued by five ministries and commissions.

During the period under review, the Group maintained sufficient cash flow and managed its cash prudently, achieving steady growth of gains from cash management.

Operating cost and net profit

During the period under review, total distribution expenses and total administrative expenses of the Group amounted to RMB5.89 billion and RMB716 million respectively, representing increase of 7.06% and 6.46% over 2011 respectively. Overall cost ratio increased by approximately 0.35 percentage point over 2011. Major cost items such as labor and rents amounted to RMB2,685,565 thousand and RMB1,628,741 thousand respectively. The rise in cost was mainly caused by the fact that (1) the Group opened new hypermarkets which led to higher labor cost and rental cost as a result of increase in operation scale; and (2) the minimum wage level was raised nationwide by local governments due to price inflation, which led to a rise in overall labor cost in China. Chain supermarket business is labor intensive and thus increases in labor cost was the material cause to the increase in operating cost. Based on macro-economy policies, the Group expected that the trend of rapid rising in all costs would not yet come to an end. Especially, human resources related policies such as the reform of income distribution and doubling of income of urban and rural households by 2020 would strengthen the demand for a rigid and rapid increment of labor cost. The Group strived to diminish the impact of rising labor cost by continuously optimizing its organisational system and its employment system. The Group also attempted to reduce the increment of renewed outlet rental fees and extend the rent-free period for newly-opened outlets through more frequent negotiations with landlords so as to reduce rental expenses. The Group tried to lower its energy cost by installing and enhancing energy-efficient equipment in the newly-opened and existing outlets, and to overcome the challenges of overall rising costs by reinforcing budget management with the establishment of information system.

During the period under review, the Group recorded an operating profit of RMB512 million, representing a decrease of 38.24% over 2011. The operating profit margin decreased by 1.24 percentage points to 1.77% over 2011. The decrease resulted from: (1) the decrease in gross profit margin due to price inflation and fierce market competition; and (2) labor and rental costs continued to rise rigidly.

During the period under review, the Group's share of revenue of associated companies was RMB153,967 thousand, representing an increase of 7.99% over 2011. Shanghai Carhua Supermarket Company Limited ("Shanghai Carhua"), an associated company of the Company, opened two new outlets during the period under review. As at 31 December 2012, Shanghai Carhua had a total of 24 outlets.

During the period under review, the tax expenses of the Group was RMB214,302 thousand, with an effective tax rate of 32.16%. Although the Group has strived for preferential taxation policy, its effective tax rate increased by 5.59 percentage points over 2011 due to the gradual expiration of the tax holiday of mature outlets and the requirement that each outlet be taxed independently, which prevents the Group from balancing its total profits across different regions.

During the period under review, the Group recorded net profit attributable to shareholders of the Company of RMB339,947 thousand, representing a decrease of 45.77% over 2011. The decrease was mainly due to: (1) the decrease in gross profit margin due to price inflation and fierce market competition; and (2) labor and rental costs continued to rise as newly-added hypermarkets caused increase in operating scale. Net profit margin attributable to shareholders was 1.17%. The basic earnings per share were RMB0.30 based on the issued share capital of the Company of 1,119.6 million shares.

Cash flow

During the period under review, the Group's net cash outflow was RMB2,977,217 thousand mainly due to the increase in term deposits. Cash and miscellaneous bank balances as at the year end was RMB10,571,154 thousand, representing an increase of RMB548,583 thousand as compared to the balance as at the end of 2011.

For the year ended 31 December 2012, the turnover period of the Group's trade payables was approximately 59 days, and inventory turnover period was approximately 37 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 31 December 2012.

Growth in retail businesses

Hypermarkets

During the period under review, the turnover of the Group's hypermarket segment increased by approximately 7.29 % over 2011 to RMB17,253,783 thousand, accounting for approximately 59.52% of the Group's turnover, representing an increase of approximately 1.08 percentage points over 2011. The Group continuously expanded the number of hypermarkets and reinforced promotions, thereby causing the increase in total revenue of hypermarket segment. Same store sales decreased by 2.77% over 2011 due to the weak growth in same store sales as a result of stronger competition from peer competitors who cut prices to gain market share and from B2C e-commerce businesses. In this ultra-competitive market, the Group adopted a "two-pronged driving" policy of building its image and enhancing the competitiveness of its hypermarket segment. On one hand, the Group ensured the quality of its newly-opened outlets by strictly applying its opening procedures, while putting greater effort in maintaining its sub-new outlets and deepening the transformation of its existing outlets, so as to enhance and consolidate its market share through establishing "key outlets". On the other hand, the Group adjusted its marketing strategy on a timely basis and stepped up efforts to promote the sales of daily necessities, expanded its strategic alliance with suppliers, and promoted a "Beneficial Life" (惠生活) theme marketing and promotional activities continuously. The Group firstly attracted customers by promoting price sensitive daily necessities to boost demand, and thereby promoted demand for non-price-sensitive products. The "price perception" of the Group was thus improved and the fall in store traffic slowed down while sales was enhanced.

During the period under review, the gross profit of the hypermarket segment increased by 2.50% over 2011 to RMB2,220,403 thousand due to the increase in turnover, while gross profit margin decreased by 0.60 percentage point over 2011 to 12.87%, which was mainly attributable to fierce market competition. The Group increasingly carried forward a series of promotional activities instead of raising merchandise prices in line with price inflation. Consolidated income was RMB4,196,383 thousand, representing an increase of 4.56% over 2011, mainly due to: new hypermarket outlets and effective promotions which generated revenue growth that led to increased purchasing scale and additional income from suppliers. Consolidated income margin was 24.32%, representing a

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decrease of 0.63 percentage point over 2011, mostly due to decrease of gross profit margin resulted from market competition, rationalisation of structure of income from suppliers and standardization of criteria of charges on suppliers, leading to decrease in product yield.

During the period under review, the hypermarket segment's operating profit was RMB233,788 thousand, representing a decrease of 33.72% over 2011. Operating profit margin was 1.35%, representing a decrease of 0.84 percentage point over 2011. Excluding the one-off gain from the disposal of a subsidiary in the same period of 2011, operating profit margin decreased by 0.58 percentage point over 2011, which was mainly due to the fact that: (1) lower gross profit margin resulting from fierce market competition; (2) higher overall labor cost in China as the minimum wage level was raised nationwide by local governments due to price inflation. The hypermarket business is labor intensive and the increase in labor cost was the material cause for the increase in operating cost; and (3) new stores generated additional rental costs. Despite such unfavorable conditions, the hypermarket segment addressed challenges proactively and strengthened its internal management, in order to maintain a healthy and continuous business development trend.

As at 31 December	**2012**	2011
Gross Profit Margin (%)	**12.87**	13.47
Consolidated Income Margin (%)	**24.32**	24.95
Operating Profit Margin (%)	**1.35**	2.19

Supermarkets

During the period under review, the turnover of the Group's supermarket segment increased by approximately 2.10% over 2011 to RMB9,819,043 thousand, which accounted for approximately 33.87% of the Group's turnover, representing a decrease of approximately 1.07 percentage points over 2011. Same store sales increased by 2.38% over 2011. The supermarket segment was not only constrained by the slowdown in economic growth, but also suffered competitive pressure from hypermarket and convenience store segments, in particular, gradual adjustment of some traditional operation models well-received by consumers due to stricter regulations imposed increasing pressure on sales growth. Thus, the Group's supermarket segment stepped up its marketing efforts and organized merchandising seminars for franchised stores and several special marketing activities to ensure simultaneous growth in overall sales and same store sales.

During the period under review, the gross profit of the Group's supermarket segment decreased by 4.17% over 2011 to RMB1,433,295 thousand, and gross profit margin decreased by 0.95 percentage point over 2011 to 14.60% due to the increase of wholesale business to franchised stores. Consolidated income decreased by 1.52% over 2011 to RMB2,332,794 thousand while consolidated income margin was 23.76%, representing a decrease of 0.87 percentage point over 2011, mostly due to the increase of wholesale business to franchised stores, rationalization of structure of income from suppliers and standardization of criteria of charges on supplies, leading to a decrease of product yield.

During the period under review, the supermarket segment's operating profit decreased by 20.76% over 2011 to RMB284,621 thousand, and the operating profit margin was 2.90%. It was mainly because: (1) Price inflation led to increase in merchandise costs and reduction of gross profit; (2) some mature outlets were forced to close due to sharp rental cost increases upon expiry of lease terms and new outlets were under incubation and failed to fill up the loss in sales and profit of the closed mature outlets, therefore both gross profit and operating profit were in downward trends although overall sales and same store sales continued to grow; and (3) some franchised stores were streamlined or closed. Despite the decreasing number of franchised stores and royalty income, wholesales to franchisers still grew over 2011, and the quality of franchise business improved, so that the goodwill of the "Lianhua" brand was maintained. The supermarket segment proactively sought to improve this situation, concentrated primarily on fresh produce

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operations, deepened outlet transformation, forged ahead with the key outlet strategy, made progress in merchandise optimizations through enhancing competitiveness of core merchandises, established price monitoring mechanism, enhanced the effects of joint marketing with suppliers, all of which helped maintaining the market share.

As at 31 December	2012	2011
Gross Profit Margin (%)	**14.60**	15.55
Consolidated Income Margin (%)	**23.76**	24.63
Operating Profit Margin (%)	**2.90**	3.73

Convenience Stores

During the period under review, the convenience store segment recorded a turnover of RMB1,837,821 thousand, representing an increase of approximately 6.01% over 2011, which accounted for approximately 6.34% of the Group's turnover. Same store sales increased by 5.80% over 2011. The convenience store segment actively responded to the heavy challenges from peer competitors. During the period under review, 135 quality outlets were selected for enhancement and the pace of transformation for the existing outlets accelerated. Meanwhile, the segment segregated the market, tried to establish a niche in the high-end market, captured the market share from peer competitors by deepening merchandise categories optimization, and laid a foundation for the transformation of existing middle and high-end outlets. The segment also implemented a marketing model of operation with core merchandise and core services. These efforts achieved expected results, ensuring growth in the segment's overall revenue and same store sales.

During the period under review, gross profit margin was 14.89%, representing a decrease of 0.52 percentage point over 2011, mainly due to keen market competition that led to more promotions on our side squeezing gross profit space. Consolidated income was RMB423,628 thousand, representing an increase of 1.69% over 2011, which was mainly due to the deepened optimization of merchandise categories, the above mentioned marketing model of operation with core merchandise and core services and increased value-added services capitalizing on outlet scale.

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Consolidated income margin was 23.05%, representing a decrease of 0.98 percentage point over 2011 mostly due to market competition, leading to a decrease of product yield. Due to continuingly rapid rises in labor costs and rental costs, operating profit drastically dropped and operating profit margin was -1.31%. The convenience store segment will proactively explore improvements in profit model and enhance profitability through measures including further optimization of product mix, expansion of value-added services by leveraging e-commerce and image maintenance and promotion of its franchised stores.

As at 31 December	2012	2011
Gross Profit Margin (%)	**14.89**	15.41
Consolidated Income Margin (%)	**23.05**	24.03
Operating Profit Margin (%)	**(1.31)**	0.83

Capital structure

As at 31 December 2012, the Group's cash equivalents were mainly held in Renminbi, and the Group had no other bank borrowings, except for existing borrowings of RMB2,000,000 due within one year from a non-wholly-owned subsidiary of the Group.

During the period under review, equity attributable to shareholders of the Group increased from approximately RMB3,313,909 thousand to approximately RMB3,403,780 thousand, which was mainly due to the profit for the period amounting to approximately RMB339,947 thousand, dividends distribution amounting to approximately RMB223,920 thousand and payment for acquisition of equity interest in subsidiaries amounting to RMB26,156 thousand.

Details of the Group's pledged assets

As at 31 December 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 director of the Company ("Director") believe that the Group is able to meet its foreign exchange requirements.

Share capital

As at 31 December 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 31 December 2012, the Group did not have any material contingent liabilities.

Operating Review

Outlet development

In line with Lianhua's strategic goal of "Becoming a Regional Leader and a National Strong Player," the Group steadily promoted its strategy of focused development. The Group emphasised quality enhancement of its outlets by implementing strict processes for opening new outlets and strengthening the synergies between operation and procurement, gradually increased its investment in new outlets and proactively optimised the quality of its geographic footprint in accordance with market developments in 2012.

During the period under review, 12 new hypermarkets were opened: four in Shanghai, three in Zhejiang Province, two in Jiangsu Province, two in Henan Province and one in the Guangxi Zhuang Autonomous Region. During the period under review, the Group continued its in-depth development in East China, where it has a dominant position, with 75% of its newly-opened outlets located in the region. The operation of the new hypermarkets improved in five aspects, namely property quality, segment positioning, synergies of operation and procurement, market position and continuous operation. Meanwhile, the Group, after careful consideration, proactively optimised the quality of its geographic footprint by closing certain outlets that had been suffering long-term losses and retreating from some markets with unfavorable operating conditions to avoid prolonged losses. The Group closed seven outlets during the period under review, continuing to consolidate its market share in Eastern China and maintain its growth momentum in other cities, thereby increasing the Group's brand influence. Currently, the Group has a total of 132 hypermarkets in Shanghai, Zhejiang Province, Jiangsu Province and Anhui Province, accounting for approximately 84% of its hypermarkets.

During the period under review, 156 new supermarkets were opened, including 21 directly-operated stores and 135 franchised stores. The Group consistently gave the highest priority to the development quality of its outlets in order to uphold the image of the "Lianhua" brand amid food safety regulation and industry consolidation.

During the period under review, the Group maintained the growth pace of its directly-operated stores in the supermarket segment, especially in middle to high-end areas, strictly monitored and controlled its lease-renewed outlets, especially franchised stores, and standardized the procedures for opening new franchised stores, including enhancing the criteria for franchising which helped to ensure that the quality of these stores is aligned with and meet the high standards of the Group's brand. Meanwhile, the Group diversified outlet type and unified standard in accordance with its franchised store optimization program for 2011-2013. It closed 593 franchised stores during the period under review. The quality of the segment's franchised outlets had been significantly enhanced, thus helping to maintain effective control over operational risk.

During the period under review, the convenience store segment remained steady. The Group emphasized both quantity and quality of outlet development. 226 new convenience stores were opened, of which 78 were directly-operated stores including 11 high-end outlets and 148 were franchised stores. During the period under review, the Group ensured the quality of its new convenience stores by searching for locations in high quality areas. The convenience store segment also effectively coped with a rise in rental costs by managing renewals and sublet renewals. It not only opened new outlets, but also steadily promoted the transformation of existing directly-operated stores by implementing a number of strategies, including encouraging orderly development, reinforcing transformation and opening high-end outlets. 135 stores in total were transformed during the period under review. A number of stores in Shanghai

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were renovated and the Group worked to steadily optimize products positioning and merchandise display. In Dalian, Liaoning Province, efforts were made to enhance the image and profitability of each outlet through upgradings and other renovations. By leveraging past experience in outlet development, the Group focused on opening new stores and transforming old ones in Zhejiang. In Beijing, the Group primarily concentrated on operating high-end convenience stores and personalizing the merchandise mix to clarify outlet positioning.

As at 31 December 2012, the Group had a total of 4,698 outlets, representing a decrease of 452 outlets from the end of 2011, mainly due to the rationalization of franchised supermarket outlets according to the Group's franchised store optimization program in the supermarket segment with a net decrease of 458 franchised stores. Approximately 84% of the Group's outlets were located in Eastern China.

	Hypermarkets	Supermarkets	Convenience Stores	Total
Direct operation	157	653	984	1,794
Franchised operation	–	1,857	1,047	2,904
Total	157	2,510	2,031	4,698

Note: The above information was as at 31 December 2012.

Operation improvements

During the period under review, the Group actively sought market opportunities and improved its operation system against a backdrop of slower growth in the macro-economy and in the consumer goods market due to subdued consumer sentiment and shrinking consumer demand. The Group boosted its "key outlet strategy", strengthened operation and procurement synergies and tightened budget management with a view to reduce costs and enhance efficiency, thereby helping the Group to overcome difficulties and continue to steadily facilitate development.

During the period under review, the "key outlet" strategy of the Group focused on the construction of supply chains, transformation of outlets and management of merchandise categories. For hypermarkets, the Group focused on designing more efficient layouts, optimizing merchandise categories and improving the atmosphere within stores. Onsite quality inspection centers were established in certain hypermarkets in order to enhance the Group's ability to carry out on-site inspections of fresh produce and deliver confidence to consumers about the Group's high quality offerings. The supermarket segment retained its mark of differentiation for "freshness and value" among consumers in the market. It also made progress introducing high margin non-food merchandise and created exclusive sections for imported merchandise to promote sales. Meanwhile, the Group tightened the management of franchised supermarkets to strengthen the formulation of strategies to improve franchising performance, and attempted to offer additional professional guidance to franchisees. During the period under review, the supermarket segment achieved its "Double-Hundred" objective of franchised stores – i.e. the reputation of one hundred outlets was significantly enhanced while sales at one hundred outlets increased substantially. Wholesale merchandise sold to franchised stores recorded an increase of approximately 6% over 2011, while the number of franchised outlets declined during the period under review. Average wholesale purchase made per store increased by approximately 18.19%. The convenience store segment accelerated the renovation and transformation of outlets, emphasizing in particular the establishment of "lean and well-functioning" outlets. As a part of this, the Group optimized merchandise categories and reduced stock by accelerating the adjustment of slower turnover items and categories based on the characteristics of the area in which each outlet is located. In addition to making outlets leaner, the Group also worked to replenish the stock of best-selling merchandise on a timely basis and expanded the number of value-added service items to reinforce the strength of each outlet. Operational capabilities of stores were enhanced and same store growth in the convenience store segment met expectations. The convenience store segment also proactively developed high-end outlets, opening 11 new high-end outlets during the period under review, which helped to improve brand image and bring merchandise quality and individual store sales to new levels.

During the period under review, the Group correctly met market demand, catered to consumer tastes, optimized its mix of fresh products so as to boost fresh food sales and stepped up its efforts in fresh produce bases construction, reducing the costs of procurement, distribution and sales. This led to strong sales of fresh produce and demonstrated the benefit of providing high quality, inexpensive goods in sufficient volume. Sales of produce from the Group's own production bases increased by approximately 15% over 2011. During the period under review, the Group adopted a "fresh produce first" guideline and took the following initiatives to improve the performance of the production base: the Group strengthened the link between production and sales to guarantee the freshness of produce and lower procurement costs, which also helped to improve gross profit. The Group strengthened the link between production and marketing by hosting weekly liaison meetings between outlets and the procurement department to exchange information and improve communication platform so as to strengthen the operating capabilities of fresh produce, and the Group also took advantage of opportunities related to fresh produce supply through its active on-site management. The Group enhanced its on-site tracking related to the management, marketing and promotion of fresh produce, tracked and analyzed the sales of different products following different marketing campaigns and promotional events, and fine-tuned its strategies when problems were discovered to ensure sufficient sales at each outlet. Actions such as these further increased the operational capability of Group and helped to differentiate the Group's stores in the market.

During the period under review, the Group continued to expand the procurement and sales of imported merchandise based on consumer demand. The Group saw remarkable results during the period under review, with sales of imported merchandise amounted to RMB984 million, representing an increase of approximately 24% over 2011. This accounted for approximately 3.74% of the Group's total turnover. During the period under review, the Group also achieved a breakthrough in buyout

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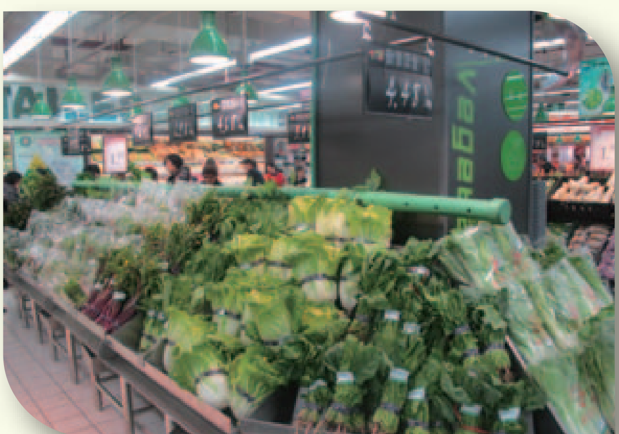
procurement, recording sales of RMB3.36 billion, which representing an increase of 12.68% over 2011. This strategy helped to ensure a steady supply of best-selling merchandise during peak seasons, such as festivals and holidays, and shifts between seasons. In addition, the Group continued to strengthen the research and development and promotion of its private label products. During the period under review, sales of private label products increased by approximately 8.43% over 2011, and accounted for 3.48% of the Group's total turnover.

During the period under review, customer traffic of the Group decreased rapidly over 2011 due to frequent promotional events launched by competitors, the Group promptly expanded its strategic alliance with suppliers, jointly launching a variety of large-scale marketing events to attract customers and boost sales. Meanwhile, the Group adjusted its marketing strategy on a timely basis and stepped up efforts to promote the sales of daily necessities. The Group launched "Preferential Merchandise" (惠商品) and "Beneficial Life" (惠生活) brands to further improve price perception and draw more attention from customers. The launch of these events successfully brought positive social benefits, mitigated the downturn trend of customer traffic and boosted revenue and same store sales growth. While the Group focused on merchandise mix and promotional events during the period under review, sales growth was slightly lower than the Group's expectation due to, among other things, greater competition and subdued consumer sentiment, which along with high marketing costs, also affected the Group's gross profit.



During the period under review, the Group continued to strengthen its operation and management and enhance its brand image. In terms of merchandise pricing, the Group tightened its pricing and price adjustment process both at headquarter and the store level, which helped to push through flexible and rapid pricing changes at stores as well as ensure manageable pricing strategies. The hypermarket segment optimised its operation and management system. The commodity management department worked to directly link its operation with stores and continued to improve its management of different merchandise categories. The supermarket segment, as a way of specialisation, promoted a classification system of main merchandise directory in stores. The Group strengthened the management of its procurement process to optimise its performance by formulating plans for the procurement, promotion, and evaluation of new items. Dealing with the strict regulations from six ministries and state commissions related to charges on suppliers by retail chain enterprises, the Group rationalised the structure of income from suppliers, and standardised the criteria of and reduced the types of charges on suppliers, helping to create a win-win situation where the Group's interest were tied more closely with the sales of suppliers. The Group's Caoyang Distribution Center further worked to create a more efficient distribution process, and the value of distributed products handled by this warehouse to hypermarkets increased by 30% over 2011 to RMB1.48 billion. The Group continued to implement its Enterprise Application Suite (EAS) from Kingdee, strengthened the supervision of the system, and stepped up efforts to control its budget and review all expenses so as to enforce responsibility and further enhance cost control. The Group strengthened quality control of various commodities by implementing comprehensive measures at various levels and from various channels and ensured food safety through regular random examination of supplier qualifications, on-site review of suppliers, and tests on specific items. For example, the Group conducted quick on-site inspections of, among other things, levels of pesticide residue, by

establishing food safety laboratories in certain hypermarket stores and commissioning third party institutions to test items randomly selected from outlets. The Group also dynamically tracked food safety, proactively assumed its social responsibilities and formally initiated a vegetable tracking system. In collaboration with the government, the Group installed a pork and vegetable tracking system, which has already been recognized by the government and society. In addition, the Group further enhanced the construction of fresh produce self-operation function in stores as well as strengthened its "Central Kitchen" at a fresh produce process and distribution center, which helped to control food quality and safety and minimize related risks.

Business development

During the period under review, the Group tested hypermarket outlets that have more amenities. For example, in March 2012, in Hangzhou, Zhejiang Province, the Group opened a one-stop outlet of approximately 39,000 square meters featuring areas such as a hypermarket, exclusive shops, restaurants and other services. And in cooperation with Bailian Group Co., Ltd, the ultimate controlling shareholder of the Company, the Group developed another hypermarket outlet in Yuqiao, Shanghai which has more than 40,000 square meters of floor space and feature department stores, exclusive shops and restaurants. The development has already met expectations, and reinforced the Group's market share, and through this development, the Group acquired important experience in developing this kind of outlet.

During the period under review, the Group continued to amend and improve its member data. The membership system was gradually expanded from its original function as a rewards card to a more in-depth system featuring membership activities, and membership data is now actively tracked and analyzed. Positive progress was achieved in building the membership system, and in 2012, the Group commenced a series of targeted marketing activities based on membership data analysis. With continued improvements based on membership data, the Group expects to keep reaping the benefits of more precise marketing over time.

During the period under review, the Group achieved significant breakthroughs in its Jiangqiao logistics center project. The roof of main structure was completed. The Group started to install and commission equipment and facilities in accordance with process planning. Operations are expected to commence in the first half of 2014 and the Group will strive to conduct a pilot run by the end of 2013. The Group's new fresh product processing and distribution center in Gouzhuang district, Yuhang, Zhejiang Province was fully put to operation, which further increased the Group's satisfaction rate of fresh products for outlets in Zhejiang Province. The Group also submitted an application to build a normal temperature distribution center in Zhejiang Province, which is planned to commence operation in 2015.

During the period under review, the Group's shopping website, "Lianhua Mart" (www.lhmart.com), received a "Top Ten" award at the "Online Shopping Season 2012" event hosted by the Shanghai Modern Business Promotion Center. Since its formal launch in December 2011, "Lianhua Mart" website has seen a steady increase in user numbers and shopping volume as a result of innovative

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marketing campaigns, fast shipping, and great customer services, and has been able to leverage on the Group's advantages in scale, merchandise depth, information technology and brand influence. Currently, the average sales per transaction already exceeded RMB160, which demonstrated the website's sound development in the e-commerce industry. The Group is further leveraging on its numerous competitive advantages, further centralizing innovative features, linking social resources and increasing customer service to strengthen the trust of consumers on online merchandise. The Group also provided better services to its clients through customer management and by leveraging on the improvement integration of online and offline network, including distribution and collection from multiple physical locations, all of which helped establish "Lianhua Mart" as an online supermarket for communities. The Group expects this to further propel future sales growth.

During the period under review, after careful market research and planning, the Group's joint venture – "Sakura Kobo" cosmeceutical store opened its first outlet in Shanghai on 1 June 2012 and as at 31 December 2012, a total of four outlets had been opened. "Sakura Kobo" offers more than 7,000 items of merchandise, about 70% of which are Japanese products, including many well-known Japanese cosmetics products. The stores also set up Japanese and Korean products counters, and for the first time, introduced 19 "Sakura Kobo" branded products, providing a new space for consumers who are interested in health care and beauty products. As the "Sakura Kobo" brand becomes more widely known and the Group's commercial areas within its outlets will be increasingly integrated with "Sakura Kobo", the Group believes that cosmeceutical merchandise could be expanded to other Lianhua stores.

