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

Stock Code: 0980

Annual Report 2013

4,530

Spans the Country with **4,530 Outlets** in
19 Provinces and Municipalities

	Hypermarket	Supermarket	Convenience Store
Shanghai	40	1,598	1,197
Zhejiang	52	232	222
Jiangsu	28	336	5
Liaoning	0	0	325
Guangxi	5	200	0
Beijing	3	0	156
Anhui	11	63	0
Jiangxi	0	13	0
Henan	7	6	0
Inner Mongolia	0	9	0
Shandong	0	8	0
Sichuan	3	0	0
Heilongjiang	2	0	0
Tianjin	2	0	0
Hebei	0	2	0
Fujian	2	0	0
Guangdong	1	0	0
Hubei	0	1	0
Chongqing	0	1	0

Hypermarket *Supermarket* *Convenience Store*

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

Lianhua Supermarket Holdings Co., Ltd. ("Lianhua Supermarket" or the "Company") commenced its business in Shanghai in 1991. In the past 23 years, it has developed into a nationwide chain retail operator with a full range of retail segments, expanding through a combination of organic growth, franchises and merger and acquisitions. As at 31 December 2013, Lianhua Supermarket and its subsidiaries (the "Group") operated a total of 4,530 outlets (excluding those operated by the Company's associated companies) spanning 19 provinces and municipalities across the nation. The Company has maintained its leading position in the fast moving consumer goods retail industry in the People's Republic of China (the "PRC"). Lianhua Supermarket was one of the first Chinese retail chain operators to be listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), on 27 June 2003.

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

CONTENTS

Corporate Information

Directors

Executive Directors

Mr. Chen Jian-jun (Chairman)
Mr. Hua Guo-ping
Ms. Cai Lan-ying
Ms. Qi Yue-hong
Mr. Zhou Zhong-qi

Non-Executive Directors

Mr. Kazuyasu Misu (resigned on 31 March 2014)
Mr. Wong Tak Hung

Independent Non-Executive Directors

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

Board Committees

Audit Committee

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

Remuneration and Appraisal Committee

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

Strategic Committee

Mr. Chen Jian-jun (Chairman)
Mr. Hua Guo-ping
Mr. Kazuyasu Misu (resigned on 31 March 2014)
Mr. Zhang Hui-ming

Nomination Committee

Mr. Zhang Hui-ming (Chairman)
Mr. Xia Da-wei
Ms. Qi Yue-hong

Supervisors

Mr. Wang Zhi-gang
Mr. Wang Long-sheng
Ms. Qian Li-ping

Joint Company Secretary

Mr. Zhou Zhong-qi
Mr. Stephen Mok

Authorised Representatives

Mr. Hua Guo-ping
Mr. Zhou Zhong-qi

International Auditor

Deloitte Touche Tohmatsu

Legal Advisers to the Company

As to Hong Kong laws
Eversheds

As to PRC laws
Grandall Law Firm (Shanghai)

Investors and Media Relations Consultant

Christensen China Limited

Principal Bankers

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

Corporate Information

Registered and Business Office

Registered Office in the PRC

Room 713, 7th Floor
No. 1258 Zhen Guang Road
Shanghai, PRC

Place of Business in the PRC

5th to 14th Floors
No. 1258 Zhen Guang Road
Shanghai, PRC

Place of Business in Hong Kong

26th to 27th Floors
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Company Website

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Shareholder's Enquiries

Contact Information of the Company

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

Hong Kong Share Registrar and Transfer Office

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

Share Information

Listing Place

The Stock Exchange of Hong Kong Limited

Listing Date

27 June 2003

SEHK Stock Code

980

Number of H shares Issued

372,600,000 H shares

Year-end Date

31 December

Results Announcements

Interim Results for 2013 were published on 21 August 2013
Annual Results for 2013 were published on 26 March 2014

Dividends

Interim Dividends: Nil
Proposed Final Dividends: Nil

2013 Annual General Meeting

To be convened at 10:00 a.m. on Friday, 27 June 2014

Major Achievements

2 FEBRUARY

Yang Xiong, the deputy party secretary and major of Shanghai city, visited and inspected the Pudian store of Shanghai Century Lianhua Supermarket Development Company Limited ("Century Lianhua", 上海世紀聯華超市發展有限公司), a subsidiary of the Company.

Lianhua Supermarket was awarded the honourable title of the "Enterprise Being a Vice-President of China Chain Store & Franchise Association" by China Chain Store & Franchise Association.

Guangxi Lianhua Supermarket Joint Stock Co., Ltd. ("Guangxi Lianhua"), a subsidiary of Lianhua Supermarket, was awarded the honourable title of the "Advanced Enterprise conducting Commercial Activities in Guangxi Autonomous Region for 2012" by the Department of Commerce of Guangxi Zhuang Autonomous Region.

4 APRIL

Shanghai Lianhua Supermarket Development Co., Ltd. ("New Supermarket", 上海聯華超級市場發展有限公司), a subsidiary of the Company, successfully passed the Grade III accreditation of the Safe Production Standardization of Shanghai City.

Hu Hong-wei, the vice director of the State-owned Assets Supervision and Administration Commission of Shanghai City visited New Supermarket to conduct a survey on the progress of the franchise model transformation project.

Major Achievements

5

May

"Glora Citta (歐凱城)", a project owned by Hangzhou Lianhua Huashang Group Co., Ltd., ("Hangzhou Lianhua Huashang", 杭州聯華華商集團有限公司), a subsidiary of the Company, was formally opened in Peace Shopping Mall (和平購物城), its first commercial complex established under the name of a shopping center, introducing prestigious high-end luxury brands from Europe to consumers who want distinguished shopping experience.

Xianghua Store of New Supermarket and Xiqin Store of Shanghai Lianhua Quik Convenience Stores Company Limited ("Quik Convenience", 上海聯華快客便利有限公司) were awarded the honourable title of "Pioneer Workers of Shanghai City". Jingjiang Store of Century Lianhua was awarded the honourable title of "Pioneer Workers of Taizhou City for 2012" in Jiangsu Province.

The "Young Managers Salon" (青年管理者沙龍) of Lianhua Supermarket was awarded the honourable title of "Outstanding Youth Learning Organization of Shanghai City for 2012" (優秀青年學習型組織).

6

June

Lianhua Supermarket, Century Lianhua, New Supermarket and Quik Convenience were awarded the honourable title of the "16th Civilized Units of Shanghai City" by the People's Government of Shanghai city.

Tongzhou Yinhe Store of Century Lianhua was awarded the honourable title of "Accurate Weighing Model Supermarket of Jiangsu Province" (江蘇省誠信計量示範超市) by Jiangsu Provincial Bureau of Quality and Technical Supervision.

Lianhua Mart, a shopping website of the Group at www.lhmart.com, was enlisted in the "Ten Best Shopping Websites" in the activity of "Shanghai Online Shopping Festival for 2012" sponsored by Shanghai Modern Commerce Promotion Center (上海市現代商務促進中心).

Lianhua Mart was awarded the honourable title of "China Internet E-Commerce Integrity Model Enterprise" (中國互聯網電子商務誠信示範企業) and the "Best Online Shopping Brands of China Internet E-Commerce" (中國互聯網電子商務最佳網絡購物品牌) by the China E-Commerce Association.

Major Achievements

8

August

Jiangyan Store of Century Lianhua was awarded the honourable title of the "Fair Pricing Shops of Jiangsu Province for 2011 to 2012" (2011-2012 年度江蘇省價格誠信單位) by Jiangsu Pricing Bureau.

9

September

Eight stores of Century Lianhua successfully passed the Grade II accreditation of the Safe Production Standardization.

Major Achievements

11 November

The "Visual Store Management Platform" (可視化店鋪管理平台) of Quik Convenience was granted the "Retail Innovation Award for 2013" (2013年零售創新大獎) by China Chain Store & Franchise Association.

Hangzhou Lianhua Huashang and Zhejiang Chila Trading Co., Ltd. entered into a strategic cooperation agreement at the witness of Mr. Luis Schmidt Montes (路易斯 • 施密特 • 蒙特斯), Chile's Ambassador to China, inaugurating the direct procurement of fresh produce from Chile.

Lianhua Supermarket was awarded the honourable title of the "Top 20 Commercial Enterprises in Shanghai for 2013" by Shanghai Institute of Business Economics (上海市商業經濟學會). Meanwhile, Century Lianhua, New Supermarket and Quik Convenience were ranked 21st, 27th and 73rd among the "Top 100 Commercial Enterprises in Shanghai" respectively in 2013.

12 December

Lianhua Supermarket convened the extraordinary general meeting for 2013 and the 12th meeting of the fourth session of the board of directors of the Company. Mr. Chen Jian-jun was elected as the chairman of the fourth session of the board of directors of the Company.

Lianhua Supermarket was awarded the "Annual Service Innovation Award in the Overall Ranking List of China (Shanghai) Retailers in 2013" (2013中國(上海)零售商總評榜年度服務創新獎) by Shanghai Evening Post, Shanghai Merchandise Commercial Profession Trade Association and Shanghai Chain Enterprise Association.

Guangxi Lianhua became the first enterprise in the supermarket merchandising business in Liuzhou city of Guangxi Zhuang Autonomous Region which passed the Grade III accreditation of the Safe Production Standardization.

Leading

Chairman's Statement

Dear Valued Shareholders,

I am pleased to present the annual results of Lianhua Supermarket Holdings Co., Ltd. for the year ended 31 December 2013 to our shareholders.

In 2013, Chinese economy grew at a faster pace than global economy, serving as the growth driver of China's retail industry again. However, with structural changes seen in Chinese economy, the chain retail industry faced many challenges including the rapid growth of e-commerce and other new forms of retailers and declining group and government spending. While staying mindful of business environment and our own business, the Group adhered to its strategic goal of "Becoming a Regional Leader and National Strong Player" to cope with changes of business environment. Guided by "Scientific development, Innovation-driven, Reform and breakthrough, Transformation and upgrade" (科學發展、創新驅動、改革突破、轉型提升) principles, the Group maintained its leading market position despite the challenges in the market environment.

In 2013, the Group recorded a turnover of RMB30.38 billion, representing an increase of 4.8% over 2012. The Group's consolidated income margin came under pressure from weak growth of same store sales, as well as the changing balance between retailers and suppliers. The Group's operating profit amounted to approximately RMB0.27 billion, representing a decrease of 48.1% over 2012. Profit and total comprehensive income for the year attributable to shareholders of the Company was RMB0.05 billion, representing a decrease of 84.4% over 2012. Earnings per share amounted to approximately RMB0.05.

Chairman's Statement

The retail industry is moving from scale driven growth to efficiency driven growth, and from sales scale driven expansion to margin driven expansion. The Group will carry on its corporate spirit of "Rising to the Challenges and Building Credibility for the Long Term", and focus on building a talent pool and being more efficient and innovative in finding new development and management path. We will speed up transformation and reform on the back of making changes in operations and optimizations in our supply chain.

Chairman's Statement

I have been appointed as the chairman of Lianhua Supermarket since December 2013, and have brought with me over 30 years of experience in the retail industry where the Group has engaged in. Although the development of chain supermarket industry has only been established for around two decades in China, fierce competition and rapid development of information technology have brought great pressures and challenges as well as business opportunities to the traditional retail industry. On one hand, competition landscape was changed with more and more crowded market place, prices for consumer goods, operational costs, and, of course, consumer behavior. These changes are also obvious in the operation results of chain retail enterprises. Many early developed outlets of the Group have already encountered rising rental costs, aging properties and infrastructure, and "close combat" with our competitors, resulting in sales stagnated and pressuring our profitability. On the other hand, the Group is very determined to broaden its reform and transformations, as the traditional retailers' model isn't able to satisfy the ever escalating consumer needs or fit into the new retailer-supplier relationship. And as a clear path shows itself after our reforms taking places in every business segments, the willingness of making a change is also getting stronger and stronger inside the group.

As a pioneer of chain supermarket operator in the domestic market, each step taken by Lianhua Supermarket was inspired by exploration, innovation and reform, and the development of Lianhua Supermarket has never been impeded by difficulties and challenges. The Group has overcome many obstacles in the past, all the way from starting the retailing business in a

Chairman's Statement

difficult environment, becoming a public company after tumbling in the capital market, melting differences after acquisitions. And today, we have been the top chain retailer of fast moving consumer goods for many years in an ever changing consumer market in China, which is built on a solid foundation and the entrepreneurship embedded. Our hypermarket, supermarket, and convenience store segments continue to grow. Meanwhile, our new e-commerce and cosmeceutical store business have emerged as new growth drivers.

Currently, China is under a comprehensive upgrading and adjustment in its national economic structure and a new round of reform has started. New technologies and business model will make changes on many levels, sweeping through the Chinese economy and affecting industries as varied as finance, information technology, energy, healthcare, service, and even entertainment. In 2013, the Group focused on transformation and upgrading by seizing the opportunities emerging from government's policies to stabilize growth, making changes on the back of business growth, and further optimizing the structure. In the hypermarket segment, the Group put emphasis on providing better shopping experience. As our customers are looking more and more for one-stop shopping experience, we focused on promoting outlet classification adjustment and broadened functions of sublease area to enhance the core competitiveness of any single store. In the supermarket segment, we concentrated on building and expanding the models of express outlet, community center and outlet with more fresh produce. In convenience store segment, we continued to promote "lean but reinforced" outlets, developed high-end stores with innovative but essential merchandise and service, and explored O2O (online to offline) business mode. After further IT infrastructure development and improvement, the Group saw more synergies between online and offline businesses for the one-stop shopping website "Lianhua Mart" (www.lhmart.com) launched in 2011, bringing steady growth of our online sales.

The Group modified the items it charges suppliers in the 2013 contracts renewing process with suppliers according to government's principles on charges by retailers on suppliers. During the process, the Group introduced a unified model and removed a number of chargeable items. The remaining charges are only sales rebates and three types of service fee, which will be used to propel sales of merchandises. These changes not only encouraged suppliers to expand their turnovers to lower fee ratio, but also promoted the transformation of the charging model in the procurement process, which is crucial for building a longer term mutually beneficial cooperation between retailers and suppliers. Meanwhile, these changes have also supported transformation of our long-term model of profitability.

In 2013, guided by "Profits are Generated from Sales and Gross Profit Leads to Gains" (利潤源於銷售，毛利主導收益), the Group strengthened the connection between production and sales of fresh produce, increased sourcing from the origin, continued to promote private label products, optimized merchandise mix and strengthened the establishment of supply chain. The Group's continually innovative and enriched marketing campaigns, highlighted by a series of themed marketing activities, also increased consumer traffic with stable consolidated income.

Chairman's Statement

Well noticed of the nature of being in the service industry, the Group took the initiative to streamline the operation and enhanced internal service within the Group in 2013. 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, and established the service value chain of "headquarters to serve outlets, managers to serve employees and outlets to serve customers".

The Group's loyal consumers are its most valuable asset to combat challenges from e-commerce and physical competitors. In 2013, the Group continued to upgrade its membership system, and used member data to analyze customer demand and better target marketing promotions. For middle and high end customers, the Group launched a monthly magazine entitled "Slow Life" that targets "young families with middle to high income and mature families with middle to high income level" and catering for the specific needs of customers. The number of these customers who actually came to our outlets after receiving our direct marketing materials increased on a monthly basis.

It is worth-mentioning that, despite the sharp increase of various costs, we are committed to the business philosophy of "Serving customers, Offering convenience, and Benefiting communities" (為民、便民、利民), and continued our "Beneficial life" (惠生活) and "Beneficial products" (惠商品) marketing since the second half of 2012. While achieving sales growth, we have also gained consumer recognition, improved market reputation and established a distinctive brand image. At the outbreak of bird flu in April 2013, the Group took responsive measures immediately by reducing the display space for poultry and increasing the selling space for pork and beef products in a timely manner and vigorously promoted the sales of beef, vegetables and seafood. These efforts improved shopping atmosphere in our stores and helped customers to regain confidence in food products while benefiting from our sales promotions.

With 2013 behind us, we should take another look at the industry as a whole. All the attempts in the industry, including multi-billion investments and strategic positioning in e-commerce, revitalized mergers and acquisitions and convenience stores competing in the O2O field, are pointing to the same breakthroughs that traditional retailers are looking for in the gloomy operating environment. It implies that the retail industry is bound to undergo deep transformation and traditional retailers cannot help but evolve with the changing environment to survive the challenge.

Looking into 2014, the government's policies will remain focus on "Sustain growth, Re-adjust restructure and Promote reform" (穩增長、調結構、促改革). And it's reasonable to expect that the moderately expansionary fiscal policy and prudent monetary policy will remain the same in the near future. At the Third Plenary Session of the 18th Communist Party of China (CPC) Central Committee, a series of new requirements were proposed to deepen the reform of state-owned enterprises In the Session, it was clearly stated that the joint ventures between State-Owned Enterprise (SOE) and their private partners are very important to the country's economic system, which is a sign of triggering another round of reform. The Session also pointed out that the direction for managing state-owned assets should focus more on controlling the capital and that the business focuses and functions of SOEs should be clearly defined. Besides, the new policy highlights the better use of professionals and the encouragement of entrepreneurship.

