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

Stock Code: 0980

Interim Report 2013

Contents

Corporate Information

Directors

Executive Directors

Mr. Hua Guo-ping
Ms. Xu Ling-ling
Ms. Cai Lan-ying
Mr. Tang Qi (resigned on 18 June 2013)
Ms. Qi Yue-hong (appointed on 18 June 2013)

Non-Executive Directors

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

Independent Non-Executive Directors

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

Board Committees

Audit Committee

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

Remuneration and Appraisal Committee

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

Strategic Committee

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

Nomination Committee

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

Supervisors

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

Company Secretary

Ms. Xu Ling-ling

Authorized Representatives

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

International Auditor

Deloitte Touche Tohmatsu

Legal Advisors to the Company

As to Hong Kong Laws

Eversheds

As to People's Republic of China ("PRC") laws

Grandall Law Firm (Shanghai)

Investors and Media Relations Consultant

Christensen International Limited

Principal Bankers

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

Corporate Information

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Shareholders' Enquiries

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

Share Information

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

Listing Date
27 June 2003

SEHK Stock Code
980

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

Financial Year-end Date
31 December

Management Discussion and Analysis

Operating Environment

During the first half of 2013, both the domestic and global economy experienced cyclical changes and were clouded by many uncertainties. At the international level, despite signs of recovery in the U.S. economy, other developed economies, including the European region and Japan, were still below expectations. Domestically, consumer goods market growth slowed because of downward pressure on the economy. The challenges faced by China's retail chain enterprises escalated as a result of changes to segment structure, business models and the structure of the industry.

According to the National Bureau of Statistics, the gross domestic product (GDP) in China was RMB24.8 trillion during the first half of 2013, representing a year-on-year increase of 7.6%, with an increase of 7.7% in the first quarter and 7.5% in the second quarter. The GDP growth rate slowed down.

On the other hand, in the first half of 2013, the income of urban and rural residents continued to grow relatively quickly, but at a slower pace when compared with that of last year. Per capita total income of urban residents reached RMB14,913 and per capita total disposable income of urban residents was RMB13,649, which represented nominal growth of 9.1% year on year and real growth of 6.5% after excluding the effect of price changes. The real growth was 0.2 percentage point lower compared with the first quarter of 2013 and 0.6 percentage point lower year on year. Per capita cash income for rural residents was RMB4,817, representing nominal growth of 11.9% year on year and real growth of 9.2% after excluding the effect of price changes. The real growth was 0.1 percentage point lower compared with the first quarter of 2013 and 3.2 percentage points lower year on year.

During the first half of 2013, the consumer price index (CPI) remained at a relatively low level, mainly due to effective management by the government. However, the producer price index (PPI), a leading indicator of CPI, has been negative since March 2012. In May 2013, the PPI was -2.9%, which was the lowest level since the fourth quarter of 2012. All of these indicators demonstrated the sluggish growth seen in the domestic economy and insufficient expansion of aggregate demand.

From an industry perspective, China's retail industry had experienced two decades of rapid growth. Recently, the traditional retail industry has reached an inflection point due to the combination of a variety of factors, including slower economic growth, changing consumer habits and rapid growth of e-commerce. In particular, customer traffic has also dispersed as a result of an abundance of physical retail outlets, and tightening regulations on the spending of government and state-owned enterprises (SOE). In the first half of 2013, the total retail sales of social consumer goods were RMB11,076.4 billion, representing year-on-year nominal growth of 12.7%, or 11.4% real growth after excluding the effect of price changes. The growth was 0.3 percentage point higher compared with the first quarter of 2013 and 1.7 percentage points lower year on year. According to the statistics from the China National Commercial Information Center, the accumulated retail sales growth of the 100 largest retail enterprises in China was 10.7% year on year in the first half of 2013, which was 0.3 percentage point lower than that of the same period of last year. In particular, the sales growth of food and daily necessities significantly slowed down year on year. Food sales grew by 8.4% year on year, which was 6.3 percentage points lower compared with the same period of last year. Sales of daily necessities grew by 7.5% year on year, which was 6.1 percentage points lower than the same period of last year.

Under such unprecedented challenges and pressure, China's chain supermarkets including Lianhua Supermarket Holdings Co., Ltd. (the "Company") and its subsidiaries (the "Group") felt much more pressure during the first half of 2013. Frequent price competition led to a narrowed gross margin, while sharp increase in various costs kept their profitability under pressure.

Management Discussion and Analysis

Financial Review

Growth in turnover and consolidated income

During the period under review, the Group recorded a turnover of RMB15,605 million, representing a growth of 7.0% year on year. Same store sales increased by approximately 3.72%, representing an increase of 5.41 percentage points in pace, mainly benefiting from effective merchandise promotion, maturing business district surrounding the sub-new hypermarket outlets, renovation of existing outlets as well as optimisation of product structure that resulted in higher sales. In addition, the Group was also well aware of the enduring effect of slowdown of macro-economy growth, government policies on the retail industry in terms of food safety and relationship between retailers and suppliers, as well as the impact of the obvious decrease of group consumption and rapid development of online retail on physical retail chain supermarkets. Nevertheless, the Group remained confident in consolidating its market share under fierce market competition with continuous operation improvements.

During the period under review, the Group recorded a gross profit of approximately RMB2,212 million, representing an increase of 9.9% year on year, while the gross profit margin increased by 0.38 percentage point to 14.18%, mainly benefiting from decreasing purchase cost and optimizing pricing strategy. Facing the depressed market demand, fierce competition and low-price marketing strategy of e-commerce business, the Group adjusted its marketing strategy on a timely basis and increasingly carried out a series of promotional activities to improve price perception. Therefore, the Group managed to lower its purchasing cost by intensive consolidation of resources having a competitive edge, improving merchandise negotiations as well as increasing sales rebate from suppliers.

During the period under review, consolidated income reached RMB3,741 million, representing an increase of 4.2% year on year, which was mainly attributable to (1) the steady growth in gross profit of merchandise and income from suppliers due to higher sales; and (2) overall increase in rental income from sublease of shop premises resulting from the rental increase for new and renewed sublease contracts. Consolidated income margin was 23.98%, representing a decrease of 0.64 percentage point year on year, mainly because income from suppliers did not grow in line with our expectation after the Group rationalized the 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 RMB3,033,056 thousand and RMB328,972 thousand respectively, representing an increase of 8.2% and -4.4% year on year respectively. The overall cost ratio decreased by approximately 0.04 percentage point year on year. Major cost items such as rents, labour and utilities amounted to RMB849,067 thousand, RMB1,411,061 thousand and RMB244,194 thousand respectively. Due to the drastic increase of minimum wage level and social insurance costs widely adopted by local governments in China, which led to a further increase in labour cost, the increment of labour cost accounted for 74.07% of the Group's total cost increment under the period under review. In addition, the change in the electricity tariff also led to an increase in same store utility expenses. The Group strived to minimise the impact of escalating rigid costs by continuously reinforcing its consolidation through optimising its employment system, improving rewards and punishment system and reinforcing budget management with the establishment of project cost control mechanism, thereby lowering its administrative expenses.

Management Discussion and Analysis

During the period under review, the Group recorded an operating profit of RMB320,132 thousand, representing a decrease of 23.3% year on year and an increase of 236.2% as compared to the second half of 2012. The operating profit margin decreased by 0.81 percentage point to 2.05% year on year and increased by 1.39 percentage points as compared to the second half of 2012, recording a comparative growth on moving base. The Group stepped up efforts to reverse the trend of declining operating profit by increasing sources of income and reducing expenditure. The Group exerted itself to (1) increase the turnover of hypermarket segment by adopting innovative sales management and differential operation, reinforcing non-food products operating capability and optimising profit structure; (2) establish a supplier fill rate management system to improve supplier fill rate in order to support sales, optimise and monitor irrational orders, and continuously modify and optimise the minimum order quantity and delivery schedule. Reports and statements on fill rate tracking were reinforced. Fill rates of transit warehouse suppliers and the top ten major suppliers were tracked weekly, and procurement analysis was conducted for suppliers of fill rate below 85% and measures for improvement and upgrading were adopted; (3) enhance its price strategy for merchandise promotion based on normal pricing strategies, and establish an effective market research system to ascertain the range of merchandises and deliver market research information on a timely basis, thereby optimising the market price monitoring system of the Group; (4) overcome the challenges of overall rising costs by reinforcing the employment system, establishing a specific cost control system, as well as installing and enhancing energy-efficient equipment to gain government policy support.