Enhancement in consolidation

During the period under review, the Group optimized its management of merchandise by migrating from its original model of managing merchandise by segment to a system based on the regional centralized management. The Group established and improved a series of systems and processes, including items, pricing, marketing, quality, information, and supplier management to ensure a smooth migration to the regional centralized procurement model.

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The Group also implemented business flow grading management and further optimized process management of procurement, distribution, order, display and pricing to strengthen standardization and specialization in its operation. In addition, the Group enhanced the operation and professionalism of its various segments in terms of merchandise mix, consumer positioning, marketing activities and pricing strategies. Although this reform was in line with current market trends, it was a great challenge, not just in terms of processes, but also organizational systems and professional capabilities. This has been a gradual transition and will be continuously improved and developed in the coming years. The Group believes that the effects of this reform will become increasingly clear based on its current market position and bargaining power.

During the period under review, the Group improved its information technology management through the integration of various procurement, operations and logistics systems in all segments. During the period under review, as part of the Group's B2B supply chain management platform, the Group launched certification and credit information services to 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 completed an upgrade of the information systems of all franchised supermarket stores, and established catalogues for merchandise that are not procured from the Group. The Group also formulated rules for introducing new merchandise that are not procured from the Group, which provided extra "Guarantee" to assure food safety. The Group laid a solid foundation for the establishment of merchandise procurement records that would help subsequent franchises. The Group further improved its core business system platform to support centralized procurement, maximize 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

settlement platform, launched an online unified settlement system to enhance the analysis and evaluation of supplier information. This unified settlement platform further improved centralized cash management.

Employment, Training and Development

As at 31 December 2012, the Group had a total of 59,224 employees, representing a decrease of 1,366 employees during the period under review. Total staff costs were RMB2,685,565 thousand.

During the period under review, the Group focused on optimizing processes and rationalizing responsibilities. In particular, the Group conducted field researches, analyzed post setting, revised job responsibilities, adjusted staff deployment and conducted an in-depth study of the allocation of human resources in order to control labor costs and improve work efficiency.

During the period under review, in order to enhance the competitiveness of the Group's remuneration, the Group adjusted remuneration structure of management below the manager level and maintained staff stability and further aligned the Group's business performance with individual salaries of middle to high level members of management. The Group also implemented a new allowance system for management trainees to improve incentives for outstanding candidates.

During the period under review, the Group further amended its performance assessment index system, and incorporated "service improvement" into the assessment

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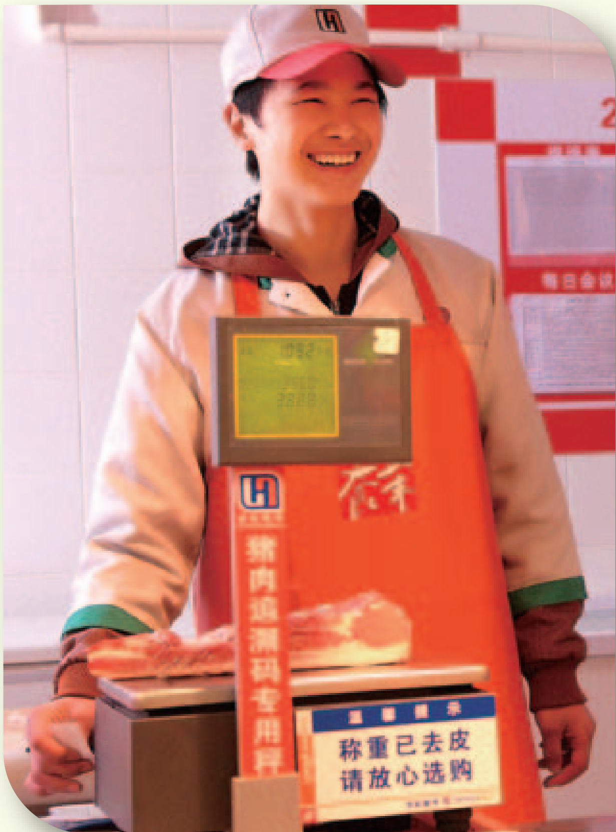

system for departments at the Group's headquarters in order to enhance the service quality provided by headquarters to the Group's subsidiaries. The Group also incorporated "operational quality" into the assessment system of the Group's subsidiaries in order to ensure that all subsidiaries focused on the quality of daily operations and management, and to enhance the performance of the overall operation and management of the Group.

During the period under review, the Group developed a personalized training development program for its management trainees. The Group organized its fifth management trainee programme in order to further build and deepen its management reserve team. In addition, the Group implemented a job-rotation program for key talented individuals where further training and incentives were provided. Meanwhile, the Group conducted a series of development activities for highly skilled front-line personnel, including skill appraisal of shop assistants, special training on quality control of merchandise, apprenticing, encouraging innovative marketing and etc. in order to steadily improve the general quality of the Group's staff.

Strategy and Plan

In 2013, stabilizing growth will remain the main priority of the policies of the Chinese government. In light of the importance of consumption on economic development, it is expected that the government will promulgate a series of measures, such as accelerating urbanization, increasing income of citizens, and improving public investment in order to increase domestic demand and stimulate consumption. As the total retail sales of social consumer goods have rebounded steadily since August 2012, the retail industry is expected to recover.

However, in consideration of the weak recovery of the global economy, the potential fallout from the "Fiscal Cliff" in the U.S. and the ongoing debt crisis in Europe, it is not expected that there will be material improvements in the near term. With the slowdown in the Chinese economy, the rising overall production costs and tightening regulations in the retail industry, the retail industry is expected to adapt to the new environment and large and medium-sized enterprises should stand out.

Opportunities and challenges shall coexist for the Group in 2013. As for challenges, many of the Group's outlets may face considerable competitive pressure and some outlets will also suffer during renovation and alternation. Additionally, the Group will likely need a period of transition after a variety of internal reforms are pushed through and improvements are made to procedures and standards. But there are also a number of opportunities. First, the Company, with an established strategy of "Becoming a Regional Leader and a National Strong Player," clarified its objectives for each region. Second, the Group implemented a number of reforms aimed at enhancing its bargaining power through centralized procurement, creating a more flexible operating mechanism by implementing business flow grading management, and pushing specialization according to different segments of the Group. Last, the Group clarified the transformation and development of its outlets. With steady quality improvement being seen across the Group's existing outlets, the success of new outlets and favorable same store sales growth are becoming increasingly assured.

The Group's key strategies for 2013 are as follows:

Optimize business structure and consolidate competitive advantages. In 2013, the Group will continue to implement a development strategy which is focused on the Yangtze Delta Region, strictly control its property locations and conditions, and put more efforts in segment positioning, pre-opening preparation and outlet incubation. The Group will make adjustments during its development in order to achieve an optimized business structure and better layout. The Group plans to open 327 new outlets, including 10 hypermarkets, 157 supermarkets, and 160 convenience stores. For the first year after the opening of hypermarkets, achieving a certain level of sales and market share is critical. In view of this objective, stricter controls will be taken in terms of site selection, property condition, design, opening and incubation in order to ensure that the opportunity for competitors to open outlets nearby is minimized. Development of directly-operated stores in the supermarket and convenience store segments will be accelerated properly in order to optimize organization and explore new development, with an aim to stabilize and consolidate market scale. A balance between speed and quality is essential for the expansion of franchise businesses, while the contribution of franchise businesses to the convenience store segment should increase gradually. On the e-commerce side, the Group will accelerate the implementation of a system linking online and offline businesses, and explore value-added opportunities at physical stores by taking advantages of ecommerce technologies, which should help lower down the overall operating costs. In addition, the Group will further optimize the business model of its cosmeceutical stores, and link the cosmeceutical business with its main segments in terms of merchandise and sublease cooperation. The sales volume of imported goods, buyout merchandise and fresh products should also increase.

Reform to make breakthroughs and optimize the system. In 2013, first, the Group will further improve its

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organisation system of merchandise procurement and operation management to achieve synergies between operations and procurement. The merchandise department will reduce the purchase price of goods by making greater use of bulk purchasing, while the operations department will enhance its capacity to sell effectively with professional management. At the same time, the Group will focus on improving on-site management and customer services at the store level. Second, recognizing the importance of shelf placement on the sales performance of merchandise, the Group will optimize its management of merchandise and categorize merchandise suitable for each individual store based on the market position and location of these stores. Last, the Group will analyze its operations by using information management systems, which should help provide guidance in the management of various businesses while improving organization and category management. Construction on the Jiangqiao logistics center is on track. Integrating the center with the Group's operations, and installing and commissioning new equipment and facilities will be implemented in 2013, and the Group will strive to conduct the pilot run by the end of 2013. Unlike the existing logistics model of categorization by segments, the Jiangqiao logistics center will require the Group to run on a unified procurement platform where dispatching and distribution are based on the demand of individual stores. This change will require the Group to revolutionize its existing model of handling orders, improve category management and store layout in all types of stores, and require more suppliers to start delivering directly to the Group's distribution center instead of its stores. In 2013, the Group plans to take advantage of its enhanced ability on centralized and direct procurement, and steps up efforts on bulk and exclusive purchasing of merchandise. Complying with requirements of the government to regulate charges on suppliers, the Group will also strive to attract greater investments in marketing resources by suppliers and increase cooperation with them in order to improve sales and consolidated income.

Improve profitability through innovation. The objective of chain supermarkets is to provide consumers with high quality goods and services at low prices. This can only be accomplished by constantly increasing scale and efficiency. As such, the Group has to improve its monetization

model, and accelerate the optimization of its revenue mix. The Group will streamline its operations, clarify its category strategy, increase sales of key merchandise categories and items, increase marketing investment from suppliers and provide incentive rebates. The Group will also continue to conduct market segmenting, improve classification of merchandise directories in stores, and lift efficiency to boost its sales progressively by making use of category management technologies. The Group selects the best supplier for each merchandise category through a selection process and competitive bidding and this is expected to help increase consolidated income. The Group will establish a robust and unified membership program, accumulate and improve member data, and continuously expand its member database. On the marketing side, various marketing initiatives will be combined with the Group's membership system, and the percentage of discounted goods available to members will be increased significantly in an effort to raise sales from members. In addition, the Group will improve store layouts, attract marketing partners, optimize marketing mode and increase income from concessionaire tenants.

Tighten cost control and improve efficiency. The Group will leverage on its advantages in terms of chain scale, allocate its resources reasonably, simplify its working process and make full use of its potential to strictly control costs and reduce expenses and charges. The Group will take advantage of centralized capital management to improve capital utilization efficiency. The Group will strictly comply with government's regulations on its use of commercial single purpose pre-paid cards, and increase card issuance volume with its network advantages. The Group will make appropriate decisions according to the operating environment, conduct in-depth research and strive for preferential taxation treatment. The Group will support business reforms and optimize internal evaluation methods in compliance with market principles in order to break operational bottlenecks, achieve synergies between departments, and enhance management efficiency.

The Group will optimize its income structure by insisting on the idea of "Profits are Generated from Sales and Gross Profit Leading to Gains" (利潤源於銷售，毛利主導收益); enhance customer relationship management and make use of effective pricing strategies to establish a brand image of high quality at low prices by adhering to the idea of "Sales are Driven by Store Traffic and High Quality Services" (銷售源於客流，服務主導運營); change from a passive business approach to an active one, drive innovation in the Group's procurement model, optimize category structure and increase gains from merchandise by pushing through the idea of "Optimization Stems from Innovations and Structure Sets the Direction" (優化源於創新，結構主導方向); as well as attain diversified and coordinated development, and proactively seize opportunities by upholding the idea of "Rooting on and Serving the Main Businesses" (立足於主營，服務於主營).

Moving

Profiles of Directors, Supervisors and Senior Management

Executive Directors

Mr. Hua Guo-ping, aged 50, is the general manager of the Company. Mr. Hua is also the chairman and/or director of a number of operating subsidiaries of the Company and a director of Shanghai Friendship Group Incorporated Company ("Shanghai Friendship",上海友誼集團股份有限公司) (a company listed on the Shanghai Stock Exchange). Mr. Hua is responsible for the operation and management of the Group. He graduated from Tongji University (同濟大學) in 1986 with a Bachelor's degree in electrical appliances automation. In 1989, he graduated from Tongji University with a Master's degree in industrial enterprise engineering management. Between 1993 and 1997, Mr. Hua worked for Hong Kong Tak Shun Investment Consultancy Company Limited (香港德信投資諮詢公司), Shanghai Pudong State-owned Assets Investment Management Co., Ltd. (上海浦東國有資產投資管理公司) and Shanghai Dong Shen Economic Development Co., Ltd. (上海東申經濟發展有限公司). From 1997 to 1999, he worked for Shanghai Industrial Asset Management Company Limited (上海上實資產經營有限公司) as deputy general manager. From 1999 to 2000, he was the deputy general manager of Shanghai Industrial United Limited (上海實業聯合集團股份有限公司). From 2001, he has been the managing director of Shanghai Industrial United (Group) Commercial Network Development Company Limited (上海實業聯合集團商務網絡發展有限公司). Between May 2000 and the end of 2003, Mr. Hua was a director of the Company. He was also the deputy general manager of the Company commencing from August 2003 until the end of 2003. He was the deputy general manager of the supermarket merchandising division of Bailian Group Co., Ltd. ("Bailian Group",百聯集團有限公司) since 2004 and became the general manager in 2006. Mr. Hua was re-elected as a non-executive director of the Company at the annual general meeting for the year 2004, and since June 2009, he has been appointed as the general manager of the Company. Since March 2010, Mr. Hua has been redesignated as an executive director of the Company.

Ms. Xu Ling-ling, aged 54, a PRC certified public accountant, a member of the International Certified Internal Auditor Association (國際註冊內部審計師協會) and a senior accountant, is the chief financial officer of the Company. She is also the chairman, director and/or supervisor of a number of operating subsidiaries of the Company. She is responsible for the overall financial management and information management of the Group. Ms. Xu graduated from Shanghai Lixin University of Commerce (上海立信會計學院) in 1987 with a Bachelor's degree in accounting. She graduated from the graduate school of the Shanghai Academy of Social Science (上海社會科學院) in 2001, majoring in business administration. She graduated from Tong Ji University in 2006, with an EMBA in business management. In 2008, she graduated from Shanghai National Accounting Institute (上海國家會計學院) with an EMBA, majoring in financial management. From 1975 to 1983, Ms. Xu was a director in the second branch of Shanghai Huangpu Tobacco and Wines Company Limited (上海黃浦煙酒公司), and from 1983 to 1996, she was the head of the finance department of Shanghai Wangbaohe Corporation Tongyuan Company (上海王寶和總公司同緣公司). She joined the Company in June 1996 as a manager of the audit division. Since 1997, Ms. Xu has been the chief financial officer of the Company and is responsible for the Group's finance, auditing, statistics and investment. Ms. Xu has more than 20 years' experience in the finance and management of companies in the consumer industry. In 2007, Ms. Xu was elected as a representative of the 13th Session of the National People's Congress of Shanghai. She was awarded as the Labour's Role Model of National Commerce Industry (全國商務系統勞動模範) by the Ministry of Personnel and the Ministry of Commerce of the People's Republic of China in 2008. Ms. Xu was appointed as an executive director of the Company since January 2003 and Ms. Xu ceased to be the joint company secretary of the Company and was appointed as the company secretary of the Company with effect from 9 March 2011.

Ms. Cai Lan-ying, aged 60, a senior economist, is a deputy general manager of the Company. Ms. Cai is also the chairman and/or director of a number of operating

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subsidiaries of the Company. She is responsible for the overall operation and management of the Group's business in Zhejiang Province. Ms. Cai graduated from Hangzhou Commercial and Technical College (杭州商業技工學校) with a diploma specializing in non-staple goods in 1969 and completed the economics programme at the Correspondence Institute of the Party School of C.C. of C.P.C. (中央黨校函授學院) Ms. Cai has more than 30 years' experience in the retail industry. She was a founder of Hangzhou Huashang Group Co., Ltd. (杭州華商集團有限公司) and served as general manager. She was appointed as the chairman of Hangzhou Lianhua Huashang in July 2002. Ms. Cai was awarded the prize of "Zhejiang Outstanding Entrepreneur" (浙江省優秀企業家) in 1990. She was also awarded the prize "Outstanding Operator with Prominent Contribution in Business and Trading Enterprises of Hangzhou in 2004" (杭州市二零零四年度突出貢獻商貿服務企業優秀經營者) in March 2005. Ms. Cai was appointed as an executive director of the Company since September 2004.

Mr. Tang Qi, aged 60, is a senior economist. Mr. Tang graduated from Fudan University (復 旦 大 學) in 1989 with a college degree. From 1999 to 2001, he pursued a postgraduate degree at Research Institute of Yangtze River Development (長江流域發展研究所) of East China Normal University (華東師範大學), majoring in regional economics. He was the division manager and deputy general manager of China Silk Domestic Sales Company at Shanghai (中國絲綢上海內銷公司) from 1988 to 1995. Mr. Tang was deputy general manager of Hualian Group Economic Development Company (華聯集團經濟發展公司) from 1995 to June 1997. Mr. Tang was the general manager of Shanghai Fashion Company (上海時裝公司), Shanghai New Hualian Mansion (上海新華聯大廈) and Hualian Supermarket Holdings Company Limited ("Hualian Supermarket") from July 1997 to late 2003. From late 2003 to August 2009, he was the deputy general manager of the Supermarket Merchandising Division of Bailian Group and the chairman of Hualian Supermarket. Since October 2009, Mr. Tang was the deputy general manager of the Company and chairman of Hualian Supermarket. From June 2010 to March 2012, he has concurrently worked as general manager of Shanghai Lianhua Supermarket Development Co., Ltd. ("New Supermarket",上海聯華超級市場發展有限公司). Since June 2010, he has worked as chairman of the board of New Supermarket. Mr. Tang is also the chairman and/or director of a number of operating subsidiaries of the Company. Mr. Tang was appointed as an executive director of the Company since June 2010.

Non-Executive Directors

Mr. Ma Xin-sheng, aged 59, a senior economist and senior engineer, is the Chairman of the Board of the Company. Mr. Ma is also the chairman of the board of Bailian Group. Mr. Ma is responsible for the overall operation and management of the Group and the formulation of the development strategies of various businesses. Mr. Ma graduated from the University of Shanghai (上海大學). In 2008, he graduated from Shanghai National Accounting Institute with an EMBA, majoring in financial management. For the period from March 1983 to December 1989, Mr. Ma was the deputy party secretary, party secretary and factory manager of Shanghai Rectifier Factory (上海整流器總廠). For the period from December 1989 to January 1995, Mr. Ma was the deputy general manager of Shanghai Electric Group Co., Ltd. (上海電器股份有限公司). For the period from January 1995 to October 1996, Mr. Ma was the general manager and party secretary of Shanghai Jidian Maoyi Building (上海市機電貿易大廈). For the period from October 1996 to December 2003, Mr. Ma was the chairman of labour union, deputy party secretary, deputy chairman of the board of directors and president of Shanghai Electric (Group) Corporation (上海電氣(集團)總公司), the chairman of the board of directors of Shanghai Electric (Group) Finance Co., Ltd. (上海電氣(集團)財務公司) and the chairman of the board of directors of Shanghai Electric Group Co., Ltd.. For the period from December 2003 to December 2007, Mr. Ma was the deputy party secretary of Shanghai State-owned Assets Supervision and Administration Commission (上海市國有資產監督管理委員會). Mr. Ma is the party secretary and the chairman of the board of directors of Bailian Group, the chairman of the board of directors of Shanghai Bailian Group Co., Ltd. ("Shanghai Bailian",上海百聯集團股份有限公司) (a company listed on the Shanghai Stock Exchange),

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the chairman of the board of directors of Shanghai Friendship, the chairman of the board of directors of China Bailian (Hong Kong) Limited (中國百聯(香港)有限公司) and the director of Shanghai Pudong Development Bank Co., Ltd. (上海浦東發展銀行股份有限公司) (a company listed on the Shanghai Stock Exchange) since about 2008. Mr. Ma received a CEO Award in the first Robert A. Mundell World Executive Awards held in 2004. Mr. Ma joined the Group in May 2009 and has been the Chairman of the Board of the Company since 2009.

Mr. Wang Zhi-gang, aged 56, is a senior economist. Mr. Wang graduated from Renmin University of China (中國人民大學) in 1982 and holds a Bachelor's degree in commerce and economics and graduated from Fudan University in 1991 and holds a Master's degree in administration and management. Mr. Wang previously served as division member, vice division head, assistant manager, vice manager of Shanghai Apparel and Shoes Company (上海市服裝鞋帽公司); executive vice general manager and general manager of Shanghai Fashion Co., Ltd. (上海時裝股份有限公司); general manager of Shanghai Jin'an Investment Management Co., Ltd. (上海金安投資管理有限公司); vice general manager of Shanghai Yibai (Holdings) Company Ltd. (上海一百(集團)有限公司) and a member of the board of directors of Shanghai Bailian. Mr. Wang is currently the vice president of Bailian Group. In 1984, Mr. Wang was awarded as Shanghai Outstanding Young Entrepreneur (上海市優秀青年企業家) by The People's Government of Shanghai municipality. Mr. Wang was an executive director of the Company from June 2007 to June 2010 and was appointed as the Chairman of the Company from July 2007 to May 2009. Mr. Wang was appointed as a non-executive director of the Company on 16 January 2012.

Mr. Kazuyasu Misu, aged 56. From April 1979 to April 2004, Mr. Misu worked successively in the Foods Administration Department and the Processed Foods Department B of Mitsubishi Corporation (三菱商事株式會社), Mitsubishi Corporation (U.K.) (英國三菱商事株式會社) and the Food Materials Department of Mitsubishi Corporation. From April 2004 to April 2009, Mr. Misu successively served as the general manager of the Processed Foods C Unit, the general manager of the Confectionery and Pet Foods Unit, the acting general manager, and then the general manager, of Living Essentials Group CEO Office of Mitsubishi Corporation. Mr. Misu held position as a director in Yonekyu Co., Ltd. (米久株式會社) (a company listed on the Tokyo Stock Exchange) for the period from May 2007 to May 2008. He also served as a director in Nippon Meat Packers, Inc. (日本火腿株式會社) (a company listed on Osaka Securities Exchange, Tokyo Stock Exchange and the Euronext Paris S.A.) during the period from June 2008 to March 2009. From March 2009 to March 2011, he served as a director in Coca-Cola Central Japan Co., Ltd. (a company listed on Tokyo Stock Exchange and Nagoya Stock Exchange) and a director in Ryoshoku Limited (菱食株式會社) (a company listed on the Tokyo Stock Exchange, currently Mitsubishi Shokuhin Co., Ltd. (三菱食品株式會社)). From April 2009 to March 2011, he worked as the Division COO of the Foods (Products) Division of Mitsubishi Corporation. Since April 2011, he has served as an executive director and head of Living Essentials Group for China in Mitsubishi Corporation. Mr. Misu joined the Group in September 2009.

Mr. Wong Tak Hung, aged 61, is the president of Wong Sun Hing Investment Co., Ltd. (王新興投資有限公司). From 1970 to 1978, Mr. Wong was the manager of Sun Hing Textile Factory (新興毛紡織造廠), and from 1978 to 1990, he was the managing director of Wong Sun Hing Company Limited (王新興有限公司). Since 1990, he has been the president of Wong Sun Hing Group (王新興集團). He has also been the chairman of Shenzhen Xin Xing Entrepreneurship Guarantee Company Limited (深圳新興創業擔保有限公司) since 2003 and he has been acting as the chairman of Guangzhou Wanling Properties Company Limited (廣州市萬菱置業有限公司) from 2004. Since 2005, he has also been acting as the chairman of Wanling Industrial (Guangdong) Company Limited (萬菱實業(廣東)有限公司). Mr. Wong joined the Group in April 1997, and he has over 30 years of business experience.

Profiles of Directors, Supervisors and Senior Management

Independent Non-Executive Directors

Mr. Xia Da-wei, aged 60, is the director of the academic committee, a professor, and a doctoral tutor, of Shanghai National Accounting Institute and deputy chairman of the Chinese Industrial Economic Association (中國工業經濟學會), consultant of China Accounting Standards Committee of the Ministry of Finance (財政部會計準則委員會), a member of the Committee on Internal Control Standard of Enterprises of the Ministry of Finance (財政部企業內部控制標準委員會), honorary professor of The Chinese University of Hong Kong (香港中文大學), part-time professor of the School of Management of Fudan University and member of the listing committee of Shanghai Stock Exchange. Mr. Xia is also an independent non-executive director of China Rongsheng Heavy Industries Group Holdings Limited (中國熔盛重工集團控股有限公司) (a company listed on the Stock Exchange), an independent director of Shanghai Electric Power Co., Ltd. (上海電力股份有限公司) (a company listed on the Shanghai Stock Exchange) and an independent director of China United Network Communications Limited (中國聯合網絡通信股份有限公司) (a company listed on the Shanghai Stock Exchange). He joined the Group in September 2004.

Mr. Lee Kwok Ming, Don, aged 55, is the financial controller of Stella International Holdings Ltd. (九興控股有限公司), which is listed on the Stock Exchange. He is a fellow of the Hong Kong Institute of Certified Public Accountants (香港會計師公會) and an associate of the Chartered Institute of Management Accountants in the United Kingdom (英國特許管理會計師公會). He holds a Master's degree of science in business administration from the University of Bath (英國巴富大學). Mr. Lee has held the position of financial controller in various listed companies on the Stock Exchange. Mr. Lee has more than 20 years of financial management experience and extensive experience in mergers and acquisitions, as well as corporate finance. He joined the Group in May 2003.

Mr. Zhang Hui-ming, aged 56, is the head of the Enterprise Research Institute (企業研究所) and standing deputy director of Yangtze River Delta Research Institute (長江三角研究院) at Fudan University. Professor Zhang graduated from Fudan University with a Bachelor's degree in economics in 1982, a Master's degree in economics in 1984, and a doctorate in economics in 1995. He has been teaching at Fudan University since 1984 and was promoted to the position of professor in 1996. Since 1997, he has been a tutor for the doctorate programme on enterprise theory and practice. Professor Zhang has published eight books and over 200 research papers in various national magazines. He is an independent director of Shanghai Meilin Aquarius Co., Ltd. (上海梅林正廣和股份有限公司) (a company listed on the Shanghai Stock Exchange) and Shanghai Haibo Co., Ltd. (上海海博股份有限公司) (a company listed on the Shanghai Stock Exchange) respectively. He joined the Group in January 2003.