Chairman's Statement

The goals are set for China, which shows a better and clear path for the country's economic development. The dividends from reform will drive sustainable and rapid economic growth in China. A new round of reform on SOEs has also been initiated in Shanghai, requiring all SOEs to fit into a more market-and-international-oriented economic system. This round of reform in Shanghai will focus more on establishing a better corporate structure to revitalize SOEs and lift efficiency, and encourage SOEs to maintain or increase the value of assets they controlled and compete fairly in the market while taking their share of social responsibilities. To establish a market-oriented incentive system is a crucial part of deepening the reform of SOEs. As a major SOE in retail industry, the Group will continue to take a market-oriented approach and adopt the general working guidelines of "Deepening reform, Enhancing transformation, Solidifying foundation and Developing steadily" (深化改革、轉型提升、夯實基礎、穩健發展) in 2014 and overcome any possible obstacles through reform. The board of directors of the Company (the "Board") will further optimize the governance structure, enhance corporate governance, and strengthen the supervisory roles of various professional committees of the Board as well as independent directors. The Board will efficiently speed up the process of decision making in strategic planning, setting up incentive system, and making significant investments, and propel various work effectively.

The retail industry is moving from scale driven growth to efficiency driven growth, and from sales scale driven expansion to margin driven expansion. And we believe that focusing on customer needs and providing better services with enhanced management are crucial for sustainable and healthy growth for any company.

The Group will also vigorously formulate an incentive mechanism that is in line with market practices and regulations, and adhere to the talent-oriented culture by aligning individual interests with corporate interests, so as to establish a long-term sustainable mechanism.

The Group will carry on its corporate spirit of "Rising to the Challenges and Building Credibility for the Long Term" (遇強更強、誠信致遠), and focus on building a talent pool and being more efficient and innovative in finding new development and management path. We will speed up transformation and reform on the back of making changes in operations and optimizations in our supply chain. Equally important, we will also focus on team building and streamlining different departments, especially in a challenging and distressed environment. By doing these, we believe a healthy development is achievable and will increase value for all shareholders.

On behalf of the Board, I would like to extend my heartfelt thanks to our management team and employees for their deligent work and contributions and to our shareholders and business partners for their dedicated support.

By order of the Board
Chen Jianjun
Chairman

26 March 2014
Shanghai, the PRC

Five Years Financial Highlights

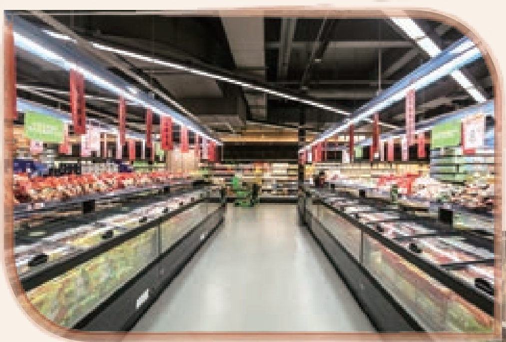
Unit: RMB'000 For the year ended 31 December	2013	2012	2011	2010	2009
Turnover	30,383,420	28,987,545	27,520,176	25,905,343	24,017,720
Hypermarkets	18,234,857	17,253,783	16,082,043	14,578,596	13,039,537
– Percentage to turnover (%)	60.02	59.52	58.44	56.28	54.29
Supermarkets	10,151,879	9,819,043	9,617,432	9,432,815	9,318,539
– Percentage to turnover (%)	33.41	33.87	34.95	36.41	38.80
Convenience stores	1,934,450	1,837,821	1,733,631	1,746,729	1,552,902
– Percentage to turnover (%)	6.37	6.34	6.30	6.74	6.47
Other businesses	62,234	76,898	87,070	147,203	106,742
– Percentage to turnover (%)	0.20	0.27	0.31	0.57	0.44
Gross profit	4,362,590	3,929,064	3,956,440	3,612,966	3,136,043
Gross profit margin (%)	14.36	13.55	14.38	13.95	13.06
Consolidated income margin (%) (Note 1)	24.02	24.68	25.71	25.01	24.10
Operating profit (Note 2)	265,805	512,487	829,373	775,200	647,573
Operating profit margin (%) (Note 3)	0.87	1.77	3.01	2.99	2.70
Profit and total comprehensive income for the year attributable to owners of the Company	52,953	339,947	626,727	622,414	506,802
Margin of profit and total comprehensive income for the year attributable to owners of the Company (%)	0.17	1.17	2.28	2.40	2.11
Earnings per share (RMB) (Note 4)	0.05	0.30	0.56	0.56	0.45
Interim dividend per share (RMB) (Note 5)	–	0.08	0.08	0.15	0.12
Final dividend per share (RMB) (Note 5)	–	0.07	0.12	0.18	0.16

Five Years Financial Highlights

Unit: RMB'000 As at 31 December	2013	2012	2011	2010	2009
Net assets	3,648,620	3,768,680	3,621,646	3,224,801	2,928,074
Total assets	20,520,759	20,804,186	20,313,931	18,452,840	15,418,396
Total liabilities	16,872,139	17,035,506	16,692,285	15,228,039	12,490,322
Net cash flow	2,288,339	(2,977,217)	(14,863)	1,389,208	732,746
Average return on total assets (%)	0.26	1.65	3.23	3.68	3.37
Average return on net assets (%)	1.56	10.12	20.19	23.23	19.89
Gearing ratio (%) (Note 6)	0.01	0.01	0.01	–	–
Liquidity ratio (times)	0.73	0.67	0.73	0.80	0.82
Turnover of trade payables (days)	59	59	62	61	59
Turnover of inventories (days)	40	37	38	37	37

Notes:

1. Consolidated income margin (%) = (Gross profit + Other revenues + Other income and gains)/Turnover
2. Operating profit = Profit before taxation - Share of profits of associates
3. Operating profit margin = (Profit before taxation - Share of profits of associates)/Turnover
4. Earnings per share for each of the year ended 31 December 2010 and 2009 have been adjusted retrospectively for the bonus issue which was effective in September 2011.
5. The total shares of the Company increased to 1,119,600,000 shares from 622,000,000 shares due to the bonus issue effective in September 2011. Meanwhile the Board does not recommend the payment of the final dividend for the year ended 31 December 2013 at the Board meeting held on 26 March 2014.
6. Gearing ratio (%) = Loans/Total assets



Growing

Management Discussion and Analysis

Operating Environment

The global and domestic economic environment in 2013 continued to be extremely complicated. Internationally, the global economy remained sluggish, global liquidity increased significantly, sovereign debt crisis repeatedly dampened the market confidence, and the profound impact of the financial crisis lingered. Domestically, growth in the consumer goods market slowed as the growth of economy continued to suffer from downward pressure. Due to the constant shifts in business structure, operational model and the overall outlook, China's chain retail industry continue to face intense competition and mounting challenges.

According to the National Bureau of Statistics, China's gross domestic product (GDP) increased by 7.7% year on year to RMB56.88 trillion in 2013, representing a steady yet declined growth rate. Urban and rural resident income continued to grow relatively quickly, but at a slower pace year on year. Urban resident income per capita reached RMB29,547 with disposable income per capita rising to RMB26,955, an nominal increase of 9.7% year on year, and a real increase of 7% year on year when excluding the effect of price changes. The real growth rate was 2.6 percentage points lower than that of 2012. Per capita cash income of rural residents was RMB8,896, representing a nominal growth of 12.4% year on year and a real increase of 9.3% year on year when excluding the effect of price changes. The real growth rate was 1.4 percentage points lower than that of 2012.

China's 2013 consumer price index (CPI) remained at a stable and relatively low level, mainly due to the government's effective regulation. The producer price index (PPI), a leading indicator of CPI, however, has been declining since March 2012. These indicators demonstrated the sluggish growth of the domestic economy and the insufficient expansion of aggregate demand.

From an industrial perspective, China's retail industry has experienced two decades of rapid growth. In recent years, however, the traditional retail industry has reached an inflection point and entered into a low profit period as operational models have been negatively affected by the slowing down of macro economy growth, changing consumer habits and the rapid expansion of e-commerce. In particular, individual store customer traffic has also dispersed as a result of dense allocation of physical retail outlets. Additionally, strict restrictions on the spending of government and state-owned enterprises (SOEs) influenced overall market demand. In 2013, the total retail sales of social consumer goods were RMB23,438 billion, representing a year-on-year nominal growth of 13.1%, or a real growth of 11.5% year on year when excluding the effect of price changes. The growth rate decreased by 1.2 percentage points over that of 2012. According to the statistics from the China National Commercial Information Center (CNCIC), in 2013, the retail sales growth rate year on year of the 100 largest retail enterprises in China was 8.9%, which was 1.9 percentage points lower than that of 2012, representing a decline in two consecutive years, and had reached the lowest level since 2005. In particular, the sales growth of food and daily necessities significantly slowed down year on year. Food sales grew by 10.6% year on year, 3.5 percentage points lower than that of 2012. Sales of daily necessities grew by 6.7% year on year, 6.1 percentage points lower than that of 2012. The sales of 3,000 major nationwide retail enterprises monitored by the Ministry of Commerce of the People's Republic of China ("MOC")

Management Discussion and Analysis

rose by 8.9% year on year, representing an increase of 0.6 percent point over that of 2012, whereas the sales from online shopping increased by 31.9% year on year, which means online sales was the key driver for growth. Sales from supermarket enterprises rose by only 8.3% year on year, which was 0.4 percentage point lower than that of 2012. In certain first and second-tier cities, the growth of chain supermarket industry even encountered a downward inflection point. In line with the statistics released by CNCIC, the total retail sales of the 100 largest retail enterprises of the week-long 2014 Chinese New Year Holiday (which ran from 30 January to 5 February 2014) decreased by 3.8% when compared to the week-long 2013 Chinese New Year Holiday (which ran from 9 February to 15 February 2013).

Under such unprecedented challenges, China's chain supermarket enterprises (including the Group) experienced increased operating pressure throughout 2013. Frequent and multi-dimensional competition narrowed the gains from merchandise in the industry, while sharp and rigid increase in various costs kept their overall profitability under pressure.

Financial Review

Growth in turnover and consolidated income

During the period under review, the Group recorded a turnover of RMB30.38 billion, representing a growth of 4.8% year on year. Same store sales increased by approximately 2.13%, representing an increase of 2.85 percentage points over that of 2012, benefiting mainly from optimization of product mix, effective promotion, the continuous transformation of outlets as well as maturing business circles surrounding the sub-new supermarket outlets that resulted in higher sales. However, the Group was aware of the enduring effects on retail industry from a slowdown in growth of macro-economy and government policies in terms of food safety and anti-corruption. In addition, the impact of the significant decrease of group consumption and the rapid development of e-commerce on physical chain supermarkets also intensified. As the chain supermarket industry faces an unprecedentedly tough market situation, the Group will proactively explore and innovate new marketing models in order to ensure its existing market share.

During the period under review, the Group recorded a gross profit of RMB4.36 billion, representing an increase of approximately 11.0% year on year, and the gross profit margin increased by 0.81 percentage point to approximately 14.36%. The main reasons for the increase are as follows: (i) the Group adjusted its marketing strategy and carried out a series of promotional activities to improve price perception to attract more customers and therefore increased turnover and gross profit; and (ii) the Group managed to lower its purchasing costs by solidifying its competitive edge of resource consolidation, as well as increasing sales rebates from suppliers through effective commercial negotiations.

During the period under review, consolidated income was approximately RMB7.30 billion, representing an increase of approximately 2.0% year on year, which was mainly attributable to the following factors: (i) the Group reduced the charges on suppliers and only remained sales rebates and three types of service fee to lower sourcing cost with enhanced transparency. During the period under review, merchandise gains increased by

Note:

Consolidated income = Gross profit + Other revenues + Other income and gains

Consolidated income margin = (Gross profit + Other revenues + Other income and gains)/Turnover

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RMB0.10 billion over 2012 with the growth of sourcing volumes and turnover; and (ii) during the period under review, total rental income of the Group from the sublease of shop premises increased by approximately RMB0.07 billion over 2012 due to increased price of new and renewed sublease contracts. The consolidated income margin was 24.02%, representing a decrease of 0.66 percentage point over that of 2012. The Group's consolidated income did not achieve simultaneous growth with its turnover due to the Group's low price strategy in response to price competition in the industry and the impact of low prices in online shopping channels.

During the period under review, the Group maintained sufficient cash flow and ensured stable capital gains by prudent and professional management. However, with the rapid development of third-party payment cards as well as a dramatic decline in group demand, the growth in sales of the Group's single-purpose payment card showed a downward trend. Nevertheless, as the redemption of the payment cards increases, it will affect the growth in net operating cash inflow.

Operating cost and net profit

During the period under review, total distribution expenses and total administrative expenses of the Group amounted to RMB6,178,129 thousand and RMB737,080 thousand respectively, representing an increase of 5.0% and 2.9% year on year respectively. The overall cost ratio kept stable year on year. Major cost items such as labour, rent and utilities expenses increased rigidly to RMB2,910,084 thousand, RMB1,684,412 thousand and RMB560,627 thousand respectively. The main reasons are: (i) local governments across China raised minimum wage drastically during the period under review. In Shanghai in particular, in 2013, minimum monthly wage increased to RMB1,620 from RMB1,450, representing an increase of 11.7% year on year. The surge in minimum wage together with according surge in social insurance cost led to an increase in labour costs and the increment of labour cost accounted for 71.8% of the total cost increment for the period under review; and (ii) since lease contracts of some outlets approached expiry, the rental price of renewed as well as new rental contracts increased drastically because of rising premises prices, leading to a year-on-year growth of rental cost. Facing escalating costs, the Group consolidated management resources from headquarters of the Group in order to lower administrative expenses and maintain its cost control by optimizing employment structure and establishing cost control mechanisms.

During the period under review, the Group recorded an operating profit of RMB265,805 thousand, representing a decrease of 48.1% year on year. Operating profit margin decreased by 0.90 percentage point to 0.87% year on year. The rising costs drove the operating profit of the Group decline drastically. During the period under review, the Group focused on fresh produce, carried out more promotions with enhanced membership system and pursued win-win situation by reducing charges items for contracted suppliers, hence boosting sales and gross profit and achieving an increase of merchandise gains by RMB0.10 billion. However, labor cost and rental cost recorded a rigid increase of RMB0.28 billion and brought down operating profit. The Group responded to the challenges of rising costs by innovating marketing models for more market share, establishing cost control mechanisms and seeking support for the government policies.

During the period under review, the Group's share of profit of associated companies was RMB85,896 thousand, representing a decrease of 44.2% year on year. Affected

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by the sluggish market environment and policies, the turnover 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 thus profit decreased year on year. Shanghai Carhua Supermarket Company Limited ("Shanghai Carhua") opened four new outlets during the period under review. As at 31 December 2013, Shanghai Carhua had a total of 28 outlets.

During the period under review, the tax charge of the Group was RMB216,398 thousand. The Group paid close attention to fiscally supportive policies of the Chinese government and strove for financial support from various local governments to lower its tax rate. However, due to the gradual expiration of the tax holiday enjoyed by mature outlets and the requirement that each outlet be taxed independently, the Group was unable to balance its total profits across different regions, and thus its income tax rate increased substantially to 61.5%, resulting in a much bigger decrease rate of profit after tax than the decrease rate of profit before tax.

During the period under review, the Group recorded profit before tax of RMB351,701 thousand, representing a decrease of 47.2% year on year. Profit and total comprehensive income for the year attributable to shareholders of the Company amounted to RMB52,953 thousand, representing a decrease of 84.4% year on year. The profit and total comprehensive income margin attributable to shareholders of the Company was 0.17%. Basic earnings per share were approximately RMB0.05 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 inflow was RMB2,288,339 thousand, mainly due to the decrease in term deposits. Cash and miscellaneous bank balances as at the period end was RMB10,249,258 thousand.

For the year ended 31 December 2013, the turnover period of the Group's trade payables was 59 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 31 December 2013.