During the period under review, the Group's share of revenue of associated companies was RMB42,688 thousand, representing an decrease of 32.7% year on year. Affected by the sluggish market environment and policies, the sales of associated companies of the Company grew slightly. In addition, the new outlets opened in recent years were still under incubation. At the same time, due to the increase in labour cost, rental cost and advertisement expenditure, their operating cost increased and profit decreased year on year. Shanghai Carhua Supermarket Company Limited ("Shanghai Carhua") did not open new outlets during the period under review. As at 30 June 2013, Shanghai Carhua had a total of 24 outlets.

During the period under review, the tax charge of the Group was RMB128,786 thousand, representing an increase of 16.3% year on year which was mainly due to the gradual expiration of the tax holiday enjoyed by mature outlets and the requirement that each outlet to be taxed independently which prevented the Group from balancing its total profits across different regions, thereby making it difficult to maintain its current tax rate. The Group shall continue to pay attention to the fiscal supportive policy of the Chinese government and make efforts for concentrated taxing by areas. The Group shall actively strive for the financial support funds of various local governments to further lower its tax rate.

During the period under review, the Group recorded net profit attributable to shareholders of the Company of RMB190,932 thousand. The net profit margin attributable to shareholders was 1.22%. The basic earnings per share were RMB0.17 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 RMB1,361,380 thousand, mainly due to the increase in term deposits. Cash and miscellaneous bank balances as at the period end was RMB10,245,031 thousand, representing a decrease of 3.1% from the end of 2012.

For the six months ended 30 June 2013, the turnover period of the Group's trade payables was 60 days, and inventory turnover period was approximately 40 days.

During the period under review, the Group did not use any financial instruments for hedging purposes and the Group did not issue any hedging instruments as at 30 June 2013.

Growth in retail businesses

Hypermarkets

During the period under review, the turnover of the Group's hypermarket segment increased by approximately 8.7% year on year to RMB9,466,675 thousand, accounting for approximately 60.7% of the Group's turnover, representing an increase of approximately 1.0 percentage point year on year. The gross profit margin increased by 0.50 percentage point to 13.97%. Same store sales increased by approximately 3.52%. Consolidated income margin was 24.29%, representing a decrease of 0.53 percentage point year on year and an increase of 0.48 percentage point as compared to the second half of 2012. The segment operating profit was RMB187,951 thousand, representing a decrease of 6.1% year on year and an increase of 460.5% as compared to the second half of 2012. The operating profit margin decreased by 0.31 percentage point year on year to 1.99% and increased by 1.59 percentage points as compared to the second half of 2012. The Group faced increasing competition from continuous opening of new outlets in the neighborhood of its developed business areas by peer competitors as there is no restriction on commercial outlets construction of a few thousand to tens of thousands square meters. Facing challenging competition environment, the Group managed to reverse the declining trend of the hypermarket segment by leveraging its competitive advantage and 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, in line with the growing trend of consumers conducting price comparisons facilitated by the release of price information on daily necessities sold in hypermarkets by the government, the Group promoted a "Beneficial Life" (惠生活) theme marketing and promotional activities continuously. The Group firstly attracted customers by promoting selected price sensitive daily necessities to boost demand, and thereby promoted demand for non-price-sensitive products. In addition, the effectiveness of the Group's marketing and promotional activities was enhanced with refined sales and marketing strategies, rational pricing strategies as well as enhanced profit margin analysis.

	As of 30 June	
	2013	2012
Gross Profit Margin (%)	**13.97**	13.47
Consolidated Income Margin (%)	**24.29**	24.82
Operating Profit Margin (%)	**1.99**	2.30

Management Discussion and Analysis

Supermarkets

During the period under review, the turnover of the Group's supermarket segment increased by approximately 4.4% year on year to RMB5,201,577 thousand, which accounted for approximately 33.3% of the Group's turnover. Same store sales increased by approximately 3.37%. Gross profit increased by 6.0% year on year to RMB746,163 thousand, and gross profit margin increased by 0.21 percentage point year on year to 14.34%. Consolidated income margin of the supermarket segment was 22.07%, representing a decrease of 0.29 percentage point year on year. The segment operating profit was RMB195,467 thousand, and the operating profit margin was 3.76%. During the period under review, as constrained by the effects of the operating environment, including competition pressure from hypermarket and convenience store segments, the escalating rigid costs, gradual adjustment or withdrawal of the operation models well-received by consumers and the sharp rental cost increases upon expiry of lease terms of mature outlets, the competitiveness of the supermarket segment was impacted. Great pressure on performance improvement was induced, and there was a need to speed up outlet transformation. As such, the supermarket segment concentrated primarily on fresh produce operations, deepened outlet transformation, forged ahead with the key outlet strategy, made progress in merchandise optimisation through enhancing core merchandises, established a price monitoring mechanism, enhanced the effects of joint sales, achieved an increase of wholesale to franchisees and thus consolidated the market share.

	As of 30 June	
	2013	2012
Gross Profit Margin (%)	**14.34**	14.13
Consolidated Income Margin (%)	**22.07**	22.36
Operating Profit Margin (%)	**3.76**	4.03

Convenience Stores

During the period under review, in view of increasing competition, the convenience store segment recorded a turnover of RMB917,765 thousand, representing an increase of approximately 4.9% year on year, which accounted for approximately 5.9% of the Group's turnover. With great challenges from foreign competitors and most importantly rising labour cost and rental cost, the convenience store segment endured sharp operating pressures. To strengthen competitiveness, the segment actively upgraded mature outlets in recent years, increased investment in convenience store service facilities and enhanced sales of core merchandises. Meanwhile, the segment segregated the market, through efforts of establishing a niche in the high-end market, deepened the optimisation of merchandise mix, implemented a marketing mode of operation with core merchandise and core services, and explored to make use of the outlet advantage to provide more value-added services. Same store sales increased by approximately 8.88%. Gross profit margin was 15.60%, representing an increase of 0.34 percentage point year on year. Consolidated income margin was 24.01%, representing a slight increase of 0.02 percentage point year on year. Despite the fact that there was good performance in some store sales, due to the rise in labour cost and rental cost by RMB22,421 and RMB9,487 respectively, operating profit of the segment was RMB-35,622 thousand and operating profit margin dropped to -3.88%, both showing year-on-year decrease. The Group had sped up the pace of transformation and upgrade and explored ways of increasing the proportion of franchising for the convenience store segment to reverse its declining profit trend.

	As of 30 June	
	2013	2012
Gross Profit Margin (%)	**15.60**	15.26
Consolidated Income Margin (%)	**24.01**	23.99
Operating Profit Margin (%)	**-3.88**	0.19

Management Discussion and Analysis

Financial results analysis

	Six months ended 30 June RMB million		
	2013	2012	**Year-on-year change** *(%)*
Turnover	**15,605**	14,580	7.0
Gross profit	**2,212**	2,012	9.9
Consolidated income	**3,741**	3,590	4.2
Operating profit	**320**	417	-23.3
Taxation	**129**	111	16.2
Profit attributable to shareholders of the Company for the period	**191**	332	-42.5
Basic earnings per share *(RMB)*	**0.17**	0.30	-43.3
Interim dividend per share *(RMB)*	**No distribution**	0.08	Not applicable

Capital structure

As at 30 June 2013, the Group's cash equivalents were mainly held in Renminbi, and the Group had no other bank borrowings except for existing borrowing 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 RMB3,768,680 thousand to approximately RMB3,912,043 thousand, which was mainly due to the profit for the period amounting to approximately RMB234,034 thousand, dividends distribution amounting to approximately RMB78,372 thousand, dividend payment to non-controlling interests amounting to RMB12,299 thousand.

Details of the Group's pledged assets

As at 30 June 2013, the Group did not pledge any assets.

Exposure to foreign exchange risk

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

Share capital

As at 30 June 2013, the issued share capital of the Company was as follows:

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

Contingent liabilities

As at 30 June 2013, the Group did not have any material contingent liabilities.