Mr. Lin Yi-bin, aged 47, is a member of the Chinese Kuomintang Revolutionary Committee (中國國民黨革命委員會) and a senior economist. Mr. Lin graduated from Shanghai University of Finance and Economics (上海財經大學) and received a Master's degree in economics, and graduated from Shanghai Academy of Social Sciences and received a Doctor's degree in economics. Mr. Lin had worked in economic research departments, state assets supervision and administration departments and large state-owned enterprises for a long time. Mr. Lin previously served as the deputy division chief of the general affairs division of the State-owned Assets Management Office of Shanghai Municipal Government (上海市國有資產管理辦公室綜合處), the division chief of the Planning and Development Division of the State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government (上海市國有資產監督管理委員會規劃發展處), the deputy director of the State-owned Assets Supervision and Administration Commission of Yunnan Provincial People's Government (雲南省人民政府國有資產監督管理委員會) (temporary). Mr. Lin has been the vice president of Shanghai Guo Sheng (Group) Co., Ltd. (上海國盛(集團)有限公司) since May 2008. Mr. Lin has been the president of Shanghai Building Material (Group) General Company (上海建材(集團)總公司) since August 2009. Mr. Lin has been the chairman of SYP Glass Group Co., Ltd. (上海耀皮股份有限公司, a company listed on the Shanghai

Profiles of Directors, Supervisors and Senior Management

Stock Exchange) since October 2009. Mr. Lin is also a deputy to the 13th Shanghai's People's Congress (上海市第十三屆人民代表大會), a member of Shanghai Committee of the Chinese Kuomintang Revolutionary Committee (中國國民黨革命委員會上海市委員會), a standing member of the Shanghai Youth Federation (上海市青年聯合會), the vice president of the Shanghai Young Entrepreneurs' Association (上海市青年企業家協會) and an external director of Yunnan Coal Chemical Industry Group Co., Ltd. (雲南煤化工集團有限公司). Mr. Lin was appointed as an independent non-executive director of the Company in June 2012.

Supervisors

Mr. Chen Jian-jun, aged 55, a senior economist, is the chairman of the supervisory committee and the party secretary of the Company. Mr. Chen graduated from Shanghai Second Polytechnic University (上海第二工業大學) in 1998 with a Bachelor's degree in computer application. From 1998 to 2001, he pursued a postgraduate degree at Research Institute of Yangtze River Development of East China Normal University, majoring in regional economics. Mr. Chen was the deputy chief officer, chief officer and deputy director of the resource office of Shanghai First Commercial Bureau (上海市商業一局), deputy human resources manager and manager of Hualian Group Company (華聯集團公司). He was appointed as an assistant to general manager and deputy general manager of Hualian Group Company, in 2000 and 2002 respectively. During his tenure at Hualian Group Company, Mr. Chen held concurrent posts as a director at Hualian Supermarket and chairman at Shanghai Auction Co., Ltd. (上海拍賣行有限公司) From late 2003 to April 2007, he was the supervisor and secretary of party general branch of the disposal centre of Bailian Group and was appointed as the party secretary and secretary of disciplinary committee of the Supermarket Merchandising Division of Bailian Group since April 2007. Since May 2009, Mr. Chen was appointed as the chairman of the Supervisory Committee and party secretary of the Company. In 2010, he was awarded the "Outstanding Organizer of 'Pioneering Programme of Shanghai World Expo' of Shanghai SASAC System" (上海市國資委系統「世博先鋒行動」優秀組織者). Mr. Chen was appointed as a vice chairman of the supervisory committee of Shanghai Friendship in October 2011.

Mr. Wang Long-sheng, aged 60, a senior economist, graduated from Shanghai East China Normal University in 1998 with a Master's degree in decision-making management. Between 1986 and 2005, Mr. Wang has worked for Shanghai Friendship Antique & Curio Store (上海友誼古玩商店), Shanghai Hongqiao Friendship Shopping Centre (上海虹橋友誼商城), Shanghai Friendship Overseas Chinese Joint Stock Company Limited (上海友誼華僑股份有限公司), China Tour Souvenir Head Company (中華旅遊紀念品總公司), Shanghai Friendship Group Decoration Company (上海友誼集團裝潢總匯), Homemart Decoration Materials Company Limited (好美家裝潢建材有限公司), Shanghai Friendship Nanfang Shopping Center (上海友誼南方購物中心), Shanghai Bailian Xijiao Shopping Center (上海百聯西郊購物中心) and Shanghai Friendship. Mr. Wang has been the general manager of Shanghai Friendship since January 2006. Mr. Wang has been appointed as a director and the administrative director (常務理事) of Shanghai Joint Stock Company and Securities Research Committee (上海股份制與證券研究會) since March 2001. He joined the Group in December 2001. Mr. Wang is the director of Shanghai Friendship.

Mr. Dao Shu-rong, aged 58, a senior economist, is the Chairman of the labour union and the deputy party secretary of the Company. Mr. Dao graduated from the Shanghai TV University (上海電視大學) in 1986, majoring in corporate management and from the Graduate School of Shanghai Academy of Social Sciences in 2001, where he majored in business administration. In 2008, he graduated from Shanghai National Accounting Institute with an EMBA, majoring in financial management. Mr. Dao has more than 30 years' experience in business and human resources administration. In 1996, Mr. Dao worked as the manager of the human resources division of Internal and External General Commerce Association (內外聯綜合商社). Mr. Dao joined the Company in 1997 and served as the chief of the human resources department and promoted to assistant to the general manager in 1999. He was appointed as division chief of the human resources division of the Company from 2001 till May 2009. Mr. Dao was

Profiles of Directors, Supervisors and Senior Management

appointed as the Chairman of the labour union, the deputy party secretary and the secretary of discipline inspection commission of the Company since May and July 2009 respectively. Mr. Dao was elected as the Supervisor of the Company in May 2009. In 2010, Mr. Dao was granted the name of "Outstanding Organizer of Staff Union of 'Acting as Good Leader and Making Contribution to Shanghai World Expo' in Shanghai" (上海市「當好主力軍建功世博會」工會優秀組織者). He was granted the name of "Outstanding Leader of Quality Management in Shanghai" (上海市質量管理優秀領導者).

Company Secretary

Ms. Xu Ling-ling

Please refer to the profiles of Executive Directors (page 42).

Senior Management

Mr. Zhang Guo-hong, aged 41, is a certified accountant. Mr. Zhang graduated from Shanghai University of Finance and Economics in 1999 with a Master's degree in international commerce. From 1994 to 1996, he was the head of procurement division at Hubei Lvfeng Stone Co. Ltd. (湖北綠峰石材有限公司). From August 1999 to late 2003, he was the deputy head of Zhejiang operation department, deputy head of commodity management department, assistant to general manager of the Company and deputy general manager of Shanghai Lianhua Chao Shi Development Co., Ltd. (上海聯華超市發展有限公司). Mr. Zhang was deputy general manager of the Supermarket Merchandising Division of Bailian Group from late 2003 to August 2009. He has worked as deputy general manager of the Company since October 2009 and concurrently acted as general manager of Hualian Supermarket from July 2005 to May 2010. In 2006, he was elected as a representative of the 14th Session of the National People's Congress of Yangpu District, Shanghai.

Ms. Qi Yue-hong, aged 43, is an economist. Ms. Qi graduated from Fudan University in cultural heritage and museology and international economic law in 1993. From September 1993 to February 2002, she was a store management staff, the deputy manager of the eastern building management department and the director of the supervision and audit office of Shanghai No. 1 Department Store Co., Ltd. (上海第一百貨股份有限公司). She was the assistant to general manager of Shanghai No. 1 Yao Han Co., Ltd. from February 2002 to January 2003. She was the deputy manager of the personnel department of Shanghai Yibai (Holdings) Company Ltd. from January 2003 to March 2004. She was the deputy general manager of Orient Shopping Centre Ltd. (東方商廈有限公司) from March 2004 to September 2005. She was the general manager of Changsha Bailian Orient Shopping Centre Ltd. (長沙百聯東方商廈有限公司) from September 2005 to March 2007. She was the general manager and secretary of party general branch of Shanghai New Hua Lian Mansion Co., Ltd. (上海新華聯大廈有限公司) from March 2007 to January 2008. She was the general manager and secretary of party general branch of Shanghai Bailian Xijiao Shopping Centre Co., Ltd. (上海百聯西郊購物中心有限公司) from January 2008 to March 2010. She was the deputy general manager of Shanghai Bailian from March 2010 to March 2012. She has been the deputy general manager of the Company since March 2012.

Mr. Liang Bao-long, aged 48, is a senior operator and a logistician. Mr. Liang graduated from Tongji University in management engineering. From January 1999 to December 2001, he pursued a postgraduate degree at Shanghai Academy of Social Sciences, majoring in economics. From July 1984 to February 2003, Mr. Liang was a deputy section chief of the catering department, a deputy section chief and section chief of the general affairs office, and general manager of the logistics service centre of Shanghai Materials & Equipment School (上海市物資學校). From February 2003 to March 2012, he was the assistant to general manager and deputy general manager of Shanghai Modern Logistics Development & Investing Co., Ltd. (上海現代物流投資發展有限公司), he has concurrently worked as the general manager and deputy secretary of party general branch of Shanghai Changqiao Logistics Co., Ltd. (上海長橋物流有限公司),and the chairman of board and the party secretary of Shanghai Bailian Distribution Co., Ltd. (上海百聯配送實業有限公司). He has been the deputy general manager of the Company since March 2012.

Reaping

Shareholding Structure

Shanghai Friendship Group Incorporated Company

34.03%

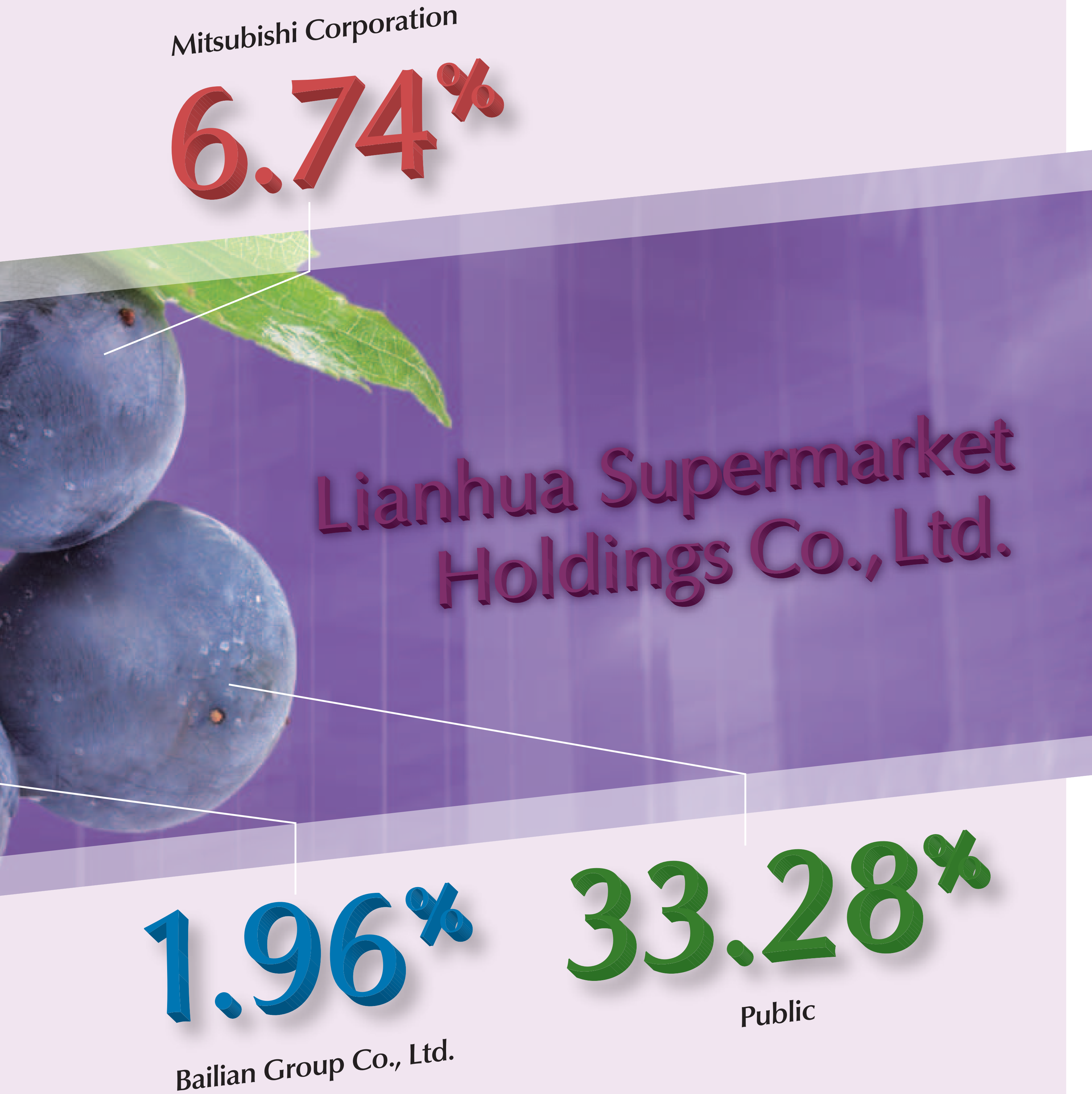
Shanghai Bailian Group Investment Co., Ltd.

21.17%

2.82%

Wong Sun Hing Investment Company Limited

Shareholding Structure



Report of the Directors

The Board is pleased to present to the shareholders its report of the Company for the year ended 31 December 2012.

Principal activities

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

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

	2012 Percentage	2011 Percentage
Purchases		
Largest supplier	**2.92**	3.18
Five largest suppliers	**7.70**	8.32
Sales		
Largest customer	**0.04**	0.06
Five largest customers	**0.11**	0.13

During the year ended 31 December 2012, to the best knowledge of the Directors, none of the Directors, the supervisors ("Supervisors") of the Company, their respective associates, nor any shareholders of the Company (which to the knowledge of the Directors own more than 5% of the Company's share capital) had any direct or indirect interest in the share capital of the Group's suppliers and customers mentioned above.

Subsidiaries and associated companies

As at 31 December 2012, the Company's principal subsidiaries are Century Lianhua, New Supermarket, Quik Convenience, Hangzhou Lianhua Huashang, Lianhua Supermarket (Jiangsu) Co., Ltd. (聯華超市(江蘇)有限公司), Lianhua Supermarket Distribution Co., Ltd. (上海聯華配銷有限公司), Shanghai Lianhua Live and Fresh Food Processing and Distribution Co., Ltd. (上海聯華生鮮食品加工配送中心有限公司) and Lianhua E-business Co., Ltd. (the "Lianhua E-business",聯華電子商務有限公司).

As at 31 December 2012, the Company's principal associated company is Shanghai Carhua.

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

Accounts

The audited results of the Group for the year ended 31 December 2012 are set out in the consolidated statement of comprehensive income on page 96 of the annual report.

The financial condition of the Group as at 31 December 2012 is set out in the consolidated statement of financial position on pages 97 to 98 of the annual report.

The cash flow of the Group for the year ended 31 December 2012 is set out in the consolidated statement of cash flow on pages 103 to 104 of the annual report.

Dividend distribution

The Board recommends payment of a final dividend of RMB0.07 per share (including tax) for the year ended 31 December 2012.

The arrangements for the closure of the register of H-shares holders of the Company will be announced after the above proposal has been approved by shareholders at the Company's 2012 annual general meeting.

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

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

All investors should consider the preceding contents carefully. If any investor intends to change the identity of the holders in the shareholders' register, please kindly enquire about the relevant procedures with your nominees or trustees. The Company has no responsibility and shall not be held responsible for confirming the identities of the shareholders. The Company will strictly comply with the law, and withhold and pay the corporate income tax on behalf of the relevant shareholders based on the register of H shares members of the Company as 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) (《財政部國家税務總局關於個人所得税若干政策問題的通知》(財税 "1994" 20號)) dated 13 May 1994, when the Company distribute the 2012 final 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 final 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.

Reserves

Details of the movements in reserves during the period under review are set out in the consolidated statement of changes in equity on page 101 of the annual report.

Fixed assets

Movements of fixed assets during the period under review are set out in note 13 to the consolidated financial statements of the annual report.

Bank loans, overdrafts and other borrowings

As at 31 December 2012, the Group had no other bank borrowings, except for existing borrowings of RMB2,000,000 due within one year from a non-wholly-owned subsidiary of the Group.

Capitalised interest

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

Report of the Directors

Listing of shares and changes

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

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

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 total number of shares of the Company in issue increased from 622,000,000 shares to 1,119,600,000 shares. H shares in issue increased from 207,000,000 shares to 372,600,000 shares, representing approximately 33.28% of the Company's total share capital. Please refer to the circular of the Company dated 13 May 2011 for the details of the issue.

Information on the performance of H shares of the Company in 2012:

Highest trading price per H share during the year	HK$11.82
Lowest trading price per H share during the year	HK$5.91
Total turnover volume of H shares during the year	391 million shares
Closing price per H share as at 31 December 2012	HK$7.42

Public float

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

Share capital

As at 31 December 2012, the classes and number of shares of the Company are as follows:

Class of shares	**No. of issued shares** ('000 shares)	Percentage (%)
Domestic shares	639,977.4	57.16
Attributable to:		
Shanghai Friendship Group Incorporated Company	380,952.0	34.03
Shanghai Bailian Group Investment Co., Ltd.	237,029.4	21.17
Bailian Group Co., Ltd.	21,996.0	1.96
Unlisted foreign shares	107,022.6	9.56
Attributable to:		
Mitsubishi Corporation	75,420.0	6.74
Wong Sun Hing Investment Company Limited	31,602.6	2.82
H shares	372,600.0	33.28
Total	1,119,600.0	100

Number of shareholders

As at 31 December 2012, details of shareholders as recorded in the register of shareholders of the Company are as follows:

Total number of shareholders	27
Shareholders of domestic shares	3
Shareholders of unlisted foreign shares	2
Shareholders of H shares	22

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.

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;

Report of the Directors

(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.

Disclosure of interests

Directors, Chief Executive Officer and Supervisors of the Company

As at 31 December 2012, except (i) Mr. Tang Qi (an executive Director) held 861 shares of Shanghai Friendship; and (ii) Mr. Xia Da-wei (an independent non-executive Director) held 8,694 shares of Shanghai Friendship, none of the Directors, Supervisors or chief executive officer 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 (as defined in 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 Company's register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules.

As at 31 December 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. As disclosed below, Shanghai Friendship had interests in the shares of the Company as at 31 December 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 31 December 2012, the following persons (not being a Director, chief executive officer 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 (Notes 1 & 2)	Domestic Shares	617,981,400	55.20%	82.73%	–
Bailian Investment (Note 1)	Domestic Shares	237,029,400	21.17%	31.73%	–
Bailian Group (Notes 2 & 3)	Domestic Shares	639,977,400	57.16%	85.67%	–
Mitsubishi Corporation	Unlisted Foreign Shares	75,420,000	6.74%	10.10%	–
Deutsche Bank Aktiengesellschaft	H Shares	44,820,655 (L)	4.00% (L)	–	12.02% (L)
		39,330,655 (S)	3.51% (S)	–	10.55% (S)
		5,234,200 (P)	0.47% (P)	–	1.40% (P)
The Bank of New York Mellon Corporation	H Shares	41,017,412 (L)	3.66% (L)	–	11.01% (L)
		16,583,308 (P)	1.48% (P)	–	4.45% (P)
Matthews International Capital Management, LLC	H Shares	31,741,600 (L)	2.84% (L)	–	8.51% (L)
Invesco Hong Kong Limited	H Shares	26,110,000 (L)	2.33% (L)	–	7.00% (L)
The Boston Company Asset Management LLC	H Shares	26,096,000 (L)	2.33% (L)	–	7.00% (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

Report of the Directors

Notes:

1. As at 31 December 2012, Shanghai Friendship owns 100% interests in Bailian Investment.

2. As at 31 December 2012, Bailian Group directly and indirectly holds approximately 49.26% of the shares in Shanghai Friendship. Therefore, Bailian Group is deemed to have interest in the Company.

   As at 31 December 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 31 December 2012, Mr. Ma Xin-sheng, the Chairman of the Company, was chairman of Shanghai Friendship; Mr. Hua Guo-ping, the executive Director of the Company, was the director of Shanghai Friendship. Mr. Chen Jian-jun, the Supervisor of the Company, was the vice chairman of the supervisory committee of Shanghai Friendship, and Mr. Wang Long-sheng, the Supervisor of the Company, was the director of Shanghai Friendship.

3. As at 31 December 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 31 December 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 31 December 2012.

Ultimate holding company

As at the date of this report, Bailian Group, a company incorporated in the PRC with limited liability, is the ultimate holding company of Shanghai Friendship. Accordingly, Bailian Group is the ultimate holding company of the Company.

Pre-emptive rights

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

Purchase, sale or redemption of shares

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

Share capital interests held by the Directors and Supervisors

As at 31 December 2012, except (i) Mr. Tang Qi (an executive Director) held 861 shares of Shanghai Friendship; and (ii) Mr. Xia Da-wei (an independent non-executive Director) held 8,694 shares of Shanghai Friendship, none of the Directors, Supervisors or chief executive officer of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation (as defined in the SFO) which were required by section 352 of the SFO to be recorded in the register referred to therein, or required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors and Supervisors

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

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
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

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

Details of the profile of the Directors, Supervisors and senior management of the Company are set out on pages 42 to 47.

Directors' and Supervisors' service contracts

The Company has entered into service contract with each of the executive Directors and independent non-executive Directors on 28 June 2011, terms of which correspond to their respective term of office as Director for a period of 3 years and renewable subject to applicable laws. Neither the Directors, nor the Supervisors have a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

Directors' and Supervisors' interests in contracts

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

Interest in shares or debentures acquired by the Directors and Supervisors

During the period under review, no arrangement was entered into by the Company or its fellow subsidiaries which enabled the Directors or Supervisors to acquire the shares or bonds of the Company.

Independence of the independent Directors

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

Highest paid individuals

All the five highest paid individuals of the Company during the period under review included one of the executive Directors of the Company. Details of their remuneration are set out in note 10 to the consolidated financial statements in this annual report.

Retirement pension schemes

In accordance with applicable laws and regulations in the PRC, full-time employees of the Group participate in various defined contribution retirement benefit schemes established by the relevant municipal and provincial governments of the PRC, under which the Group and the employees were required to make monthly contributions to these schemes at a particular percentage of the employees' salaries during the relevant periods. Forfeited contributions may not be used by the Company to reduce the existing level of contributions.

Report of the Directors

Please refer to note 42 to the consolidated financial statements of the Company for details of the retirement benefit plans.

Change of auditors

The Company appointed Deloitte Touche Tohmatsu as the Company's international auditor from the conclusion of its 2009 annual general meeting, i.e. 23 June 2010, to the conclusion of the 2010 annual general meeting of the Company.

Deloitte Touche Tohmatsu was re-appointed as the international auditor from the conclusion of the 2010 annual general meeting of the Company, i.e. 28 June 2011, to the conclusion of the 2011 annual general meeting of the Company.

Deloitte Touche Tohmatsu was re-appointed as the international auditor from the conclusion of the 2011 annual general meeting of the Company, i.e. 15 June 2012, to the conclusion of the 2012 annual general meeting of the Company.

Significant litigation

During the period under review, the Company was not engaged in any significant litigation.

Connected and related party transactions

During the year, the Group had significant transactions with related parties (as detailed in note 43 to the consolidated financial statements), certain of which fall into connected or continuing connected transactions within the meaning of Charter 14A of the Listing Rules, the details of which are set out below:

(a) **Connected and related party transactions**

	2012	2011
	RMB'000	RMB'000
Sales to fellow subsidiaries	**–**	9,295
Purchases from fellow subsidiaries	**176,029**	174,249
Logistic expense paid to a fellow subsidiary	**910**	5,226
Rental expenses and property management fee paid to fellow subsidiaries (note)	**62,182**	61,458
Rental income from fellow subsidiaries	**3,177**	–
Commission income received from fellow subsidiaries	**1,264**	6,471
Commission income arising from the redemption of coupon liabilities with a fellow subsidiary	**17,218**	24,226
Commission charges arising from the redemption of coupon liabilities with a fellow subsidiary	**12,395**	22,704

Note: The transaction include continuing connected transactions of RMB11,715 thousand (2011: RMB11,232 thousand) which were exempt from reporting, annual review, announcement and independent shareholders' approval under Rule 14A.33 of the Listing Rules.

The Company confirms that it has complied with the applicable disclosure requirements, in respect of the above transactions, in accordance with Chapter 14A of the Listing Rules. Please refer to the subsequent section headed "Connected transactions" for details of the above transactions.

(b) **Related party transactions not falling into connected transactions**

	2012	2011
	RMB'000	RMB'000
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.	**28,868**	41,165

Fellow subsidiaries referred above are other subsidiaries of Bailian Group.

Connected transactions

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

Connected transaction – Hangzhou Lianhua Huashang 2011 profit distributing agreement

On 27 August 2012, the Company, Hangzhou Commercial Assets Operation Company ("Hangzhou Assets Operation") and Ningbo United Group Co., Ltd. ("Ningbo United") entered into the Hangzhou Lianhua Huashang 2011 profit distributing agreement in respect of the profit distributing arrangement of Hangzhou Lianhua Huashang. Hangzhou Lianhua Huashang is a subsidiary of the Company. Hangzhou Assets Operation is the substantial shareholder of Hangzhou Lianhua Huashang and is therefore a connected person of the Company. Accordingly, the profit distributing arrangement contemplated under the Hangzhou Lianhua Huashang 2011 profit distributing agreement constitutes a connected transaction of the Company.

Under the Hangzhou Lianhua Huashang 2011 profit distributing agreement, the profit distributing arrangement of Hangzhou Lianhua Huashang for the year ended 31 December 2011 is agreed to be as follows:

1) Ningbo United is entitled to share the distributable profit of Hangzhou Lianhua Huashang for the year ended 31 December 2011 in an amount of RMB1,843,953.10.

2) Hangzhou Assets Operation is entitled to share the distributable profit of Hangzhou Lianhua Huashang for the year ended 31 December 2011 in an amount of RMB32,000,000.

3) The Company is entitled to share the distributable profit of Hangzhou Lianhua Huashang for the year ended 31 December 2011 in an amount of RMB410,482,096.28.

Please refer to the announcement of the Company dated 27 August 2012 for relevant details.