Growth in retail businesses

Hypermarkets

During the period under review, the turnover of the Group's hypermarket segment increased by approximately 5.7% year on year to RMB18,234,857 thousand, accounting for 60.0% of the Group's turnover, representing an increase of approximately 0.5 percentage point over that of 2012. Gross profit margin increased by 0.93 percentage point to 13.80%. Same store sales increased by approximately 1.22%. Consolidated income margin was approximately 23.63%, representing a decrease of 0.69 percentage point year on year. The segment operating profit was RMB98,557 thousand, representing a decrease of 57.8% year on year. The operating profit margin decreased by 0.81 percentage point year on year to 0.54%, mainly due to: (i) the rigid increase of labor cost by RMB166,848 thousand because of increase in minimum wage; and (ii) provision made for store closure so as to improve outlet quality. During the period under review, it is increasingly clear that the hypermarkets are facing considerable competitive

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pressure from specialty stores and shopping malls due to the slowdown in the growth of chain supermarkets business in China's first and second tier cities along with the lax implementation of the ban on commercial outlet construction in the past. The Group faced increasing competition from the continuous opening of new outlets in neighbouring areas by peer competitors. Although the Group has put greater effort on transformation in recent years, it's increasingly difficult to see the transformation through with short duration of leases and defects on some outlet properties. Facing challenging environment, the hypermarket segment leveraged its competitive advantages and adopted a "two-pronged driving" policy of building its image and enhancing its competitiveness. Firstly, the Group ensured the quality of its newly-opened outlets by strictly implementing its opening procedures, while putting greater effort into 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". Secondly, in response to the growing trend of consumers conducting price comparisons facilitated by the release of price information on daily necessities by the government, the Group continuously implemented marketing and promotional activities with the theme of "Beneficial Life" (惠生活). The Group attracted customers by promoting selected price sensitive daily necessities to boost demand and strengthening bulk sourcing of fresh produce (such as vegetables) to lower the price, and thereby increased demand for non price-sensitive merchandise. 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. Thirdly, the Group accelerated the functional adjustments of its outlets and highlighted the display of merchandise by

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arranging and dividing the outlets into certain specific areas such as "Baby/Child Area" and "Specialty Electrical Appliances Area" to cater to the customers' preferences and consumption habits. Meanwhile, the Group attached great importance to sublease area that can provide strong backup to its stores and enhance the customers' one-stop shopping, recreation and dinning experience in the hypermarkets.

As of 31 December	2013	2012
Gross profit margin (%)	13.80	12.87
Consolidated income margin (%)	23.63	24.32
Operating profit margin (%)	0.54	1.35

Supermarkets

During the period under review, the turnover of the Group's supermarket segment increased by approximately 3.4% year on year to RMB10,151,879 thousand, accounting for 33.4% of the Group's turnover. Same store sales increased by approximately 2.61%. Gross profit increased by approximately 6.9% year on year to RMB1,531,444 thousand, and gross profit margin increased by 0.49 percentage point year on year to 15.09%. Consolidated income margin of the supermarket segment was 23.28%, representing a decrease of 0.48 percentage point year on year. The segment operating profit was RMB294,820 thousand, and the operating profit margin was 2.90%, the same with that of previous year. During the period under review, consumers were willing to shop at nearby supermarkets given their respective constraints of unconvenience like lack of time or poor traffics, therefore, the supermarket segment increased in popularity among communities. However, since the customer traffic as hindered by the advent of e-commerce, wet markets and other wholesale markets, and the fact that many outlets of the Group with lease contracts approaching expiry have to be closed every year due to change of the commercial use of the properties by respective landlords or dramatically increased rents, whereas the newly-opened supermarkets are not able to attain the equivalent sales as that of mature ones within a short period of time, the turnover of the segment grew slowly. Furthermore, the rising costs such as labor cost and rental cost continued to pose a great pressure to the profitability of supermarket segment. As such, the supermarket segment concentrated primarily on fresh produce operations, deepened outlet transformation, pushed ahead with the key outlet strategy, optimized product categories through enhancing core merchandises, established a price monitoring mechanism, enhanced the effects of joint sales, and consolidated its market share.

As of 31 December	2013	2012
Gross profit margin (%)	15.09	14.60
Consolidated income margin (%)	23.28	23.76
Operating profit margin (%)	2.90	2.90

Convenience stores

During the period under review, the convenience store segment recorded a turnover of approximately RMB1,934,450 thousand, representing an increase of approximately 5.3% year on year, accounting for approximately 6.4% of the Group's turnover. Thanks to the improvement in the image of its convenience stores and promotion of its core merchandise over the past years, especially the growth of high-end "Quik" stores, the image of "Quik" brand has become increasingly popular among consumers and the average age of customers had lowered. During the period under review, the same store sales of convenience store segment grew faster than all other segments of the Group. In the Shanghai market, the convenience store segment outgrew all other retail businesses in the chain supermarket industry, indicating that its consumers have kept increasing with promising prospect. On the other hand, the challenges posed by foreign competitors and the rapid increase of various expenses all drove up the costs, which could not be covered by growth of sales and gross profit, thereby leading to lower profitability of this segment. Under such competitive circumstance,

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the segment accelerated the pace in optimizing its product mix, shortened the turnaround time of its new merchandise, further promoted instant food products, strived to realize the transformation of its existing outlets, explored new franchise model and increased value-added services by utilizing its network advantages. As a result, the same store sales of convenience store segment increased by approximately 11.13% during the period under review. Gross profit margin was 16.13%, representing an increase of 1.24 percentage points year on year. Consolidated income margin was 23.92%, representing an increase of 0.87 percentage point year on year. Despite the fact that there was good performance in same store sales growth, due to the rise in labor cost and rental cost by RMB46,730 thousand and RMB13,548 thousand respectively, operating loss of the segment was RMB86,439 thousand and operating profit margin dropped to -4.47%, both showing year-on-year decrease. The Group sped up the transformation and improvement of convenience stores and explored ways to increase the proportion of franchised convenience stores to reverse the downward trend of profitability.

As of 31 December	2013	2012
Gross profit margin (%)	16.13	14.89
Consolidated income margin (%)	23.92	23.05
Operating profit margin (%)	-4.47	-1.31

Capital structure

As at 31 December 2013, the Group's cash equivalents were mainly held in Renminbi, and the Group had no other bank borrowings, except for existing borrowings of RMB2,000,000 of a non-wholly-owned subsidiary of the Group.

During the period under review, equity attributable to shareholders of the Group decreased from RMB3,403,780 thousand to RMB3,371,328 thousand, which was mainly due to the profit for the period amounting to RMB52,953 thousand, dividends distribution amounting to RMB78,372 thousand, and acquisition of shares of subsidiaries amounting to RMB7,033 thousand.

Details of the Group's pledged assets

As at 31 December 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 its foreign exchange risks. The directors believe that the Group is able to meet its foreign exchange requirements.

Share capital

As at 31 December 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 31 December 2013, the Group did not have any material contingent liabilities.

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Operating Review

Outlet Development

During the period under review, China saw a notable slowdown in its economic growth which negatively affected the development of the chain supermarket industry. Due to sluggish market demand and fiercer competition, the Group's newly-opened outlets require more time for incubation. Under such circumstance, the Group adhered to its strategic goal of "Becoming a Regional Leader and National Strong Player", steadily implemented its centralized development strategy, strictly followed the "Quality First" principle to reasonably formulate its outlet development plan, optimized the procedures for opening new outlets and closed down some underperforming outlets, thereby further improving the overall quality of its outlets.

During the period under review, three hypermarkets were opened in Hangzhou, Zhejiang Province, which helped consolidating the Group's market share in the area where it is in a dominant position. By identifying ideal locations, and taking early actions to begin the coordination and the preparation work for the opening of new outlets, the Group formulated the outlet opening procedures that are efficient and orderly to ensure the success of newly-opened stores. In addition, through careful research and inspection, the Group closed down several underperforming outlets and thereby strengthened its financial balancing capability under current economic conditions.

During the period under review, 153 new supermarkets were opened, including 21 directly-operated stores and 132 franchised stores. After taking into consideration high rental costs and the profitability of its newly opened outlets, the supermarket segment insisted on developing outlets in a scientific way, with a focus on both outlet opening and outlet renewal. For its new directly-operated outlets, the Group ensured the profitability of these stores by carefully studying the surrounding business environment, property conditions, and market positioning, etc.. For its franchised outlets, the Group further optimized the procedures for opening new stores, strictly implemented its outlet opening standards, and strengthened the unity of external signage design, interior decorations and management standards of its supermarkets, thus ensuring the reasonable operating scale and the sustainable development of its supermarkets.

During the period under review, 156 new convenience stores were opened, including 52 directly-operated and 104 franchised stores. During the period under review, the convenience store segment insisted on idea of broadening sources of income and reducing expenditures. To this end, the Group took initiatives to close down underperforming outlets with no growth prospects and continued to promote the transformation of its existing outlets. A total of 160 stores were successfully transformed. The Group gradually optimized the market positioning, in-store environment and merchandise display of its outlets to improve their quality. The Group also explored new franchising models to improve the profitability of its franchised stores. Meanwhile, the Group accelerated the development of its high-end stores and innovated its operating and profitability models, so as to enhance its brand image among customers.

As at 31 December 2013, the Group had a total of 4,530 outlets, a decrease of 168 outlets from the end of 2012. The decrease was attributable to the closure of some franchised stores. The Group, as a state-owned enterprise, strictly observed relevant laws, regulations and its own rules in respect to food safety, outlet image and outlet management. Therefore, growth of the number of the Group's franchised stores did not meet expectations due to its focus on the profitability of newly-opened and renewed franchised outlets. Approximately 84% of the Group's outlets were located in Eastern China.

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	Hypermarkets	Supermarkets	Convenience Stores	Total
Direct operation	156	641	929	1,726
Franchised operation	–	1,828	976	2,804
Total	156	2,469	1,905	4,530

Note: As at 31 December 2013.

Strengthened Operational System

During the period under review, facing huge pressure and challenges from the consumer goods market, the Group carefully monitored the changes in consumer demand and proactively strengthened its operational system. By promoting outlet transformation, the Group improved the management of its outlets, strengthened its price management, optimized its product mix and supplier structure and enhanced its operating capability.

Outlet transformation is an effective way to increase the intrinsic value of outlets and boost their sales. With rapid economic development, changing consumer demands and the perfection of laws and regulations, transformation in retail segments became inevitable. During the period under review, in order to enhance the competitiveness of its individual outlets and boost its sales, the Group pushed forward its outlet transformation by improving and expanding the services offered at its outlets. The Group focused on promoting outlet classification adjustment in respect to its hypermarket segment, constantly broadened functions of sublease area and offered more convenient services to improve its outlet image. The Group pushed ahead with its transformation by promoting a modularized product mix at its stores, implementing a differentiated pricing strategy, innovating its incentive and appraisal mechanism and improving community services in respect to its supermarket segment. The Group continued to implement the "lean but reinforced" strategy in respect to its convenience store segment, which involves improving store performance by reducing slow-moving merchandise and items to release shelf space while replenishing fast-moving merchandise, items and ancillary products in a timely manner, and fully promoted the perfected operation model to more stores. Meanwhile, the Group started to open high-end convenience stores and innovated its sales model, product mix and business philosophy. During the period under review, the Group opened 20 high-end convenience stores.

During the period under review, the Group improved the management of merchandise categories and product pricing by enhancing coordination between its operations and procurement teams. During the period under review, the Group conducted various promotions to probe into customers' preference in time and model of consumption. The Group also improved the overall sales of certain categories of merchandise through carrying out various customer-specific promotional activities, exerting its competitive edge on product quality and procurement and utilizing various media resources. During the period under review, the Group unified the sales of direct marketing (DM) merchandise and monitored the compensation for price differences through greater collaboration between the operation and procurement teams. This helped to integrate resources and increase sales and profitability, thus facilitating the transformation of the Group's profit model. Meanwhile, in addition to

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monitoring its gross profit on a daily basis, the Group also strictly maintained its overall profit margin by regularly streamlining and analyzing the gross profit of promotional merchandise. During the period under review, the Group perfected its outlets' market survey system and pricing adjustment process, fixed benchmark gross profit margins for product pricing, guided price adjustments and took initiatives to build a low-price brand image while maintaining its overall gross profit margin.

During the period under review, the Group proactively improved procurement techniques and optimized product mix to meet diversified customer demands and increase customer traffic and sales. The Group continued to procure quality merchandises from origins, further guaranteed product quality and price. As at 31 December 2013, the Group had 319 fresh produce supply bases and sales of produce from its own supply bases increased by 28% year on year. The Group constantly improved its procurement and distribution techniques for fresh produce, sold its merchandise at competitive prices, increased product categories, strengthened self-processing capability and voluntarily satisfied demands from its outlets, thus providing better conditions for outlet operation. The Group's vegetables self-procurement-and-sale model began to bear fruit with sales of fresh produce at the hypermarkets significantly increased over the previous year. In supermarket segment, the Group enlarged the supplier base of chilled seafood products to boost sales and tightened the monitoring of fruits and vegetables to lower spoilage and increase gross profit. In convenience store segment, the Group launched the fresh produce promotional campaign, and boosted the sale of core merchandise by improving fresh food operation. The Group made breakthroughs in its bento box sales, which demonstrated a positive momentum. During the period under review, the Group continued to expand the channels through which direct supply of merchandise could be sourced with a view to alleviate the pressure of decreasing margin. In addition, the Group secured the

supply of scarce goods through investment in buyout. Through this strategy, the Group has improved its sales and at the same time realised a payoff of its buyout investment. During the period under review, the Group took opportunities to boost sales based on product features, introduced the "Lianhua-exclusive" merchandise and implemented multi-channel procurements, so as to ensure its competitive advantage in differentiated prices.

Private label merchandise have become an effective tool in the sluggish market and amid fierce competition in the global chain supermarket industry. During the period under review, the Group continued to enhance the development and marketing of its private label merchandise, and the sales of its private label merchandise saw a year-on-year increase of approximately 8.2%, accounting for 3.1% of the total sales. Promotion of "Little Q" branded merchandise in the convenience store segment has gradually shifted from manufactured products to foodstuffs, and from marketable merchandise and passive procurements to personalized merchandise and collections, and launched new merchandise in outlets across the country, thereby greatly enhancing the Group's brand image. During the period under review, the Group enhanced the procurement of imported products, improved its product classification system and optimized its sourcing channels, leading to a significant growth in the purchase of imported products.

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During the period under review, the Group accelerated the construction of information systems and logistics system so as to further improve the management and operation of its business. By establishing and improving a unified corporate information management platform, the Group visualized its internal operation processes and enhanced communications between different business units, which promoted the optimization and adjustment of business processes to meet the demand. The Group improved its unified settlement system to cover its lease and sublease businesses, thus making its financial management more efficient and convenient. During the period under review, the Group constantly improved its financial and cash management system and built a direct link between banks and the Group, in order to provide detailed daily statistics on its cash position to improve its financial management and cash utilization. Meanwhile, the Group further improved its B2B management system to reinforce the management of various suppliers' licenses and the online publicity and verification of receipts and payments, and introduced an online new product launch channel to make supplier management more efficient. During the period under review, the Group built upon its existing logistics system to ensure the timely delivery of merchandise. The Group enhanced communications among its procurement teams, suppliers and outlets in respect of normal-temperature product distribution and raised the order fulfilment rate. The Group also explored the direct logistics model, and standardized its logistics model in collaboration with its procurement and operation teams. The separation of procurement and order of fresh produce clearly defined order responsibilities and improved inventory turnover and order fulfillment rate. Meanwhile, the Group established an information service station to manage the prominent demands of its outlets and improve outlet service quality. Jiangqiao logistics center is expected to start operation by the end of 2014 given to the undergoing main construction and supported works as well as the Group's careful operation plans. After acquiring land for the new logistics center in Yangxunqiao, Zhejiang Province in May 2013, the Group is in the preparation stage for project biddings.

During the period under review, the Group further tightened its food safety management to build a foundation of trust among customers. The Group constantly intensified its grip on outlet operations and standardized management process mainly by improving service quality, establishing standardized systems and conducting store inspections. The Group intensified the quality inspection and approval procedures for the sale of new merchandise and built the supplier site-visiting mechanism for quality assurance. The Group also formulated a product sampling plan to guarantee the quality of merchandise on shelves. When bird flu broke out in April 2013, the Group took responsive measures immediately to adjust and monitor its product mix, display resources, safety propaganda and marketing activities on a timely and orderly basis. The display area was adjusted less for poultry products and more for pork and beef products in a timely manner. As a result of the Group's vigorous promotions of beef, vegetables and seafood, the negative impact of the bird flu incident was minimized.

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Accelerated Reform and Innovation

During the period under review, the Group adopted the contract negotiation model to transform its profit model in accordance with the principles from six ministries and commissions on charges by retailers on suppliers. The Group modified the items it charges suppliers when entering into the 2013 supplier contracts and removed all other charges apart from sales rebates and three types of service fee. These fees were used to promote the sales of suppliers' products, encouraging them to sell their products in large quantity and at cheaper prices. As a result, the Group transformed its procurement charging model and helped to build a stable and mutually beneficial retailer-supplier relationship. The Group believes that, although the transformation will have negative impact on its profitability in the short run, the adjustment in charges benefits modification of incentive system for suppliers as the transformation of profit model is rolled out across the whole chain supermarket industry. As a result, the sales of its merchandise will be expanded significantly, which is expected to promote a mutual cooperation between the Group and its suppliers.