Management Discussion and Analysis

Operating Review

Outlet development

In line with the strategic goal of "Becoming a Regional Leader and a National Strong Player", the Group strictly emphasized the principle of quality enhancement and steadily promoted its strategy of focused development during the period under review. In response to the market changes in 2013, the Group carefully planned its outlet expansion, continuously optimized its processes related to new outlet launches, and timely streamlined underperforming outlets, ensuring a steady and healthy outlet expansion for all segments.

During the period under review, one new hypermarket was opened, which was in Hangzhou, Zhejiang Province. The Group continued its in-depth development in Shanghai and in Zhejiang Province, where it had a dominant position while committing itself to exploring suitable commercial outlets and actively fostering newly-opened outlets by increasing merchandise categories and functions in stores. Meanwhile, the Group took the initiative to streamline underperforming outlets and continued its efforts to optimize the quality of its outlets after a prudent research and review process that took economic conditions into consideration.

During the period under review, 63 new supermarkets were opened, including 11 directly-operated stores and 52 franchised stores. The Group continued to significantly improve the quality of its supermarket segment by optimizing the layout of its outlets and balancing rental costs and the quality of new outlets. For existing outlets, the Group primarily focused on renewing rental contracts. For new directly-owned outlets, the Group concentrated on a number of issues, such as location, property conditions and segment positioning in order to improve outlet quality. For franchised stores, the Group further optimized the opening process, strengthened standards for new outlets, further streamlined signage, logos and interior decoration, and tightened the management standards of outlets. These measures have helped to ensure the sustainable development of the supermarket segment while maintaining reasonable scale.

During the period under review, 85 new convenience stores were opened, including 30 directly-operated stores and 55 franchised stores, which continuously showed stable development. During the period under review, the Group continued to promote its store renovation and transformation project in this segment with 126 stores transformed. The ongoing strategy is primarily focused on optimizing the positioning, shopping environment and merchandise display of the outlets; finding new franchising models and improving the quality of franchised stores; optimizing the product mix and enhancing the brand image by accelerating the development of high-end stores. During the period under review, the convenience store segment also improved the structure and quality of existing directly-operated stores by closing certain outlets that management believed had limited potential.

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As at 30 June 2013, the Group had a total of 4,637 outlets, representing a decrease of 61 outlets since the end of 2012 mainly due to the lower-than-expected overall growth rate of franchised stores resulting from the lack of market demand which was affected by the weak operating environment during the period under review. Approximately 84% of the Group's outlets are located in Eastern China.

	Hypermarkets	Supermarkets	Convenience Stores	Total
Direct operation	155	647	957	1,759
Franchised operation	–	1,869	1,009	2,878
Total	155	2,516	1,966	4,637

Note: As at 30 June 2013.

Strengthened operating system

During the period under review, facing the pressure and challenges in the consumer goods market, the Group proactively strengthened its operating system and paid attention to the changes of consumer demand. It enhanced the operating capabilities of outlets through transformation, reinforced price management, optimized product mix, improved the supplier structure and enhanced the capacity for sales.

Outlet transformation is an effective way to increase the intrinsic value of outlets and push up sales. With rapid economic development, upgrading consumer demand and improved laws and regulations, segment transformation became common. During the period under review, the Group enhanced the competitiveness of its individual outlet and promoted outlet transformation by improving and expanding the services offered at outlets. The Group focused on upgrading outlets and functions in its hypermarket segment. Meanwhile, it continued to expand the coverage and frequency of market surveys. These surveys mainly served to compare and gather information on pricing, merchandise display, promotional activities, in-store atmosphere, and other such criteria. By analyzing the results and learning from the successes of competitors, the researches and surveys helped the Group improve various aspects of its outlets, including overall image, merchandise display and in-store atmosphere. The Group made the express store model the focus of transformation in its supermarket segment and attempted to replicate the approach, from adjusting the layout of outlets to streamlining staffing and optimizing the merchandise mix, from one store to another. The Group completed the transformation and renovation of eight outlets during the period under review. The Group continued to strive to establish "lean but reinforced" convenience store outlets – achieving "leanness" by deemphasizing merchandise and items that have slower turnover in order to better cater to regional customers and reduce inventory levels; and achieving "reinforcement" by quickly replenishing stock of best-selling merchandise and increasing the supply of related merchandise. Meanwhile, the Group also began to develop high-end convenience stores by focusing on essential merchandise and services and improving the image of outlets. During the period under review, eight high-end stores were opened.

Management Discussion and Analysis

During the period under review, the Group further improved its merchandise categories and price management to streamline work flow between the operation and procurement teams. During the period under review, the Group established a new set of merchandise classifications and clarified the operating targets and strategies of different merchandise categories to improve the management of merchandise. The operational reforms also drove reforms of management and operating processes. The Group chose essential merchandise of individual outlet as a breaking point to upgrade management level. By optimizing essential merchandise selection, promoting display standardization, and reinforcing the execution, tracking and analysis of sales, the Group boosted the sales percentage of essential merchandise and further realized its growth potential. During the period under review, the Group streamlined the implementation of direct marketing (DM) merchandise and the tracking of price subsidies through greater collaboration between the operation and procurement teams. This also helped to integrate resources and increase sales and profitability, facilitating the transformation of profitability model. The Group improved the overall price perception and pricing system by establishing an extensive tracking and monitoring system for important market indicators, especially merchandise pricing. Meanwhile, in addition to daily monitoring overall gross profits, the Group also strictly maintained its gross margin levels by regularly analyzing and streamlining the pricing of promotional merchandise. During the period under review, the Group also took the initiative to improve internal service within the Group. By adopting the idea that "Everyone is our customer" (除我之外皆顧客), the Group attempted to motivate its employees and enhance internal collaboration. After implementing several projects across different departments and business segments, the Group believes the communication and interaction between headquarters and outlets has improved, which is expected to help gradually improve both the management and profitability of outlets.

During the period under review, in the "Beneficial Life" promotional sales campaign, which was launched in August 2012 and includes over 250 daily necessities that are highly price sensitive, both customer traffic and sales maintained growing momentum and sales grew by more than 30% year on year in particular. Efforts were made to improve product management in "Beneficial Life", including standardizing merchandise displays and decorations, improving inventory management, analyzing sales and gross profit performance in a timely manner, and streamlining cost analysis and management. During the period under review, the Group enhanced promotional activities and launched a series of targeted theme promotions to attract customer traffic, including a 25% discount for non-food products, a clearance sale for textile products, and others. The Group also promoted seasonal products to boost sales growth and identified other merchandise with growth potential based on the constant monitoring of the latest trends. The Group used seasonal products to stimulate sales and sorted them out according to their concept and nature, set display plan simultaneously, offered more guidelines and recommendations to customers and helped outlets boost sales of seasonal products.

During the period under review, the Group proactively optimized its product mix to meet diversified customer demand and increase customer traffic and sales. The Group continued to strengthen the connection between production and sales of fresh produce by eliminating unnecessary middleman and continued to strengthen its reach. As at 30 June 2013, the Group had 319 fresh produce supply bases and sales of produce from the Group's own production bases increased by approximately 21.22% year on year. By leveraging these fresh produce distribution centers, the Group also continued to develop new processed produce and optimized the selection of self-processed produce to match the needs of retail outlets. In supermarket segment, the Group boosted the

Management Discussion and Analysis

sales of chilled seafood products by introducing more suppliers, fine tuning the pricing strategy, and tightening the monitoring of fruit, vegetable and seafood to lower spoilage and increase gross profit margins. In the convenience store segment, a variety of new promotions for fresh produce were also launched and new suppliers for fresh food bento boxes were added. The sell-through rate of bento boxes increased from less than 50% to over 70%, and even hit over 85% in certain high-end stores, mainly as a result of the new supplier.

Private label products have become an effective tool in the sluggish market and amid fierce competition in the global chain supermarket industry. During the period under review, absolute sales of private label products saw a year-on-year increase of approximately 5.14%, accounting for 3.5% of the total sales. The steady year-on-year sales growth was mainly a result of the development of new products and a greater number of promotions for private label products. During the period under review, the Group focused on improving its produce classification system and optimizing its sourcing channels for imported produce, recording a significant rise in purchasing amount of direct import products.