Report of the Directors

Continuing connected transactions – lease agreements (increase of annual cap)

The lease agreement dated 30 September 2003 was entered into between Century Lianhua as the lessee and Shanghai Bailian Xijiao Shopping Centre Co., Ltd. ("Bailian Xijiao", 上海百聯西郊購物中心有限公司), formerly known as Shanghai Friendship Shopping Centre Development Co., Ltd. (上海友誼購物中心發展有限公司), as the lessor in respect of the leasing of No. 88, Xian Xia West Road, Chang Ning District, Shanghai, the PRC. The annual rent under this lease agreement for each of the three years ending 31 December 2011 is subject to an annual cap of RMB16,700,000, details of which are set out in the announcement of the Company dated 28 November 2008. Century Lianhua is a subsidiary of the Company and Bailian Xijiao is a subsidiary of Shanghai Friendship, a direct holding company of the Company and thus such transactions constitute continuing connected transactions of the Company.

On 28 November 2011, the Board announced that the estimate annual rental payable (including the basic rent, the supplementary rent calculated at 2.5% of the turnover in excess of an average daily turnover of RMB640,000 of the hypermarket operating under the lease agreement payable by Century Lianhua ("Turnover Rent") and management fees) under the lease agreement for each of the three years ending 31 December 2014 will be subject to an annual cap of RMB20,000,000, after taking into account the following factors: (i) the 5% increment of the basic rent; (ii) the management fees of RMB2,400,000 per year; and (iii) the expected Turnover Rent payable by Century Lianhua for the three years ending 31 December 2014.

Please refer to the announcement of the Company dated 28 November 2011 for relevant details.

The lease agreement dated 3 December 2002 and the supplemental lease agreement dated 31 December 2008 were entered into between Century Lianhua as the lessee and Homemart Decoration and Materials Co., Ltd. ("Homemart", 好美家裝潢建材有限公司) as the lessor in respect of the leasing of No. 645, Xie Tu Road, Lu Wan District, Shanghai, the PRC (the "Lease Transaction"). The annual rent (inclusive of management fee of RMB1,125,000 per year payable to Homemart) of the premises for the periods from 1 January 2009 to 25 July 2012, from 26 July 2012 to 25 July 2017 and from 26 July 2017 to 25 July 2022 are RMB3,150,000 per year, RMB3,307,500 per year and RMB3,472,875 per year, respectively, details of which are set out in the announcement of the Company dated 31 December 2008. On 16 April 2012, Century Lianhua, Homemart and Shanghai Century Lianhua Supermarket Luwan Co., Ltd. (上海世紀聯華超市盧灣有限公司) ("Century Lianhua Luwan Company", a wholly-owned subsidiary of Century Lianhua) entered into a supplementary agreement to agree that Century Lianhua Luwan Company was to replace Century Lianhua to undertake all the related rights and obligations of Century Lianhua under the Lease Transaction with effect from the date of registration with the business registration office. Since Homemart is a subsidiary of Shanghai Friendship, a direct holding company of the Company and thus such transactions constitute continuing connected transactions of the Company.

The lease agreement dated 13 February 2004 and the supplemental lease agreement dated 26 June 2009 were entered into between Century Lianhua as the lessee and Homemart as the lessor in respect of the leasing of No. 1875, Ji Yang Lu, Pudong New District, Shanghai, the PRC. Pursuant to the supplemental lease agreement, the annual rent and management fees of the premises will be reduced from RMB6,300,000 to RMB6,090,000 from 1 July 2009, with the same increment percentage as agreed in the lease agreement dated 13 February 2004. The rent will be payable by Century Lianhua directly to Shanghai Di Lin Trading Company Limited ("Shanghai Di Lin", 上海荻林工貿有限公司), the landlord of the premises, instead of Homemart and the management fees will continue to be paid by Century Lianhua to Homemart. The annual caps under the supplemental lease agreement is set out as follows:

	Annual caps under the supplemental lease agreement (RMB)
for the year ending 31 December 2009	6,195,000.00
for the year ending 31 December 2010	6,166,125.00
for each of the two years ending 31 December 2012	6,394,500.00
for the year ending 31 December 2013	6,474,431.30
for each of the two years ending 31 December 2015	6,714,225.20
for the year ending 31 December 2016	6,798,153.00
for each of the two years ending 31 December 2018	7,049,936.40
for the year ending 31 December 2019	7,138,060.60
for each of the two years ending 31 December 2021	7,402,433.20
for the year ending 31 December 2022	5,551,824.90

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

Given that each of the percentage ratios of the aggregate rent payable by Century Lianhua to Bailian Xijiao and Homemart under the aforementioned lease agreements is less than 5%, the above lease agreements are only subject to the reporting, annual review and announcement requirements but is exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

The lease agreement dated 15 September 2006 was entered into between Century Lianhua as the lessee and Shanghai Bailian Central Shopping Plaza Co., Ltd. ("Bailian Central", 上海百聯中環購物廣場有限公司), formerly known as Shanghai Bailian De Hong Shopping Mall Co., Ltd. (上海百聯德泓購物中心有限公司), as the lessor in respect of the leasing of portion of area located within Bailian Central Shopping Plaza at No.1288 Zhenguang Road, Shanghai, the PRC for a term from 21 December 2006 to 20 December 2026. The annual rent of the premises is RMB11,988,750 per year from the first year to the third year, and starting from the fourth year onwards, a 5% increment is calculated based on the previous three-year period for every three-year period thereafter, and the management fee of the premises is RMB3,011,250 per year, details of which are set out in the announcement of the Company dated 2 March 2009. Since Bailian Central is a subsidiary of Bailian Group, an holding company of the Company's substantial shareholder, Shanghai Friendship, and thus such transaction constitutes continuing connected transactions of the Company.

Report of the Directors

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

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

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

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

The relevant details are set out in the announcement of the Company dated 1 July 2010. Century Lianhua is a subsidiary of the Company, and Bailian Nanqiao is accounted and consolidated as a subsidiary of Bailian Group. As Bailian Group is the controlling shareholder of Shanghai Friendship (a substantial shareholder of the Company), such transactions constitute continuing connected transactions of the Company.

The lease agreement dated 1 July 2010 was entered into between Century Lianhua as the lessee and Shanghai Bailian Jinshan Shopping Centre Co., Ltd. ("Bailian Jinshan", 上海百聯金山購物中心有限公司), formerly known as Shanghai Jinshan Baibei Shopping Centre Co., Ltd. (上海金山百倍購物中心有限公司), as the lessor in respect of the property located at room 1-101 at B1 floor and rooms 1-102 & 1-103 at the first floor of Shanghai Jinshan Baibei Shopping Centre, No.18 West Wei Qing Lu, Shanghai, the PRC. The maximum annual amount of the transaction payable by Century Lianhua under this lease agreement are set out as follows:

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

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

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

The relevant details are set out in the announcement of the Company dated 1 July 2010. Century Lianhua is a subsidiary of the Company, and Bailian Jinshan is accounted and consolidated as a subsidiary of Bailian Group. As Bailian Group is the controlling shareholder of Shanghai Friendship (a substantial shareholder of the Company), such transactions constitute continuing connected transactions of the Company.

Given that each of the applicable percentage ratios in respect of the aggregated annual rent payable by Century Lianhua to Bailian Group and its subsidiaries under the aforementioned lease agreements is below 5%, the above lease agreements are only subject to the reporting, annual review and announcement requirements but is exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Continuing connected transactions – lease agreements

Shanghai Century Lianhua Yuqiao Shopping Centre Ltd. ("Lianhua Yuqiao", 上海世紀聯華禦橋購物廣場有限公司) as the lessor and Shanghai Bailian, being merged into Shanghai Friendship, as the lessee entered into a lease agreement in respect of the property located at the first to third floors of Century Lianhua Yuqiao Shopping Centre, No. 2420 Hu Nan Road, Pudong New District, Shanghai, the PRC. The maximum annual amount of the transactions payable by Shanghai Bailian under this lease agreement are set out as follows:

Period	**Maximum Amount** (RMB)
For each of the three years from 1 January 2012 to 31 December 2014	13,000,000
For each of the three years from 1 January 2015 to 31 December 2017	20,000,000
For each of the three years from 1 January 2018 to 31 December 2020	27,000,000
For each of the three years from 1 January 2021 to 31 December 2023	33,000,000
For each of the three years from 1 January 2024 to 31 December 2026	46,000,000

The relevant details are set out in the announcement of the Company dated 15 July 2011. Lianhua Yuqiao is a subsidiary of the Company, and Shanghai Bailian is a subsidiary of Bailian Group. As Bailian Group is the controlling shareholder of Shanghai Friendship (a substantial shareholder of the Company), such transactions constitute continuing connected transactions of the Company. Given that each of the applicable percentage ratios in respect of the aggregated annual rent and management fees under the aforementioned lease agreement is below 5%, the lease agreement is only subject to the reporting, annual review and announcement requirements but is exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Report of the Directors

Continuing connected transactions – framework agreements between the Company and Bailian Group from 2010 to 2012

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

Agreement	Transaction Particulars	Principal Terms	Annual Cap
Supply of goods framework agreement	Bailian Group and/or its subsidiaries agreed to supply various kinds of goods, including but not limited to dried meat products, electrical appliances, electrical components, sports products, cosmetic and sanitary products and other household articles, for sale in the sales outlets of the Company	The pricing for the supply of goods under the supply of goods framework agreement is determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties with reference to the market price of such goods from time to time. Such transactions will be conducted in the ordinary and usual course of business of the Company, on normal commercial terms and on terms not less favourable to the Company than terms provided by independent third parties.	According to the supply of goods framework agreement dated 23 December 2009 and the supplemental supply of goods framework agreement dated 15 July 2011, the maximum aggregate annual amount of the transactions under the supply of goods framework agreement for each of the three years ended 31 December 2012 are RMB140.00 million, RMB268.00 million and RMB321.60 million, respectively.
	The parties will enter into individual supply of goods contracts setting out specific terms including the specific goods to be supplied, the price, the payment terms and schedules and other terms of delivery of goods. Such terms will be consistent with the principles and the terms of the supply of goods framework agreement.	Bailian Group and/or its subsidiaries shall pay sales rebates to the Company for the actual sale of the goods by Bailian Group and/or its subsidiaries to the Company under the supply of goods framework agreement. Such sales rebates to be paid by Bailian Group and/or its subsidiaries to the Company is determined principally by arm's length commercial negotiations between the parties according to the principles of fairness and reasonableness between the relevant parties with reference to the policy of determining sales rebates in the market. However, in any event, such sales rebates shall not be less than 1% of the actual sales figures of such particular type of goods to be supplied by Bailian Group and/or its subsidiaries to the Company under the supply of goods framework agreement. There is no maximum amount nor percentage of sales rebate under the supply of goods framework agreement.	

Agreement	Transaction Particulars	Principal Terms	Annual Cap
		Depending on the type of goods purchased and the practice of the particular subsidiary of Bailian Group, the actual payment for the sale of the goods under the supply of goods framework agreement is to be made on a monthly or agreed period basis (which period shall be determined by the market practice of the payment period of such particular type of goods purchased and shall not be less favourable than those provided by independent third parties). Detailed terms shall be determined in the particular contract entered into between both parties. In the event that such payment is made on an agreed period basis, such payment term shall not be less than 15 days from the date of delivery of such goods.	
Logistic services agreement	Pursuant to the logistic services agreement, Bailian Group and its subsidiaries agreed to provide logistic and distribution services, including services of in-town distribution, allocation and return of goods, out-town distribution and warehouse management, to the Company.	The fee for the provision of logistic services under the logistic services agreement is determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties with reference to the market fee of the provision of such services from time to time. Such transactions will be conducted in the ordinary and usual course of business of the Company, on normal commercial terms and on terms not less favourable to the Company than terms provided by independent third parties. The fee payable by the Company to Bailian Group for the provision of logistic services is to be made by cash on a monthly or quarterly basis (as the case maybe depending on the type of logistic services provided and the practice of the particular subsidiary of Bailian Group).	According to the logistic services agreement dated 23 December 2009 and the supplemental logistic services agreement signed on 19 November 2010, the maximum amount of the transactions under the logistic services agreement for each of the three years ended 31 December 2012 are increased to RMB18 million, RMB23.40 million and RMB30.42 million, respectively.

Report of the Directors

Agreement	Transaction Particulars	Principal Terms	Annual Cap
Smart cards arrangement agreement	Each of the Company and Bailian Group has its own smart cards system which enables its customers to make purchases by using smart cards with prepaid values. Pursuant to the smart cards arrangement agreement, the parties agreed to accept all payments of purchases from the customers by using the smart cards of the other party within their respective sales networks. Each party shall charge the other party service fee according to the percentage ranging from 0.5% to 3% of such amount of the transactions which are attributable to the other party.	The fee for the smart cards arrangement under the smart cards arrangement agreement is determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties with reference to the market price of such arrangement from time to time. Such transactions will be conducted in the ordinary and usual course of business of the Company, on normal commercial terms and on terms not less favourable to the Company than terms provided by independent third parties.	According to the smart cards arrangement agreement dated 23 December 2009, the maximum fee payable by Bailian Group to the Company for each of the three years ended 31 December 2012 are RMB40 million, RMB48 million and RMB57.6 million, respectively. According to the supplemental smart cards arrangement agreement dated 19 November 2010, the maximum fee payable by the Company to Bailian Group for each of the three years ended 31 December 2012 are increased to RMB30.60 million, RMB39.78 million and RMB51.72 million, respectively.
	The relevant subsidiaries of the parties will enter into individual smart cards arrangement contracts setting out specific terms for the arrangement, including the technologies and system required, settlement arrangements and the fees and charges. Such terms will be consistent with the principles and the terms of the smart cards arrangement agreement.	The fee payable under the smart cards arrangement agreement is to be made by cash on a monthly basis.	
Sale and purchase of mobile phones agreement	Pursuant to the sale and purchase of mobile phones agreement, Bailian Group and the Company agreed to purchase mobile phones from the suppliers together on an aggregated basis in order to obtain better procurement terms.	The payment for the purchase of the mobile phones shall be made by the parties separately to the suppliers, regardless of individual purchase or joint purchase. However, in the event that a supplier refuses to handle the payments by both parties in a separate manner, the party with higher volume of purchase may make payment to the supplier for all purchases and then issue a separate value-added tax invoice to the other party based on the same terms and conditions offered by the supplier. If there is any sales rebate from the suppliers, the party responsible for making the payment to the suppliers shall provide the other party with the sales rebate in proportion to their respective actual purchase volume.	According to the sale and purchase of mobile phones agreement dated 23 December 2009, the maximum aggregate annual amount of the transactions under the sale and purchase of mobile phones agreement for each of the three years ending 31 December 2012 are RMB8 million, RMB12 million and RMB16 million, respectively.

Agreement	Transaction Particulars	Principal Terms	Annual Cap
		The fee payable under the sale and purchase of mobile phones agreement is to be made by cash on a monthly or quarterly basis (as the case maybe depending on the type of mobile phone purchased and the practice of the particular subsidiary of Bailian Group).	
Supply of resources agreement	Bailian Group agreed to supply various kinds of resources, including office utilities, electrical appliances, facilities, industrial products, raw materials and components parts for the day-to-day operation of the Company.	The pricing for the supply of resources under the supply of resources agreement is determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties with reference to the market price of such resources from time to time. Such transactions will be conducted in the ordinary and usual course of business of the Company, on normal commercial terms and on terms not less favourable to the Company than terms provided by independent third parties. Depending on the type of resources purchased and the practice of the particular subsidiary of Bailian Group, the fee payable under the supply of resources agreement is to be made by cash on a monthly, quarterly basis or agreed period basis (which period shall be determined by the market practice of the payment period of such particular type of resources purchased and shall not be less favourable than those provided by independent third parties).	According to the supply of resources agreement dated 23 December 2009, the maximum aggregate annual amount of the transactions under the supply of resources agreement for each of the three years ended 31 December 2012 are RMB20 million, RMB24 million and RMB28.8 million, respectively.

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

As each of the percentage ratios in respect of the respective aggregate annual amount of the transactions of the abovementioned framework agreements from 2010 to 2012 entered between the Company and Bailian Group is less than 5%, the abovementioned framework agreements are only subject to the reporting, annual review and announcement requirements but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules. Please refer to the announcements of the Company dated 23 December 2009, 19 November 2010 and 15 July 2011, respectively for relevant details.

Report of the Directors

Continuing connected transactions – framework agreements between the Company and Bailian Group from 2013 to 2015

On 16 November 2012, the Company entered into a framework agreement with Bailian Group in respect of each of the various transactions from 2013 to 2015, including transactions of supply of goods, smart cards arrangement, supply of resources, leasing and property management respectively. Specific details are as follows:

Agreement	Transaction Particulars	Principal Terms	Annual Cap
Supply of goods framework agreement	Bailian Group and/or its subsidiaries agreed to supply various kinds of goods, including but not limited to dried meat products, electrical appliances, electrical components, sports products, kitchen products, cosmetic and sanitary products and other domestic products, for sale in the sales outlets of the Company.	The pricing for the supply of goods under the supply of goods framework agreement is determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties with reference to the market price of such goods from time to time. Such transactions will be conducted in the ordinary and usual course of business of the Company, on normal commercial terms and on terms not less favourable to the Company than terms provided by independent third parties.	According to the supply of goods framework agreement dated 16 November 2012, the maximum aggregate annual amount of the transactions under the supply of goods framework agreement for each of the three years ending 31 December 2015 are RMB250.00 million.
	The parties will enter into individual supply of goods contracts setting out specific terms including the specific goods to be supplied, the price, the payment terms and schedules and other terms of delivery of goods. Such terms will be consistent with the principles and the terms of the supply of goods framework agreement. If there is any conflict between the terms of an individual supply of goods contract and the supply of goods framework agreement, the latter shall prevail.	Bailian Group and/or its associates shall pay sales rebates to the Company for the actual sale of the goods by Bailian Group and/or its associates to the Company under the supply of goods framework agreement. Such sales rebates to be paid by Bailian Group and/or its associates to the Company is determined principally by arm's length commercial negotiations between the parties according to the principles of fairness and reasonableness between the relevant parties with reference to the policy of determining sales rebates in the market. However, in any event, such sales rebates shall not be less than 1% of the actual sales figures of such particular type of goods to be supplied by Bailian Group and/or its associates to the Company under the supply of goods framework agreement. There is no maximum amount nor percentage of sales rebate under the supply of goods framework agreement.	

Agreement	Transaction Particulars	Principal Terms	Annual Cap
		Depending on the type of goods purchased and the practice of Bailian Group and/or its associates, the actual payment for the sale of the goods under the supply of goods framework agreement is to be made on a monthly or agreed period basis (which period shall be determined by the market practice of the payment period of such particular type of goods purchased and shall not be less favourable than those provided by independent third parties). Details of payment terms shall be set out in the individual supply of goods contracts to be entered into between both parties with reference to the normal commercial terms of Bailian Group and/or its associates and on terms not less favourable than those available from independent third parties. In the event that such payment is made on an agreed period basis, the actual payment day shall be at least 15 days after the date of delivery of goods.	
Smart cards arrangement agreement	Each of the Company and Bailian Group has its own smart cards system which enables its customers to make purchases by using smart cards with prepaid values. Pursuant to the smart cards arrangement agreement, the parties agreed to accept all payments of purchases from the customers by using the smart cards issued by the other party within their respective sales networks.	Each party shall charge the other party a management service fee of not more than 0.5% of such transaction amounts which are attributable to the other party. Such percentage shall be determined by arm's length commercial negotiations between the relevant parties with reference to the gross margin level of companies using smart cards system for settlement of customers' purchases, size of transaction, application conditions and business operation conditions and set out in the individual smart cards arrangement contracts.	According to the smart cards arrangement agreement dated 16 November 2012, the maximum fee payable by Bailian Group to the Company for each of the three years ending 31 December 2015 are RMB25 million, RMB30 million and RMB35 million, respectively, whereas the maximum fee payable by the Company to Bailian Group for each of the three years ending 31 December 2015 are RMB35 million, RMB40 million and RMB45 million, respectively.

Report of the Directors

Agreement	Transaction Particulars	Principal Terms	Annual Cap
	The relevant subsidiaries of the parties will enter into individual smart cards arrangement contracts setting out specific terms for the arrangement, including the technologies and system required, operation details, settlement arrangements and the fees and charges. Such terms will be consistent with the principles and the terms of the smart cards arrangement agreement. If there is any conflict between the terms of an individual smart cards arrangement contract and the smart cards arrangement agreement, the latter shall prevail.	The fee payable under the smart cards arrangement agreement is to be made by cash on a monthly basis.	
Supply of resources framework agreement	Bailian Group agreed to supply various kinds of resources, including office utilities, electrical appliances, industrial products, equipment, resources and components parts for the daily operation of the Company.	The pricing for the supply of resources under the supply of resources framework agreement is determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties with reference to the market price of such resources from time to time.	According to the supply of resources framework agreement dated 16 November 2012, the maximum aggregate annual amount of the transactions under the supply of resources framework agreement for each of the three years ending 31 December 2015 are RMB28 million.
	The parties will enter into individual supply of resources contracts setting out specific terms of supply of resources including the specific goods to be supplied, the price, the payment terms and schedules and other terms of delivery of goods. Such terms will be consistent with the principles and the terms of the supply of resources framework agreement. If there is any conflict between the terms of an individual supply of resources contract and the supply of resources framework agreement, the latter shall prevail.	Depending on the type of resources purchased and the practice of the particular subsidiary of Bailian Group, the fee payable under the supply of resources framework agreement is to be made by cash on a monthly, quarterly basis or agreed period basis and shall be consistent with the market payment terms of purchasing such particular type of resources.	

Agreement	Transaction Particulars	Principal Terms	Annual Cap
		Transactions contemplated under the supply of resources framework agreement will be conducted in the ordinary and usual course of business of the Company and Bailian Group on normal commercial terms and on terms not less favourable from independent third parties.	
Leasing framework agreement	Pursuant to the leasing framework agreement, Bailian Group agreed to lease certain premises to the Company for the Company's establishment of various operations, including but not limited to supermarkets, convenience stores, warehouses and offices, but excluding hypermarkets.	The rent for leasing certain premises under the leasing framework agreement is determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties with reference to the market rent of similar properties in the relevant area from time to time.	According to the leasing framework agreement dated 16 November 2012, the maximum aggregate annual amount of the transactions under the leasing framework agreement for each of the three years ending 31 December 2015 are RMB9 million.
	The parties will enter into individual leasing contracts setting out specific terms of leasing including the details of the relevant premises, the principles of rent determination, settlement method, payment terms and timing of payment. Such terms will be consistent with the principles and the terms of the leasing framework agreement. If there is any conflict between the terms of an individual leasing contract and the leasing framework agreement, the latter shall prevail.	Depending on the use, location and the size of the annual rent of the relevant premises and the business scale of the relevant lessor, the fee payable under the leasing framework agreement is to be made by cash on a monthly, quarterly, half-yearly or annual basis.	
		Transactions contemplated under the leasing framework agreement will be conducted in the ordinary and usual course of business of the Company and Bailian Group on normal commercial terms and on terms not less favourable from independent third parties.	

Report of the Directors

Agreement	Transaction Particulars	Principal Terms	Annual Cap
Property management framework agreement	Pursuant to the property management framework agreement, Bailian Group agreed to provide property management services, including but not limited to cleaning and sanitary services, maintenance and repair services, security and safety services and environmental greening and planting services to certain premises of the Company including offices and retail stores for the three years ending 31 December 2015.	The fee for the provision of property management services under the property management framework agreement is determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties with reference to the property management fees of similar properties in the market from time to time.	According to the property management framework agreement dated 16 November 2012, the maximum aggregate annual amount of the transactions under the property management framework agreement for each of the three years ending 31 December 2015 are RMB10 million.
	The parties will enter into individual property management contracts setting out specific terms of the provision of property management services including the principles of property management fee determination, settlement method, payment terms and timing of payment. Such terms will be consistent with the principles and the terms of the property management framework agreement. If there is any conflict between the terms of an individual property management contract and the property management framework agreement, the latter shall prevail.	Depending on the size and the scale of the annual property management fee of the relevant premises and the business scale of the relevant service providers, the fee payable under the property management framework agreement is to be made by cash on a monthly or quarterly basis.	
		Transactions contemplated under the property management framework agreement will be conducted in the ordinary and usual course of business of the Company and Bailian Group on normal commercial terms and on terms not less favourable from independent third parties.	

The parties will enter into individual contracts in respect of the transactions of supply of goods, smart cards arrangement, supply of resources, leasing and property management. Such terms will be consistent with the principles and the terms of each of the supply of goods framework agreement, the smart cards arrangement agreement, the supply of resources framework agreement, the leasing framework agreement or the property management framework agreement.

As each of the percentage ratios in respect of the respective aggregate annual amount of the transactions of the abovementioned framework agreements from 2013 to 2015 entered between the Company and Bailian Group is more than 0.1% but less than 5%, the abovementioned framework agreements are only subject to the reporting, annual review and announcement requirements but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules. Please refer to the announcement of the Company dated 16 November 2012 for relevant details.

Continuing connected transactions – supply of merchandise framework agreement

On 21 December 2012, the Company entered into the supply of merchandise framework agreement with Bailian Group, pursuant to which, the Company agreed to supply various kinds of merchandise, including but not limited to food products, to Bailian Group and/or its subsidiaries for their use in their business operations for a term commencing from 1 January 2013 to 31 December 2015 (both days inclusive).

The parties will enter into individual supply of merchandise contracts setting out specific terms including the specific merchandise to be supplied, the price, the payment terms and schedules and other terms of delivery of merchandise. Such terms will be consistent with the principles and the terms of the supply of merchandise framework agreement. If there is any conflict between the terms of an individual supply of merchandise contract and the supply of merchandise framework agreement, the latter shall prevail.

The pricing for the supply of merchandise under the supply of merchandise framework agreement is determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties with reference to the market price of such merchandise from time to time.

Depending on the type of merchandise to be purchased and the practice of Bailian Group and/or its subsidiaries, the fee payable under the supply of merchandise framework agreement is to be made by cash on a monthly or agreed period basis and shall be consistent with the market payment terms of purchasing such particular type of merchandise.

Transactions contemplated under the supply of merchandise framework agreement will be conducted in the ordinary and usual course of business of the Company and Bailian Group on normal commercial terms and on terms not less favourable than those available from independent third parties.

The maximum aggregate annual amount of the transactions under the supply of merchandise framework agreement for each of the three years ending 31 December 2015 is RMB250 million.