During the period under review, the Group optimized its strategy of sublease area to attract more renowned brands to its outlets and improve the shopping experience of its customers, thus enhancing its profitability and brand image. Firstly, the Group proactively transformed model of sublease area and adjusted its strategy to attract merchants in accordance with changing market demands. To this end, the Group engaged quality merchants, introduced more renowned brand and chain merchants, raised the entry barriers for merchants and enriched the services of its outlets. Secondly, in order to offer more convenient services to residents around its outlets, the Group selected certain pilot outlets to establish a convenient service center to serve its customers and improve its brand image. Thirdly, the Group endeavoured to attract more merchants, introduced more prestigious brands and attempted to add luxury brands to its outlets while enhancing the management of merchants' licenses. For instance, in a 39,000-square-meter hypermarket opened by the Group in Hangzhou, Zhejiang Province, it introduced "Glora Citta" (歐凱城), a shopping area only for luxury brands such as GUCCI, PRADA, BURBERRY and other fashionable brands. This was added with the introduction of "Miaomi City" (妙喵城), an infant and children products area, and an infant bathing center, thus making breakthroughs in the one-stop shopping concept of hypermarkets.

During the period under review, the Group continued to roll out the "Beneficial Life" promotional campaign, for which over 250 daily necessities were sold at low prices to attract customers, and intensified and monitored product management in the "Beneficial Life" campaign. This involved unifying merchandise display and decoration rules, improving inventory management and analyzing sales, gross profit and cost consistency in a timely manner, and resulted in a continuous growth in sales of the merchandise selected for the campaign and traffics in stores. During the period under review, the Group constantly innovated marketing initiatives, enhanced promotional activities and launched a series of themed promotions to boost customer traffic, including a promotional campaign in a Wedding Expo exhibition and 25% discount for all non-food merchandise events. The Group also promoted seasonal merchandise to boost sales growth and identified other potentially marketable merchandise based on the constant monitoring of latest consumption trend, formulated a product display plan, offered more guidelines and recommendations to customers and helped outlets boost sales of seasonal products.

The Group's loyal consumers are its most valuable asset to combat challenges from e-commerce and physical competitors. During the period under review, the Group focused on carrying out member promotions, analyzing customer demand and improving member

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activities based on the upgraded membership system. During the period under review, the Group completed the development and improvement of various system functions and optimized the operational processes for its "Lianhua Mart", a one-stop shopping website (www.lhmart.com). Riding on these achievements, the Group constantly adjusted and replenished product categories on the website, and offered additional value-added services for its members. It also gradually increased its online members, and promoted online and offline interactions.

Strengthened Cost Controls and Solidified Fundamental Management

Judging from the macro-economic policies of the government, the rapid and rigid rise in labor and rental costs will continue to pose challenges. In reaction to this trend, the Group adopted a series of cost control measures to cope with the challenges caused by the general increase in costs during the period under review.

During the period under review, with a focus on "resource integration, channel optimization, management unification and cost-saving", the Group modified and adopted a flexible recruitment model to control labor costs within a reasonable range. The Group promoted the use of various forms of temporary employees in its outlets. To satisfy its workforce requirements, the Group took a series of designated initiatives such as optimization of shift work in outlets with professional personnel and granted incentives to internal staff for contracting certain work. The Group has not only integrated its recruitment channels regarding all segments to maximize the utilization of such channels

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and explored new models of cooperation, but has also implemented labour outsourcing. A pilot project called "Taking delivery on credit" was launched in several outlets of the Group to simplify internal hand-over procedures and manage employees working on night shifts more efficiently. Furthermore, the number of workers of nearby outlets on duty at night responsible for taking deliveries was decreased from two to one to increase efficiency and lower costs. Meanwhile, the Group also attempted to assign multi-functions to one position in stores to remove redundant positions in supermarkets, increase efficiency and provide motivations for employees, which has been proved effective.

During the period under review, the Group sought to increase internal potential and reduce costs and enhance efficiency through various expense controls and energy-saving measures. Firstly, the Group circulated expenses control targets and measures for 2013, which had positive results. Secondly, the Group improved its equipment supplier assessment system and optimized the tendering process for equipment procurement. As a result, the tendering and bidding process of the Group for equipment procurement has become more reasonable, and cost was reduced. Thirdly, the Group continued to adopt new energy-saving measures and equipments in some outlets. Meanwhile, the Group applied for subsidies as a result of its energy-saving efforts. Fourthly, following the guiding principle of "Using idle assets first", the Group made best and reasonable use of its idle assets so as to maximize their utilization rate, and therefore the expenditure on new equipments was reduced consequently.

Employment, Training and Development

As of 31 December 2013, the Group had a total of 56,187 employees, representing a decrease of 3,037 employees during the period under review. Total staff costs were RMB2,910,084 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 to ensure that the salaries of its staff, in particular, its frontline employees, were competitive. The Group further refined its performance assessment indicator system and appraisal and incentive plan, with a focus on assessing key areas and enhancing personalized appraisal, in an effort to improve the overall operating results and management level of the Group. For middle and senior management and professional personnel, the Group further aligned their compensation with business performance and implemented annual performance assessments. In addition, the Group intensified the efforts to make appraisals on its key talents and outstanding young management and reward them for their good performance on key projects with special bonuses and allowances for management trainees.

During the period under review, the Group further enhanced talent training, determined the training goals, training model and appraisal mechanism by revising the training plan for fresh graduates, young management trainees and middle-level management, and helped its management staff to improve their capabilities rapidly through career planning, special trainings, position rotation and special studies.

During the period under review, the Group developed a customized training program for all its staff across all levels, including its new or experienced staff at grassroots or high levels, and provided them with training courses on industrial situation, business expertises, management capabilities and work skills, in order to enable them to learn what they need to better develop their careers. In addition, as for the cultivation of skilled staff, the Group carried out several capability improvement trainings, work skills contests, the on-job apprentice training plan and other training plans during the period under review to adapt them to their posts rapidly.

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Strategy and Plan

As shown in the blueprint of China's second round reform outlined by the Third Plenary Session of the 18th CPC Central Committee, the central government's general economic policy is to "Sustain growth, Re-adjust structure and Promote reform". The moderately-expansionary fiscal policy and prudent monetary policy are expected to remain the same in the near future.

Government and corporate spending and shopping for gifts by courtesy have shrunk rapidly in recent years, new business models including e-commerce enjoy indisputable advantages over the physical retail networks in terms of policy and capital support, tax concessions, and industrial disciplines. In spite of the above, the chain supermarket industry expects to see continued development potential as the government rolls out market-oriented reforms and the market gradually balances out. In particular, China will continue to focus on expanding domestic demand to achieve a restructuring of the economy that will include increased urbanization along with constantly rapid growth in the working population's income. All these indicate a healthy Chinese economy that will maintain steady growth over a long period of time. As a result, the Group does not expect any material change in business environment for chain retail companies in 2014.

The majority of the Group's outlets are located in first and second-tier cities which are rapidly approaching market saturation, especially in city centers. The large number of its outlets and their respective business segments increases the pressure to restructure and the Group's migration from a decentralized merchandise management system to a centralized merchandise management system increases the risk the Group faces when adapting its operations and procurement processes. Therefore, it will adopt market-oriented measures in 2014 which shall focus on "Deepening reform, Enhancing transformation, Solidifying foundation and Developing steadily" and propel various work effectively with the enforcement of reform.

Optimize business structure and persist in transformation and upgrade, which will be demonstrated by the development and transformation of outlets and the upgrade and optimization of merchandises management systems. In 2014, in terms of development, the Group will focus on optimizing development structure by well preparing for new store openings, improving the quality of new stores and increasing market share through outlet expansion. In respect of existing outlets, the Group will speed up renovation of existing outlets by concentrating primarily on the key outlet strategy to upgrade internally. The Group will optimize its segments structure and classified outlets in each segment into store clusters or specific types of outlets based on their location and floor space. This will be done in order to pave the way for the establishment of guidelines to a modularized merchandise structure. To this end, the Group will increase the proportion of functioned merchandises in hypermarkets and intensify price management of similar merchandise to provide a one-stop shopping experience for the customers from the neighbourhood. Supermarkets focuses on segmentation, developing lifestyle galleries which are targeted at middle to high-end customers, fresh produce specialty stores for household consumers and ordinary supermarkets tailored for general consumers. Convenience stores will be further categorized into stores located in business districts, stores with high customer traffic and stores within communities in terms of their customers, merchandise and service.

Management Discussion and Analysis

With respect to development of franchise business, the Group will optimize the structure of its franchise business, strengthen the management and control of franchised stores through system reform and upgrade, explore a new profit sharing scheme and diversify the form of cooperation. The Group will increase its merchandise support to franchised stores and reinforce the operation of fresh produce in these stores, and will experimentally expand the operational scale of fresh produce in certain franchised stores. Self-procurement of vegetables will be introduced to franchised stores as soon as possible.

With respect to sourcing and procurement, the Group will continue to optimize its sourcing channels and improve procurement techniques to remove redundant procedures and lower 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. The Group will optimize its incentive and exit schemes for procurement staff who will be separated from merchandise management. This will encourage the transformation of procurement staff into sales personnel by providing an increased reward and elimination system for the procurement staff. To cope with conditions in the consumption market, the Group will optimize its product mix by strengthening category management, rationalizing price combination and promoting differentiation. This will aid the Group in establishing a solid price image and secure a stable profit margin.

As a result, the Group's capital expenditure is expected to amount to approximately RMB1.2 billion in 2014, with the focus on transformation of existing stores and on the supply chain system including IT and distributing infrastructure. For example, the Group plans to spend RMB300 million to RMB400 million on transformation of approximately 250 outlets, an addition of approximately RMB300 million on Jiangqiao Logistics Center, approximately RMB300 million on the first phase construction of Yang Xun Qiao project, which is a new logistics centre in Zhejiang Province as well as approximately RMB200 million on new stores. The capital expenditure structure of 2014 shows significant increase in investment in infrastructure and transformation when compared with that of past few years.

Deepen reform and improve systems, which will be demonstrated by the enhancement and optimization of operational management procedures, information system and organizational structure. In 2014, the Group will develop its regional management organizational structure based on the strategy as a regional leader. The Group's headquarters emphasize the unity of fundamental management, sharing of business resources as well as supervision and monitoring on frontline units. The Group will strive to reduce redundancy in overall organizational structure, streamline management, reduce management levels and improve efficiency of all business lines as well as speed up the response to market. The Group will focus on solving problems regarding product mix, pricing, display and sales so as to increase sales and customer traffic.

Management Discussion and Analysis

The Group will attach great importance to reinforce the research and optimization of business segments based on market-orientation, chain-orientation, professionalism and standardization, intensify market research, formulate business requirements in a scientific manner, refine management of store layout and optimize on-site management of outlets. Furthermore, the Group will continue to seek innovations in store cluster management, merchandise purchasing, pricing, displays as well as inventory management so as to optimize the existing systems and procedures. This will involve effects of overcoming the bottleneck of coordination between operation and procurement, strengthening the standardization of operation procedures and optimizing merchandise category management. The Group will intensify information sharing and communication among management units of the headquarters and between management units and outlets. The Group will establish an integrated operational system to optimize procurement, processing and distribution, and improve self-procurement and self-marketing of fresh produce capabilities so as to create a better price image and attract customers.

The Group will further improve its information system construction, strengthen the operation analysis by leveraging on the information platform to supervise and manage the development of various business segments. With respect to merchandise distribution, taking the commencement of operation of Jiangqiao logistics centre as a major breakthrough, the Group will formulate a scheme on centralized distribution of merchandises by the Group, optimize existing ordering procedures and increase the merchandise order fulfillment rate of outlets. Furthermore, the Group will determine and finalize the location of distribution centres in Jiangsu Province and Anhui Province to substantially raise centralized distribution to outlets, and on the above basis, speed up the application of delivery on credit, reverse logistics, distribution for e-commerce and social logistics services accordingly.

Upgrade business philosophy and consolidate operational basis, which will be demonstrated by improvements in its capabilities in conducting key businesses. In 2014, apart from strengthening sales and boosting customer traffic, the Group will work to enhance its management of consolidated income and get hold of the overall intrinsic relationships among sales, price, gross profit and income. The Group will also implement procedures to increase transparency and nurture a lean management system in order to improve its fundamental management level. Specific measures include promoting "fee-to-ratio" reform, setting out a detailed plan accordingly, promoting the transformation of profitability model, intensifying efforts to develop core merchandises and expanding operational capacity, introducing more new goods, attracting customers and promoting sales by selling fresh produce through integrated operation of procurement, process and distribution. Moreover, the Group will strengthen the support of physical outlets for the e-commerce platform and try to launch Online

Management Discussion and Analysis

to Offline (O2O) pilot projects in some supermarket outlets. Innovation in marketing activities will also be encouraged, in particular, measures such as using modern media to attract young customers will be adopted. Furthermore, the Group will optimize its business model and expand the functions of sublease areas, so as to generate more income. Finally, the Group will optimize the organizational management system and procedures in its headquarters, streamline the functions of various departments, and raise their service awareness to support outlets and front-line work in a better way.

Control costs and develop steadily with the focus of cutting cost through process re-engineering. In 2014, the Group will continue to exert strict control on various costs in a scientific way, in order to enhance the Group's competitive edge. In particular, the Group will further capitalize on its advantage in centralized fund management to enhance the efficiency of fund, and further strengthen the awareness of cost control to strictly manage various fees and expenses. The Group will also improve its organizational system and proactively leverage on the advantage of scaled chains operation, so as to reasonably allocate resources, streamline work procedures and boost employee efficiency. The Group will further improve its employee incentive system, innovate new measures to promote its performance-oriented culture, and stimulate employees' enthusiasm towards work. Over the past few years, even though the Group had made some achievements in cost control, according to the basic requirements of chain operation management, there are still room for improvement in cost reduction regarding the optimization of organizational system, improvements in work procedures and application of advanced technologies.

Since 2012, both the market and the Group have progressed into a period for adjustment. Following two decades of development in chain supermarket industry, the government, society and enterprises at all levels have confronted difficult structural changes. The 18th National Congress of the Communist Party of China clearly specified the direction of reform to the chain supermarket industry, which is completely competitive. All problems, no matter relating to the structural adjustment of market demand or building up market order, will be solved gradually with the deepening of reform. The Group believes that a consensus has been reached as to how to improve operational capabilities and cultural development. Besides, the direction of fully recognizing the nature of chain supermarket business, enhancing efficiency through process re-engineering and capturing market advantage with economics of scale is what the Group shall stick to. The Group believes that forthcoming reform will help regaining growth momentum, allowing it to solidify its leading position in the market.


LEGO

Moving

Profiles of Directors, Supervisors and Senior Management

Executive Directors

Mr. Chen Jian-jun, aged 56, a senior economist, is the chairman of the Board and the party secretary of the Company. Mr. Chen graduated from Shanghai Second Polytechnic University (上海第二工業大學) in 1998 with a Bachelor's degree in computer application. From 1998 to 2001, he pursued a postgraduate degree at Research Institute of Yangtze River Development of East China Normal University, majoring in regional economics. Mr. Chen was the deputy chief officer, chief officer and deputy director of the resource office of Shanghai First Commercial Bureau (上海市商業一局), deputy human resources manager and manager of Hualian Group Company (華聯集團公司). He was appointed as assistant to general manager and deputy general manager of Hualian Group Company, in 2000 and 2002 respectively. During his tenure at Hualian Group Company, Mr. Chen held concurrent posts as a director of Hualian Supermarket Holdings Company Limited ("Hualian Supermarket", 華聯超市股份有限公司) (a company listed on the Shanghai Stock Exchange and now known as Shanghai Xinhua Media Co., Ltd,) and chairman of Shanghai Auction Co., Ltd. (上海拍賣行有限公司). From late 2003 to April 2007, he was the supervisor and secretary of party general branch of the disposal centre of Bailian Group Co., Ltd. (百聯集團有限公司) ("Bailian Group") and was appointed as the party secretary and secretary of disciplinary committee of the supermarket merchandising division of Bailian Group since April 2007. From May 2009 to December 2013, Mr. Chen was appointed as member and chairman of supervisory committee of the Company. Since May 2009, Mr. Chen was the party secretary of the Company. In 2010, he was awarded the "Outstanding Organizer of 'Pioneering Programme of Shanghai World Expo' of Shanghai SASAC System" (上海市國資委系統"世博先鋒行動"優秀組織者). Mr. Chen was appointed as vice chairman of the supervisory committee of Shanghai Friendship Group Incorporated Company ("Shanghai Friendship", 上海友誼集團股份有限公司) (a company listed on the Shanghai Stock Exchange) in October 2011. Mr. Chen was appointed as an executive director and the chairman of the Board of the Company in December 2013.