During the period under review, efforts were made to accelerate the construction of information systems and logistics system so as to further improve the management and operation of the Group's business. By establishing a unified and improved corporate information management platform, the Group enhanced processes and communication between different business units, which helped optimizing the operation of the business. The unified payment system was improved to include the processing of both rent and merchant payments. During the period under review, the Group continued its efforts to improve its finance and cash management system and built a direct link between banks and the Group in order to provide extensive daily statistics on cash to help improve cash utilization. The Group also improved the efficiency of its supplier management by enhancing its B2B management system. It strengthened suppliers licensing management, improved transparency of supplier payments, and introduced online tools for payment verification and new products. The Group also boosted the utilization rate of its existing logistics system while the Jiangqiao logistics center project progressed smoothly and on schedule. The new logistics center is expected to conduct its first full trial run by the end of 2013. After acquiring land for the new logistics center in Yangxunqiao, Zhenjiang Province in May 2013, the Group moved on to the preparation stage for project biddings.

During the period under review, the Group tightened its food safety management controls with a focus on upgrading service quality, establishing standardized systems, instructing store inspection, and intensifying link control in outlets and standardizing process management at the same time. When bird flu broke out in April 2013, measures were adopted by the Group immediately and adjustments and follow-up monitoring on product structure, resources on display, safety propaganda and marketing activities were carried out on a timely and orderly basis. The Group also shrank display cases for poultry, and increased the selling areas for pork and beef products. With greater supply and promotions for beef, vegetables and seafood and improved in-store atmosphere, the impact of this bird flu event was minimized.

Reform and innovation acceleration

During the period under review, the Group modified the charges on suppliers during 2013 supplier contracts renewal according to the principles of six ministries and commissions on charges on suppliers, removing a large amount of fee items and retaining four, namely promotion charge, logistics charge, information charge and rebates. All four items are now linked to the sales of produce to encourage suppliers to increase the sales turnover. The Group believes the change will help build stable and mutually beneficial retailer-supplier relationship.

Management Discussion and Analysis

During the period under review, the Group continued to make improvements to its membership system, and used member data to better target marketing promotions to customers. To strengthen loyalty and increase sales to members, the Group also introduced special member rates, exclusive products, and other promotions.

During the period under review, the Group optimized its positioning to attract merchants that could help increase profitability and improve brand image. Firstly, the Group adjusted and optimized its merchants sourcing model to cater to market demands, collected merchant sources that would help find high quality merchants, raised entry barriers for merchants, and introduced more brands and franchise brands, all of which helped outlets perform at a higher level. Secondly, the Group improved and its brand image by providing better public services for residents in some pilot shops. Third, the Group tried to source higher-end merchants including merchants selling luxury brands to upgrade the overall branding level of outlet. In a new 39,000 square meter hypermarkets in Hangzhou, Zhejiang Province by launching "Glora Citta" (歐凱城), or a luxury brand area featuring brands such as GUCCI, PRADA, BURBERRY, and others, the concept of one-stop shopping was renovated.

During the period under review, the Group completed the development and made adjustments to the functionality of its one-stop shopping website "Lianhua Mart" (www.lhmart.com) and adjusted online produces items and categories accordingly. The Group also attracted more online members by offering additional value-added. In the second half of the year, "Lianhua Mart" will continue to optimize its operating processes, strengthen the synergies between its online and offline business, trail delivery services through retail outlets, and promote its online shopping business.

The Group's "Sakura Kobo" cosmeceutical stores, which were launched in 2012, were also becoming ever more sophisticated. After opening another new store during the period under review, the Group had five stores under this brand as of 30 June 2013. The stores are gaining popularity among customers and providing brand new shopping experience for shoppers in their pursuit of health and beauty.

Strengthened cost control

Judging by the policy direction of the government, the rapid rising costs of labor and rent are not yet over. In reaction to this trend, the Group also adopted a series of cost control measures to cope with the pressure.

During the period under review, with a focus on "resources integration, channel optimization, management unification and cost saving", the Group creatively adjusted its hiring methodology and flexibly adjusted staff placement to keep labor costs within a reasonable range. The Group not only integrated its recruitment channel, improved the utilization of the channel and explored new models of cooperation, but also further experimented with labor outsourcing method. A project called "Taking delivery on credit" project was tested in several outlets to simplify internal procedures and improve efficiency of employees on night shifts. A "one step" concept was adopted for goods collection for retail outlets in close proximity to other outlets to increase efficiency and lower costs by decreasing the number of night shift workers. Meanwhile, the Group also saw positive results and feedbacks from carrying out program of assigning multi-functions to one position in stores which helped sorting out superfluous positions in supermarkets while lifting efficiency and providing motivations for employees.

During the period under review, the Group managed to reduce costs and enhance efficiency through various channels, exploring internal potentials such as expense-control projects and energy-saving measures. Firstly, the Group circulated and reiterated expenses control targets and measures for 2013, together with “maintenance and repairing guideline” with meaningful results. Secondly, the Group further optimized processes of bid inviting such as timeline, bidding mode, bidding document format and quotation report format for annual equipment procurement as well as improved assessment system for equipments suppliers. The scientific processes of bid inviting benefited the Group in cost control. Thirdly, the Group continued to adopt new energy-saving measures, including completing projects like: switching to LED lighting in several retail stores; upgrading water pump in central air-conditioning system and cargo lifts to frequency conversion models; renovating and installing more energy-saving control system in the Group’s cold chain logistics system; renovating the automatic cleaning system for the heat exchanger in central air-conditioning system.

Employment, Training and Development

As of 30 June 2013, the Group had a total of 56,620 employees, representing a decrease of 1,610 employees during the period under review. Total staff costs were RMB1,411,061 thousand.

During the period under review, in order to maintain staff stability and enhance the competitiveness of remuneration, the Group raised salary levels for all staff, in particular, ensured that salaries of frontline employees were competitive. For middle and senior management, the Group further aligned their compensation with business performance and implemented annual performance assessments. In addition, the Group used assessment and incentives for top talent and outstanding young management on key projects, awarding high performance with special bonuses and allowances for management trainees.

During the period under review, the Group further refined its performance evaluation and incentive system. The refined evaluation system is customized and expected to improve the management performance and overall efficiency.

During the period under review, the Group stepped up its efforts to develop management trainees and nurture its pool of future management. The Group refined its development plan for promising talent by standardizing processes and customizing programs, and focused on tracking progress and results. Meanwhile, the Group also amended and improved the career path for fresh graduates and refined entry-level training to help new recruits accommodate to their positions and career life more quickly and effectively.

During the period under review, the Group developed a customized training program for staff across all departments and levels to help better develop their careers. For newly-hired staff, the Group further improved its training program by amending the mix of courses and adjusting training pattern to aid recruits in their transition to the company. The Group also formulated specialized training programs for middle to high-level members of management, to help broaden their perspective and improve management skills. For front-line staff, the Group focused on cultivating talents, conducted standardized training programs and promoted effective traits of high achieving staff to ensure that trainees learn skills to succeed, and knowledge is inherited within the Group.

Strategy and Plan

During the first half of 2013, the overall economic situation remained sluggish. Looking out further, the Group’s management believes that the overall market will remain extremely competitive, and that there could be over supply of retailer stores in some regional markets. The increase in the overall savings rate indicates that China still has a long way to go to transform into a consumption-

Management Discussion and Analysis

driven economy. Conversely, government spending continued to shrink, which shall impact the development of relevant enterprises and industries. Sticking to its market-oriented approach to economic growth, the Chinese government is formulating a series of policies to stimulate the market to cope with the situation. Therefore, the Group's management believes that it is still possible to find significant room for growth in the second half of 2013 and beyond. The Group will adhere to its operating guideline of "Profits are Generated from Sales and Gross Profit Leads to Gains" (利潤源於銷售，毛利主導收益) while implementing the following key strategies:

Optimize business structure and strengthen competitive advantages. During the second half of 2013, in terms of development, the Group will focus on optimizing development structure by preparing for new store openings, improving the quality of new stores and increasing market share through outlet expansion. For planned projects, the Group will enhance internal and external coordination and communication to ensure that it meets annual developmental targets. With respect to existing stores, the Group will optimize structures within segments by enhancing the transformation of existing outlets and taking a series of measures to further build the brand and increase brand value. With respect to sourcing and procurement, the Group will continue to optimize its sourcing structure and improve procurement management to remove redundant procedures and lower down sourcing cost. The Group will also take measures to boost its consolidated income by working with suppliers and encouraging suppliers to invest in marketing and sales. To cope with conditions in the consumption market, the Group will optimize merchandise structure by strengthening category management, rationalizing product mix and promoting differentiation, striving to win good price image and satisfactory profiting level.