As each of the applicable percentage ratios in respect of the transactions contemplated under the supply of merchandise framework agreement is more than 0.1% but less than 5%, the transactions contemplated under the supply of merchandise framework agreement are subject to the reporting, annual review and announcement requirements but are exempt from the independent shareholders' approval requirement of the Company under Chapter 14A of the Listing Rules. Please refer to the announcement of the Company dated 21 December 2012 for relevant details.

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

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

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

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

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

(1) have been approved by the Board;

(2) have been conducted in accordance with the relevant agreements;

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

(4) did not exceed the respective cap for each transaction.

By order of the Board

Ma Xin-sheng
Chairman

25 March 2013
Shanghai, the PRC

Report of Corporate Governance

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

The Board is pleased to confirm that save and except 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 31 December 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:

Provision A.4.2 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 of the Company 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 authorised 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 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 authorised 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.

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For Provision A.6.7 of the Code, Mr. Kazuyasu Misu and Mr. Wong Tak Hung, non-executive Directors, were unable to attend the seventh meeting of the fourth session of the Board convened on 30 October 2012 by the Company due to their work duties. After receiving the relevant materials for the Board meeting, they have authorised 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.

Further, for Provision A.6.7 of the Code, Mr. Kazuyasu Misu and Mr. Wong Tak Hung, non-executive Directors, were unable to attend the extraordinary general meeting of the Company convened on 30 October 2012 due to their work duties. The Company has provided the relevant materials relating to the extraordinary general meeting to all members of the Board before the meeting. All special resolutions were passed smoothly at the extraordinary general meeting. The Company had sent the related minutes to all members of the Board after the extraordinary general meeting so any Director who was unable to attend the meeting was able to understand the resolutions passed at the meeting.

Board

During the period under review, the Board consists of 12 Directors, four of whom are executive Directors and four of whom are non-executive Directors including the chairman of the Board and four of whom are independent non-executive Directors. The number of independent non-executive Directors accounts for one third of the number of Directors of the Company. Profiles and particulars of the chairman of the Company and other Directors are set out under the section headed Profiles of Directors, Supervisors and Senior Management in this report. As approved by an ordinary resolution at the annual general meeting on 28 June 2011, the fourth session of the Board was established and the term of office of each Director (including non-executive Directors) is three years, which will expire on the date of conclusion of 2013 annual general meeting of the Company. Corresponding to the term of office, all executive Directors have entered into service contracts, which are valid for a term of 3 years and renewable subject to the applicable laws. The names of Directors referred herein are members of the fourth session of the Board.

The principal responsibilities of the Board include:

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

- to be responsible for the internal control system of the company and overseeing and reviewing its efficiency;

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

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

- the management has received clear directions and instructions in respect of their authorities, particularly in relation to the matters such as the circumstances under which they should report to the Board and seeking the Board's approval prior to making any decision or entering into any undertaking on behalf of the Company; and

- to review its responsibilities functions and authorities delegated to the executive Directors/officers on a regular basis and to ensure such arrangements are appropriate.

Board Meetings and General Meetings

The Company held five Board meetings, 2011 annual general meeting and one extraordinary general meeting during the year. Attendance record of the Directors is as follows:

	Meetings Attended/Held		
Directors	**Board Meetings**	**2011 Annual General Meeting**	**Extraordinary General Meeting**
Executive Directors			
Mr. Hua Guo-ping	4/5	1/1	1/1
Ms. Xu Ling-ling	5/5	1/1	1/1
Ms. Cai Lan-ying	2/5	0/1	0/1
Mr. Tang Qi	5/5	1/1	1/1
Mr. Liang Wei (Note 1)	2/2	0/0	0/0
Non-executive Directors			
Mr. Ma Xin-sheng *(Chairman)*	5/5	1/1	1/1
Mr. Wang Zhi-gang	4/5	0/1	1/1
Mr. Kazuyasu Misu	2/5	1/1	0/1
Mr. Wong Tak Hung	0/5	0/1	0/1
Mr. Xu Bo (Note 2)	0/1	0/0	0/0
Independent Non-executive Directors			
Mr. Xia Da-wei	4/5	1/1	1/1
Mr. Lee Kwok Ming, Don	4/5	1/1	1/1
Mr. Zhang Hui-ming	5/5	1/1	1/1
Mr. Lin Yi-bin (Note 3)	3/3	0/0	1/1

Notes:

1. Mr. Liang Wei resigned from the office of executive Director of the Company on 21 March 2012.

2. Mr. Xu Bo resigned from the office of non-executive Director of the Company on 16 January 2012.

3. Mr Lin Yi-bin was appointed as an independent non-executive Director of the Company at the 2011 annual general meeting on 15 June 2012, therefore, Mr. Lin is not required to attend the 2011 annual general meeting. After the 2011 annual general meeting, the Company held three Board meetings, therefore, Mr. Lin only need to attend these three Board meetings

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4. The attendance of the Directors by proxies (other Directors) has not been counted.

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

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

To the best knowledge of the Board, no relationship (including financial, business, family or other material, relevant relationship(s)) exist between members of the Board.

Trainings of Directors

All Directors shall participate in continuous professional development to develop and update their knowledge and skills to ensure that they are equipped with all the information and can continue to contribute to the Board when required.

During the year ended 31 December 2012, the Company has arranged trainings on the latest amendments to the Listing Rules and directors' duties for its Directors. Relevant training materials have been also sent to the Directors who were unable to attend the trainings for their reference.

Directors	Perusing the Training Materials on the Latest Amendments to the Listing Rules and Directors' Duties	Participating in the Trainings on the Latest Amendments to the Listing Rules and Directors' Duties Organised by the Company	Participating in the Trainings on the Latest Amendments to the Listing Rules Organised by Other Organisations
Executive Directors			
Hua Guo-ping	√	√	√
Xu Ling-ling	√	√	√
Cai Lan-ying	√		
Tang Qi	√	√	
Non-executive Directors			
Ma Xin-sheng	√	√	
Wang Zhi-gang	√		
Kazuyasu Misu	√		
Wong Tak Hung	√		
Independent Non-executive Directors			
Xia Da-wei	√	√	
Lee Kwok Ming, Don	√		√
Zhang Hui Ming	√	√	
Lin Yi-bin	√		

Duties of the Board and the management of the Company

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

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

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

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

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

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

(5) formulates the basic rules of the Company;

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

(7) appoints or removes management personnel except those required to be appointed or removed by the Board;

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

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

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

Board Committees

The Board established the first session of Board Committees in 2003, including (1) the Remuneration and Appraisal Committee which establishes and determines the Company's reward and appraisal system; (2) the Strategic Committee which conducts consultation, survey, research and assessment on the Company's future investment strategies, and to enhances the Company's core competitiveness; (3) the Nomination Committee which optimizes the composition of the Board and the management of the Company; and (4) the Audit Committee which reviews the financial reporting procedures, internal control system and the completeness of financial reports of the Company.

As approved by ordinary resolutions at the annual general meeting on 28 June 2011, the fourth session of the Board was established. On the same day, the Board established the fourth session of the Board Committees in accordance with the requirements of the Code. The fourth session of the Audit Committee comprised Mr. Lee Kwok Ming, Don, Mr. Xia Da-wei and Mr. Zhang Hui-ming and was chaired by Mr. Lee Kwok Ming, Don. The fourth session of the Remuneration and Appraisal Committee of the Company comprised Mr. Xia Da-wei, Mr. Zhang Hui-ming and Mr. Hua Guo-ping and was chaired by Mr. Xia Da-wei. The fourth session of the Strategic Committee of the Company comprised Mr. Hua Gou-ping, Mr. Ma Xin-sheng, Mr. Kazuyasu Misu and Mr. Zhang Hui-ming and was chaired by Mr. Hua Gou-ping. The fourth session of the Nomination Committee of the Company comprised

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Mr. Zhang Hui-ming, Mr. Xia Da-wei and Mr. Hua Guo-ping and was chaired by Mr. Zhang Hui-ming. The Board has authorised the committees to formulate their respective terms of reference.

As approved by ordinary resolutions at the Board meeting on 15 June 2012, the members of the Board Committees of the Company were adjusted as follows: Mr. Hua Guo-ping ceased to be a member of the fourth session of the Nomination Committee of the Company and Mr. Wang Zhi-gang became a member of the fourth session of the Nomination Committee of the Company. Mr. Lin Yi-bin was added as a member of the fourth session of the Strategic Committee of the Company, while Mr. Hua Guo-ping ceased to be the chairman of the fourth session of the Strategic Committee of the Company and Mr. Ma Xin-sheng became the chairman of the fourth session of the Strategic Committee of the Company. Mr. Lin Yi-bin was added as a member of the fourth session of the Audit Committee of the Company.

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

Audit Committee

The Board passed a resolution on 28 June 2011 to establish the fourth session of the Audit Committee. The Audit Committee currently comprises four members, including four independent non-executive Directors (including the Chairman). The Board confirms that each member of the Audit Committee has extensive business experience and the Audit Committee has a desirable mix of operational, accounting and financial expertise. The primary duties, roles and functions of the Audit Committee of the Company are:

(a) be responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and ratifying the remuneration and terms of engagement of the external auditor, as well as settling any questions raised by the resignation or dismissal of such auditor;

(b) review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The committee should discuss with the auditor the scope of the audit including the engagement letter. The Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences. The external audit fees are to be negotiated by management, and presented to the committee for review and approval annually;

(c) to develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, "external auditor" includes any entity that is under common control, ownership or management with the audit firm, or any entity as to a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

(d) to monitor the integrity of the Company's financial statements and annual report and accounts, interim report and, if prepared for publication, quarterly reports, and to review financial statements and significant financial reporting judgements contained above mentioned reports. In reviewing the reports before submission to the Board, the committee should focus particularly on: (1) any changes in accounting policies and practices; (2) major judgmental areas; (3) significant adjustments resulting from the audit; (4) the on-going concern assumptions and any qualifications; (5) compliance with accounting and auditing standards; and (6) compliance with the Listing Rules and legal requirements;

(e) with regard to (d) above: (1) members of the committee should liaise with the Board and senior management, and the committee must meet, at least twice a year, with the external auditor; and (2) the committee should consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts, it should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors;

(f) review with the Group's management, external auditors and internal auditors, the adequacy of the Group's policies and procedures regarding internal controls (including financial, operational and compliance controls), risk management system and any statement by the Directors to be included in the annual accounts prior to endorsement by the Board;

(g) discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;

(h) review the findings of internal investigations and management's response into any suspected frauds or irregularities or failures of internal controls or infringements of laws, rules and regulations and to consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

(i) review and monitor the scope, effectiveness and results of internal audit function, ensure co-ordination between the internal and external auditor and ensure that the internal audit function is adequately resourced and has appropriate standing within the group;

(j) review the Group's financial and accounting policies and practices and be familiar with the financial reporting principles and practices applied by the Group in preparing its financial statements;

(k) discuss with external auditors any recommendations arising from the audit (if necessary in the absence of management); and review the draft management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control including management's response to the points raised;

(l) ensure that the Board will provide a timely response to issues raised in the external auditor's management letter;

(m) report to the Board on any matters in relation to the code provision relating to the audit committee set out in the Corporate Governance Code of the Listing Rules;

(n) review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters and ensure proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;

(o) act as the key representative body for overseeing the Company's relations with the external auditor;

(p) review the draft representation letter prior to submission to the Board for approval;

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(q) evaluate the cooperation received by the external auditors from the management, including the external auditors' access to all requested records, data and information; obtain the comments from management regarding the responsiveness of the external auditor to the Group's needs; inquire into whether there have been any disagreements between external auditors and management which, if not satisfactorily resolved, would result in the issuance of a qualified report with reservation on the group's financial statements;

(r) seek from external auditors, on an annual basis, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including provision of non-audit services and requirements regarding rotation of audit partners and staff;

(s) the engagement of the external auditor to perform non-audit services is in general prohibited except for tax-related services. If a compelling reason exists to engage the external auditor due to their unique expertise in a particular area, prior approval from the committee is required;

(t) apprise the Board of significant progresses in the course of performing the above duties;

(u) recommend to the Board any appropriate extensions to, or changes in, the duties of the committee;

(v) reach agreement with the Board the Company's policy relating to the hiring of employees or former employees of the external auditor and monitor the applications of such policy. The committee will consider whether such hiring will bring any impairment to the auditor's judgment or independence in respect of an audit;

(w) make available the terms of reference of the committee, explaining its role and the authority delegated to it by the Board by including them on the website of the Stock Exchange and the Company; and

(x) consider other topics, as requested and delegated by the Board.

During the period under review, the Audit Committee held two meetings and performed major work including review of annual and interim financial reports, internal control, continuing connected transactions and maintaining proper relationship between the Group and external and internal auditors etc.

The Audit Committee of the Company held a meeting on 12 March 2012 to review and discuss matters such as the internal control of the Group, annual financial reports, remuneration and reappointment of domestic and international auditors and continuing connected transactions for 2011, including the review of the Company's annual financial report prepared in accordance with the Hong Kong Financial Reporting Standards (the "HKFRS"). The Audit Committee was of the view that the annual financial report of the Group for the year 2011 had complied with the accounting standards and requirements of the Stock Exchange and the relevant laws and had made adequate disclosures. The Audit Committee also conducted a review on the internal control system of the Company and its subsidiaries and was of the view that the Group had an effective internal control system. The Audit Committee was of the view that domestic and international auditor of the Company had carried out their work with professionalism and independence, and agreed to make recommendations to the Board in respect of their remuneration for 2011 and suggested to re-appoint the domestic and international auditors for 2012. The Audit Committee confirmed that the continuing connected transactions of the Company in 2011 did not exceed their respective caps.

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

The Audit Committee of the Company held a meeting on 10 August 2012 to review and discuss with the management the matters such as internal controls and interim financial report, including review of the Company's condensed interim report prepared in accordance with the HKFRSs. The Audit Committee was of the view that the Group's interim financial report for the six months ended 30 June 2012 had complied with the applicable accounting standards, requirements of the Stock Exchange and legal requirements, and had made adequate disclosures. In relation to its review of the Group internal control, the Audit Committee concluded that the Group's internal control system was effective.

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

Set out below is the attendance record of the meetings of the Audit Committee in 2012:

Name	12 March 2012	10 August 2012
Independent Non-executive Directors		
Mr. Lee Kwok Ming, Don *(Chairman)*	Present	Present
Mr. Zhang Hui-ming	Present	Present
Mr. Xia Da-wei	Present	Present
Mr. Lin Yi-bin (Note)	–	Present

Note: Mr. Lin Yi-bin was elected as a member of the Audit Committee on 15 June 2012.

Remuneration and Appraisal Committee

On 28 June 2011, the Board passed a resolution to establish the fourth session of the Remuneration and Appraisal Committee. The Remuneration and Appraisal Committee currently comprises three members, including two independent non-executive Directors (including the Chairman) and one executive Director. The primary duties, roles and functions of the Remuneration and Appraisal Committee are:

(a) formulate and determine the remuneration plans or schemes of individual executive Directors and senior management based on their job scope, responsibilities, significance and remuneration levels of similar position in other similar companies;

(b) remuneration plans or schemes include but not limited to performance appraisal criteria, procedures, assessment system, and plan and system for awards and punishments;

(c) review the fulfilment of duties of Directors (non-independent Directors) and senior management and appraise their annual performance;

(d) monitor the implementation of remuneration system of the Company;

(e) make recommendations to the Board on the Company's policy and structure for all Directors' and senior managements' remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

(f) review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;

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(g) determine with the delegated responsibility the remuneration packages of individual executive Directors and senior management; this should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;

(h) make recommendations to the Board on the remuneration packages of non-executive Directors;

(i) consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;

(j) review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive for the Company;

(k) review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate;

(l) ensure that no Director or any of his associates is involved in deciding his own remuneration;

(m) have access to independent professional advice if necessary; and

(n) consider other responsibilities authorized by the Board.

During the period under review, the Remuneration and Appraisal Committee held one meeting and performed major work including assessing the performance of executive Directors and senior management of the Company and reviewing and making recommendations to the Board on their remuneration packages etc.

The Remuneration and Appraisal Committee held a meeting on 12 March 2012. Having taken into account the factors including, but not limited to, the remuneration paid by comparable companies, amount of time required to be spent by the Director and the Director's duties, remuneration packages of other positions within the Group and performance-based remuneration, the Committee made recommendations to the Board on the remuneration packages of all executive Directors and approved the remuneration to five executive Directors, two Supervisors, the senior management formed by deputy general managers and assistants to general manager for 2011.

Set out below is the attendance record of the meetings of the Remuneration and Appraisal Committee in 2012:

Name	12 March 2012
Independent Non-executive Directors	
Mr. Xia Da-wei *(Chairman)*	Present
Mr. Zhang Hui-ming	Present
Executive Director	
Mr. Hua Guo-ping	Present

Nomination Committee

On 28 June 2011, the Board passed a resolution to establish the fourth session of the Nomination Committee. The Nomination Committee currently comprises three members, including two independent non-executive Directors (including the Chairman) and one non-executive Director. The primary duties, roles and functions of the Nomination Committee are:

(a) review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(b) study the criteria and procedures in selecting Directors and managers and make appropriate suggestions to the Board;

(c) broadly search for and identify qualified candidates for Directors and managers;

(d) review, comment and make recommendation to the Board on the candidates for Directors and managers;

(e) review and comment on the candidates for other senior management, whose employment are subject to the approval of the Board;

(f) review regularly the time to be committed by each Director in order to perform their duties;

(g) assess the independence of independent non-executive Directors;

(h) make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive; and

(i) deal with other responsibilities authorized by the Board.

During the period under review, the Nomination Committee held four meetings and performed major work including reviewing, commenting and making recommendation to the Board on the candidates for Directors, members of the Board Committees and other senior management etc.

The Nomination Committee of the Company held a meeting on 16 January 2012. Since Mr. Xu Bo, a non-executive Director of the Company, resigned as a non-executive Director of the Company due to work reasons, as recommended by Bailian Investment, a shareholder of the Company, the Nomination Committee of the Company agreed to nominate Mr. Wang Zhi-gang to the Board as a candidate of non-executive Director of the fourth session of the Board.

The Nomination Committee of the Company held a meeting on 21 March 2012. As recommended by the general manager of the Company, the Nomination Committee of the Company agreed to nominate Ms. Qi Yue-hong and Mr. Liang Bao-long as the deputy general managers of the Company to the Board.

The Nomination Committee of the Company held a meeting on 23 April 2012. As recommended by the Company, the Nomination Committee of the Company agreed to nominate Mr. Lin Yi-bin to the Board as a candidate of independent non-executive Director of the fourth session of the Board.

The Nomination Committee of the Company held a meeting on 15 June 2012. As Mr. Hua Guo-ping, the deputy chairman of the Board of the Company, proposed to cease to be the deputy chairman of the fourth session of the Board of the Company due to work reasons, it was agreed that Mr. Wang Zhi-gang was nominated to be the deputy chairman of the fourth session of the Board of the Company. As Mr. Hua Guo-ping, a member of the Nomination Committee of the Company, proposed to cease to be a member of the fourth session of the Nomination Committee of the Company due to work reasons, it was agreed that Mr. Wang Zhi-gang was nominated to be a member of the fourth session of the Nomination Committee of the Company and it was also agreed to nominate Mr. Lin Yi-bin, an independent non-executive Director of the Company, to the Board to be a member of the fourth session of the Strategic Committee and a member of the fourth session of the Audit Committee of the Company.

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Set out below is the attendance record of the meetings of the Nomination Committee in 2012:

Name	16 January 2012	21 March 2012	23 April 2012	15 June 2012
Independent Non-executive Directors				
Mr. Zhang Hui-ming *(Chairman)*	Present	Present	Present	Present
Mr. Xia Da-wei	Present	Present	Present	Present
Executive Director				
Mr. Hua Guo-ping	Present	Present	Present	Present

Corporate Governance Functions

During the period under review, the Board and Board Committees of the Company performed the corporate governance duties as below:

(i) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

(ii) to review and monitor the training and continuous professional development of Directors and senior management;

(iii) to review and monitor the Company's policies and practices on compliance with all legal and regulatory requirements;

(iv) to develop, review and monitor the code of conduct and compliance manual applicable to the employees and Directors of the Company; and

(v) to review the Company's compliance with the Code on Corporate Governance and disclosure requirements in the Corporate Governance Report.

Directors' and auditors' responsibilities for the accounts

The Directors hereby confirm their responsibilities for the preparation of the accounts of the Company. The Directors confirm that the preparation of the financial statements of the Company for the year complied with the relevant laws and applicable accounting standards and that the Company will publish the financial statements of the Company on timely basis. The responsibilities of external auditors to the shareholders are set out on page 95.

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

The Company has adopted the 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 making specific enquiries to the Directors, the Board is pleased to confirm that all the Directors have fully complied with the provisions under the Model Code during the year ended 31 December 2012.

Remuneration of auditors

The Audit Committee of the Company is responsible for considering the appointment of auditors and reviewing their remuneration. For the year under review, RMB5,101 thousand was payable by the Company to the external auditors (including the PRC and international auditors) as service charge for their audit and due diligence consultancy services. For the year under review, the external international auditors had not provided any non-auditing service to the Company.

Internal control

The Board is solely responsible for ensuring that the internal control system of the Group is stable and efficient. The Group's internal control system comprises defined management structure and related authorities, so as to facilitate the Group to achieve its business objectives, to safeguard its assets against any unauthorised usage or handling, to ensure proper keeping of accounting records and to provide reliable financial information for internal use or external distribution, as well as to ensure compliance with relevant laws and regulations. The purpose of the afore-mentioned internal control system is to provide reasonable, but not absolute, assurance that there are no material misrepresentations or omissions, and to manage, but not to eliminate at all, malfunctions of the operating system and risks that the Group may not achieve its goals.

The Board, through the Company's Audit Committee, reviews the internal control systems of the Company and its subsidiaries on an semi-annual basis to ensure its effectiveness. Discussions cover all material control aspects, including financial control, operating control, compliance control and risk management. The Board has conducted a review of the effectiveness of the internal control system of the Group for 2012 and confirms that the internal control system of the Group is effective.

Organizational structure

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

Authorities and controls

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

Training on internal control

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

Accounting system management

The Group has put in place a comprehensive accounting management system, so as to provide the management with indicators to evaluate its financial and operating performance and financial information for reporting and disclosure purposes. Any deviation from expected objectives will be analysed and explained, or the expected objectives will be amended correspondingly in line with the change in business.

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

Internal audit

In order to assess the efficiency of the internal control system in a more effective manner, the internal audit department of the Company inspected, supervised and evaluated the disclosure of financial information, operations

Report of Corporate Governance

and internal controls of the Group and its associated companies on a regular basis and whenever required based on the potential risks and significance of the internal control systems of various businesses and procedures of the Group, with the aims to ensure the transparency of the Company in respect of information disclosure, operating efficiency and the effectiveness of its corporate control mechanisms, as well as to provide an objective opinion and advice in the form of an audit report. Internal audit staff shall be entitled to full access of all information of the Group and to make enquiries with relevant staff. The manager of the audit department shall directly report to the chairman of the Board on the results and advice of such work.

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

Continuing operation

During the relevant year, there are no material events or conditions that may affect the operation of the Group as an on going concern.

Investor relations

The Company reports to the shareholders on the corporate information of the Group on a timely and accurate basis. Printed copies of the 2011 annual report and 2012 interim report have been sent to all shareholders.

The Company places great emphasis on communication with shareholders and investors of the Company and the improvement of the Company's transparency. As such, a dedicated department has been set up and designated officers are assigned to handle relations with investors and analysts. During the period under review, the Company received 99 batches of fund managers and analysts and patiently answered their relevant inquiries. Site visits to stores were arranged for them so as to enhance their understanding of the Company's operation and also its latest business developments. The Company made disclosures in a careful, true, accurate, complete and timely manner in strict accordance with applicable laws and regulations, the Articles of Association and the Listing Rules; at the same time, the Company places great emphasis on collecting and analyzing various comments and recommendations from analysts and investors on the Company's operation, which will be compiled into reports regularly and adopted selectively in its operation. The Company has set up a website, allowing investors to access updates on the Company's particulars, statutory announcements, management and recent operating affairs. All published annual reports, interim reports, circulars and announcements since its listing are included in the "Investors Relations" section of the website. The Company persistently adheres to its information disclosure principle of honesty and integrity and actively initiates communications with various parties. In particular, it held seminars, press conferences and one-on-one investor meetings following the announcement of interim and annual results and decisions on major investments. The Company also participates in a series of investor activities and conducts one-on-one communication with investors on a regular basis.

Shareholders' rights

Convening extraordinary shareholders' general meetings by shareholders

According to the provisions of the Article 81 of the Articles of Association of the Company:

Shareholders demanding the convening of an extraordinary general meeting or a class meeting shall proceed in accordance with the following procedures:

(I) Two or more shareholders holding more than ten per cent (including ten per cent) of the voting rights at the proposed meeting may submit one or more written request(s) of identical form and substance requesting the Board to convene an extraordinary general meeting or a class meeting and stating the business to be transacted at the meeting. The Board shall, upon receiving the aforesaid written request(s), convene an extraordinary shareholders' general meeting or class meeting as soon as possible. The shareholding mentioned in the above shall be calculated as at the date on which the written request is made.

(II) If the Board fails to issue a notice of the convention of any meeting herein above-mentioned within thirty days after having received the written request, the requesting shareholders may themselves convene such meetings within four months after the Board received the request. The procedures according to which they convene such meeting shall, to the extent possible, be identical to the procedures according to which shareholders' meetings are to be convened by the Board.

Where shareholders convene and hold a meeting because the Board failed to hold such meeting pursuant to a request as mentioned above, the reasonable expenses incurred by such shareholders shall be borne by the Company and shall be deducted from the sums owed by the Company to the negligent Directors.

Raising proposals at shareholders' general meetings

According to the provisions of the Article 63 of the Articles of Association of the Company:

When the Company is to convene an annual general meeting of shareholders, shareholders holding more than five per cent (including five per cent) of the Company's total voting shares shall be entitled to move new motions in writing to the Company. The Company shall include into the agenda of the meeting the matters in the motions that fall within the scope of duties of the shareholders' general meeting, provided that such motions shall be served on the Company within forty days after the date of notice of the meeting hereinabove mentioned.