Mr. Hua Guo-ping, aged 51, is the general manager of the Company. Mr. Hua is also the chairman and/or director of a number of operating subsidiaries of the Company and a director of Shanghai Friendship (a company listed on the Shanghai Stock Exchange). Mr. Hua is responsible for the operation and management of the Group. He graduated from Tongji University (同濟大學) in 1986 with a Bachelor's degree in electrical appliances automation. In 1989, he graduated from Tongji University with a Master's degree in industrial enterprise engineering management. Between 1993 and 1997, Mr. Hua worked for Hong Kong Tak Shun Investment Consultancy Company Limited (香港德信投資諮詢公司), Shanghai Pudong State-owned Assets Investment Management Co., Ltd. (上海浦東國有資產投資管理公司) and Shanghai Dong Shen Economic Development Co., Ltd. (上海東申經濟發展有限公司). From 1997 to 1999, he worked for Shanghai Industrial Asset Management Company Limited (上海上實資產經營有限公司) as deputy general manager. From 1999 to 2000, he was the deputy general manager of Shanghai Industrial United Limited (上海實業聯合集團股份有限公司). From 2001, he has been the managing director of Shanghai Industrial United (Group) Commercial Network Development Company Limited (上海實業聯合集團商務網絡發展有限公司). Between May 2000 and the end of 2003, Mr. Hua was a director of the Company. He was also the deputy general manager of the Company commencing from August 2003 until the end of 2003. He was the deputy general manager of the supermarket merchandising division of Bailian Group since 2004 and became the general manager in 2006. Mr. Hua was re-elected as a non-executive director of the Company at the annual general meeting for the year 2004, and since June 2009, he has been appointed as the general manager of the Company. Since March 2010, Mr. Hua has been redesignated as an executive director of the Company.

Profiles of Directors, Supervisors and Senior Management

Ms. Cai Lan-ying, aged 61, a senior economist, is a deputy general manager of the Company. Ms. Cai is also the chairman and/or director of a number of operating subsidiaries of the Company. She is responsible for the overall operation and management of the Group's business in Zhejiang Province. Ms. Cai graduated from Hangzhou Commercial and Technical College (杭州商業技工學校) with a diploma specializing in non-staple goods in 1969 and completed the economics programme at the Correspondence Institute of the Party School of C.C. of C.P.C. (中央黨校函授學院) Ms. Cai has more than 30 years' experience in the retail industry. She was a founder of Hangzhou Lianhua Huashang and served as general manager. She was appointed as the chairman of Hangzhou Lianhua Huashang in July 2002. Ms. Cai was awarded the prize of "Zhejiang Outstanding Entrepreneur" (浙江省優秀企業家) in 1990. She was also awarded the prize "Outstanding Operator with Prominent Contribution in Business and Trading Enterprises of Hangzhou in 2004" (杭州市二零零四年度突出貢獻商貿服務企業優秀經營者) in March 2005. Ms. Cai was appointed as an executive director of the Company in September 2004.

Ms. Qi Yue-hong, aged 44, is an economist. Ms. Qi graduated from Fudan University in cultural heritage and museology and international economic law in 1993. From September 1993 to February 2002, she was a store management staff, the deputy manager of the eastern building management department and the director of the supervision and audit office of Shanghai No. 1 Department Store Company Limited (上海市第一百貨商店股份有限公司) (a company formerly listed on the Shanghai Stock Exchange whose name changed into Shanghai Bailian Group Co., Ltd in November 2004 and later incorporated into Shanghai Friendship in 2011). She was the assistant to general manager of Shanghai No. 1 Yao Han Co., Ltd. (上海第一八佰伴有限公司) from February 2002 to January 2003. She was the deputy manager of the personnel department of Shanghai Yibai (Holdings) Company Ltd. from January 2003 to March 2004. She was the deputy general manager of Orient Shopping Centre Ltd. (東方商廈有限公司) from March 2004 to September 2005. She was the general manager of Changsha Bailian Orient Shopping Centre Ltd. (長沙百聯東方商廈有限公司) from September 2005 to March 2007. She was the general manager and secretary of party general branch of Shanghai New Hua Lian Mansion Co., Ltd. (上海新華聯大廈有限公司) from March 2007 to January 2008. She was the general manager and secretary of party general branch of Shanghai Bailian Xijiao Shopping Centre Co., Ltd. (上海百聯西郊購物中心有限公司) from January 2008 to March 2010. She was the deputy general manager of Shanghai Bailian Group Co., Ltd. ("Shanghai Bailian", 上海百聯集團股份有限公司) (a company formerly listed on the Shanghai Stock Exchange) from March 2010 to March 2012. Ms. Qi has been the deputy general manager of the Company since March 2012, and was appointed as an executive director of the Company in June 2013.

Mr. Zhou Zhong-qi, aged 56, a senior accountant, graduated from Fudan University (復旦大學) in 1999 with a Bachelor's degree in International Trade. Mr. Zhou served as director and chief financial officer of Shanghai No.1 Department Store Company Limited for the period from July 2000 to June 2004. For the period from June 2005 to September 2006, Mr. Zhou served as the chairman of the supervisory committee of Hualian Supermarket. Mr. Zhou has also successively served as the deputy-head and head of the finance department of Shanghai No.1 Department Store Company Limited, manager of the finance department of Shanghai Orient Shopping Centre Ltd., manager of the finance department of Shanghai Yibai (Holdings) Company Ltd. (上海一百(集團)有限公司), chief financial officer of the supermarket merchandising division of Bailian Group, chief financial officer of Shanghai Bailian E-Commerce Co., Ltd. (上海百聯電子商務有限公司), and director and chief financial officer and member of the party committee of Bailian E-Commerce Co., Ltd.. Mr. Zhou served as the chief financial officer of the Company since 26 November 2013, was appointed as an executive director of the Company on 20 December 2013 and a joint company secretary of the Company on 30 December 2013.

Profiles of Directors, Supervisors and Senior Management

Ms. Xu Ling-ling (Note), aged 55, a PRC certified public accountant, a member of the International Certified Internal Auditor Association (國際註冊內部審計師協會) and a senior accountant. Ms. Xu graduated from Shanghai Lixin University of Commerce (上海立信會計學院) in 1987 with a Bachelor's degree in accounting. She graduated from the graduate school of the Shanghai Academy of Social Science (上海社會科學院) in 2001, majoring in business administration. She graduated from Tong Ji University in 2006, with an EMBA in business management. In 2008, she graduated from Shanghai National Accounting Institute (上海國家會計學院) with an EMBA, majoring in financial management. From 1975 to 1983, Ms. Xu was a director in the second branch of Shanghai Huangpu Tobacco and Wines Company Limited (上海黃浦煙酒公司), and from 1983 to 1996, she was the head of the finance department of Shanghai Wangbaohe Corporation Tongyuan Company (上海王寶和總公司同緣公司). She joined the Company in June 1996 as a manager of the audit division. Since 1997, Ms. Xu has been the chief financial officer of the Company and is responsible for the Group's finance, auditing, statistics and investment. Ms. Xu has more than 20 years' experience in the finance and management of companies in the consumer industry. In 2007, Ms. Xu was elected as a representative of the 13th Session of the National People's Congress of Shanghai. She was awarded as the Labour's Role Model of National Commerce Industry (全國商務系統勞動模範) by the Ministry of Personnel and the Ministry of Commerce of the People's Republic of China in 2008. Ms. Xu was appointed as an executive director of the Company since January 2003 and Ms. Xu ceased to be the joint company secretary of the Company and was appointed as the company secretary of the Company with effect from 9 March 2011. Ms Xu resigned all duties of the Company in December 2013.

Mr. Tang Qi (Note), aged 61, is a senior economist. Mr. Tang graduated from Fudan University (復 旦 大 學) in 1989 with a college degree. From 1999 to 2001, he pursued a postgraduate degree at Research Institute of Yangtze River Development (長江流域發展研究所) of East China Normal University (華東師範大學), majoring in regional economics. He was the division manager and deputy general manager of China Silk Domestic Sales Company at Shanghai (中國絲綢上海內銷公司) from 1988 to 1995. Mr. Tang was deputy general manager of Hualian Group Economic Development Company (華聯集團經濟發展公司) from 1995 to June 1997. Mr. Tang was the general manager of Shanghai Fashion Company (上海時裝公司), Shanghai New Hualian Mansion (上海新華聯大廈) and Hualian Supermarket from July 1997 to late 2003. From late 2003 to August 2009, he was the deputy general manager of the Supermarket Merchandising Division of Bailian Group and the chairman of Hualian Supermarket. Since October 2009, Mr. Tang was the deputy general manager of the Company and chairman of Hualian Supermarket. From June 2010 to March 2012, he has concurrently worked as general manager of New Supermarket. Since June 2010, he has worked as chairman of the board of New Supermarket. Mr. Tang is also the chairman and/or director of a number of operating subsidiaries of the Company. Mr. Tang was appointed as an executive director of the Company since June 2010. Mr Tang resigned all duties of the Company in June 2013.

Non-Executive Directors

Mr. Kazuyasu Misu (Note), aged 57. From April 1979 to April 2004, Mr. Misu worked successively in the Foods Administration Department and the Processed Foods Department B of Mitsubishi Corporation (三菱商事株式會社), Mitsubishi Corporation (U.K.) (英國三菱商事株式會社) and the Food Materials Department of Mitsubishi Corporation. From April 2004 to April 2009, Mr. Misu successively served as the general manager of the Processed Foods C Unit, the general manager of the Confectionery and Pet Foods Unit, the acting general manager, and then the general manager, of Living Essentials Group CEO Office of Mitsubishi Corporation. Mr. Misu held position as a director in Yonekyu Co., Ltd. (米久株式會社) (a company listed on the Tokyo Stock Exchange) for the period from May 2007 to May 2008. He also served as a director in Nippon Meat Packers,

Profiles of Directors, Supervisors and Senior Management

Inc. (日本火腿株式會社) (a company listed on Osaka Securities Exchange, Tokyo Stock Exchange and the Euronext Paris S.A.) during the period from June 2008 to March 2009. From March 2009 to March 2011, he served as a director in Coca-Cola Central Japan Co., Ltd. (a company listed on Tokyo Stock Exchange and Nagoya Stock Exchange) and a director in Ryoshoku Limited (菱食株式會社) (a company listed on the Tokyo Stock Exchange, currently Mitsubishi Shokuhin Co., Ltd. (三菱食品株式會社)). From April 2009 to March 2011, he worked as the Division COO of the Foods (Products) Division of Mitsubishi Corporation. Since April 2011, he has served as an executive director and head of Living Essentials Group for China in Mitsubishi Corporation. Mr. Misu joined the Group in September 2009 and resigned as a non-executive director in March 2014.

Mr. Wong Tak Hung, aged 62, is the president of Wong Sun Hing Investment Co., Ltd. (王新興投資有限公司). From 1970 to 1978, Mr. Wong was the manager of Sun Hing Textile Factory (新興毛紡織造廠), and from 1978 to 1990, he was the managing director of Wong Sun Hing Company Limited (王新興有限公司). Since 1990, he has been the president of Wong Sun Hing Group (王新興集團). He has also been the chairman of Shenzhen Xin Xing Entrepreneurship Guarantee Company Limited (深圳新興創業擔保有限公司) since 2003 and he has been acting as the chairman of Guangzhou Wanling Properties Company Limited (廣州市萬菱置業有限公司) from 2004. Since 2005, he has also been acting as the chairman of Wanling Industrial (Guangdong) Company Limited (萬菱實業(廣東)有限公司). Mr. Wong joined the Group in April 1997, and he has over 30 years of business experience.

Mr. Ma Xin-sheng (Note), aged 60, a senior economist and senior engineer. Mr. Ma graduated from the University of Shanghai (上海大學). In 2008, he graduated from Shanghai National Accounting Institute with an EMBA, majoring in financial management. For the period from March 1983 to December 1989, Mr. Ma was the deputy party secretary, party secretary and factory manager of Shanghai Rectifier Factory (上海整流器總廠). For the period from December 1989 to January 1995, Mr. Ma was the deputy general manager of Shanghai Electric Group Co., Ltd. (上海電器股份有限公司). For the period from January 1995 to October 1996, Mr. Ma was the general manager and party secretary of Shanghai Jidian Maoyi Building (上海市機電貿易大廈). For the period from October 1996 to December 2003, Mr. Ma was the chairman of labour union, deputy party secretary, deputy chairman of the board of directors and president of Shanghai Electric (Group) Corporation (上海電氣(集團)總公司), the chairman of the board of directors of Shanghai Electric (Group) Finance Co., Ltd. (上海電氣(集團)財務公司) and the chairman of the board of directors of Shanghai Electric Group Co., Ltd.. For the period from December 2003 to December 2007, Mr. Ma was the deputy party secretary of Shanghai State-owned Assets Supervision and Administration Commission (上海市國有資產監督管理委員會). Mr. Ma is the party secretary and the chairman of the board of directors of Bailian Group, the chairman of the board of directors of Shanghai Bailian, the chairman of the board of directors of Shanghai Friendship, the chairman of the board of directors of China Bailian (Hong Kong) Limited (中國百聯(香港)有限公司) and the director of Shanghai Pudong Development Bank Co., Ltd. (上海浦東發展銀行股份有限公司) (a company listed on the Shanghai Stock Exchange) since about 2008. Mr. Ma received a CEO Award in the first Robert A. Mundell World Executive Awards held in 2004. Mr. Ma joined the Group in May 2009 and has been the Chairman of the Board of the Company since 2009. Mr Ma resigned all duties of the Company in December 2013.

Independent Non-Executive Directors

Mr. Xia Da-wei, aged 61, is the director of the academic committee, a professor, and a doctoral tutor, of Shanghai National Accounting Institute and deputy chairman of the Chinese Industrial Economic Association (中國工業經濟學會), consultant of China Accounting Standards Committee of the Ministry of Finance (財政部會計準則委員會), a member of the Committee on Internal Control Standard of Enterprises of the Ministry of Finance (財政部企業內部控制標準委員會), honorary

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professor of The Chinese University of Hong Kong (香港中文大學), part-time professor of the School of Management of Fudan University and member of the listing committee of Shanghai Stock Exchange. Mr. Xia is also an independent non-executive director of China Rongsheng Heavy Industries Group Holdings Limited (中國熔盛重工集團控股有限公司) (a company listed on the Stock Exchange), an independent director of Shanghai Electric Power Co., Ltd. (上海電力股份有限公司) (a company listed on the Shanghai Stock Exchange) and an independent director of China United Network Communications Limited (中國聯合網絡通信股份有限公司) (a company listed on the Shanghai Stock Exchange). He joined the Group in September 2004.

Mr. Lee Kwok Ming, Don, aged 56, is the financial controller of Stella International Holdings Ltd. (九興控股有限公司), which is listed on the Stock Exchange. He is a fellow of the Hong Kong Institute of Certified Public Accountants (香港會計師公會) and an associate of the Chartered Institute of Management Accountants in the United Kingdom (英國特許管理會計師公會). He holds a Master's degree of science in business administration from the University of Bath (英國巴富大學). Mr. Lee has held the position of financial controller in various listed companies on the Stock Exchange. Mr. Lee has more than 20 years of financial management experience and extensive experience in mergers and acquisitions, as well as corporate finance. He joined the Group in May 2003.

Mr. Zhang Hui-ming, aged 57, is the head of the Enterprise Research Institute (企業研究所) and standing deputy director of Yangtze River Delta Research Institute (長江三角研究院) at Fudan University. Professor Zhang graduated from Fudan University with a Bachelor's degree in economics in 1982, a Master's degree in economics in 1984, and a doctorate in economics in 1995. He has been teaching at Fudan University since 1984 and was promoted to the position of professor in 1996. Since 1997, he has been a tutor for the doctorate programme on enterprise theory and practice. Professor Zhang has published nine books and over 200 research papers in various national magazines. He is an independent director of Shanghai Meilin Aquarius Co., Ltd. (上海梅林正廣和股份有限公司) (a company listed on the Shanghai Stock Exchange) and Shanghai Haibo Co., Ltd. (上海海博股份有限公司) (a company listed on the Shanghai Stock Exchange) respectively. He joined the Group in January 2003.

Mr. Huo Jia-zhen, aged 52, holds a doctorate degree in Management from Tongji University. He is currently a professor at Tongji University and the dean of the School of Economics and Management at Tongji University. He is also serving as a member of the Expert Assessment Panel of the Department of Management Sciences of the National Natural Science Foundation of China ("NSFC"), a standing member of the Society of Management Science and Engineering of China and Systems Engineering Society of China, and the Vice Chairman and Secretary of the Shanghai Management Science Society. Mr. Huo has been engaged in the teaching and research of corporate management theory, supply chain management and management information system for many years and was in charge of various crucial projects of the NSFC, as well as numerous government sponsored research at the national and provincial level, such as the major technological development projects and focal technological development projects of the Science and Technology Commission of Shanghai Municipality. He was in charge of the corporate management consultation and the design of information systems of over ten well-known companies. Mr. Huo won the Technological Progress Award of Shanghai Municipality and the Technological Progress Award from the Ministry of Education four times between 2005 and 2011. He also won the title of Outstanding Academic Leader of Shanghai in 2009 and Leading Talents of Shanghai in 2010, and has published over 50 academic papers abroad and domestically. Mr. Huo served as an independent director of Oriental International Enterprise Limited (a company listed on the Shanghai Stock Exchange) between June 2005 and June 2011, and has been serving as an independent director of Shanghai Jinqiao Export Processing Zone Development Co., Ltd.(a company listed on the Shanghai Stock Exchange) since June 2011. Mr. Huo joined the Group in August 2013.