Reform to make breakthroughs and optimize the system. By leveraging economies of scale from centralized procurement, the Group strives to provide fresh products to customers at low prices. Firstly, the Group intends to make a breakthrough in the work flow between procurement and operating units, strengthening its standardization construction and thus optimizing category management. The Group will also enhance information sharing and communications among management units and between management and outlets. In addition, the Group will try to fine tune its pricing strategy so that product pricing stays in line with market demand while leaving room for a healthy gross margin. It will also strengthen the price monitoring system, source customized products when appropriate, and fully implement display of DM merchandise. Secondly, the Group intends to make a breakthrough in logistics building, fully dedicated to the construction of its Jiangqiao logistics center by assuring the installation of equipment and facilities is on schedule. Thirdly, the Group intends to optimize the merchandise sourcing system and enhance product manage, increasing the percentage of sales of key items to enhance the brand and attract customers. Fourthly, the Group will further optimize its information system and fully utilize it to strengthen its operations and allow for greater use of data analysis to help manage the business.

Improve profitability through innovation. The Group will continue its focus on segment innovation, commodity innovation, marketing innovation, and commercial innovation. While consolidating and developing new segments, the Group will speed up the pace of their synergies with existing segments to enhance output per unit. The Group will ease homogenization by commodity innovation. Specifically, the Group will: step up efforts in development and management of key merchandise; enrich the merchandise resource of existing segments by enhanced synergy with e-commerce and cosmeceutical stores; accelerate the introduction of new products. With more and more fierce competition, the Group will enhance its marketing innovation to avoid pure price promotion, in particular, attracting young customers via modern media. The Group will attract new merchants and enhance amenities in commercial areas for merchants to increase their contribution to sales.

Tighten cost control and improve efficiency. With the tough economic conditions and ongoing rising costs, the key to enhance competitiveness is to continue controlling costs in a scientific manner. Specifically, the Group will take full advantage of centralized cash management to improve the capital efficiency; pay more attention to cost control and strictly manage various costs and expenses; further improve organizational structure and leverage its advantages in terms of scale, allocate its resources reasonably and simplify its working process to strictly control costs; and further improve incentive system and performance-oriented culture and improve employees' efficiency by stimulating their enthusiasm.

The Group will speed up the innovation in development and management mode, continue to optimize supply chain system, carry forward the transformation of operating mechanism, accelerate the adjustment of its revenue mix, focus on customer need to better the shopping experience, optimize product mix, elevate service level so as to stimulate the synchronous growth in customer traffics and sales per ticket; the Group will formulate preparative response plan in advance to adjust management mode caused by changing policies. The Group will also accelerate the pace of adjustment and transformation, strengthen the collaboration within departments and seamless synergy between upstream and downstream so as to raise the awareness of collaboration and responsibility when facing unfavorable situation and internal performance stress.

Other Data

Disclosure of interests

Directors, Supervisors and Chief Executive of the Company

As at 30 June 2013, save and except (i) Mr. Xia Da-wei, an independent non-executive director, holds 8,694 shares of Shanghai Friendship Group Incorporated Company ("Shanghai Friendship"); and (ii) Mr. Wang Long-sheng, a supervisor, holds 4,195 shares of Shanghai Friendship, none of the directors, supervisors or chief executive of the Company had any interests and short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are regarded or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

As at 30 June 2013, 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 directors of the Company and Mr. Chen Jian-jun and Mr. Wang Long-sheng are 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 30 June 2013 as recorded in the register required to be kept under section 336 of the SFO.

Substantial Shareholders of the Company

So far as the directors are aware, as at 30 June 2013, the following persons (not being a director, chief executive or supervisor of the Company) had interests in the shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of shareholders	Class of shares	No. of domestic shares/unlisted foreign shares/ H shares	Approximate percentage of total voting rights of the Company	Approximate percentage of voting rights of domestic shares and unlisted foreign shares	Approximate percentage of voting rights of H shares
Shanghai Friendship (Note 1 & 2)	domestic shares	617,981,400	55.20%	82.73%	–
Shanghai Bailian Group Investment Co., Ltd. (Note 1)	domestic shares	237,029,400	21.17%	31.73%	–
Bailian Group Co., Ltd. (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	45,272,655(L)	4.04%(L)	–	12.15%(L)
		39,396,655(S)	3.52%(S)	–	10.57%(S)
		5,425,200(P)	0.48%(P)	–	1.46%(P)
The Bank of New York Mellon Corporation	H shares	45,127,212(L)	4.03%(L)	–	12.11%(L)
		20,920,108(P)	1.87%(P)	–	5.61%(P)
Matthews International Capital Management, LLC	H shares	31,741,600(L)	2.84%(L)	–	8.51%(L)
The Boston Company Asset Management, LLC	H shares	24,931,000(L)	2.23%(L)	–	6.69%(L)
Julius Baer International Equity Fund	H shares	21,944,804(L)	1.96%(L)	–	5.89%(L)
The Dreyfus Corporation	H shares	18,660,000(L)	1.67%(L)	–	5.01%(L)

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

Other Data

Notes:

1. As at 30 June 2013, Shanghai Friendship owned 100% interests in Shanghai Bailian Group Investment Co., Ltd. ("Bailian Investment").

2. As at 30 June 2013, Bailian Group Co., Ltd. ("Bailian Group") directly and indirectly held approximately 49.26% of the shares in Shanghai Friendship. Therefore, Bailian Group is deemed to have interest in the Company.

   As at 30 June 2013, Shanghai Friendship held an aggregate of 617,981,400 shares of the Company, out of which 380,952,000 shares of the Company were held directly, and 237,029,400 shares of the Company were held through Bailian Investment.

   As at 30 June 2013, Mr. Ma Xin-sheng, chairman of the Company, was chairman of Shanghai Friendship, Mr. Hua Guo-ping, an executive director of the Company, was the director of Shanghai Friendship. Mr. Chen Jian-jun, a supervisor of the Company, was the vice chairman of the supervisory committee of Shanghai Friendship, and Mr. Wang Long-sheng, a supervisor of the Company, was the director of Shanghai Friendship.

3. As at 30 June 2013, Mr. Ma Xin-sheng, the chairman of the Company, was the chairman 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 number of H shares of the Company held as at 30 June 2013 by holders of H shares have been adjusted accordingly, if necessary.

Save as disclosed above, the directors are not aware of any persons holding any interests or short positions in the shares or underlying shares of the Company which were required to be recorded in the register pursuant to section 336 of the SFO as at 30 June 2013.

The legal status of unlisted foreign shares

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

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

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

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

Other Data

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

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

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

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

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

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

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

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

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

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

Interim Dividend

The board of directors of the Company (the “Board”) does not recommend the distribution of interim dividend for the six months ended 30 June 2013.

Other Data

Purchase, Sale or Redemption of Shares

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

Audit Committee

The audit committee of the Company (the "Audit Committee") has considered and reviewed the accounting principles and practices adopted by the Group and has discussed the matters in relation to internal control and financial reporting with the management, including the review of the unaudited condensed interim accounts for 2013 of the Group. The Audit Committee considered that the interim accounts of the Group for the six months ended 30 June 2013 is in compliance with the relevant accounting standards, the requirements of the Stock Exchange and the Laws of Hong Kong, and the Company has made appropriate disclosures thereof.

Compliance with Model Code

The Company has adopted the Model Code as code of conduct for securities transactions by all directors of the Company. After specific enquiries to the directors, the Board is pleased to confirm that all the directors have fully complied with the provisions under the Model Code during the period under review.