Putting forward enquiries to the Board

For putting forward any enquiries to the Board, shareholders may send written enquiries (by post, fax or email) to the following addresses, fax numbers or email addresses of the Company:

13th Floor, No. 1258, Zhen Guang Road, Shanghai,
the PRC
Fax: 86 (21) 5279 7976
Email: zhulei@chinalh.com

Amendments in the Articles of Association

As set out in the circulars of the Company dated 27 April 2012 and 5 September 2012, the Company made the following amendments to the Articles of Association.

Amendments in the Article 15 of the Articles of Association (passed at the 2011 annual general meeting held on 15 June 2012)

The former Article 15 of the Articles of Association is as follows:

"The scope of business is based on the businesses as registered with the relevant companies registry.

The scope of business of the Company includes: wholesaling and retailing of general commodities (except those required for specific permits) including household medical devices, electric appliances, food, liquor, aquatic products and non-staple food, purchasing of agricultural by-products, engagement into the processing, grading, packaging, distribution, catering and consultancy services, leasing of owned buildings and counters in relation to supermarkets, provision of technological services for the operation and management of commercial chain stores as well as supermarket management and agency services, as well as conducting commercial activities by means of franchising (except the commodities subject to the State-run trade management; with regard to the commodities subject to quota and license management, make applications in accordance with the relevant regulations of the State; with regard to the commodities subject to administrative permission, operate the business based on the relevant operation permit)."

The amended Article 15 of the Articles of Association is as follows:

"The scope of business of the Company shall be in accordance with the items approved by the registration authorities of the Company.

The scope of business of the Company includes: wholesaling and retailing (including sale by proxy and on consignment) of household medical devices (except those in relation to "Medical Devices Enterprise Trading Permit"), electric appliances, prepackaged foods

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(including delicatessen and braised foods as well as chilled and frozen foods), liquor, aquatic products, non-staple food, bulk foods, ready-to-eat foods (including delicatessen and braised foods), dairy products (including infant milk powder); daily necessities, rubber products, knitting textiles, clothing, hat and shoes, furniture, craft gifts, computers, software and ancillary equipment, communication equipment; retailing of raw swine products and beef and lamb products, ready-to-eat foods made on site (cooked and processed foods, cold foods dressed with sauce, barbecued foods, bread, cakes, decorative cakes and reheated foods) (retailing business operation allowed in stores only); purchasing of agricultural by-products; engagement into the processing, grading, packaging, distribution and consultancy services, leasing of owned buildings and counters in relation to supermarkets, provision of technological services for the operation and management of commercial chain stores as well as supermarket management and agency services, as well as conducting commercial activities by means of franchising (the above-mentioned exclude the commodities subject to the State-run trade management; with regard to the commodities subject to quota and license management, make applications in accordance with the relevant regulations of the State; with regard to the commodities subject to administrative permission, operate the business based on the relevant operation permit)."

Amendments in the Article 3 of the Articles of Association (passed at 2012 extraordinary general meeting held on 31 October 2012)

The former Article 3 of the Article of Association is as follows:

"The domicile of the Company is:
7th Floor, No.1258, Zhenguang Road,
Shanghai, China
Postal code: 200333
Tel: 021-52629922
Fax: 021-52797976"

The Amended Article 3 of the Articles of Association is as follows:

"The domicile of the Company is:
Room 713, 7th Floor, No.1258, Zhenguang Road,
Shanghai, China
Postal code: 200333
Tel: 021-52629922
Fax: 021-52797976"

Amendments in the Article 21 of the Articles of Association (passed at 2012 extraordinary general meeting held on 31 October 2012)

The former Article 21 of the Articles of Association is as follows:

"The Company shall issue a total number of 1,119,600,000 ordinary shares, which consist of:

(1) 639,977,400 domestic shares (380,952,000 shares to be held by Friendship Group; 237,029,400 by Shanghai Bailian Group Investment Co., Ltd.; and 21,996,000 by Shanghai Liding, respectively), and 107,022,600 non-listed foreign shares (75,420,000 shares to be held by Mitsubishi, and 31,602,600 by Wong Sun Hing, respectively);

(2) total number of 372,600,000 overseas-listed foreign shares."

The amended Article 21 of the Articles of Association is as follows:

"The Company shall issue a total number of 1,119,600,000 ordinary shares, which consist of:

(1) 639,977,400 domestic shares (380,952,000 shares to be held by Friendship Group; 237,029,400 by Shanghai Bailian Group Investment Co., Ltd.; and 21,996,000 by Bailian Group Co., Ltd., respectively), and 107,022,600 non-listed foreign shares (75,420,000 shares to be held by Mitsubishi, and 31,602,600 by Wong Sun Hing, respectively);

(2) total number of 372,600,000 overseas-listed foreign shares."

Report of the Supervisory Committee

Dear shareholders,

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

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

During the period under review, the Supervisory Committee held four meetings. On 21 March 2012, the Supervisory Committee of the Company held a meeting, at which the Supervisory Committee objectively evaluated the Group's business operation for the year 2011, and was fully satisfied with the work done by the Group in 2011, including the Group's development plan, network expansion, improvement of the internal control systems and conduct of connected transactions. The Supervisory Committee also received reports on the financial position of the Group for 2011 and discussed and adopted the report of the Supervisory Committee for 2011. On 28 August 2012, the Supervisory Committee held a meeting regarding the operating conditions of the first half of the year ended 30 June 2012 and received reports from the management relating to the financial condition of the first half of 2012. On 30 October 2012, the Supervisory Committee of the Company reviewed the transactions under the supply of goods framework agreement, supply of resources framework agreement, smart cards arrangement agreement, property management framework agreement, leasing framework agreement, staff training framework agreement and personnel trusteeship service framework agreement between the Company and Bailian Group from 2013 to 2015 and the transaction under the leasing agreement of lease of houses by the Company to Bailian E-business Co., Ltd. (百聯電子商務有限公司), a subsidiary of Bailian Group, and confirmed the aforesaid continuing connected transactions were made in the ordinary course of the Company's business and on normal commercial terms, and the terms were fair and reasonable and in the interest of the Company's shareholders as a whole. On 21 December 2012, the Supervisory Committee reviewed the transactions under the framework agreement of supply of merchandise by the Company to Bailian Group and its subsidiaries from 2013 to 2015, and confirmed the aforesaid continuing connected transactions were made in the ordinary course of the Company's business and on normal commercial terms, and the terms were fair and reasonable and in the interest of the Company's shareholders as a whole.

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

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

Report of the Supervisory Committee

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

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

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

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

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

Independent Auditor's Report

Deloitte.
德勤

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

We have audited the consolidated financial statements of Lianhua Supermarket Holdings Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 96 to 172, which comprise the consolidated and Company statements of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated and Company statements of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
25 March 2013

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	NOTES	2012 RMB'000	2011 RMB'000
Turnover	5	**28,987,545**	27,520,176
Cost of sales		**(25,058,481)**	(23,563,736)
Gross profit		**3,929,064**	3,956,440
Other revenue	5	**2,530,285**	2,523,310
Other income and gains	7	**695,563**	595,704
Selling and distribution expenses		**(5,886,383)**	(5,498,318)
Administrative expenses		**(716,065)**	(672,614)
Other operating expenses		**(39,602)**	(75,100)
Interest on bank borrowings wholly repayable within five years		**(375)**	(49)
Operating profit		**512,487**	829,373
Share of profits of associates		**153,967**	142,578
Profit before taxation	8	**666,454**	971,951
Income tax expenses	9	**(214,302)**	(258,258)
Profit and total comprehensive income for the year		**452,152**	713,693
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		**339,947**	626,726
Non-controlling interests		**112,205**	86,967
		452,152	713,693
Earnings per share – basic and diluted	12	**RMB0.30**	RMB0.56

Consolidated Statement of Financial Position

At 31 December 2012

	NOTES	31/12/2012 RMB'000	31/12/2011 RMB'000
Non-current assets			
Property, plant and equipment	13	**3,309,928**	3,337,975
Construction in progress	14	**254,650**	67,765
Land use rights	15	**305,906**	304,559
Intangible assets	16	**187,130**	186,863
Deposit for acquisition of properties		**–**	300,000
Interests in associates	18	**567,973**	517,087
Available-for-sale financial assets	19	**36,358**	252,808
Held-to-maturity financial assets	20	**239,622**	238,365
Term deposits	21		
– restricted		**1,036,000**	1,893,500
– unrestricted		**3,200,000**	850,000
Prepaid rental	22	**106,451**	134,750
Deferred tax assets	23	**200,951**	142,213
Other non-current assets	24	**21,608**	23,131
		9,466,577	8,249,016
Current assets			
Inventories	25	**3,055,623**	3,420,822
Trade receivables	26	**113,707**	86,056
Deposits, prepayments and other receivables	27	**1,180,816**	884,861
Amounts due from fellow subsidiaries	28	**10,921**	10,810
Amounts due from associates	29	**136**	129
Available-for-sale financial assets	19	**641,252**	237,975
Held-to-maturity financial assets	20	**–**	145,191
Term deposits	21		
– restricted		**3,345,000**	1,087,700
– unrestricted		**401,000**	625,000
Cash and cash equivalents	30	**2,589,154**	5,566,371
		11,337,609	12,064,915
Total assets		**20,804,186**	20,313,931

Consolidated Statement of Financial Position

At 31 December 2012

(continued)

	NOTES	31/12/2012 RMB'000	31/12/2011 RMB'000
Capital and reserves			
Share capital	35	**1,119,600**	1,119,600
Reserves		**2,284,180**	2,194,309
Equity attributable to owners of the Company		**3,403,780**	3,313,909
Non-controlling interests		**364,900**	307,737
Total equity		**3,768,680**	3,621,646
Non-current liabilities			
Deferred tax liabilities	23	**84,619**	47,261
Current liabilities			
Trade payables	31	**4,295,654**	4,419,446
Other payables and accruals	32	**2,213,756**	2,204,370
Coupon liabilities	33	**10,259,260**	9,756,029
Deferred income		**17,741**	15,517
Amounts due to fellow subsidiaries	28	**35,802**	72,630
Amounts due to associates	29	**8,904**	13,014
Bank borrowings	34	**2,000**	2,000
Tax payable		**117,770**	162,018
		16,950,887	16,645,024
Total liabilities		**17,035,506**	16,692,285
Total equity and liabilities		**20,804,186**	20,313,931
Net current liabilities		**(5,613,278)**	(4,580,109)
Total assets less current liabilities		**3,853,299**	3,668,907

The consolidated financial statements on pages 96 to 172 were approved and authorised for issue by the Board of Directors on 25 March 2013 and are signed on its behalf by:

Ma Xin-sheng	**Xu Ling-ling**
DIRECTOR	*DIRECTOR*

Statement of Financial Position

At 31 December 2012

	NOTES	31/12/2012 RMB'000	31/12/2011 RMB'000
Non-current assets			
Property, plant and equipment	13	**249,109**	255,631
Construction in progress	14	**5,418**	4,369
Land use rights	15	**30,031**	30,960
Intangible assets	16	**18,670**	16,080
Investments in subsidiaries	17	**1,885,784**	1,434,756
Interests in associates	18	**233,074**	209,123
Available-for-sale financial assets	19	**3,735**	220,185
Held-to-maturity financial assets	20	**239,622**	238,365
Term deposits	21		
– restricted		**3,000**	10,000
– unrestricted		**300,000**	550,000
Prepaid rental	22	**–**	–
Deferred tax assets	23	**6,084**	7,196
Other non-current assets	24	**2,986**	3,174
		2,977,513	2,979,839
Current assets			
Inventories	25	**516,159**	452,669
Trade receivables	26	**86**	117
Deposits, prepayments and other receivables	27	**84,113**	70,707
Amounts due from subsidiaries	17	**6,816,695**	6,107,210
Amounts due from associates	29	**136**	129
Available-for-sale financial assets	19	**430,391**	133,033
Held-to-maturity financial assets	20	**–**	145,191
Tax recoverable		**21**	–
Term deposits	21		
– restricted		**10,000**	–
– unrestricted		**–**	170,000
Cash and cash equivalents	30	**81,480**	583,666
		7,939,081	7,662,722
Total assets		**10,916,594**	10,642,561

Statement of Financial Position

At 31 December 2012

(continued)

	NOTES	**31/12/2012 RMB'000**	31/12/2011 RMB'000
Capital and reserves			
Share capital	35	**1,119,600**	1,119,600
Reserves		**2,814,188**	2,333,933
Total equity		**3,933,788**	3,453,533
Current liabilities			
Trade payables	31	**2,322,539**	2,516,802
Other payables and accruals	32	**53,618**	72,164
Coupon liabilities	33	**3,746,903**	3,658,996
Amounts due to fellow subsidiaries	28	**33,182**	35,244
Amounts due to subsidiaries	17	**817,660**	882,027
Amounts due to associates	29	**8,904**	13,014
Bank borrowings	34	**–**	–
Tax payable		**–**	10,781
		6,982,806	7,189,028
Total liabilities		**6,982,806**	7,189,028
Total equity and liabilities		**10,916,594**	10,642,561
Net current assets		**956,275**	473,694
Total assets less current liabilities		**3,933,788**	3,453,533

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Attributable to owners of the Company							
	Share capital RMB'000	Capital reserve RMB'000 (note a)	Other reserve RMB'000 (note b)	Statutory common reserve fund RMB'000 (note c)	Retained profits RMB'000	Total attributable to owners of the Company RMB'000	Non controlling interests RMB'000	Total RMB'000
At 1 January 2011	622,000	755,953	(194,664)	300,492	1,411,919	2,895,700	329,101	3,224,801
Bonus issue by capitalisation of capital reserve (Note 35)	497,600	(497,600)	–	–	–	–	–	–
Profit for the year	–	–	–	–	626,726	626,726	86,967	713,693
Profit appropriation	–	–	–	65,439	(65,439)	–	–	–
Dividends paid to non-controlling interests	–	–	–	–	–	–	(41,574)	(41,574)
2010 final dividend (Note 11)	–	–	–	–	(111,960)	(111,960)	–	(111,960)
2011 interim dividend (Note 11)	–	–	–	–	(89,568)	(89,568)	–	(89,568)
Deemed distribution to Bailian Group (as defined in Note 1)	–	–	(4,282)	–	–	(4,282)	–	(4,282)
Closure of subsidiaries	–	–	–	–	–	–	(986)	(986)
Acquisition of additional equity interests in subsidiaries	–	–	(2,707)	–	–	(2,707)	(65,771)	(68,478)
At 31 December 2011	1,119,600	258,353	(201,653)	365,931	1,771,678	3,313,909	307,737	3,621,646
Profit for the year	**–**	**–**	**–**	**–**	**339,947**	**339,947**	**112,205**	**452,152**
Profit appropriation	**–**	**–**	**–**	**70,089**	**(70,089)**	**–**	**–**	**–**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**(52,247)**	**(52,247)**
2011 final dividend (Note 11)	**–**	**–**	**–**	**–**	**(134,352)**	**(134,352)**	**–**	**(134,352)**
2012 interim dividend (Note 11)	**–**	**–**	**–**	**–**	**(89,568)**	**(89,568)**	**–**	**(89,568)**
Acquisition of additional equity interests in subsidiaries	**–**	**–**	**(26,156)**	**–**	**–**	**(26,156)**	**(2,795)**	**(28,951)**
At 31 December 2012	**1,119,600**	**258,353**	**(227,809)**	**436,020**	**1,817,616**	**3,403,780**	**364,900**	**3,768,680**

Notes:

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

(b) Other reserve of the Group mainly represents:

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

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

iii. acquisition of additional equity interests in subsidiaries.

(c) Pursuant to the relevant regulations of the People's Republic of China (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.

Statement of Changes in Equity

For the year ended 31 December 2012

	Share capital RMB'000	Capital reserve RMB'000	Other reserve RMB'000	Statutory common reserve fund RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2011	622,000	755,953	3,595	300,492	1,302,170	2,984,210
Bonus issue by capitalisation of capital reserve (Note 35)	497,600	(497,600)	–	–	–	–
Profit for the year	–	–	–	–	670,851	670,851
Profit appropriation	–	–	–	65,439	(65,439)	–
2010 final dividend (Note 11)	–	–	–	–	(111,960)	(111,960)
2011 interim dividend (Note 11)	–	–	–	–	(89,568)	(89,568)
At 31 December 2011	1,119,600	258,353	3,595	365,931	1,706,054	3,453,533
Profit for the year	–	–	–	–	704,175	704,175
Profit appropriation	–	–	–	70,089	(70,089)	–
2011 final dividend (Note 11)	–	–	–	–	(134,352)	(134,352)
2012 interim dividend (Note 11)	–	–	–	–	(89,568)	(89,568)
At 31 December 2012	1,119,600	258,353	3,595	436,020	2,116,220	3,933,788

The amount of the Company's retained profits available for distribution to shareholders as at 31 December 2012 amounted to approximately RMB2,116,220,000 (2011: RMB1,706,054,000).

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	NOTE	2012 RMB'000	2011 RMB'000
Profit before taxation		**666,454**	971,951
Adjustments for:			
Depreciation of property, plant and equipment		**538,866**	529,734
Amortisation of land use rights		**5,267**	4,814
Amortisation of intangible assets		**10,808**	10,232
Amortisation of other non-current assets		**1,523**	1,523
Loss on disposal of property, plant and equipment		**117**	3,554
Gain on disposal of a subsidiary	38	**–**	(41,619)
Impairment loss on property, plant and equipment recognised		**26,616**	15,188
Allowance for (reversal of) write-down of inventories		**2,328**	(2,230)
Interest income from available-for-sale financial assets		**(52,709)**	(53,629)
Interest income from held-to-maturity financial assets		**(18,149)**	(20,217)
Share of results of associates		**(153,967)**	(142,578)
Dividend from unlisted equity investments		**(10,011)**	(25,081)
Reversal of allowance for doubtful debts		**(978)**	(2,612)
Interest income		**(405,793)**	(302,129)
Interest expense		**375**	49
Operating profit before movements in working capital		**610,747**	946,950
Decrease (increase) in inventories		**362,871**	(631,481)
Increase in trade and other receivables		**(6,927)**	(3,229)
Decrease (increase) in prepaid rental		**27,624**	(168,826)
Increase in amounts due from associates		**–**	(100)
Increase in amounts due from fellow subsidiaries		**(111)**	(2,718)
Decrease in amounts due to fellow subsidiaries		**(36,828)**	(32,542)
Decrease in financial assets at fair value through profit or loss		**–**	204,089
Increase (decrease) in deferred income		**2,224**	(5,743)
Increase in restricted term deposits		**(1,399,800)**	(1,066,800)
(Decrease) increase in trade and other payables		**(115,637)**	534,550
Increase in coupon liabilities		**503,231**	1,048,829
(Decrease) Increase in amounts due to associates		**(4,110)**	7,615
Cash (used in) generated from operations		**(56,716)**	830,594
Income taxes paid		**(279,930)**	(226,905)
Interest received		**330,767**	189,030
Interest paid		**(375)**	(49)
Net cash (used in) from operating activities		**(6,254)**	792,670

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

(continued)

	NOTE	2012 RMB'000	2011 RMB'000
Investing activities			
Purchase of property, plant and equipment and construction in progress		**(737,752)**	(809,832)
Deposit paid for acquisition of properties		**–**	(300,000)
Refund of deposit paid for acquisition of properties		**60,000**	–
Purchase of land use right		**(6,614)**	(60,121)
Proceeds from disposal of land use right		**–**	167
Proceeds from disposal of property, plant and equipment		**12,389**	15,752
Purchase of intangible assets		**(8,918)**	(14,193)
Disposal of a subsidiary	38	**–**	50,235
Purchase of available-for-sale financial assets		**(400,000)**	(998,000)
Dividend from unlisted equity investments		**10,011**	25,081
Capital investment in associates		**(23,951)**	(16,252)
Proceeds on disposal of an associate		**–**	47
Proceeds on redemption of available-for-sale financial assets		**265,882**	1,228,004
Interest income from held-to-maturity financial assets		**29,083**	15,933
Proceeds on redemption of held-to-maturity financial assets		**133,000**	43,800
Dividends received from associates		**127,025**	145,263
Withdrawal of unrestricted term deposits		**1,475,000**	1,860,000
Placement of unrestricted term deposits		**(3,601,000)**	(1,475,000)
Net cash used in investing activities		**(2,665,845)**	(289,116)
Financing activities			
New bank borrowings raised		**–**	2,000
Dividends paid to owners of the Company		**(223,920)**	(201,528)
Repayment of capital contributions to non-controlling shareholders		**–**	(986)
Dividends paid to non-controlling shareholders		**(52,247)**	(245,143)
Cash consideration paid upon acquisition of a subsidiary under common control		**–**	(4,282)
Acquisition of additional equity interests in subsidiaries		**(28,951)**	(68,478)
Net cash used in financing activities		**(305,118)**	(518,417)
Decrease in cash and cash equivalents		**(2,977,217)**	(14,863)
Cash and cash equivalents at 1 January		**5,566,371**	5,581,234
Cash and cash equivalents at 31 December		**2,589,154**	5,566,371
Analysis of the balances of cash and cash equivalents:			
Bank balances and cash		**2,589,154**	5,566,371

Notes to the Consolidated Financial Statements

1. PRINCIPAL ACTIVITIES

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

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

The principal activities of the Company, together with its subsidiaries (the Company and its subsidiaries are collectively referred to as the "Group" thereafter) and its associates, are operation of chain stores including supermarkets, hypermarkets and convenience stores primarily in the eastern region of the PRC.

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

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

New and revised HKFRSs applied in the current year

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

Amendments to HKFRS 7	Financial Instruments: Disclosures – Transfers of Financial Assets; and
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Asset

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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

New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and 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[3]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[2]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 19 (as revised in 2011)	Employee Benefits[1]
HKAS 27 (as revised in 2011)	Separate Financial Statements[1]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[4]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[2]
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 2014.

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

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

Annual Improvements to HKFRSs 2009 – 2011 Cycle issued in June 2012

The Annual Improvements to HKFRSs 2009 – 2011 Cycle include a number of amendments to various HKFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to HKFRSs include the amendments to HKAS 1 *Presentation of Financial Statements*, HKAS 16 *Property, Plant and Equipment* and the amendments to HKAS 32 *Financial Instruments: Presentation*.

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

Annual Improvements to HKFRSs 2009 – 2011 Cycle issued in June 2012 (continued)

HKAS 1 requires an entity that changes accounting policies retrospectively, or makes a retrospective restatement or reclassification to present a statement of financial position as at the beginning of the preceding period (third statement of financial position). The amendments to HKAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position.

The amendments to HKAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in HKAS 16 and as inventory otherwise. The directors do not anticipate that the application of the amendments will have a material effect on the Group's consolidated financial statements as the Group's spare parts (low value consumables) are inventory by nature.

The amendments to HKAS 32 clarify that income tax on distributions to holders of an equity instrument and transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 *Income Taxes*. The directors anticipate that the amendments to HKAS 32 will have no effect on the Group's consolidated financial statements as the Group has already adopted this treatment.

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities and amendments to HKFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

The amendments to HKAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to HKFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

The directors anticipate that the application of these amendments to HKAS 32 and HKFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

All recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors are of the opinion that it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

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

New and revised standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements. HK (SIC)-Int 12 Consolidation – Special Purpose Entities will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures*. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK (SIC)-Int 13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers* will be withdrawn upon the effective date of HKFRS 11. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate consolidation.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided that all of these standards are applied at the same time.

The directors are in the process assessing the impact of the application of the standards and amendments on the Group's consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 *Financial Instruments: Disclosures* will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The directors anticipate that the application of the new standard may affect certain amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 *Presentation of Items of Other Comprehensive Income* introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income' and an 'income statement' is renamed as a 'statement of profit or loss'. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in future accounting periods.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

The principal accounting policies are set out below.

Basis of consolidation

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

Income and expenses of subsidiaries acquired during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition.

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

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

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

Changes in the Group's ownership interest in existing subsidiaries

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Merger accounting for business combination involving entities under common control

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

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

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

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

Goodwill

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Interests in associates

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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

Service income is recognised when services are provided.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

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

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

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

Property, plant and equipment

Property, plant and equipment including buildings held for use in the supply of goods or services, or for administrative purposes (other than properties under construction as described below), are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

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

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing

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

The Group as lessor

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

The Group as lessee

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

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

Leasehold land and building

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

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

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

Government grants

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

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

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

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

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effective of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

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

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

At the end of the reporting period, the Group reviews the carrying amounts of its non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

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

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified as loans and receivables, financial assets at fair value through profit and loss ("FVTPL"), available-for-sale financial assets and held-to-maturity financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

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

Loans and receivables

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Financial asset at fair value through profit or loss

The Group's FVTPL represents financial assets held for trading. A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or

- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in the "other income and gains" line item in the consolidated statement of comprehensive income.

Held-to-maturity investments

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. The Group designated investments on legal person shares, unlisted equity investments, unlisted managed investment funds and unlisted investments as available-for-sale financial assets.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets

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

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

For loans and receivables and held-to-maturity investments, objective evidence of impairment could include:

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

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

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

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

Impairment losses on available-for-sale equity investments will not be reversed through profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in investment revaluation reserve. For available-for-sale debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liability when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Deferred taxation

Deferred tax assets relating to certain tax losses are not recognised as management considers it is probable that future taxable profit will not be available against which the tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred assets and income tax expenses in the periods in which such estimate is changed.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Estimated impairment of goodwill

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

Estimated impairment of non-financial assets other than goodwill

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

Useful lives and residual values of property, plant and equipment

The Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The Group will increase the depreciation charge where useful lives are less than previously estimated lives, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Net realisable value of inventories

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

Estimated store closure provision

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

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5. TURNOVER AND OTHER REVENUE

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

	2012 RMB'000	2011 RMB'000
Turnover		
Sales of merchandise	**28,987,545**	27,520,176
Other revenue		
Income from suppliers	**1,936,934**	1,913,641
Gross rental income from leasing of shop premises	**517,913**	496,966
Royalty income from franchised stores	**57,506**	58,913
Commission income from coupon redemption in other retailers	**17,932**	53,790
	2,530,285	2,523,310
Total revenue	**31,517,830**	30,043,486

6. SEGMENT INFORMATION

Information reported to the Group's general manager, who is the chief operating decision maker of the Group for the purposes of resource allocation and assessment of performance, is focused on three main operations of the Group identified in accordance with the business nature and the size of the operations.

The reportable operating segments of the Group are as follows:

- Hypermarket chain operation
- Supermarket chain operation
- Convenience store chain operation
- Other operations

There are no significant sales or other transactions between the segments. Other operations of the Group principally comprise sales of merchandise to wholesalers, provision of logistic services for wholesale business, and sales through internet. Other operations of the Group are aggregated when the information is reported to the Group's general manager.