Profiles of Directors, Supervisors and Senior Management

Mr. Lin Yi-bin (Note), aged 48, is a member of the Chinese Kuomintang Revolutionary Committee (中國國民黨革命委員會) and a senior economist. Mr. Lin graduated from Shanghai University of Finance and Economics (上海財經大學) and received a Master's degree in economics, and graduated from Shanghai Academy of Social Sciences and received a Doctor's degree in economics. Mr. Lin had worked in economic research departments, state assets supervision and administration departments and large state-owned enterprises for a long time. Mr. Lin previously served as the deputy division chief of the general affairs division of the State-owned Assets Management Office of Shanghai Municipal Government (上海市國有資產管理辦公室綜合處), the division chief of the Planning and Development Division of the State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government (上海市國有資產監督管理委員會規劃發展處), the deputy director of the State-owned Assets Supervision and Administration Commission of Yunnan Provincial People's Government (雲南省人民政府國有資產監督管理委員會) (temporary). Mr. Lin has been the vice president of Shanghai Guo Sheng (Group) Co., Ltd. (上海國盛(集團)有限公司) since May 2008. Mr. Lin has been the president of Shanghai Building Material (Group) General Company (上海建材(集團)總公司) since August 2009. Mr. Lin has been the chairman of SYP Glass Group Co., Ltd. (上海耀皮股份有限公司, a company listed on the Shanghai Stock Exchange) since October 2009. Mr. Lin is also a deputy to the 13th Shanghai's People's Congress (上海市第十三屆人民代表大會), a member of Shanghai Committee of the Chinese Kuomintang Revolutionary Committee (中國國民黨革命委員會上海市委員會), a standing member of the Shanghai Youth Federation (上海市青年聯合會), the vice president of the Shanghai Young Entrepreneurs' Association (上海市青年企業家協會) and an external director of Yunnan Coal Chemical Industry Group Co., Ltd. (雲南煤化工集團有限公司). Mr. Lin was appointed as an independent non-executive director of the Company in June 2012. Mr Lin resigned as an independent non-executive director of the Company in August 2013.

Supervisors

Mr. Wang Zhi-gang, aged 57, a senior economist. Mr. Wang graduated from Renmin University of China (中國人民大學) in 1982 and holds a Bachelor's degree in commerce and economics and graduated from Fudan University in 1991 and holds a Master's degree in administration and management. Mr. Wang previously served as division member, vice division head, assistant manager, vice manager of Shanghai Apparel and Shoes Company (上海市服裝鞋帽公司); executive vice general manager and general manager of Shanghai Fashion Co., Ltd. (上海時裝股份有限公司); general manager of Shanghai Jin'an Investment Management Co., Ltd. (上海金安投資管理有限公司); vice general manager of Shanghai Yibai (Holdings) Company Ltd. and a member of the board of directors of Shanghai Bailian. Mr. Wang is currently the vice president of Bailian Group. In 1984, Mr. Wang was awarded as Shanghai Outstanding Young Entrepreneur (上海市優秀青年企業家) by The People's Government of Shanghai municipality. Mr. Wang was an executive director of the Company from June 2007 to June 2010 and was appointed as the Chairman of the Company from July 2007 to May 2009. Mr. Wang served as a non-executive director of the Company from January 2012 to November 2013, and was appointed as a supervisor of the Company on 20 December 2013.

Mr. Wang Long-sheng, aged 61, a senior economist, graduated from Shanghai East China Normal University in 1998 with a Master's degree in decision-making management. Between 1986 and 2005, Mr. Wang has worked for Shanghai Friendship Antique & Curio Store (上海友誼古玩商店), Shanghai Hongqiao Friendship Shopping Centre (上海虹橋友誼商城), Shanghai Friendship Overseas Chinese Joint Stock Company Limited (上海友誼華僑股份有限公司), China Tour Souvenir Head Company (中華旅遊紀念品總公司), Shanghai Friendship Group Decoration Company (上海友誼集團裝潢總匯), Homemart Decoration Materials Company Limited ("Homemart", 好美家裝潢建材有限公司), Shanghai Friendship Nanfang Shopping Center (上海友誼南方購物中心), Shanghai Bailian Xijiao Shopping Center (上海百聯西郊購物中心) and Shanghai Friendship. Mr. Wang has been the general manager

Profiles of Directors, Supervisors and Senior Management

of Shanghai Friendship since January 2006. Mr. Wang has been appointed as a director and the administrative director (常務理事) of Shanghai Joint Stock Company and Securities Research Committee (上海股份制與證券研究會) since March 2001. He joined the Group in December 2001. Mr. Wang is the director of Shanghai Friendship.

Ms. Qian Li-ping, aged 45, Bachelor's degree. Ms. Qian successively served as the deputy party secretary, secretary of disciplinary committee and chairman of the labour union of Shanghai Timber Corporation (上海市木材總公司); the deputy party secretary and deputy general manager of Shanghai Material Trading Group Automobile Trade Co., Ltd. (上海物貿集團汽車貿易有限公司) ("Material Trading Automobile"); the party secretary, deputy general manager and chairman of the labour union of Material Trading Automobile; the party secretary and chairman of the labour union of Shanghai Bailian Automobile Service Trade Co., Ltd. (上海百聯汽車服務貿易有限公司) and the deputy party secretary and secretary of disciplinary committee of Bailian Group Real Estate Co., Ltd. (百聯集團置業有限公司). Ms. Qian was appointed as the deputy party secretary, secretary of disciplinary committee and chairman of the labour union of the Company since November 2013, and was appointed as a supervisor of the Company on 3 December 2013.

Mr. Dao Shu-rong (Note), aged 59, a senior economist. Mr. Dao graduated from the Shanghai TV University (上海電視大學) in 1986, majoring in corporate management and from the Graduate School of Shanghai Academy of Social Sciences in 2001, where he majored in business administration. In 2008, he graduated from Shanghai National Accounting Institute with an EMBA, majoring in financial management. Mr. Dao has more than 30 years' experience in business and human resources administration. In 1996, Mr. Dao worked as the manager of the human resources division of Internal and External General Commerce Association (內外聯綜合商社). Mr. Dao joined the Company in 1997 and served as the chief of the human resources department and promoted to assistant to the general manager in 1999. He was appointed as division chief of the human resources division of the Company from 2001 till May 2009. Mr. Dao was appointed as the Chairman of the labour union, the deputy party secretary and the secretary of discipline inspection commission of the Company since May and July 2009 respectively. Mr. Dao was elected as the Supervisor of the Company in May 2009. In 2010, Mr. Dao was granted the name of "Outstanding Organizer of Staff Union of 'Acting as Good Leader and Making Contribution to Shanghai World Expo' in Shanghai" (上海市"當好主力軍建功世博會"工會優秀組織者). He was granted the name of "Outstanding Leader of Quality Management in Shanghai" (上海市質量管理優秀領導者). Mr Dao resigned all duties of the Company in November 2013.

Note: *The profiles of the Directors and Supervisors who have resigned are as at the effective dates of their respective resignation.*

Company Secretary

Mr. Zhou Zhong-qi

Please refer to the profiles of Executive Directors (page 41).

Mr. Mok Chung Kwan Stephen, aged 49, is a solicitor as defined in the Legal Practitioners Ordinance and currently a partner of Eversheds. Mr. Mok graduated from the University of New South Wales in Australia with Bachelor of Commerce (Accounting)/Bachelor of Laws degrees. Mr. Mok possesses qualifications as a practicing solicitor in England and Wales, New South Wales of Australia, and Hong Kong. Mr. Mok has extensive experience in general business practices and corporate financial transactions, such as assisting corporations on listing their shares on the Stock Exchange, merger and acquisitions, corporate restructuring, organising joint ventures, and compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and securities-related laws of Hong Kong. Mr. Mok was the joint company secretary of the Company for the period from 7 June 2004 to 9 March 2011 and has been the legal adviser of the Company since the listing of the Company on the main board of the Stock Exchange in 2003. Mr Mok was appointed as the joint company secretary of the Company on 30 December 2013.

Profiles of Directors, Supervisors and Senior Management

Senior Management

Mr. Zhang Guo-hong, aged 42, is a certified accountant. Mr. Zhang graduated from Shanghai University of Finance and Economics in 1999 with a Master's degree in international commerce. From 1994 to 1996, he was the head of procurement division at Hubei Lvfeng Stone Co. Ltd. (湖北綠峰石材有限公司). From August 1999 to late 2003, he was the deputy head of Zhejiang operation department, deputy head of commodity management department, assistant to general manager of the Company and deputy general manager of Shanghai Lianhua Chao Shi Development Co., Ltd. (上海聯華超市發展有限公司). Mr. Zhang was deputy general manager of the Supermarket Merchandising Division of Bailian Group from late 2003 to August 2009. He has worked as deputy general manager of the Company since October 2009 and concurrently acted as general manager of Hualian Supermarket from July 2005 to May 2010. In 2006, he was elected as a representative of the 14th Session of the National People's Congress of Yangpu District, Shanghai.

Mr. Liang Bao-long, aged 49, is a senior operator and a logistician. Mr. Liang graduated from Tongji University in management engineering. From January 1999 to December 2001, he pursued a postgraduate degree at Shanghai Academy of Social Sciences, majoring in economics. From July 1984 to February 2003, Mr. Liang was a deputy section chief of the catering department, a deputy section chief and section chief of the general affairs office, and general manager of the logistics service centre of Shanghai Materials & Equipment School (上海市物資學校). From February 2003 to March 2012, he was the assistant to general manager and deputy general manager of Shanghai Modern Logistics Development & Investing Co., Ltd. (上海現代物流投資發展有限公司), he has concurrently worked as the general manager and deputy secretary of party general branch of Shanghai Changqiao Logistics Co., Ltd. (上海長橋物流有限公司),and the chairman of board and the party secretary of Shanghai Bailian Distribution Co., Ltd. (上海百聯配送實業有限公司). He has been the deputy general manager of the Company since March 2012.

Mr. Shi Hao-gang, aged 56, is a political work instructor. Mr. Shi graduated from Macao University of Science and Technology with a major in Business Administration in August 2001, and holds a postgraduate degree. From April 1976 to January 1979, Mr. Shi served as a platoon leader and the Youth League secretary of Nanhui Chaoyang Farm (南匯朝陽農場). From February 1979 to October 1995, Mr. Shi served as an officer of Shanghai Silk Weaving Factory No. 6 (上海絲織六廠). From November 1995 to May 2010, Mr. Shi worked in Hualian Supermarket, where he had successively served as a key officer, deputy manager, and manager of human resources department, the assistant to the general manager and the general manager of Shanghai operations, the assistant to the general manager and the general manager of East China operations, the manager of the operation management department and the deputy general manager. From June 2010 to February 2012, Mr. Shi served as the deputy general manager of New Supermarket. Since March 2012, Mr. Shi has served as the general manager and deputy party secretary of New Supermarket. Mr. Shi has been the deputy general manager of the Company since March 2014.


48.80
8.80

Reaping

Shareholding Structure

34.03%
Shanghai Friendship Group Incorporated Company

21.17%
Shanghai Bailian Group Investment Co., Ltd.

6.74%
Mitsubishi Corporation

2.82%
Wong Sun Hing Investment Company Limited

1.96%

Bailian Group Co., Ltd.

33.28%

Public

Lianhua Supermarket Holdings Co., Ltd.

Report of the Directors

The Board is pleased to present to the shareholders its report of the Company for the year ended 31 December 2013.

Principal activities

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

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

	2013 Percentage	2012 Percentage
Purchases		
Largest supplier	12.19	2.92
Five largest suppliers	19.43	7.70
Sales		
Largest customer	0.06	0.04
Five largest customers	0.17	0.11

During the year ended 31 December 2013, to the best knowledge of the directors of the Company ("Director"), none of the Directors, the supervisors ("Supervisors") of the Company, their respective associates, nor any shareholders of the Company (which to the knowledge of the Directors own more than 5% of the Company's share capital) had any direct or indirect interest in the share capital of the Group's suppliers and customers mentioned above.

Subsidiaries and associated companies

As at 31 December 2013, the Company's principal subsidiaries are Century Lianhua, New Supermarket, Quik Convenience, Hangzhou Lianhua Huashang, Lianhua Supermarket (Jiangsu) Co., Ltd. (聯華超市(江蘇)有限公司), Lianhua Supermarket Distribution Co., Ltd. (上海聯華配銷有限公司), Shanghai Lianhua Live and Fresh Food Processing and Distribution Co., Ltd. (上海聯華生鮮食品加工配送中心有限公司) and Lianhua E-business Co., Ltd. (the "Lianhua E-business", 聯華電子商務有限公司).

As at 31 December 2013, the Company's principal associated company is Shanghai Carhua.

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

Accounts

The audited results of the Group for the year ended 31 December 2013 are set out in the consolidated statement of profit or loss and other comprehensive income on page 99 of the annual report.

The financial condition of the Group as at 31 December 2013 is set out in the consolidated statement of financial position on pages 100 to 101 of the annual report.

The cash flow of the Group for the year ended 31 December 2013 is set out in the consolidated statement of cash flows on pages 106 to 107 of the annual report.

Dividend distribution

The Board does not recommend the payment of final dividend for the year ended 31 December 2013.

Reserves

Details of the movements in reserves during the period under review are set out in the consolidated statement of changes in equity on page 104 of the annual report.

Fixed assets

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

Report of the Directors

Bank loans, overdrafts and other borrowings

As at 31 December 2013, the Group had no other bank borrowings, except for existing borrowings of RMB2,000,000 of a non-wholly-owned subsidiary of the Group.

Capitalised interest

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

Listing of shares and changes

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

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

The Company issued 8 additional shares to the shareholders whose names appeared on the register of shareholders of the Company on the record date (28 June 2011), for every 10 shares held by them by way of capitalization of the capital reserve fund on 8 September 2011. The total number of shares of the Company in issue increased from 622,000,000 shares to 1,119,600,000 shares. H shares in issue increased from 207,000,000 shares to 372,600,000 shares, representing approximately 33.28% of the Company's total share capital. Please refer to the circular of the Company dated 13 May 2011 for the details of the issue.

Information on the performance of H shares of the Company in 2013:

Highest trading price per H share during the year	HK$8.21
Lowest trading price per H share during the year	HK$3.62
Total turnover volume of H shares during the year	443 million shares
Closing price per H share as at 31 December 2013	HK$6.00

Public float

The Company confirms that the Company's public float during the period under review complied with the applicable requirements of the Listing Rules.

Share capital

As at 31 December 2013, the classes and number of shares of the Company are as follows:

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

Report of the Directors

Note:

On 15 October 2013, Mitsubishi Corporation ("Mitsubishi Corporation") entered into an equity transfer agreement with Bailian Group, pursuant to which, Mitsubishi Corporation conditionally agreed to transfer 75,420,000 unlisted foreign shares of the Company to Bailian Group at the consideration of HK$231,313,140. The equity transfer is subject to the satisfaction of the conditions precedent to the agreement. As at the date of this report, the equity transfer is not completed.

Number of shareholders

As at 31 December 2013, details of shareholders as recorded in the register of shareholders of the Company are as follows:

Total number of shareholders	29
Shareholders of domestic shares	3
Shareholders of unlisted foreign shares	2
Shareholders of H shares	24

Legal status of unlisted foreign shares

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

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

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

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

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

Report of the Directors

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.

Disclosure of interests

Directors, Chief Executive Officer and Supervisors of the Company

As at 31 December 2013, except (i) Mr. Xia Da-wei (an independent non-executive Director) holds 8,694 shares of 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 officer of the Company had any interests and short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (as defined in Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are regarded or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the Company's register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules.

As at 31 December 2013, Mr. Chen Jian-jun, Mr. Hua Guo-ping and Mr. Wang Long-sheng (Mr. Chen Jian-jun and Mr. Hua Guo-ping are Directors of the Company and Mr. Wang Long-sheng is a Supervisor of the Company) are directors, supervisors or employees of Shanghai Friendship. As disclosed below, Shanghai Friendship had interests in the shares of the Company as at 31 December 2013 as recorded in the register required to be kept under section 336 of the SFO.