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

The Board is pleased to confirm that save and except for the matters as set out below, the Company has complied with all the code provisions in the "Corporate Governance Code" (the "Code") under Appendix 14 of the Listing Rules during the period under review. 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. Details of the deviation are set out as follows:

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

For Provision A.6.7 of the Code, Mr. Wong Tak Hung, non-executive director, and Mr. Lee Kwok Ming, Don, independent non-executive director, were unable to attend the eighth meeting of the fourth session of the Board convened on 25 March 2013 by the Company due to their work duties. After receiving the relevant materials for the Board meeting, they have authorized other directors of the Company to attend the meeting and vote on their behalf. The matters considered at the Board meeting were 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.

Other Data

For Provision A.6.7 of the Code, Mr. Ma Xin-sheng, non-executive director, and Mr. Lee Kwok Ming, Don, independent non-executive director, were unable to attend the ninth meeting of the fourth session of the Board convened on 18 June 2013 by the Company due to their work duties. After receiving the relevant materials for the Board meeting, they have authorized other directors of the Company to attend the meeting and vote on their behalf. The matters considered at the Board meeting were 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, non-executive director, and Mr. Lin Yi-bin, independent non-executive director, were unable to attend the tenth meeting of the fourth session of the Board convened on 21 August 2013 by the Company due to their work duties. After receiving the relevant materials for the Board meeting, they have authorized other directors of the Company to attend the meeting and vote on their behalf. The matters considered at the Board meeting were ordinary matters and all resolutions were passed smoothly. The Company had sent the related minutes to all members of the Board after the Board meeting so any director who was unable to attend the meeting was able to understand the resolutions passed at the meeting.

Further, for Provisions A.6.7 and E.1.2 of the Code, Mr. Ma Xin-sheng and Mr. Wong Tak Hung, non-executive directors, and Mr. Lee Kwok Ming, Don, the chairman of the audit committee and an independent non-executive director, were unable to attend the 2012 annual general meeting of the Company convened on 18 June 2013 due to their work duties. The Company has provided the relevant materials relating to the 2012 annual general meeting to all members of the Board before the meeting. All ordinary resolutions and special resolutions were passed smoothly at the annual general meeting. The Company had sent the related minutes to all members of the Board after the annual general meeting so any director who was unable to attend the meeting was able to understand the resolutions passed at the meeting.

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

21 August 2013, Shanghai, The PRC

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2013

	NOTES	Six months ended 30 June **2013** **(Unaudited)** **RMB'000**	 2012 (Unaudited) RMB'000
Turnover	4	**15,605,096**	14,580,095
Cost of sales		**(13,393,014)**	(12,567,886)
Gross profit		**2,212,082**	2,012,209
Other revenue	4	**1,199,695**	1,260,938
Other income and gains	5	**329,586**	316,548
Selling and distribution expenses		**(3,033,056)**	(2,802,532)
Administrative expenses		**(328,972)**	(344,198)
Other operating expenses		**(59,131)**	(25,628)
Interest on bank borrowings wholly repayable within five years		**(72)**	(76)
Operating profit		**320,132**	417,261
Share of profits of associates		**42,688**	63,405
Profit before taxation	6	**362,820**	480,666
Income tax expense	7	**(128,786)**	(110,738)
Profit and total comprehensive income for the period		**234,034**	369,928
Profit and total comprehensive income for the period attributable to:			
Owners of the Company		**190,932**	331,688
Non-controlling interests		**43,102**	38,240
		234,034	369,928
Earnings per share – basic and diluted	9	**RMB0.17**	RMB0.30

Condensed Consolidated Statement of Financial Position

At 30 June 2013

	NOTES	**30 June 2013 (Unaudited) RMB'000**	31 December 2012 (Audited) RMB'000
Non-current assets			
Property, plant and equipment	10	**3,158,489**	3,309,928
Construction in progress	10	**282,655**	254,650
Land use rights	10	**303,273**	305,906
Intangible assets	10	**181,717**	187,130
Interests in associates		**530,892**	567,973
Available-for-sale financial assets	11	**241,372**	36,358
Held-to-maturity financial assets	12	**209,506**	239,622
Term deposits	13		
– restricted		**1,583,000**	1,036,000
– unrestricted		**2,145,000**	3,200,000
Prepaid lease payments		**94,585**	106,451
Deferred tax assets		**192,485**	200,951
Other non-current assets	14	**20,856**	21,608
		8,943,830	9,466,577
Current assets			
Inventories		**2,616,268**	3,055,623
Trade receivables	15	**86,062**	113,707
Deposits, prepayments and other receivables		**1,066,106**	1,180,816
Amounts due from fellow subsidiaries	16	**10,001**	10,921
Amounts due from associates	17	**88**	136
Available-for-sale financial assets	11	**203,430**	641,252
Held-to-maturity financial assets	12	**37,866**	–
Term deposits	13		
– restricted		**328,357**	3,345,000
– unrestricted		**4,960,900**	401,000
Cash and cash equivalents		**1,227,774**	2,589,154
		10,536,852	11,337,609
Total assets		**19,480,682**	20,804,186

Condensed Consolidated Statement of Financial Position

At 30 June 2013
(Continued)

	NOTES	30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
Capital and reserves			
Share capital	18	**1,119,600**	1,119,600
Reserves		**2,396,740**	2,284,180
Equity attributable to owners of the Company		**3,516,340**	3,403,780
Non-controlling interests		**395,703**	364,900
Total equity		**3,912,043**	3,768,680
Non-current liability			
Deferred tax liabilities		**73,372**	84,619
Current liabilities			
Trade payables	19	**3,917,419**	4,295,654
Other payables and accruals	20	**1,751,917**	2,213,756
Dividend payable to shareholders of the Company		**78,372**	–
Dividend payable to non-controlling interest of subsidiaries		**7,422**	–
Coupon liabilities	21	**9,583,494**	10,259,260
Deferred income		**12,897**	17,741
Amounts due to fellow subsidiaries	16	**35,623**	35,802
Amounts due to associates	17	**5,401**	8,904
Bank borrowing		**2,000**	2,000
Taxation payable		**100,722**	117,770
		15,495,267	16,950,887
Total liabilities		**15,568,639**	17,035,506
Total equity and liabilities		**19,480,682**	20,804,186
Net current liabilities		**(4,958,415)**	(5,613,278)
Total assets less current liabilities		**3,985,415**	3,853,299

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2013

	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 2012 (audited)	1,119,600	258,353	(201,653)	365,931	1,771,678	3,313,909	307,737	3,621,646
Profit for the period	–	–	–	–	331,688	331,688	38,240	369,928
2011 final dividend declared (note 8)	–	–	–	–	(134,352)	(134,352)	–	(134,352)
Dividends paid to non-controlling interests	–	–	–	–	–	–	(10,312)	(10,312)
Acquisition of additional equity interests in subsidiaries	–	–	(20,156)	–	–	(20,156)	(2,795)	(22,951)
At 30 June 2012 (unaudited)	1,119,600	258,353	(221,809)	365,931	1,969,014	3,491,089	332,870	3,823,959
At 1 January 2013 (audited)	**1,119,600**	**258,353**	**(227,809)**	**436,020**	**1,817,616**	**3,403,780**	**364,900**	**3,768,680**
Profit for the period	**–**	**–**	**–**	**–**	**190,932**	**190,932**	**43,102**	**234,034**
2012 final dividend declared (note 8)	**–**	**–**	**–**	**–**	**(78,372)**	**(78,372)**	**–**	**(78,372)**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**(12,299)**	**(12,299)**
At 30 June 2013 (unaudited)	**1,119,600**	**258,353**	**(227,809)**	**436,020**	**1,930,176**	**3,516,340**	**395,703**	**3,912,043**

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 during the year ended 31 December 2005, and the Group's original equity interest of that subsidiary;

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

iii. acquisition of additional equity interests in subsidiaries.

(c) Pursuant to the relevant regulations of the 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.