6. SEGMENT INFORMATION (continued)

The following is an analysis of the Group's revenue (including turnover and other revenue) and results by each reportable operating segment for the two years:

	Segment revenue		Segment results	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Hypermarkets	**18,883,020**	17,655,962	**233,788**	352,728
Supermarkets	**10,572,139**	10,400,556	**284,621**	359,200
Convenience stores	**1,963,173**	1,866,298	**(24,123)**	14,420
Other operations	**99,498**	120,670	**27,721**	97,094
	31,517,830	30,043,486	**522,007**	823,442

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

	2012	2011
	RMB'000	RMB'000
Segment results	**522,007**	823,442
Interest income	**63,980**	74,294
Unallocated income	**54,943**	67,802
Unallocated expenses	**(128,443)**	(136,165)
Share of profits of associates	**153,967**	142,578
Consolidated profit before taxation	**666,454**	971,951

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

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

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

Notes to the Consolidated Financial Statements

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6. SEGMENT INFORMATION (continued)

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

	31/12/2012	31/12/2011
	RMB'000	RMB'000
Segment assets		
– Hypermarkets	**11,639,101**	10,766,439
– Supermarkets	**6,611,410**	6,200,622
– Convenience Stores	**531,960**	390,816
– Other operations	**371,930**	269,076
Total segment assets	**19,154,401**	17,626,953
Investments in associates	**567,973**	517,087
Other unallocated assets	**1,081,812**	2,169,891
Total assets	**20,804,186**	20,313,931

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

6. SEGMENT INFORMATION (continued)

Other segment information

2012

	Hypermarkets RMB'000	Supermarkets RMB'000	Convenience stores RMB'000	Other operations RMB'000	Total RMB'000
Amounts included in the measure of segment results or segment assets:					
Addition to non-current assets (note)	487,828	218,502	63,756	574	770,660
Depreciation	346,285	156,092	22,067	14,422	538,866
Amortisation	5,005	6,482	803	5,308	17,598
Impairment losses on property, plant and equipment	23,872	2,521	223	–	26,616
Loss (gain) on disposal of property, plant and equipment	830	(765)	(63)	115	117
Interest income	245,430	74,482	4,325	81,556	405,793
Finance costs	–	–	–	375	375

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6. SEGMENT INFORMATION (continued)

Other segment information (continued)

2011

	Hypermarkets RMB'000	Supermarkets RMB'000	Convenience stores RMB'000	Other operations RMB'000	Total RMB'000
Amounts included in the measure of segment results or segment assets:					
Addition to non-current assets (note)	1,002,573	254,939	23,975	473	1,281,960
Depreciation	252,540	243,406	19,466	14,322	529,734
Amortisation	2,804	8,093	772	4,900	16,569
Impairment losses on property, plant and equipment	9,292	5,516	380	–	15,188
Loss (gain) on disposal of property, plant and equipment	(2,300)	8,241	(2,645)	258	3,554
Interest income	145,088	49,876	296	32,575	227,835
Finance costs	–	–	–	49	49

Note: Addition to non-current assets include the additions of property, plant and equipment, construction in progress, land use rights, intangible assets and deposit for acquisition of property, plant and equipment.

Geographical information

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

Information about major customers

None of the revenue from any customer contributed over 10% of the total sales of the Group during the two years.

7. OTHER INCOME AND GAINS

	2012 RMB'000	2011 RMB'000
Interest income on bank balances and term deposits	405,793	302,129
Government subsidies (note)	65,640	51,957
Fair value change on financial assets at fair value through profit or loss	3,938	4,857
Interest income from available-for-sale financial assets	52,709	53,629
Interest income from held-to-maturity financial assets	18,149	20,217
Gain on disposal of a subsidiary (Note 38)	–	41,619
Dividend from unlisted equity investments	10,011	25,081
Salvage sales	31,013	32,890
Others	108,310	63,325
Total	695,563	595,704

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

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8. PROFIT BEFORE TAXATION

	2012 RMB'000	2011 RMB'000
Profit before taxation has been arrived at after charging (crediting):		
Amortisation and depreciation		
Amortisation of other non-current assets (Note 24)	**1,523**	1,523
Amortisation of intangible assets (Note 16)	**10,808**	10,232
Amortisation of land use rights (Note 15)	**5,267**	4,814
Depreciation of property, plant and equipment (Note 13)	**538,866**	529,734
Total amortisation and depreciation	**556,464**	546,303
Share of profits of associates		
Share of profit before taxation	**(202,003)**	(190,990)
Share of taxation	**48,036**	48,412
	(153,967)	(142,578)
Auditors' remuneration	**5,101**	5,154
Loss on disposal of property, plant and equipment	**117**	3,554
Impairment loss on property, plant and equipment recognised (included in other operating expenses)	**26,616**	15,188
Director's remuneration (Note 10)	**11,139**	13,217
Salaries, wages and other employee benefits of other staff	**2,415,765**	2,212,354
Retirement benefit scheme contribution of other staff	**258,661**	222,574
Total staff costs	**2,685,565**	2,448,145
Reversal of allowance for doubtful debts	**(978)**	(2,612)
Allowance for (reversal of) write-down of inventories	**2,328**	(2,230)
Cost of inventories recognised as expenses	**25,058,481**	23,563,736

9. INCOME TAX EXPENSE

	2012 RMB'000	2011 RMB'000
Current tax on PRC Enterprise Income Tax ("EIT")	**235,682**	281,168
Deferred taxation (Note 23)	**(21,380)**	(22,910)
	214,302	258,258

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

Under the Law of the PRC on EIT and Implementation Regulation of the EIT Law, the EIT tax rate of the PRC subsidiaries is 25%. During the year, certain subsidiaries are taxed at preferential rate of 15% (2011: 15% to 24%).

	2012 RMB'000	2011 RMB'000
Profit before tax	**666,454**	971,951
Tax at PRC EIT tax rate of 25% (2011: 25%)	**166,614**	242,988
Tax effect of share of profit of associates	**(38,492)**	(35,645)
Tax effect of expenses not deductible for tax purpose	**9,259**	9,853
Tax effect of income not taxable for tax purpose	**(7,236)**	(18,030)
Tax effect of tax losses not recognised	**154,946**	67,195
Utilisation of tax losses previously not recognised	**(70,608)**	(7,671)
Effect of tax exemptions and preferential tax rates granted to certain PRC subsidiaries	**(181)**	(432)
Tax charge for the year	**214,302**	258,258

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10. DIRECTORS', SUPERVISORS' AND EMPLOYEES' REMUNERATION

(a) Directors' emoluments

The remuneration of each director for the year ended 31 December 2012 is set out below:

Name of director	Fees RMB'000	Basic salaries, allowances and benefits in kind RMB'000	Discretionary bonus RMB'000 (note 1)	Retirement benefit costs RMB'000	Medical benefits RMB'000	2012 RMB'000	2011 RMB'000
Executive/Non-executive Directors:							
Mr. Hua Guo-ping	–	277	538	48	18	**881**	947
Ms. Xu Ling-ling	–	277	510	48	18	**853**	1,122
Ms. Cai Lan-ying	–	277	7,580	82	13	**7,952**	8,478
Mr. Tang Qi	–	277	510	48	18	**853**	1,001
Mr. Liang Wei (note 2)	–	–	–	–	–	**–**	1,219
Mr. Ma Xin-sheng	–	–	–	–	–	**–**	–
Mr. Xu Bo (note 3)							
Mr. Wang Zhi-gang (note 3)	–	–	–	–	–	**–**	–
Mr. Kazuyasu Misu	–	–	–	–	–	**–**	–
Mr. Wong Tak Hung	–	–	–	–	–	**–**	–
Independent non-executive Directors:							
Mr. Lee Kwok Ming, Don	150	–	–	–	–	**150**	150
Mr. Zhang Hui Ming	150	–	–	–	–	**150**	150
Mr. Xia Da Wei	150	–	–	–	–	**150**	150
Mr. Lin Yi-bin (note 4)	150	–	–	–	–	**150**	–
2012	**600**	**1,108**	**9,138**	**226**	**67**	**11,139**	
2011	450	1,433	11,018	242	74		13,217

10. DIRECTORS', SUPERVISORS' AND EMPLOYEES' REMUNERATION (continued)

(a) Directors' emoluments (continued)

Notes:

1. The discretionary bonus is determined based on the growth of Group's annual results.

2. Mr. Liang Wei resigned from the office of executive director of the Company on 21 March 2012.

3. Mr. Xu Bo resigned from the office of non-executive director of the Company on 16 January 2012. The Board of the Company elected Mr. Wang Zhi-gang as the new non-executive director of the Company on the same date.

4. Mr. Lin Yi-bin was elected as independent non-executive director of the Company on 15 June 2012.

None of the directors waived any emoluments during the years ended 31 December 2012 and 2011.

(b) Supervisory committee members' emoluments

The remuneration of each supervisor for the year ended 31 December 2012 is set out below:

Name of Director	Fees	Basic salaries, allowances and benefits in kind	Discretionary bonus	Retirement benefit costs	Medical benefits	2012	2011
	RMB'000	RMB'000	RMB'000 (note)	RMB'000	RMB'000	RMB'000	RMB'000
Mr. Chen Jian-jun	–	277	538	48	18	**881**	947
Mr. Wang Long-sheng	–	–	–	–	–	**–**	–
Mr. Dao Shu-rong	–	277	510	48	18	**853**	1,020
2012	**–**	**554**	**1,048**	**96**	**36**	**1,734**	
2011	–	554	1,293	88	32		1,967

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

None of the supervisors waived any emoluments during the years ended 31 December 2012 and 2011.

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10. DIRECTORS', SUPERVISORS' AND EMPLOYEES' REMUNERATION (continued)

(c) Senior managers' emoluments

The remuneration of each senior manager for the year ended 31 December 2012 is set out below:

Name of Director	Fees RMB'000	Basic salaries, allowances and benefits in kind RMB'000	Discretionary bonus RMB'000 (note)	Retirement benefit costs RMB'000	Medical benefits RMB'000	2012 RMB'000	2011 RMB'000
Mr. Zhang Guo-hong	–	252	484	48	18	**802**	856
Mr. Liang Bao-long	–	176	339	37	14	**566**	–
Ms. Qi Yue-hong	–	207	363	37	14	**621**	–
2012	**–**	**635**	**1,186**	**122**	**46**	**1,989**	
2011	–	252	544	44	16		856

10. DIRECTORS', SUPERVISORS' AND EMPLOYEES' REMUNERATION (continued)

(d) Five highest paid individuals

The five highest paid individuals were executives of the Group for the two years. Except for Ms. Cai Lan-ying (2011: Ms. Cai Lan-ying), who is the director of the Company, none of them was a director or supervisor of the Company. The aggregate emoluments of these five highest paid individuals are as follows:

	2012 RMB'000	2011 RMB'000
Basic salaries, allowances and benefits-in-kind	**1,111**	1,393
Discretionary bonuses	**29,974**	33,291
Retirement benefit costs	**410**	336
Medical benefits	**64**	52
	31,559	35,072

Their emoluments fall within the following bands:

	Number	
	2012	2011
HK$6,500,001 – HK$7,000,000	**3**	–
HK$7,000,001 – HK$7,500,000	**–**	2
HK$8,000,001 – HK$8,500,000	**1**	1
HK$9,500,001 – HK$10,000,000	**1**	1
HK$10,000,001 – HK$10,500,000	**–**	1

(e) During the years, no emoluments were paid by the Group to any of the directors, supervisors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

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11. DIVIDEND

	2012	2011
	RMB'000	RMB'000
Dividend recognised as distribution during the year:		
2012 interim dividend RMB0.08 (2011: 2011 interim dividend RMB0.08) per share	**89,568**	89,568
2011 final dividend RMB0.12 (2011: 2010 final dividend RMB0.18) per share	**134,352**	111,960
	223,920	201,528

For the year ended 31 December 2012, a final dividend of RMB0.07(2011: RMB0.12) per share has been proposed by the directors and is subject to approval by the shareholders of the Company in the upcoming annual general meeting.

12. EARNINGS PER SHARE

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

	2012	2011
	RMB'000	RMB'000
Earnings		
Profit for the year attributable to owners of the Company	**339,947**	626,726
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**1,119,600,000**	1,119,600,000

Diluted earnings per share are the same as basic earnings per share as no potential ordinary shares were outstanding during the two years.

13. PROPERTY, PLANT AND EQUIPMENT

Group	Buildings RMB'000	Leasehold improvements RMB'000	Transportation vehicles and equipment RMB'000	Operating and office equipment RMB'000	Total RMB'000
COST					
At 1 January 2011	1,700,232	2,009,409	264,236	1,518,927	5,492,804
Additions	120,703	283,009	31,190	293,345	728,247
Transfer from construction in progress	263,052	58,658	–	5,367	327,077
Disposal of a subsidiary	(44,779)	–	–	–	(44,779)
Disposals	(1,140)	(145,703)	(13,406)	(134,693)	(294,942)
At 31 December 2011	2,038,068	2,205,373	282,020	1,682,946	6,208,407
Additions	14,800	258,840	26,949	222,268	522,857
Transfer from construction in progress	–	42,967	–	262	43,229
Disposals	(15,262)	(114,331)	(9,711)	(127,167)	(266,471)
At 31 December 2012	**2,037,606**	**2,392,849**	**299,258**	**1,778,309**	**6,508,022**
DEPRECIATION					
At 1 January 2011	315,008	1,236,343	133,875	843,209	2,528,435
Provided for the year	61,718	254,637	27,074	186,305	529,734
Eliminated on disposals	(695)	(136,130)	(11,188)	(99,170)	(247,183)
At 31 December 2011	376,031	1,354,850	149,761	930,344	2,810,986
Provided for the year	63,554	258,242	27,786	189,284	538,866
Eliminated on disposals	–	(90,226)	(9,002)	(104,845)	(204,073)
At 31 December 2012	**439,585**	**1,522,866**	**168,545**	**1,014,783**	**3,145,779**
IMPAIRMENT					
At 1 January 2011	–	39,684	1,512	40,157	81,353
Provided for the year	–	7,937	–	7,251	15,188
Eliminated on disposals	–	(13,241)	–	(23,854)	(37,095)
At 31 December 2011	–	34,380	1,512	23,554	59,446
Provided for the year	–	19,047	–	7,569	26,616
Eliminated on disposals	–	(26,937)	–	(6,810)	(33,747)
At 31 December 2012	**–**	**26,490**	**1,512**	**24,313**	**52,315**
CARRYING VALUES					
At 31 December 2012	**1,598,021**	**843,493**	**129,201**	**739,213**	**3,309,928**
At 31 December 2011	1,662,037	816,143	130,747	729,048	3,337,975

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13. PROPERTY, PLANT AND EQUIPMENT (continued)

Notes:

(a) An impairment loss of RMB26,616,000 (2011: RMB15,188,000) on certain items of property plant and equipment was recognised during the year due to loss-making of certain hypermarkets and supermarkets.

(b) Amongst the depreciation expense of RMB538,866,000 (2011: RMB529,734,000), RMB496,914,000(2011: RMB493,509,000) and RMB41,952,000(2011: RMB36,225,000) were included in selling and distribution expenses and administrative expenses respectively.

(c) As of 31 December 2012, the carrying amount of certain buildings without building ownership certificates is RMB17,070,000(2011: RMB186,872,000) in aggregate.

Company	Buildings RMB'000	Leasehold improvements RMB'000	Transportation vehicles and equipment RMB'000	Operating and office equipment RMB'000	Total RMB'000
COST					
At 1 January 2011	290,902	869	6,677	32,405	330,853
Additions	–	–	1,717	7,636	9,353
Disposals	–	–	(1,558)	(2,420)	(3,978)
At 31 December 2011	290,902	869	6,836	37,621	336,228
Additions	–	–	2,683	6,000	8,683
Disposals	–	–	(3,290)	(2,083)	(5,373)
At 31 December 2012	**290,902**	**869**	**6,229**	**41,538**	**339,538**
DEPRECIATION					
At 1 January 2011	50,140	65	3,567	16,898	70,670
Provided for the year	6,980	174	767	4,828	12,749
Eliminated on disposals	–	–	(848)	(1,974)	(2,822)
At 31 December 2011	57,120	239	3,486	19,752	80,597
Provided for the year	6,980	174	637	5,652	13,443
Eliminated on disposals	–	–	(1,665)	(1,946)	(3,611)
At 31 December 2012	**64,100**	**413**	**2,458**	**23,458**	**90,429**
CARRYING VALUES					
At 31 December 2012	**226,802**	**456**	**3,771**	**18,080**	**249,109**
At 31 December 2011	233,782	630	3,350	17,869	255,631

13. PROPERTY, PLANT AND EQUIPMENT (continued)

The above items of property, plant and equipment are depreciated, taking into account their residual value, on a straight-line basis as follows:

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

14. CONSTRUCTION IN PROGRESS

Group	**Construction in progress RMB'000**
At 1 January 2011	220,730
Additions	179,399
Transfer to property, plant and equipment (Note 13)	(327,077)
Transfer to intangible assets (Note 16)	(5,287)
At 31 December 2011	67,765
Additions	232,271
Transfer to property, plant and equipment (Note 13)	(43,229)
Transfer to intangible assets (Note 16)	(2,157)
At 31 December 2012	**254,650**

Company	**RMB'000**
At 1 January 2011	8,488
Additions	777
Transfer to intangible assets (Note 16)	(4,896)
At 31 December 2011	4,369
Additions	3,206
Transfer to intangible assets (Note 16)	(2,157)
At 31 December 2012	**5,418**

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15. LAND USE RIGHTS

Group	**Land use rights RMB'000**
COST	
At 1 January 2011	298,750
Additions	60,121
Disposals	(176)
At 31 December 2011	358,695
Additions	6,614
At 31 December 2012	**365,309**
AMORTISATION	
At 1 January 2011	44,069
Charge for the year	4,814
Eliminated on disposals	(14)
At 31 December 2011	48,869
Charge for the year	5,267
At 31 December 2012	**54,136**
CARRYING VALUES	
At 31 December 2012	**311,173**
At 31 December 2011	309,826

	31/12/2012 RMB'000	31/12/2011 RMB'000
Analysed for reporting purposes as:		
Non-current portion	**305,906**	304,559
Current portion to be charged to the profit or loss next year included in deposits, prepayments and other receivables (Note 27)	**5,267**	5,267
Total	**311,173**	309,826

Notes:

(a) Amongst the amortisation charge for the year of RMB5,267,000 (2011: RMB4,814,000), RMB2,644,000 (2011: RMB2,189,000) and RMB2,623,000 (2011: RMB2,625,000) were included in selling and distribution expenses and administrative expenses respectively.

(b) As of 31 December 2012, the carrying amount of certain land without land use right certificates is RMB124,165,000 (2011: RMB117,551,000) in aggregate.

15. LAND USE RIGHTS (continued)

Company	**Land use rights RMB'000**
COST	
At 1 January 2011, 31 December 2011 and 31 December 2012	43,035
AMORTISATION	
At 1 January 2011	10,217
Charge for the year	929
At 31 December 2011	11,146
Charge for the year	929
At 31 December 2012	**12,075**
CARRYING VALUES	
At 31 December 2012	**30,960**
At 31 December 2011	31,889

	31/12/2012 RMB'000	31/12/2011 RMB'000
Analysed for reporting purposes as:		
Non-current portion	**30,031**	30,960
Current portion to be charged to the profit or loss next year included in deposits, prepayments and other receivables (Note 27)	**929**	929
	30,960	31,889

The Group's interests in land use rights, representing prepaid operating lease payment for land in the PRC, all have a medium lease term and the land use right period ranges from 35 to 50 years.

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16. INTANGIBLE ASSETS

Group	Software RMB'000	Goodwill RMB'000	Total RMB'000
COST			
At 1 January 2011	132,001	172,000	304,001
Additions	14,193	–	14,193
Transfer from construction in progress (Note 14)	5,287	–	5,287
Disposals	(1,277)	–	(1,277)
At 31 December 2011	150,204	172,000	322,204
Additions	8,918	–	8,918
Transfer from construction in progress (Note 14)	2,157	–	2,157
Disposals	(8,819)	(20,059)	(28,878)
At 31 December 2012	**152,460**	**151,941**	**304,401**
AMORTISATION AND IMPAIRMENT			
At 1 January 2011	106,327	20,059	126,386
Charge for the year	10,232	–	10,232
Eliminated on disposals	(1,277)	–	(1,277)
At 31 December 2011	115,282	20,059	135,341
Charge for the year	10,808	–	10,808
Eliminated on disposals	(8,819)	(20,059)	(28,878)
At 31 December 2012	**117,271**	**–**	**117,271**
CARRYING VALUES			
At 31 December 2012	**35,189**	**151,941**	**187,130**
At 31 December 2011	34,922	151,941	186,863

Notes:

(a) The impairment loss of RMB20,059,000 on goodwill relates to the hypermarket cash-generating unit in Hebei provincial area which was closed for operation in 2012.

(b) Amongst the amortisation charge for the year of RMB10,808,000 (2011: RMB10,232,000), RMB5,280,000(2011: RMB5,402,000) and RMB5,528,000 (2011: RMB4,830,000) were included in selling and distribution expenses and administrative expenses respectively.

(c) The above software has definite useful lives and is amortised on a straight-line basis over 5 to 10 years.

16. INTANGIBLE ASSETS (continued)

Impairment tests for goodwill

Goodwill is allocated to three cash-generating units identified according to the operating segments as follows:

	31/12/2012 RMB'000	31/12/2011 RMB'000
Supermarkets	**101,731**	101,731
Hypermarkets	**45,944**	45,944
Others	**4,266**	4,266
	151,941	151,941

The recoverable amounts of the cash-generating units are determined based on a value in use calculations. That calculation uses cash flow projections based on financial budgets approved by management covering a one-year period as extrapolated for 15 years using a growth rate of 0% to 10% (2011: 0% to 10%), as appropriate, and a discount rate of 9% (2011: 9%). This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the relevant cash-generating unit's past performance and management's expectations for the market condition. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amounts of cash-generating units to exceed their aggregate recoverable amounts.

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16. INTANGIBLE ASSETS (continued)

Impairment tests for goodwill (continued)

Company	**Software RMB'000**
COST	
At 1 January 2011	22,562
Additions	7,727
Transfer from construction in progress	4,896
At 31 December 2011	35,185
Additions	4,619
Transfer from construction in progress	2,157
At 31 December 2012	**41,961**
AMORTISATION	
At 1 January 2011	15,322
Charge for the year	3,783
At 31 December 2011	19,105
Charge for the year	4,186
At 31 December 2012	**23,291**
CARRYING VALUES	
At 31 December 2012	**18,670**
At 31 December 2011	16,080

17. INVESTMENTS IN SUBSIDIARIES/BALANCES WITH SUBSIDIARIES

Company	**31/12/2012 RMB'000**	31/12/2011 RMB'000
Unlisted equity investments, at cost	**1,945,784**	1,514,346
Less: Impairment losses	**(60,000)**	(79,590)
	1,885,784	1,434,756

Particulars of the Company's principal subsidiaries at 31 December 2012 are set out in note 44.

Balances with subsidiaries are trade in nature, unsecured, interest free and aged within 60 days.

18. INTERESTS IN ASSOCIATES

Group	31/12/2012 RMB'000	31/12/2011 RMB'000
Unlisted equity investments, at cost	233,903	209,952
Share of post – acquisition profits, net of dividends received	334,070	307,135
	567,973	517,087

Company	31/12/2012 RMB'000	31/12/2011 RMB'000
Unlisted equity investments, at cost	233,074	209,123

Interests in associates as at 31 December 2012 include goodwill of RMB6,787,000 (2011: RMB6,787,000).

Particulars of the Company's principal associates at 31 December 2012 and 2011 are set out in note 44.

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

Group	31/12/2012 RMB'000	31/12/2011 RMB'000
Total assets	5,960,126	4,805,540
Total liabilities	4,285,649	3,279,543
Net assets	1,674,477	1,525,997
Group's share of net assets of associates	561,186	510,300

	2012 RMB'000	2011 RMB'000
Revenue	9,707,294	9,418,298
Profit for the year	418,145	414,160
Group's share of profits of associates for the year	153,967	142,578

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19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Group	**31/12/2012**	31/12/2011
	RMB'000	RMB'000
Non-current		
Legal person shares, at fair value (note a)	**312**	1,112
Unlisted equity investments, at cost (note b)	**36,046**	36,046
Unlisted managed investment funds, at cost (note c)	**–**	215,650
	36,358	252,808
Current		
Unlisted investments, at cost (note d)	**210,861**	104,942
Unlisted managed investment funds, at cost (note c)	**430,391**	133,033
	641,252	237,975
Total	**677,610**	490,783

Company	**31/12/2012**	31/12/2011
	RMB'000	RMB'000
Non-current		
Legal person shares, at fair value (note a)	**312**	1,112
Unlisted equity investments, at cost (note b)	**3,423**	3,423
Unlisted managed investment funds, at cost (note c)	**–**	215,650
	3,735	220,185
Current		
Unlisted managed investment funds, at cost (note c)	**430,391**	133,033
Total	**434,126**	353,218

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS (continued)

Notes:

(a) These represent investments in legal person shares of certain PRC listed companies. The legal person shares are measured at fair value at the end of the reporting period.

(b) These represent investments in certain unlisted companies in the PRC. The unlisted equity investments are measured at cost less any identified impairment loss at the end of the reporting period because the range of reasonable fair value estimates is so significant that directors are of the opinion that their fair values cannot be measured reliably.

(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% (2011: 7.0% to 9.0%) per annum. The investments which will mature within 1 year from the end of the reporting period are presented as current assets and investments which will mature over 1 year from the end of the reporting period are presented as non-current assets.

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

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20. HELD-TO-MATURITY FINANCIAL ASSETS

Group	**31/12/2012**	31/12/2011
	RMB'000	RMB'000
Non-current		
Unlisted PRC government certificate bonds with fixed interest of 4.0% (2011: 4.0%) per annum and maturity date in 2014	**37,216**	35,920
Listed corporate bond with fixed interest of 7.1% (2011: 7.1%) per annum and maturity date in 2014	**202,406**	202,445
	239,622	238,365
Current		
Unlisted PRC government certificate bonds with fixed interest of nil (2011: 3.73%) and maturity date less than one year	**–**	145,191
Total	**239,622**	383,556

Company	**31/12/2012**	31/12/2011
	RMB'000	RMB'000
Non-current		
Unlisted PRC government certificate bonds with fixed interest of 4.0% (2011: 4.0%) per annum and maturity date in 2014	**37,216**	35,920
Listed corporate bond with fixed interest of 7.1% (2011:7.1%) per annum and maturity date in 2014	**202,406**	202,445
	239,622	238,365
Current		
Unlisted PRC government certificate bonds with fixed interest of nil (2011: 3.73%) and maturity date less than one year	**–**	145,191
Total	**239,622**	383,556

The carrying amounts of the Group's and Company's unlisted held-to-maturity financial assets approximate their fair value. The carrying amounts of the listed held-to-maturity financial assets of the Group and the company approximate their fair value as referenced to quoted prices in active markets.