Report of the Directors

Substantial Shareholders of the Company

So far as the Directors are aware, as at 31 December 2013, the following persons (not being a Director, chief executive officer or Supervisor of the Company) had interests in the shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of shareholders	Class of shares	No. of Domestic Shares/Unlisted Foreign Shares/ H Shares	Approximate percentage of total voting rights of the Company	Approximate percentage of voting rights of domestic shares and unlisted foreign shares	Approximate percentage of voting rights of H shares
Shanghai Friendship (Notes 1 & 2)	Domestic Shares	617,981,400	55.20%	82.73%	–
Bailian Investment (Note 1)	Domestic Shares	237,029,400	21.17%	31.73%	–
Bailian Group (Note 2)	Domestic Shares	639,977,400	57.16%	85.67%	–
Mitsubishi Corporation (Note 3)	Unlisted Foreign Shares	75,420,000	6.74%	10.10%	–
Deutsche Bank Aktiengesellschaft	H Shares	43,863,635(L)	3.92%(L)	–	11.77%(L)
		38,984,835(S)	3.48%(S)	–	10.46%(S)
		4,878,000(P)	0.44%(P)	–	1.31%(P)
JPMorgan Chase & Co.	H Shares	34,047,720(L)	3.04%(L)	–	9.14%(L)
		381,000(S)	0.03%(S)	–	0.10%(S)
		18,331,600(P)	1.64%(P)	–	4.91%(P)
The Bank of New York Mellon Corporation	H Shares	33,534,704(L)	3.00%(L)	–	9.00%(L)
		11,624,600(P)	1.04%(P)	–	3.12%(P)
The Boston Company Asset Management LLC	H Shares	22,569,000(L)	2.02%(L)	–	6.06%(L)
Julius Baer International Equity Fund	H Shares	21,944,804 (L)	1.96%(L)	–	5.89%(L)
Matthews International Capital Management, LLC	H Shares	21,618,600(L)	1.93%(L)	–	5.80%(L)
Templeton Asset Management Limited	H Shares	18,866,000(L)	1.69%(L)	–	5.06%(L)

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

Report of the Directors

Notes:

1. As at 31 December 2013, Shanghai Friendship owns 100% interests in Bailian Investment.

2. As at 31 December 2013, Bailian Group directly and indirectly holds approximately 49.26% of the shares in Shanghai Friendship. Therefore, Bailian Group is deemed to have interest in the Company.

   As at 31 December 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 31 December 2013, Mr. Chen Jian-jun, the Chairman of the Company, was the vice chairman of the supervisory committee of Shanghai Friendship; Mr. Hua Guo-ping, the executive Director of the Company, was the director of Shanghai Friendship, and Mr. Wang Long-sheng, the Supervisor of the Company, was the director of Shanghai Friendship.

3. On 15 October 2013, Mitsubishi Corporation entered into an equity transfer agreement with Bailian Group, pursuant to which, Mitsubishi Corporation conditionally agreed to transfer 75,420,000 unlisted foreign shares of the Company to Bailian Group at the consideration of HK$231,313,140. The equity transfer is subject to the satisfaction of the conditions precedent to the agreement. As at the date of this report, the equity transfer is not completed.

4. As the Company issued 8 additional shares to the shareholders whose names appeared on the register of shareholders of the Company on the record date, i.e. 28 June 2011, for every 10 shares held by them by way of capitalization of the capital reserve fund on 8 September 2011, the numbers of H shares of the Company held as at 31 December 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 31 December 2013.

Ultimate holding company

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

Pre-emptive rights

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

Purchase, sale or redemption of shares

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

Share capital interests held by the Directors and Supervisors

As at 31 December 2013, except (i) Mr. Xia Da-wei (an independent non-executive Director) holds 8,694 shares of 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 officer of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation (as defined in the SFO) which were required by section 352 of the SFO to be recorded in the register referred to therein, or required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Report of the Directors

Directors and Supervisors

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

Executive Directors:
Mr. Chen Jian-jun *(Chairman)* (Note 1)
Mr. Hua Guo-ping
Ms. Xu Ling-ling (Note 2)
Ms. Cai Lan-ying
Mr. Tang Qi (Note 3)
Ms. Qi Yue-hong (Note 3)
Mr. Zhou Zhong-qi (Note 4)

Non-executive Directors:
Mr. Ma Xin-sheng (Note 5)
Mr. Wang Zhi-gang (Note 6)
Mr. Kazuyasu Misu (Note 7)
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 (Note 8)
Mr. Huo Jia-zhen (Note 8)

Supervisors:
Mr. Chen Jian-jun (Note 1)
Mr. Wang Zhi-gang (Note 6)
Mr. Wang Long-sheng
Mr. Dao Shu-rong (Note 9)
Ms. Qian Li-ping (Note 9)

Notes:

1: Mr. Chen Jian-jun resigned from the office of Supervisor and chairman of the supervisory committee on 20 December 2013, and was appointed as an executive Director and the chairman of the Board on the same date.

2: Ms. Xu Ling-ling resigned from the office of executive Director and company secretary of the Company on 20 December 2013.

3: Mr. Tang Qi resigned from the office of executive Director of the Company on 18 June 2013. The Board of the Company elected Ms. Qi Yue-hong as the new executive Director of the Company on the same date.

4: Mr. Zhou Zhong-qi was appointed as an executive Director of the Company on 20 December 2013, and was appointed as the joint company secretary of the Company on 30 December 2013.

5: Mr. Ma Xin-sheng resigned from the office of non-executive Director and the chairman of the Board of the Company on 20 December 2013.

6: Mr. Wang Zhi-gang resigned from the office of non-executive Director of the Company on 26 November 2013, and was appointed as a Supervisor of the Company on 20 December 2013.

7: Mr. Kazuyasu Misu resigned from the office of non-executive Director of the Company on 31 March 2014.

8: Mr. Lin Yi-bin resigned from the office of independent non-executive Director of the Company on 30 August 2013. The Board of the Company elected Mr. Huo Jia-zhen as the new independent non-executive Director on the same date.

Report of the Directors

9: Mr. Dao Shu-rong resigned from the office of Supervisor of the Company on 3 December 2013. The workers' congress of the Company elected Ms. Qian Li-ping as the new Supervisor of the Company on the same date.

Details of the profile of the Directors, Supervisors and senior management of the Company are set out on pages 40 to 47.

Directors' and Supervisors' service contracts

The Company has entered into service contract with each of the executive Directors and independent non-executive Directors with a term ending on the date of conclusion of the annual general meeting of the Company for the year 2013, and such term is renewable subject to applicable laws. Neither the Directors, nor the Supervisors have a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

Directors' and Supervisors' interests in contracts

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

Interest in shares or debentures acquired by the Directors and Supervisors

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

Independence of the independent Directors

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

Highest paid individuals

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

Retirement pension schemes

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

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

Change of auditors

During the past three years, there had not been any change of the auditors of the Company.

Significant litigation

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

Report of the Directors

Connected and related party transactions

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

(a) Connected and related party transactions

	2013 RMB'000	2012 RMB'000
Sales to fellow subsidiaries	158,390	–
Purchases from fellow subsidiaries	216,492	176,029
Logistic expense paid to a fellow subsidiary	–	910
Rental expenses and property management fee paid to fellow subsidiaries (note)	62,988	62,182
Rental income from fellow subsidiaries	12,606	3,177
Commission income received from fellow subsidiaries	1,027	1,264
Commission income arising from the redemption of coupon liabilities with a fellow subsidiary	16,134	17,218
Commission charges arising from the redemption of coupon liabilities with a fellow subsidiary	13,833	12,395
Deposit in the fellow subsidiaries	315,365	–

Note: The transaction include continuing connected transactions of RMB12,163 thousand (2012: RMB11,715 thousand) which were exempt from reporting, annual review, announcement and independent shareholders' approval under Rule 14A.33 of the Listing Rules.

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

(b) Related party transactions not falling into connected transactions

	2013 RMB'000	2012 RMB'000
Purchases from associates – Shanghai Lianhua Supermarket, Food Co., Ltd., Shanghai Gude Commercial Trading Co., Ltd., Sanming Taige Information Technology Co., Ltd. and Shantou Lianhua South Purchase and Distribution Co., Ltd.	25,723	28,868

Fellow subsidiaries referred above are other subsidiaries of Bailian Group.

Report of the Directors

Connected transactions

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

Connected transaction – Hangzhou Lianhua Huashang 2012 profit distributing agreement

On 26 July 2013, the Company, Hangzhou Commerce & Tourism Group Co., Ltd. (杭州市商貿旅遊集團有限公司) ("Hangzhou Commerce & Tourism", formerly known as Hangzhou Commercial Assets Operation Company (杭州商業資產經營(有限)公司)) and Ningbo United Group Co., Ltd. ("Ningbo United") entered into the Hangzhou Lianhua Huashang 2012 profit distributing agreement in respect of the profit distributing arrangement of Hangzhou Lianhua Huashang for the year ended 31 December 2012. Hangzhou Lianhua Huashang is a subsidiary of the Company. Hangzhou Commerce & Tourism is the substantial shareholder of Hangzhou Lianhua Huashang and is therefore a connected person of the Company. Accordingly, the profit distributing arrangement contemplated under the Hangzhou Lianhua Huashang 2012 profit distributing agreement constitutes a connected transaction of the Company.

Under the Hangzhou Lianhua Huashang 2012 profit distributing agreement, the profit distributing arrangement of Hangzhou Lianhua Huashang for the year ended 31 December 2012 is agreed to be as follows:

(1) Ningbo United is entitled to share the distributable profit of Hangzhou Lianhua Huashang for the year ended 31 December 2012 in an amount of RMB1,378,446.90.

(2) Hangzhou Commerce & Tourism is entitled to share the distributable profit of Hangzhou Lianhua Huashang for the year ended 31 December 2012 in an amount of RMB72,500,000.

(3) The Company is entitled to share the distributable profit of Hangzhou Lianhua Huashang for the year ended 31 December 2012 in an amount of RMB455,642,188.02.

Given that only the profits ratio (which is not applicable to connected transaction) is more than 5% and all the other applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Hangzhou Lianhua Huashang 2012 profit distributing agreement is less than 5%, the Hangzhou Lianhua Huashang 2012 profit distributing agreement is only subject to the reporting and announcement, but is exempt from the independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Please refer to the announcement of the Company dated 26 July 2013 for relevant details.

Continuing Connected Transactions -Financial Services Agreement

On 28 February 2013, the Company, Bailian Group and Bailian Group Finance Co., Ltd. (百聯集團財務有限責任公司) ("Bailian Finance") entered into the financial services agreement(the "Financial Services Agreement") with a term ending on 31 December 2015, pursuant to which Bailian Finance agreed to provide the Group with deposit services, loan services and other financial services subject to the terms and conditions provided therein. The major terms of the agreement are set out as follows:

1. Deposit cap: the maximum daily balance of the Group's deposits with Bailian Finance for each of the three years ending 31 December 2013, 31 December 2014 and 31 December 2015 is RMB1.2 billion (including any interest accrued therefrom).

Report of the Directors

2. Bailian Finance has undertaken to adhere to the principles below in relation to the provision of the financial services to the Group:

   (i) the interest rate payable by Bailian Finance to the Group for any deposits shall not be lower than the unified interest rate for comparable deposits as announced by the PBOC and shall not be lower than the interest rate paid by other major commercial banks in the PRC for comparable deposits;

   (ii) the interest rate to be charged for loans to be granted to the Group by Bailian Finance shall not be higher than the unified lending rate as announced by the PBOC during the same period and shall not be higher than the lending rate charged by other major commercial banks in the PRC for comparable loans;

   (iii) the service fees to be charged by Bailian Finance for the provision of other financial services to the Group, other than the deposit and loan services, shall not be higher than the service fees charged by other financial institutions in the PRC for comparable services; and

   (iv) the terms of services to be provided to the Group by Bailian Finance shall be no less favourable than those of comparable services provided by other financial institutions in the PRC.

3. The Company and Bailian Finance will enter into individual financial services agreements setting out specific terms including the type of services to be provided, the interest rate, the service fees, the payment terms and schedules. Such terms will be consistent with the principles and the terms of the Financial Services Agreement. If there is any conflict between the terms of an individual financial services agreement and the Financial Services Agreement, the latter shall prevail.

As one of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in relation to the provision of deposit services under the Financial Services Agreement is more than 5% but less than 25%, the Financial Services Agreement constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

Bailian Group is the holding company of Shanghai Friendship, a controlling Shareholder of the Company. Bailian Finance is a subsidiary of Bailian Group. Accordingly, Bailian Finance and Bailian Group are connected persons of the Company and the Financial Services Agreement constitutes continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As one of the applicable percentage ratios for the provision of deposit services under the Financial Services Agreement is more than 5%, the provision of deposit services under the Financial Services Agreement is subject to the reporting, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The loan services to be provided by Bailian Finance to the Group the Financial Services Agreement will constitute financial assistance to be provided by a connected person for the benefit of the Group. As such services are on normal commercial terms which are similar to or even more favourable than those offered by other commercial banks for comparable services in the PRC, and no security over the assets of the Group will be granted in respect of the loan services, the loan services are exempt under Rule 14A.65(4) of the Listing Rules from all reporting, announcement and independent Shareholders' approval requirements.

Report of the Directors

The Company expects that each of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) of the total fees payable by the Company to Bailian Finance in respect of the provision of other financial services under the Financial Services Agreement will fall within the de minimis threshold as stipulated under Chapter 14A of the Listing Rules. The Company will comply with the reporting, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules if the total fees payable by the Company to Bailian Finance for the provision of other financial services under the Financial Services Agreement exceed the relevant de minimis threshold.

The Financial Services Agreement and the continuing connected transactions and the annual caps contemplated thereunder were approved by the independent Shareholders of the Company at the annual general meeting on 18 June 2013.

Please refer to the circular and announcement of the Company dated 21 March 2013 and 18 June 2013 respectively for relevant details of the transaction.

Continuing connected transactions – lease agreements

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

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

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

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

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

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

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

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

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

Report of the Directors

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

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

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

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

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

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

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

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

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

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

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

Continuing connected transactions – lease agreements

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

Report of the Directors

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

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

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

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

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

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

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

Report of the Directors

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

Report of the Directors

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

Report of the Directors

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

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

Continuing connected transactions – supply of merchandise framework agreement

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

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

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

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

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

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

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

Report of the Directors

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

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

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

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

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

(1) have been approved by the Board;

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

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

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

By order of the Board

Chen Jian-jun
Chairman

26 March 2014
Shanghai, the PRC

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

The Board is pleased to confirm that save and except for the matters as set out below, the Company has complied with all the code provisions in the "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) 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.
>
> Mr. Ma Xin-sheng, then 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.
>
> Mr. Kazuyasu Misu, then non-executive Director, and Mr. Lin Yi-bin, then 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.
>
> Ms. Cai Lan-ying, executive Director, Mr. Wang Zhi-gang, then non-executive Director, Mr. Kazuyasu Misu, then non-executive Director, and Mr. Wong Tak Hung, non-executive Director, were unable to attend the eleventh meeting of the fourth session of the Board convened on 31 October 2013 by the Company due to their work duties.
>
> Ms. Xu Ling-ling, then executive Director, Mr. Kazuyasu Misu, then non-executive Director, Mr. Wong Tak Hung, non-executive Director, and Mr.

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Lee Kwok Ming, Don, independent non-executive Director, were unable to attend the extraordinary general meeting of the Company convened on 20 December 2013 due to their work duties.

Mr. Kazuyasu Misu, then non-executive Director, Mr. Wong Tak Hung, non-executive Director, and Mr. Lee Kwok Ming, Don, independent non-executive Director, were unable to attend the twelfth meeting of the fourth session of the Board convened on 20 December 2013 by the Company due to their work duties.

After receiving the relevant materials for the Board meetings, they have authorized other Directors of the Company to attend the meetings and vote on their behalf. The matters considered at the Board meetings 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 meetings so any Director who was unable to attend the meetings was able to understand the resolutions passed at the meetings.

Moreover, the Company has provided the relevant materials relating to the extraordinary general meeting to all members of the Board before the meeting. All ordinary resolutions and special resolutions were passed smoothly at the extraordinary general meeting. The Company had sent the related minutes to all members of the Board after the extraordinary general meeting so any Director who was unable to attend the meeting was able to understand the resolutions passed at the meeting.

For Provisions A.6.7 and E.1.2 of the Code, Mr. Ma Xin-sheng, then chairman of the Board and non-executive Director, Mr. Wong Tak Hung, non-executive Director, 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.

Board

During the period under review, the Board consists of 11 Directors, five of whom are executive Directors including the chairman of the Board and two of whom are non-executive Directors and four of whom are independent non-executive Directors. The number of independent non-executive Directors accounts for at least one third of the number of Directors of the Company. Profiles and particulars of the chairman of the Company and other Directors are set out under the section headed "Profiles of Directors, Supervisors and Senior Management" in this report.

As approved at the annual general meeting on 28 June 2011, the fourth session of the Board was established and the term of office of each Director (including non-executive Directors) is three years, which will expire on the date of conclusion of 2013 annual general meeting of the Company. Corresponding to the term of office, all executive Directors have entered into service contracts, which are valid for a term ending on the date of conclusion of the annual general meeting of the Company for the year 2013, and such term is renewable subject to the applicable laws. The names of Directors referred herein are members of the fourth session of the Board as at the date of this report.