No transfer has been made to the statutory common reserve fund in respect of the net profit for the six months ended 30 June 2013 (six months ended 30 June 2012: nil) as such transfer will be made, upon directors' approval, at the year end based on the annual profit.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2013

	Six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Net cash from (used in) operating activities	**1,886,469**	(991,130)
Investing activities		
Placement of unrestricted term deposits	**(3,905,900)**	(3,079,000)
Withdrawal of unrestricted term deposits	**401,000**	625,000
Purchase of available-for-sale financial assets	**(400,000)**	(400,000)
Addition of property, plant and equipment and construction in progress	**(257,980)**	(322,800)
Refund of deposit paid for acquisition of properties	**240,000**	–
Additional investment in an associate	**(8,600)**	(3,070)
Proceeds on redemption of available-for-sale financial assets	**649,501**	260,241
Proceeds on redemption of held-to-maturity financial assets	**–**	47,812
Dividends received from associates	**248**	6,824
Other investing cash inflows	**38,759**	961
Net cash used in investing activities	**(3,242,972)**	(2,864,032)
Financing activities		
Dividends paid to non-controlling interests	**(4,877)**	(10,199)
Other financing outflows	**–**	(22,951)
Cash used in financing activities	**(4,877)**	(33,150)
Net decrease in cash and cash equivalents	**(1,361,380)**	(3,888,312)
Cash and cash equivalents at 1 January	**2,589,154**	5,566,371
Cash and cash equivalents at 30 June	**1,227,774**	1,678,059

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2013

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2013 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2012.

In the current interim period, the Group has applied, for the first time, the following new or revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are relevant for the preparation of the Group's condensed consolidated financial statements:

HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Investment Entities Consolidated Financial Statements, Joint Arrangements and Disclosure of Interest in Other Entities:Transition Guidance
HKFRS 13	Fair Value Measurement
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 27 (as revised in 2011)	Separate Financial Statements
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income
Amendments to HKFRSs	Annual Improvements to HKFRSs 2009 – 2011 Cycle
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine

HKFRS 13 Fair Value Measurement

The Group has applied HKFRS 13 for the first time in the current interim period. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements, and replaces those requirements previously included in various HKFRSs. Consequential amendments have been made to HKAS 34 to require certain disclosures to be made in the interim condensed consolidated financial statements.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2013

2. PRINCIPAL ACCOUNTING POLICIES (continued)

HKFRS 13 Fair Value Measurement (continued)

The scope of HKFRS 13 is broad, and 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, subject to a few exceptions. HKFRS 13 contains a new definition for 'fair value' and defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

In accordance with the transitional provisions of HKFRS 13, the Group has applied the new fair value measurement and disclosure requirements prospectively. Disclosures of fair value information are set out in note 25.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 introduce new terminology for 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 additional disclosures to be made in the other comprehensive section such that items of other comprehensive income are 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 existing option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes.

Amendments to HKAS 34 Interim Financial Reporting

(as part of the Annual Improvements to HKFRSs 2009-2011 Cycle)

The Group has applied the amendments to HKAS 34 Interim Financial Reporting as part of the Annual Improvements to HKFRSs 2009 – 2011 Cycle for the first time in the current interim period. The amendments to HKAS 34 clarify that the total assets and total liabilities for a particular reportable segment would be separately disclosed in the interim financial statements only when the amounts are regularly provided to the chief operating decision maker (CODM) and there has been a material change from the amounts disclosed in the last annual financial statements for that reportable segment.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2013

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Amendments to HKAS 34 Interim Financial Reporting (continued)
(as part of the Annual Improvements to HKFRSs 2009-2011 Cycle)

Since the CODM does not review liabilities of the Group's reportable segments for performance assessment and resource allocation purposes, and there has not been a material change of form the amounts of assets disclosed in the last annual financial statements for that reportable segment, the Group has not included total asset and liability information as part of segment information.

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

3. SEGMENT INFORMATION

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

	Segment revenue		**Segment results**	
	Six months ended 30 June		**Six months ended 30 June**	
	2013	2012	**2013**	2012
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	RMB'000	RMB'000	**RMB'000**	RMB'000
Hypermarkets	**10,243,213**	9,546,229	**187,951**	200,256
Supermarkets	**5,549,198**	5,333,146	**195,467**	201,039
Convenience stores	**981,421**	937,628	**(35,622)**	1,671
Other operations	**30,959**	24,030	**(597)**	20,810
	16,804,791	15,841,033	**347,199**	423,776

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2013

3. SEGMENT INFORMATION (continued)

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

	Six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Segment results	**347,199**	423,776
Interest income	**27,047**	39,103
Unallocated income	**25,853**	28,560
Unallocated expenses	**(79,967)**	(74,178)
Share of profits of associates	**42,688**	63,405
Profit before taxation	**362,820**	480,666

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

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

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

4. TURNOVER AND OTHER REVENUE

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

	Six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Turnover on sales of merchandises	**15,605,096**	14,580,095
Incomes from suppliers	**850,291**	950,605
Gross rental income from leasing of shop premises	**314,315**	272,995
Royalty income from franchised stores	**27,484**	28,150
Commission income from coupon redemption at other retailers	**7,605**	9,188
	1,199,695	1,260,938
Total revenue	**16,804,791**	15,841,033

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2013

5. OTHER INCOME AND GAINS

	Six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Interest income on cash and term deposits	**211,717**	205,718
Government subsidies (note)	**14,571**	29,595
Gain on fair value change on financial assets at fair value through profit or loss	**5,949**	2,379
Interest income from available-for-sale financial assets	**16,693**	23,318
Interest income from held-to-maturity financial assets	**7,750**	9,965
Gain on disposal of property, plant and equipment	**–**	73
Dividend from unlisted equity investments	**275**	–
Salvage sales	**14,267**	16,034
Others	**58,364**	29,466
Total	**329,586**	316,548

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2013

6. PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Amortisation and depreciation		
Amortisation of other non-current assets	**752**	762
Amortisation of intangible assets – software (included in selling and distribution expenses/administrative expense) (Note 10)	**4,912**	5,430
Amortisation of land use rights (Note 10)	**2,633**	2,633
Depreciation of property, plant and equipment (Note 10)	**260,597**	277,046
	268,894	285,871
Cost of inventories recognised as an expense	**13,393,014**	12,567,886
Share of profits of associates		
Profit before taxation	**(59,826)**	(85,272)
Taxation	**17,138**	21,867
	(42,688)	(63,405)
Operating lease rental in respect of rented premises	**849,067**	815,548
Staff costs	**1,411,061**	1,251,582

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2013

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
PRC income tax		
– Current taxation	**131,568**	118,050
– Deferred taxation credit	**(2,782)**	(7,312)
	128,786	110,738

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

PRC income tax is calculated based on the statutory income tax rate of 25% (six months ended 30 June 2012: 25%) of taxable income of the subsidiaries based on the relevant PRC tax rules and regulations except for certain subsidiaries which are taxed at a preferential rate of 15% (six months ended 30 June 2012: 15%).

8. DIVIDEND

The directors do not recommend the payment of an interim dividend for the current period. (six months ended 30 June 2012: RMB0.08 per share totalling RMB89,568,000).

At a meeting held on 18 March 2013, the directors proposed a final dividend of RMB0.07 per share with the share number of 1,119,600,000 for the year ended 31 December 2012, totalling RMB78,372,000 (six months ended 30 June 2012: a final dividend of RMB0.12 per share with the share number of 1,119,600,000 for the year ended 31 December 2011, totalling RMB134,352,000), which was approved by the shareholders on 18 June 2013 and has been reflected as an appropriation of retained profits for the six months ended 30 June 2013. The amount has not yet been paid as at 30 June 2013.

9. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings		
Profit for the period attributable to owners of the Company	**190,932**	331,688

	Six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
Number of shares		
Number of ordinary shares in issue 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 periods.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2013

10. MAJOR CAPITAL EXPENDITURE

	Property, plant and equipment	Construction in progress	Land use rights	Intangible assets		
				Goodwill	Software	subtotal
	RMB'000	RMB'000	RMB'000 (note)	RMB'000	RMB'000	RMB'000
Opening carrying amount as at 1 January 2012 (audited)	3,337,975	67,765	309,826	151,941	34,922	186,863
Additions	176,770	104,295	–	–	2,071	2,071
Transfers	33,420	(33,420)	–	–	–	–
Disposals	(2,959)	–	–	–	–	–
Depreciation/amortisation charge (Note 6)	(277,046)	–	(2,633)	–	(5,430)	(5,430)
Impairment	(16,974)	–	–	–	–	–
Closing carrying amount as at 30 June 2012 (unaudited)	3,251,186	138,640	307,193	151,941	31,563	183,504
Opening carrying amount as at 1 January 2013 (audited)	**3,309,928**	**254,650**	**311,173**	**151,941**	**35,189**	**187,130**
Additions	**119,648**	**51,348**	**–**	**–**	**388**	**388**
Transfers	**23,343**	**(23,343)**	**–**	**–**	**–**	**–**
Disposals	**(6,394)**	**–**	**–**	**–**	**(889)**	**(889)**
Depreciation/amortisation charge (Note 6)	**(260,597)**	**–**	**(2,633)**	**–**	**(4,912)**	**(4,912)**
Impairment	**(27,439)**	**–**	**–**	**–**	**–**	**–**
Closing carrying amount as at 30 June 2013 (unaudited)	**3,158,489**	**282,655**	**308,540**	**151,941**	**29,776**	**181,717**

Note: Land use rights analysed for reporting purposes as:

	30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
Non-current assets	**303,273**	305,906
Current assets (included in deposits, prepayments and other receivables)	**5,267**	5,267
	308,540	311,173

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2013

11. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
Non-current		
Legal person shares (note a)	**312**	312
Unlisted equity investments (note b)	**36,046**	36,046
Unlisted managed investment funds (note c)	**205,014**	–
	241,372	36,358
Current		
Unlisted investments (note d)	**203,430**	210,861
Unlisted managed investment funds (note c)	**–**	430,391
	203,430	641,252
Total	**444,802**	677,610

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 a licensed trust company 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. The investments carry interest rate of 9.5% (31 December 2012: ranging from 9.0% to 9.2%) 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 of 4.9% (31 December 2012: ranging from 6.2% to 6.5%) per annum upon maturity, the tenor of which is stipulated to be one year.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2013

12. HELD-TO-MATURITY FINANCIAL ASSETS

	30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
Non-current		
Unlisted PRC government certificate bonds with fixed interest of nil (2012: 4.0%) per annum and maturity date in 2014	**–**	37,216
Listed corporate bond with fixed interest of 7.1% (2012: 7.1%) per annum and maturity date after 30 June 2014	**209,506**	202,406
	209,506	239,622
Current		
Unlisted PRC government certificate bonds with fixed interest of 4.0% (2012: nil) per annum and maturity date before 30 June 2014	**37,866**	–
Total	**247,372**	239,622

All of the Group's held-to-maturity financial assets were measured at amortised cost using the effective interest method, less any identified impairment losses.

13. TERM DEPOSITS

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

As at 30 June 2013, included in the term deposits is RMB1,911,357,000(31 December 2012: RMB4,381,000,000) in aggregate restricted for other use by the Group as they were placed by the Group to various banks as security for coupons issued to customers.

The effective interest rate on these term deposits ranged from 3.08% to 5.13% (31 December 2012: from 2.86% to 5.13%) per annum. The carrying amounts of the term deposits approximate their fair value.

14. OTHER NON-CURRENT ASSETS

Other non-current assets of the Group 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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2013

15. 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:

	30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
Within 30 days	**81,579**	104,915
31 – 60 days	**3,087**	5,922
61 – 90 days	**346**	2,177
91 days – one year	**1,050**	693
	86,062	113,707

16. 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 (31 December 2012: 30 to 60 days). As at 30 June 2013, balances of both amounts due from (to) fellow subsidiaries are all aged within 60 days (31 December 2012: 60 days).

17. AMOUNTS DUE FROM (TO) ASSOCIATES

Amounts due from (to) associates, arising from expenses paid on behalf and purchase of merchandises respectively, are unsecured, interest free and aged within 90 days (31 December 2012: 90 days).

18. SHARE CAPITAL

	Number of share	**Nominal value** RMB'000
RMB1.00 each		
Registered:		
As at 1 January 2013 and 30 June 2013	1,119,600,000	1,119,600
Issued and fully paid:		
As at 1 January 2013 and 30 June 2013	1,119,600,000	1,119,600

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2013

19. 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:

	30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
Within 30 days	**1,854,225**	2,370,670
31 – 60 days	**783,600**	822,974
61 – 90 days	**410,359**	332,375
91 days – one year	**869,235**	769,635
	3,917,419	4,295,654

20. OTHER PAYABLES AND ACCRUALS

	30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
Payroll, staff welfare and other staff cost payable	**235,947**	323,379
Value added tax and other taxes payable	**25,933**	236,286
Rental payable	**661,930**	648,568
Deposits from lessees, franchisees and other third parties	**169,875**	166,758
Amount payable to other retailers upon customers' redemption of coupon issued by the Group	**20,120**	6,283
Prepayments received from franchisees and other third parties	**228,399**	305,792
Payables for acquisition of property, plant and equipment and inventories	**106,570**	199,468
Store closure provision	**35,518**	28,578
Accruals	**162,367**	86,215
Advance from customers	**37,151**	136,010
Other miscellaneous payables	**68,107**	76,419
	1,751,917	2,213,756

21. COUPON LIABILITIES

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

22. CAPITAL COMMITMENTS

	30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) 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	**295,720**	310,854
– authorised but not contracted for	**862,216**	107,907

23. OPERATING LEASE

(1) The Group as lessee

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

	30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
Not later than one year	**1,519,615**	1,459,764
Later than one year and not later than five years	**5,130,003**	5,211,907
Later than five years	**8,571,002**	9,491,681
	15,220,620	16,163,352

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2013

23. OPERATING LEASE (continued)

(2) The Group as lessor

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

	30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
Not later than one year	**236,392**	258,128
Later than one year and not later than five years	**310,965**	339,364
Later than five years	**355,285**	414,694
	902,642	1,012,186

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

24. RELATED PARTY TRANSACTIONS

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

(a) Transactions with related companies

	Notes	**Six months ended 30 June 2013 (Unaudited) RMB'000**	2012 (Unaudited) RMB'000
Sales to fellow subsidiaries		**157,594**	–
Purchases from associates			
– Shanghai Gude Commercial Trading Co., Ltd., Sanming Taige Information Technology Co., Ltd. and Shantou Lianhua South Purchase and Distribution Co., Ltd.		**9,181**	14,387
Purchases from fellow subsidiaries		**99,648**	86,347
Logistic expense paid to a fellow subsidiary		**–**	910
Rental expenses and property management fee paid to fellow subsidiaries	(i)	**31,328**	30,920
Rental income from fellow subsidiaries	(ii)	**6,251**	–
Commission income received from fellow subsidiaries	(iii)	**576**	693
Commission income arising from the redemption of coupon liabilities with a fellow subsidiary	(iv)	**9,054**	5,060
Commission charges arising from the redemption of coupon liabilities with a fellow subsidiary	(iv)	**7,200**	4,514

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2013

24. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related companies (continued)

Fellow subsidiaries referred above are subsidiaries of Bailian Group Co., Ltd. ("Bailian Group"), the ultimate holding company of the company.

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% (2012: at rates ranging from 0.5% to 1.2%) of the sales made through the coupons in the retail outlets of these companies.

(iv) According to the business agreement on the settlement of coupon liabilities entered into between a subsidiary of the Group and a fellow subsidiary controlled by 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% (2012: 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 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.

At the end of the reporting period, significant amount of the Group's purchase were from Government Related Entities and most of the Group's deposits and borrowing are placed with banks which are also Government Related Entities.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2013

24. RELATED PARTY TRANSACTIONS (continued)

(c) Key management compensation

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

	Six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Salaries and other short-term employee benefits	**7,238**	7,467
Post-employment benefits	**151**	122
Other long-term benefits	**183**	152
	7,572	7,741

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

25. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Except as detailed in the following table, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values:

	At 30 June 2013	
	Carrying amount	**Fair value**
	RMB'000	**RMB'000**
Financial assets:		
Held-to-maturity financial assets		
Listed corporate bond with fixed interest	**209,506**	**205,000**

26. AUTHORISATION FOR THE ISSUE OF THE ACCOUNTS

These unaudited condensed consolidated financial statements were authorised for issue by the Company's board of directors on 21 August 2013.