21. TERM DEPOSITS

Term deposits placed with banks in the PRC are denominated in RMB. Deposits having a maturity period over 3 months but within 1 year are presented as current assets whilst deposits having a maturity period over 1 year but not exceeding 5 years are presented as non-current assets.

As at 31 December 2012, restricted term deposits amounting to RMB4,381,000,000 (2011: RMB2,981,200,000) are placed by a subsidiary with certain banks as a security for coupons issued to customers and are not available for other use by the Group.

The effective interest rates on term deposits range from 2.86% to 5.13% (2011: 2.75% to 5.13%) per annum. The carrying amounts of the term deposits of the Group and the Company approximate their fair value.

22. PREPAID RENTAL

Prepaid rental is for the lease of certain store premises and is amortised over the relevant lease periods. Prepaid rental, amounting to RMB366,247,000 (2011: RMB365,572,000), to be charged to the consolidated statement of comprehensive income within one year subsequent to the end of the reporting period is included in current assets as prepayments (see Note 27).

23. DEFERRED TAXATION

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

Group	**31/12/2012**	31/12/2011
	RMB'000	RMB'000
Deferred tax assets	**200,951**	142,213
Deferred tax liabilities	**(84,619)**	(47,261)
	116,332	94,952

Company	**31/12/2012**	31/12/2011
	RMB'000	RMB'000
Deferred tax assets	**6,084**	7,196

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23. DEFERRED TAXATION (continued)

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

Group	Fair value adjustments on buildings upon business combination RMB'000	Pre-operating expenses RMB'000	Bad debt and inventory provisions RMB'000	Accrued expenses RMB'000	Accrued income RMB'000	Rental expenses RMB'000	Total RMB'000
At 1 January 2011	(49,318)	1,248	4,978	14,269	–	100,865	72,042
Credit (charge) to profit or loss	2,057	(854)	(653)	4,672	–	17,688	22,910
At 31 December 2011	(47,261)	394	4,325	18,941	–	118,553	94,952
Credit (charge) to profit or loss	2,057	354	(244)	39,340	(39,415)	19,288	21,380
At 31 December 2012	**(45,204)**	**748**	**4,081**	**58,281**	**(39,415)**	**137,841**	**116,332**

Company	Deferred tax assets in respect of bad debt and accrued expenses RMB'000
At 1 January 2011	8,730
Credit to profit and loss	(1,534)
At 31 December 2011	7,196
Credit to profit and loss	(1,112)
At 31 December 2012	**6,084**

23. DEFERRED TAXATION (continued)

The Group has unutilised tax losses of approximately RMB1,341,898,000 (2011: RMB746,879,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unutilised tax losses due to the unpredictability of future profit streams. The unrecognised tax losses will expire as follows:

Group	**31/12/2012** **RMB'000**	31/12/2011 RMB'000
Year of expiry		
2012	**–**	17,327
2013	**50,049**	50,074
2014	**301,356**	301,584
2015 to 2017 (2011: 2014 to 2016)	**990,493**	377,894
	1,341,898	746,879

24. OTHER NON-CURRENT ASSETS

Other non-current assets of the Group and the Company represent prepayment for the leasing of certain buildings from government and are amortised over the shorter of the contract periods and the estimated useful lives of the buildings.

Amongst the amortisation of RMB1,523,000 (2011: RMB1,523,000), RMB1,335,000 (2011: RMB1,335,000) and RMB188,000 (2011: RMB188,000) were included in selling and distribution expenses and administrative expenses respectively.

25. INVENTORIES

Group	**31/12/2012** **RMB'000**	31/12/2011 RMB'000
Merchandise for resale	**3,041,464**	3,406,886
Write-down for obsolescence	**(6,910)**	(4,582)
	3,034,554	3,402,304
Low value consumables	**21,069**	18,518
	3,055,623	3,420,822

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25. INVENTORIES (continued)

Company	31/12/2012 RMB'000	31/12/2011 RMB'000
Merchandise for resale	**516,159**	450,661
Low value consumables	**–**	2,008
	516,159	452,669

26. TRADE RECEIVABLES

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

Group	31/12/2012 RMB'000	31/12/2011 RMB'000
Within 30 days	**104,915**	81,582
31-60 days	**5,922**	698
61-90 days	**2,177**	114
91 days – one year	**693**	3,662
	113,707	86,056

Movement in allowance for doubtful debts is as follows:

	2012 RMB'000	2011 RMB'000
1 January	**9,693**	12,162
Impairment losses recognised	**500**	–
Amounts reversed during the year	**–**	(2,469)
31 December	**10,193**	9,693

26. TRADE RECEIVABLES (continued)

Company	31/12/2012 RMB'000	31/12/2011 RMB'000
Within 30 days	**86**	117

The Group's trade receivables past due but not impaired relate to a number of independent customers for whom there is no recent history of default.

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

27. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

Group	31/12/2012 RMB'000	31/12/2011 RMB'000
Land use right – current portion (Note 15)	**5,267**	5,267
Prepaid rental (Note 22)	**366,247**	365,572
Deposits and prepayments	**124,915**	92,566
Other receivables net of allowance for doubtful debts	**444,387**	421,456
Recoverable deposit for acquisition of properties (note)	**240,000**	–
	1,180,816	884,861

Note: In 2011, the Group paid RMB300 million as deposits for acquisition of properties in Hangzhou, which was supposed for hypermarket operation by the Group. Due to delay in property development, the premises could not be transferred to the Group as scheduled in December 2012. The Group therefore came into agreement with the property developer to accept cancellation of the transaction upon full refund of the RMB300 million plus a penalty of RMB39 million. In December 2012, RMB60 million was refunded and another RMB50 million was refunded in January 2013. In accordance with the agreement between the Group and the property developer, the remaining deposit balance of RMB190 million, together with the penalty, will be settled by March 2013. Accordingly, the deposit is reclassified in current assets as an amount receivable.

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27. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (continued)

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

	2012 RMB'000	2011 RMB'000
1 January	**7,089**	7,232
Amount recovered during the year	**(1,478)**	(143)
31 December	**5,611**	7,089

Company	31/12/2012 RMB'000	31/12/2011 RMB'000
Land use right – current portion (Note 15)	**929**	929
Deposits and prepayments	**4,816**	16,708
Other receivables net of allowance for doubtful debts	**78,368**	53,070
	84,113	70,707

28. AMOUNTS DUE FROM/TO FELLOW SUBSIDIARIES

Amounts due from/to fellow subsidiaries are trade in nature, unsecured, interest free, with credit terms ranging from 30 to 60 days. As at 31 December 2012, balances of both amounts due from/to fellow subsidiaries are all aged within 60 days.

29. AMOUNTS DUE FROM/TO ASSOCIATES

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

30. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprising cash on hand and cash placed with banks in the PRC are denominated in RMB. The remittance of these funds out of the PRC is subject to the exchange control imposed by the PRC government.

Bank balances carry interest at prevailing market rates ranging from 0.35% to 3.50% per annum for the year ended 31 December 2012 (2011: ranging from 0.50% to 3.50% per annum).

31. TRADE PAYABLES

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

Group	**31/12/2012**	31/12/2011
	RMB'000	RMB'000
Within 30 days	**2,370,670**	2,547,329
31-60 days	**822,974**	839,162
61-90 days	**332,375**	365,848
91 days – one year	**769,635**	667,107
	4,295,654	4,419,446

Company	**31/12/2012**	31/12/2011
	RMB'000	RMB'000
Within 30 days	**1,116,132**	1,462,937
31-60 days	**540,195**	473,021
61-90 days	**189,227**	196,203
91 days – one year	**476,985**	384,641
	2,322,539	2,516,802

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32. OTHER PAYABLES AND ACCRUALS

Group	31/12/2012 RMB'000	31/12/2011 RMB'000
Payroll, staff welfare and other staff cost payable	323,379	310,248
Value added tax and other payables	236,286	316,387
Rental payable	648,568	546,454
Deposits from lessees, franchisees and other third parties	166,758	162,206
Amount payable to other retailers upon customers' redemption of coupon issued by the Group	6,283	49,325
Prepayments	305,792	224,475
Payables for acquisition of property, plant and equipment	199,468	221,205
Store closure provision	28,578	49,046
Accruals	86,215	108,398
Advance from customers	136,010	139,392
Other miscellaneous payables	76,419	77,234
	2,213,756	2,204,370

Company	31/12/2012 RMB'000	31/12/2011 RMB'000
Payables for acquisition of property, plant and equipment	12,481	18,301
Accruals	26,870	30,731
Other miscellaneous payables	14,267	23,132
	53,618	72,164

33. COUPON LIABILITIES

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

34. BANK BORROWINGS

Group	31/12/2012	31/12/2011
	RMB'000	RMB'000
Bank loans, repayable within one year, unsecured, with interest rate of 7.08% (2011:7.50%) per annum	**2,000**	2,000

35. SHARE CAPITAL

	Number of shares of RMB1.00 each		Nominal value	
	31/12/2012	31/12/2011	**31/12/2012**	31/12/2011
			RMB'000	RMB'000
Registered, issued and fully paid:				
At 1 January	**1,119,600,000**	622,000,000	**1,119,600**	622,000
Increased (note)	**–**	497,600,000	**–**	497,600
At 31 December	**1,119,600,000**	1,119,600,000	**1,119,600**	1,119,600

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35. SHARE CAPITAL (continued)

The share capital of the Company as at 31 December 2012 and 2011 comprises:

	Number of shares of RMB1.00 each		Nominal value	
	31/12/2012	31/12/2011	**31/12/2012**	31/12/2011
			RMB'000	RMB'000
Domestic shares	**639,977,400**	639,977,400	**639,977**	639,977
Unlisted foreign shares	**107,022,600**	107,022,600	**107,023**	107,023
H shares	**372,600,000**	372,600,000	**372,600**	372,600
	1,119,600,000	1,119,600,000	**1,119,600**	1,119,600

Note: In 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"). In August 2011, the Bonus Issue was approved by the relevant authorities in the PRC and became effective in September 2011. Upon the Bonus Issue, the share capital of the Company increased by RMB497,600,000 and the capital reserve decreased correspondingly by the same amount.

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

36. CAPITAL RISK MANAGEMENT

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

The capital structure of the Company generally represents equity attributable to owners of the Company, comprising issued share capital, various reserves and retained earnings.

The management of the Group reviews the capital structure regularly. The Company considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through the payment of dividends, new share issues as well as raising of borrowings.

37. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

Financial assets

Group	31/12/2012 RMB'000	31/12/2011 RMB'000
Held-to-maturity investments	**239,622**	383,556
Available-for-sale financial assets	**677,610**	490,783
Loans and receivables (including cash and cash equivalents)	**11,380,305**	10,541,022
	12,297,537	11,415,361

Company	31/12/2012 RMB'000	31/12/2011 RMB'000
Held-to-maturity investments	**239,622**	383,556
Available-for-sale financial assets	**434,126**	353,218
Loans and receivables (including cash and cash equivalents)	**7,289,765**	7,474,192
	7,963,513	8,210,966

Financial liabilities

Group	31/12/2012 RMB'000	31/12/2011 RMB'000
Bank borrowings	**2,000**	2,000
Other financial liabilities, at amortised cost	**5,847,450**	5,980,160
	5,849,450	5,982,160

Company	31/12/2012 RMB'000	31/12/2011 RMB'000
Bank borrowings	**–**	–
Other financial liabilities, at amortised cost	**3,235,494**	3,518,199
	3,235,494	3,518,199

37. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies

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

Interest rate risk

The Group and the Company is exposed to fair value interest rate risk in relation to fixed-rate held-to-maturity financial assets. The Group and the Company currently does not have an interest rate hedging policy to mitigate the fair value interest rate risk, nevertheless, the management monitors interest rate exposure and will consider hedging significant fair value interest rate risk should the need arise.

The Group and the Company is also exposed to cash flow interest rate risk in relation to variable-rate bank balances, terms deposits, available-for-sale financial assets and a bank borrowing. It is the Group's and the Company's policy to keep a portion of its financial assets at floating rate of interests so as to minimise the fair value interest rate risk. The Group's and Company's cash flow interest rate risk is mainly concentrated on the fluctuation of the People's Bank of China benchmark rates.

The sensitivity analysis below has been determined based on the exposure to interest rates for the Group's and the Company's variable-rate bank balances and team deposits. The analysis is prepared assuming the variable-rate financial assets outstanding at the end of the reporting period were outstanding for the whole year. A 10-basis point (2011: 10-basis point) increase or decrease in the interest rates is the sensitivity rate used when reporting interest risk internally to key management personal and represent management's assessment of the reasonably possible change in interest rates.

If the interest rate had been 10-basis point (2011: 10-basis point) higher/lower and all other variables were held constant, the Group's post-tax profit for the years ended 31 December 2012 and 2011 would have been increased/decreased by approximately RMB8,435,073 and RMB7,517,250 whilst the Company's post-tax profit for the years ended 31 December 2012 and 2011 would have been increased/decreased by approximately RMB621,455 and RMB985,500.

37. FINANCIAL INSTRUMENTS (continued)

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

Other price risk

The Group and the Company was exposed to equity price risk through its available-for-sale financial assets in legal person shares which were measured at fair value at each balance sheet date. These legal person shares were under undertaking not for trading for certain periods and the Group and the Company disposed of a substantial portion during the year ended 31 December 2012 upon release of the restriction. In management's opinion, the sensitivity of legal person shares is then insignificant to the Group and the Company.

Credit risk

As at 31 December 2012, the Group and the Company's maximum exposure to credit risk which will cause a financial loss to the Group and the Company due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group and the Company has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group and the Company reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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

The credit risk on liquid funds comprising bank balances and short-term term deposit, is limited because the counterparties are banks with high reputation in the PRC. In addition, the credit risk on long-term term deposit and available-for-sale financial assets is also limited because the counterparties are either banks with high reputation or nationwide and regional renowned financial institutions in the PRC.

The Group's and the Company's unlisted government certificate bonds classified as held-to-maturity financial assets are issued by the PRC government which poses the Group and the Company at insignificant credit risk. The Group's and the Company's listed corporate bonds classified as held-to-maturity financial assets are issued by corporates with good reputation.

As at 31 December 2012, balances with the five largest bank accounted for 68.4% of total term deposits and cash and cash equivalents of the Group (2011: 65.9%). As at 31 December 2012, balances with the five largest bank accounted for 85.8% of total term deposits and cash and cash equivalents of the Company (2011: 79.4%).

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37. FINANCIAL INSTRUMENTS (continued)

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

Other price risk (continued)

Liquidity risk

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

As of 31 December 2012, the Group has net current liabilities of RMB5.6 billion (2011: RMB4.6 billion). Taking into account of the support from its holding companies, the directors of the Company consider the liquidity risk is properly monitored.

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

Group

Financial liabilities	Weighted average interest rate %	On demand or Less than 6 months RMB'000	6 months to 1 year RMB'000	Over 1 year RMB'000	Undiscounted cash flows RMB'000	Carrying amount RMB'000
As at 31 December 2012						
Trade payables	**–**	**4,295,654**	**–**	**–**	**4,295,654**	**4,295,654**
Other payables and accruals	**–**	**1,507,090**	**–**	**–**	**1,507,090**	**1,507,090**
Amounts due to fellow subsidiaries	**–**	**35,802**	**–**	**–**	**35,802**	**35,802**
Amounts due to associates	**–**	**8,904**	**–**	**–**	**8,904**	**8,904**
Bank borrowings	**7.08**	**–**	**2,142**	**–**	**2,142**	**2,000**
		5,847,450	**2,142**	**–**	**5,849,592**	**5,849,450**
As at 31 December 2011						
Trade payables	–	4,419,446	–	–	4,419,446	4,419,446
Other payables and accruals	–	1,475,070	–	–	1,475,070	1,475,070
Amounts due to fellow subsidiaries	–	72,630	–	–	72,630	72,630
Amounts due to associates	–	13,014	–	–	13,014	13,014
Bank borrowing	7.50	–	2,151	–	2,151	2,000
		5,980,160	2,151	–	5,982,311	5,982,160

37. FINANCIAL INSTRUMENTS (continued)

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

Other price risk (continued)

Liquidity risk (continued)

Company

Financial liabilities	Weighted average interest rate %	On demand or Less than 6 months RMB'000	6 months to 1 year RMB'000	Over 1 year RMB'000	Undiscounted cash flows RMB'000	Carrying amount RMB'000
As at 31 December 2012						
Trade payables	–	2,322,539	–	–	2,322,539	2,322,539
Other payables and accruals	–	53,209	–	–	53,209	53,209
Amounts due to subsidiaries	–	817,660	–	–	817,660	817,660
Amounts due to fellow subsidiaries	–	33,182	–	–	33,182	33,182
Amounts due to associates	–	8,904	–	–	8,904	8,904
		3,235,494	–	–	3,235,494	3,235,494
As at 31 December 2011						
Trade payables	–	2,531,064	–	–	2,531,064	2,531,064
Other payables and accruals	–	71,112	–	–	71,112	71,112
Amounts due to subsidiaries	–	882,027	–	–	882,027	882,027
Amounts due to fellow subsidiaries	–	20,982	–	–	20,982	20,982
Amounts due to associates	–	13,014	–	–	13,014	13,014
		3,518,199	–	–	3,518,199	3,518,199

(c) Fair value

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

The fair value of financial instruments traded in active markets (such as certain available-for-sale securities) is based on quoted market prices at the end of the reporting period.

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38. DISPOSAL OF A SUBSIDIARY

In May 2011, the Group disposed of a subsidiary, Luoyang Lianhua Xinyu Real Estate Co., Ltd ("Luoyang Lianhua"), at a cash consideration of RMB50,292,000. The net asset at the date of disposal is as follows:

	25/5/2011 RMB'000
Analysis of assets and liabilities over which control was lost	
Current assets	
Cash and cash equivalents	57
Trade and other receivables	751
Non-current asset	
Property, plant and equipment	44,779
Current liability	
Trade and other payables	(36,914)
Net assets disposed of	8,673
Gain on disposal of a subsidiary	
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 consolidated statement of cash flows	50,235

The impact of Luoyang Lianhua on the Group's results and cash flows is insignificant.

39. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2011, the Group issued 497,600,000 new shares by way of capitalisation, details of which are set out in note 35.

40. CAPITAL COMMITMENTS

	31/12/2012 RMB'000	31/12/2011 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment, construction of buildings and land use rights:		
– contracted for but not provided in the consolidated financial statements	**310,854**	155,056
– authorised but not contracted for	**107,907**	–

41. OPERATING LEASE

(1) The Group as lessee

	2012 RMB'000	2011 RMB'000
Minimum lease paid and recognised as an expense under operating leases during the year:		
– Land and buildings	**1,628,741**	1,528,145

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

	2012 RMB'000	2011 RMB'000
Within one year	**1,459,764**	1,346,413
In the second to fifth years inclusive	**5,211,907**	4,770,129
Over five years	**9,491,681**	8,441,395
	16,163,352	14,557,937

The minimum lease payments related to leasing of shop premises were negotiated for a lease period ranging from short to medium terms.

The operating lease rental of certain shop premises with a fellow subsidiary is based on the higher of a minimum guaranteed rental or a sales level based rental.

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41. OPERATING LEASE (continued)

(2) The Group as lessor

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

	2012 RMB'000	2011 RMB'000
Minimum lease received under operating leases in respect of shop premises during the year	**517,913**	496,966

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

	2012 RMB'000	2011 RMB'000
Within one year	**258,128**	303,105
In the second to fifth years inclusive	**339,364**	337,921
Over five years	**414,694**	343,646
	1,012,186	984,672

The minimum lease payments related to leasing of shop premises were negotiated for a lease period ranging from short to medium terms.

42. RETIREMENT BENEFIT PLANS

Defined contribution plans

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

The total cost charged to profit or loss of RMB258,661,000 (2011: RMB222,574,000) represents contributions payable to these scheme by the Group in respect of the current accounting period.

43. RELATED PARTY TRANSACTIONS

Apart from those disclosed under notes 17, 28 and 29, the Group entered into significant related party transactions during the year, the details of which are set out below:

(a) Related party transactions

	NOTES	2012 RMB'000	2011 RMB'000
Sales to fellow subsidiaries		–	9,295
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.		28,868	41,165
Purchases from fellow subsidiaries		176,029	174,249
Logistic expense paid to a fellow subsidiary		910	5,226
Rental expenses and property management fee paid to fellow subsidiaries	(i)	62,182	61,458
Rental income from fellow subsidiaries	(ii)	3,177	–
Commission income received from fellow subsidiaries	(iii)	1,264	6,471
Commission income arising from the redemption of coupon liabilities with a fellow subsidiary	(iv)	17,218	24,226
Commission charges arising from the redemption of coupon liabilities with a fellow subsidiary	(iv)	12,395	22,704

Fellow subsidiaries above are other subsidiaries of Bailian Group.

Notes:

(i) 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.

(ii) Certain areas of the Group's hypermarket are rented to fellow subsidiaries which were charged in accordance with the terms of the underlying agreements.

(iii) The commission income was received from fellow subsidiaries controlled by Bailian Group in relation to the redemption of the coupons issued by the Group in retail outlets of these related companies. The commissions were charged at a rate of 0.5% to 1.2% (2011: at rates ranging from 1.5% to 3%) of the sales made through the coupons in the retail outlets of these companies.

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For the year ended 31 December 2012

43. RELATED PARTY TRANSACTIONS (continued)

(a) Related party transactions (continued)

Notes: (continued)

(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 Bailian Group, 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% (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.

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

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("Government Related Entities") including Bailian Group. Apart from the transactions with fellow subsidiaries disclosed above, the Group has also entered into various transactions, including sales, purchase, and deposits placement, with other Government Related Entities.

In view of the nature of the retail business operated by the Group, the directors are of the opinion that it is impracticable to identify the identities of the counterparties from the sales of merchandise as to whether they are Government Related Entities.

During the two years, significant amount of the Group's purchase were from Government Related Entities and most of the Group's deposits are placed with banks which are also Government Related Entities.

(c) Key management compensation

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

	2012	2011
	RMB'000	RMB'000
Salaries and other short-term employee benefits	**13,670**	15,096
Post-employment benefits	**447**	372
Other long-term benefits	**150**	124
	14,267	15,592

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

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES

Details of the Company's principal subsidiaries and associates at 31 December 2012 and 31 December 2011 are as follows:

Name of entities	Date of establishment	Registered and fully paid capital RMB'000	Proportion voting power and ownership interest held by the Company Directly 2012 %	Directly 2011 %	Indirectly 2012 %	Indirectly 2011 %	Principal activities
(a) Subsidiaries							
Tianjin Yishang Lianhua Supermarket Co., Ltd.	1 September 2002	30,000	**100.00**	80.00	**–**	–	Hypermarket
Shanghai Century Lianhua Supermarket Development Co., Ltd.	24 November 1997	500,000	**100.00**	100.00	**–**	–	Hypermarket
Hangzhou Lianhua Huashang Group Co., Ltd.	1 June 2001	120,500	**74.19**	74.19	**–**	–	Supermarket and hypermarket
Lianhua Supermarket Jiangsu Co., Ltd.	21 March 2003	50,000	**100.00**	100.00	**–**	–	Supermarket and hypermarket
Guangxi Lianhua Supermarket Joint Stock Co., Ltd.	18 November 2001	68,670	**95.00**	95.00	**–**	–	Supermarket and hypermarket
Shanghai Lianhua Supermarket Development Co., Ltd.	8 April 2006	10,000	**100.00**	100.00	**–**	–	Supermarket
Lianhua Quik Stores Co., Ltd.	25 November 1997	63,000	**100.00**	100.00	**–**	–	Convenience store
Shanghai Lianhua Commercial Trading Co., Ltd.	27 June 2001	3,000	**30.00**	30.00	**65.00**	65.00	Wholesaling
Shanghai Lianhua Supermarket Distribution Co., Ltd.	29 October 1998	5,000	**90.00**	90.00	**10.00**	10.00	Purchase and distribution
Lianhua Logistic Co., Ltd.	17 October 2007	50,000	**100.00**	100.00	**–**	–	Purchase and distribution
Shanghai Lianhua Supermarket Jilin Purchase and Distribution Co., Ltd.	9 August 2000	1,000	**51.00**	51.00	**–**	–	Purchase and distribution
Shanghai Lianhua Live and Fresh Food Processing and Distribution Co., Ltd.	29 December 1999	5,000	**90.00**	90.00	**–**	–	Fresh food processing and distribution
Lianhua E-business Co., Ltd.	4 October 1995	55,000	**90.91**	90.91	**–**	–	Trading
Hualian Supermarket Holdings Company Limited	15 August 2006	300,000	**99.40**	99.40	**0.60**	0.60	Supermarket
Shanghai Bei Heng Investment Management Co., Ltd.	27 October 2011	30,000	**100.00**	100.00	**–**	–	Investment management

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44. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Name of entities	Date of establishment	Registered and fully paid capital	Proportion voting power and ownership interest held by the Company				Principal activities
		RMB'000	Directly		Indirectly		
			2012	2011	**2012**	2011	
			%	%	**%**	%	
(b) Associates							
Shanghai Carhua Supermarket Co., Ltd.	8 February 1995	417,497	**45.00**	45.00	**–**	–	Hypermarket
Tianjin Yishang Friendship Holdings Co.,Ltd.	27 October 1998	220,277	**20.00**	20.00	**–**	–	Department stores

The above table lists the principal subsidiaries and associates of the Group which, in the opinion of the directors, affected the results or assets of the Group. To give details of other subsidiaries and associates would, in the opinion of the directors, result in excessive length.

All of the subsidiaries and associates described above are limited liability companies established in the PRC. None of the subsidiaries had issued any debt securities at the end of the years.

45. AUTHORISATION FOR THE ISSUE OF THE ACCOUNTS

These consolidated financial statements were authorised for issue by the Company's Board of Directors on 25 March 2013.

LIANHUA SUPERMARKET HOLDINGS CO., LTD.

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