The principal responsibilities of the Board include:

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

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

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

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

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

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

Board Meetings and General Meetings

The Company held five Board meetings, 2012 annual general meeting and one extraordinary general meeting during the year. Attendance record of the Directors is as follows:

	Meetings Attended/Held		
Directors	Board Meetings	2012 Annual General Meeting	Extraordinary General Meeting
Executive Directors			
Mr. Chen Jian-jun *(Chairman)* (Note 1)	1/1	0/0	1/1
Mr. Hua Guo-ping	5/5	1/1	1/1
Ms. Xu Ling-ling (Note 2)	4/4	1/1	0/1
Ms. Cai Lan-ying	4/5	1/1	1/1
Mr. Tang Qi (Note 3)	2/2	1/1	0/0
Ms. Qi Yue-hong (Note 4)	4/4	0/0	1/1
Mr. Zhou Zhong-qi (Note 5)	1/1	0/0	1/1
Non-executive Directors			
Mr. Ma Xin-sheng (Note 6)	3/4	0/1	1/1
Mr. Wang Zhi-gang (Note 7)	3/4	1/1	0/0
Mr. Kazuyasu Misu (Note 8)	2/5	1/1	0/1
Mr. Wong Tak Hung	2/5	0/1	0/1
Independent Non-executive Directors			
Mr. Xia Da-wei	5/5	1/1	1/1
Mr. Lee Kwok Ming, Don	2/5	0/1	0/1
Mr. Zhang Hui-ming	5/5	1/1	1/1
Mr. Lin Yi-bin (Note 9)	2/3	1/1	0/0
Mr. Huo Jia-zhen (Note 10)	2/2	0/0	1/1

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Notes:

1. Mr. Chen Jian-jun was appointed as an executive Director of the Company on 20 December 2013, therefore, Mr. Chen is not required to attend the 2012 annual general meeting and required to attend one Board meeting.

2. Ms. Xu Ling-ling resigned from the office of executive Director of the Company on 20 December 2013

3. Mr. Tang Qi resigned from the office of executive Director of the Company on 18 June 2013.

4. Ms. Qi Yue-hong was appointed as an executive Director of the Company on 18 June 2013, therefore, Ms. Qi is not required to attend the 2012 annual general meeting and required to attend four Board meetings only.

5. Mr. Zhou Zhong-qi was appointed as an executive Director of the Company on 20 December 2013, therefore, Mr. Zhou is not required to attend the 2012 annual general meeting and required to attend one Board meeting only.

6. Mr. Ma Xin-sheng resigned from the office of non-executive Director of the Company on 20 December 2013

7. Mr. Wang Zhi-gang resigned from the office of non-executive Director of the Company on 26 November 2013

8. Mr. Kazauyasu Misu resigned from the office of non-executive Director of the Company on 31 March 2014.

9. Mr. Lin Yi-bin resigned from the office of independent non-executive Director of the Company on 30 August 2013.

10. Mr. Huo Jia-zhen was appointed as an independent non-executive Director of the Company on 30 August 2013, therefore, Mr. Huo is not required to attend the 2012 annual general meeting and required to attend two Board meetings only.

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

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

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

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

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Trainings of Directors

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

During the period under review, the Company has arranged trainings on the Listing Rules for its Directors. Relevant training materials have been also sent to the Directors who were unable to attend the trainings for their reference.

Directors	Perusing the Training Materials on the Listing Rules	Participating in the Trainings on the Listing Rules Organised by the Company	Participating in the Trainings on the Listing Rules Organised by Other Organisations
Executive Directors			
Chen Jian-jun	√	√	
Hua Guo-ping	√	√	√
Cai Lan-ying	√	√	
Qi Yue-hong	√	√	
Zhou Zhong-qi	√	√	
Xu Ling-ling	√		√
Tang Qi	√		
Non-executive Directors			
Kazuyasu Misu	√		
Wong Tak Hung	√		
Ma Xin-sheng	√		√
Wang Zhi-gang	√		
Independent Non-executive Directors			
Xia Da-wei	√		
Lee Kwok Ming, Don	√		√
Zhang Hui Ming	√		
Huo Jia-zhen	√	√	
Lin Yi-bin	√		

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Board Diversity Policy

During the period under review, the Board adopted a board diversity policy (which was embodied in the terms of reference of the Nomination Committee) setting out the approach to achieve diversity on the Board. The Company considered diversity of Board members can be achieved through consideration of a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

The Nomination Committee has set measurable objectives based on four focus areas: gender, age, ethnicity and professional experience to implement the board diversity policy. The Nomination Committee will review the board diversity policy, as appropriate; and review the measurable objectives that the Board has set for implementing the board diversity policy, and the progress on achieving the objectives, to ensure its continued effectiveness from time to time. The current Board is considered well balanced and of a diverse mix appropriate for the business of the Group.

Duties of the Board and the management of the Company

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

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

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

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

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

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

(5) formulates the basic rules of the Company;

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

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

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

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

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

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Board Committees

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

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

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

As approved by ordinary resolutions by way of written resolution on 30 August 2013, Mr. Lin Yi-bin ceased to be a member of the fourth session of the Audit Committee and Strategic Committee of the Company.

As approved by ordinary resolutions by way of written resolution on 26 November 2013, Mr. Wang Zhi-gang ceased to be a member of the fourth session of the Nomination Committee of the Company.

As approved by ordinary resolutions at the Board meeting on 20 December 2013, the members of the Board Committees of the Company were adjusted as follows: Mr. Ma Xin-sheng ceased to be a member and the chairman of the fourth session of the Strategic Committee of the Company. Mr. Chen Jian-jun was added as a member and the chairman of the fourth session of the Strategic Committee of the Company. Ms Qi Yue-hong was added as a member of the fourth session of the Nomination Committee of the Company.

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

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Audit Committee

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

During the year ended 31 December 2013, the Audit Committee held two meetings and performed major work including review of annual and interim financial reports, internal control, continuing connected transactions and maintaining proper relationship between the Group and external and internal auditors etc.

The Audit Committee of the Company held a meeting on 13 March 2013 to review and discuss matters such as the internal control of the Group, annual financial reports, remuneration and reappointment of domestic and international auditors and continuing connected transactions for 2012, including the review of the Company's annual financial report prepared in accordance with the Hong Kong Financial Reporting Standards (the "HKFRS"). The Audit Committee was of the view that the annual financial report of the Group for the year 2012 had complied with the accounting standards and requirements of the Stock Exchange and the relevant laws and had made adequate disclosures. The Audit Committee also conducted a review on the internal control system of the Company and its subsidiaries and was of the view that the Group had an effective internal control system. The Audit Committee was of the view that domestic and international auditor of the Company had carried out their work with professionalism and independence, and agreed to make recommendations to the Board in respect of their remuneration for 2012 and suggested to re-appoint the domestic and international auditors for 2013. The Audit Committee confirmed that the continuing connected transactions of the Company in 2012 did not exceed their respective caps.

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

The Audit Committee of the Company held a meeting on 7 August 2013 to review and discuss with the management the matters such as internal controls and interim financial report, including review of the Company's condensed interim report prepared in accordance with the HKFRSs. The Audit Committee was of the view that the Group's interim financial report for the six months ended 30 June 2013 had complied with the applicable accounting standards, requirements of the Stock Exchange and legal requirements, and had made adequate disclosures. In relation to its review of the Group internal control, the Audit Committee concluded that the Group's internal control system was effective.

Report of Corporate Governance

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

Set out below is the attendance record of the meetings of the Audit Committee in 2013:

Name	13 March 2013	7 August 2013
Independent Non-executive Directors		
Mr. Lee Kwok Ming, Don *(Chairman)*	Present	Present
Mr. Zhang Hui-ming	Present	Present
Mr. Xia Da-wei	Present	Present
Mr. Lin Yi-bin (Note)	Attended by representative	Attended by representative

Note: Mr. Lin Yi-bin resigned from the office of a member of the Audit Committee on 30 August 2013.

Remuneration and Appraisal Committee

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

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

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

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

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

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

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

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

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

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

Report of Corporate Governance

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

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

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

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

(n) consider other responsibilities authorized by the Board.

During the year ended 31 December 2013, the Remuneration and Appraisal Committee held one meeting and performed major work including assessing the performance of executive Directors and senior management of the Company and reviewing and making recommendations to the Board on their remuneration packages etc.

The Remuneration and Appraisal Committee held a meeting on 13 March 2013. Having taken into account the factors including, but not limited to, the remuneration paid by comparable companies, amount of time required to be spent by the Director and the Director's duties, remuneration packages of other positions within the Group and performance-based remuneration, the Committee made recommendations to the Board on the remuneration packages of all executive Directors and approved the remuneration to four executive Directors, two Supervisors, the senior management formed by deputy general managers and assistants to general manager for 2012.

Set out below is the attendance record of the meetings of the Remuneration and Appraisal Committee in 2013:

Name	**13 March 2013**
Independent Non-executive Directors	
Mr. Xia Da-wei *(Chairman)*	Present
Mr. Zhang Hui-ming	Present
Executive Director	
Mr. Hua Guo-ping	Present

Nomination Committee

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

(a) review the structure, size and diversity (including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

Report of Corporate Governance

(b) consider the skills mix needed in respect of the appointed directors with due regard for the benefits of diversity on the Board, and make recommendations to the Board;

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

(d) broadly search for and identify qualified candidates for directors and managers;

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

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

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

(h) assess the independence of independent non-executive directors;

(i) review the board diversity policy, as appropriate; and review the measurable objectives that the Board has set for implementing the board diversity policy, and the progress on achieving the objectives;

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

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

During the year ended 31 December 2013, the Nomination Committee held five meetings and performed major work including reviewing, commenting and making recommendation to the Board on the candidates for Directors, members of the Board Committees and other senior management, and reviewing regularly the time to time to be committed by each Director in order to perform their duties, and the structure, size and composition of the Board of the Company etc.

The Nomination Committee of the Company held a meeting on 13 March 2013 to review the time committed by each Director in order to perform their duties, and the structure, size and composition of the Board of the Company in 2012. The Nomination Committee of the Company agreed that the current Board in accordance with the company strategy of the Company, there is no need to change the members of the Board and all the members of the Board had spent plenty of time to perform their duties in 2012

The Nomination Committee of the Company held a meeting on 18 June 2013. Since Mr. Tang Qi, an executive Director of the Company, resigned as an executive Director of the Company due to age reasons, as recommended by Shanghai Friendship, a shareholder of the Company, the Nomination Committee of the Company agreed to nominate Ms. Qi Yue-hong to the Board as a candidate of executive Director of the fourth session of the Board.

Report of Corporate Governance

The Nomination Committee of the Company held a meeting on 30 August 2013. Since Mr. Lin Yi-bin, an independent non-executive Director of the Company, resigned as an independent non-executive Director of the Company due to work reasons, the Nomination Committee of the Company agreed to nominate Ms. Huo Jia-zhen to the Board as a candidate of independent non-executive Director of the fourth session of the Board.

The Nomination Committee of the Company held a meeting on 25 November 2013. Since Mr. Ma Xin-sheng, an non-executive Director and the chairman of the Board of the Company, resigned as non-executive Director and the chairman of the Board of the Company due to work reasons, as recommended by Shanghai Friendship, a shareholder of the Company, the Nomination Committee of the Company agreed to nominate Ms. Chen Jian-jun to the Board as a candidate of executive Director of the fourth session of the Board. Since Ms. Xu Ling-ling, an executive Director of the Company, resigned as executive Director of the Company due to age reasons, as recommended by Shanghai Friendship, a shareholder of the Company, the Nomination Committee of the Company agreed to nominate Mr. Zhou Zhong-qi to the Board as a candidate of executive Director of the fourth session of the Board. Since Ms. Xu Ling-ling, the chief financial officer of the Company, resigned as the chief financial officer of the Company due to age reasons, the Nomination Committee of the Company agreed to nominate Mr. Zhou Zhong-qi to the Board as a candidate of the chief financial officer of the Company.

The Nomination Committee of the Company held a meeting on 20 December 2013. Since Mr. Ma Xin-sheng ceased to be a non-executive director of the Company and hence automatically vacated the office of being a member of the fourth session of Strategic Committee of the Company, the Nomination Committee of the Company agreed to nominate Ms. Chen Jian-jun to the Board as candidate of the member of the fourth session of Strategic Committee of the Company. Since Mr. Wang Zhi-gang resigned as a member of the fourth session of Nomination Committee of the Company due to work reasons, the Nomination Committee of the Company agreed to nominate Ms. Qi Yue-hong to the Board as a candidate of the member of the fourth session of Nomination Committee of the Company. Since Ms. Xu Ling-ling resigned as the secretary of the Board, authorized representative and company secretary of the Company due to age reasons, the Nomination Committee of the Company agreed to nominate Mr. Zhou Zhong-qi to the Board as a candidate of the secretary of the Board and authorized representative and to nominate Mr. Zhou Zhong-qi and Mr. Mok Chung Kwan as joint company secretary of the Company.

Report of Corporate Governance

Set out below is the attendance record of the meetings of the Nomination Committee in 2013:

Name	13 March 2013	18 June 2013	30 August 2013	25 November 2013	20 December 2013
Independent Non-executive Directors					
Mr. Zhang Hui-ming *(Chairman)*	Present	Present	Present	Present	Present
Mr. Xia Da-wei	Present	Present	Present	Present	Present
Executive Director					
Mr. Wang Zhi-gang (Note 1)	Attended by representative	Present	Present	Present	–
Ms. Qi Yue-hong (Note 2)	–	–	–	–	–

Notes:

(1) Mr. Wang Zhi-gang resigned as a member of Nomination Committee on 26 November 2013.

(2) Ms. Qi Yue-hong was appointed as a member of Nomination Committee on 20 December 2013.

Corporate Governance Functions

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

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

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

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

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

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

Report of Corporate Governance

Directors' and auditors' responsibilities for the accounts

The Directors hereby confirm their responsibilities for the preparation of the accounts of the Company. The Directors confirm that the preparation of the financial statements of the Company for the year complied with the relevant laws and applicable accounting standards and that the Company will publish the financial statements of the Company on timely basis. The responsibilities of external auditors to the shareholders are set out on pages 97 to 98.

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 making specific enquiries to the Directors, the Board is pleased to confirm that all the Directors have fully complied with the provisions under the Model Code during the year ended 31 December 2013.

Remuneration of auditors

The Audit Committee of the Company is responsible for considering the appointment of auditors and reviewing their remuneration. For the year under review, RMB 7,218 thousand was payable by the Company to the external auditors (including the PRC and international auditors) as service charge for their audit and due diligence consultancy services. For the year under review, the external international auditors had not provided any non-auditing service to the Company.

Company Secretary

Following the resignation of Ms. Xu Ling-ling as the company secretary of the Company on 20 December 2013, Mr. Zhou Zhong-qi and Mr. Mok Chung Kwan, Stephen (a partner of Eversheds) were appointed as the joint company secretary of the Company with effect from 30 December 2013. Mr. Zhou Zhong-qi, an executive Director, chief financial officer, joint company secretary and secretary to the Board of the Company, is the main internal liaison person between Mr. Mok Chung Kwan, Stephen and the Company.

In compliance with Rule 3.29 of the Listing Rules, during the year ended 31 December 2013, Ms. Xu Ling-ling received not less than 15 hours of the relevant professional training.

Internal control

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

The Board, through the Company's Audit Committee, reviews the internal control systems of the Company and its subsidiaries on an semi-annual basis to ensure its effectiveness. Discussions cover all material control aspects, including financial control, operating control, compliance control and risk management. The Board has conducted a review of the effectiveness of the internal control system of the Group for 2013 and confirms that the internal control system of the Group is effective.

Organizational structure

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

Report of Corporate Governance

Authorities and controls

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

Training on internal control

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

Accounting system management

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

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

Internal audit

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

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

Continuing operation

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

Investor relations

The Company reports to the shareholders on the corporate information of the Group on a timely and accurate basis. Printed copies of the 2012 annual report and 2013 interim report have been sent to all shareholders.

Report of Corporate Governance

The Company places great emphasis on communication with shareholders and investors of the Company and the improvement of the Company's transparency. As such, a dedicated department has been set up and designated officers are assigned to handle relations with investors and analysts. During the period under review, the Company received 80 batches of fund managers and analysts and patiently answered their relevant inquiries. Site visits to stores were arranged for them so as to enhance their understanding of the Company's operation and also its latest business developments. The Company made disclosures in a careful, true, accurate, complete and timely manner in strict accordance with applicable laws and regulations, the Articles of Association and the Listing Rules; at the same time, the Company places great emphasis on collecting and analyzing various comments and recommendations from analysts and investors on the Company's operation, which will be compiled into reports regularly and adopted selectively in its operation. The Company has set up a website, allowing investors to access updates on the Company's particulars, statutory announcements, management and recent operating affairs. All published annual reports, interim reports, circulars and announcements since its listing are included in the "Investors Relations" section of the website. The Company persistently adheres to its information disclosure principle of honesty and integrity and actively initiates communications with various parties. In particular, it held seminars, press conferences and one-on-one investor meetings following the announcement of interim and annual results and decisions on major investments. The Company also participates in a series of investor activities and conducts one-on-one communication with investors on a regular basis.

Shareholders' rights

Convening extraordinary shareholders' general meetings by shareholders

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

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

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

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

Report of Corporate Governance

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

Raising proposals at shareholders' general meetings

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

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

Putting forward enquiries to the Board

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

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

Amendments in the Articles of Association

As set out in the circulars of the Company dated 4 November 2013, the Company proposed to make the following amendments to the Articles of Association.

Amendments in Article 20 of the Articles of Association (approved at 2013 extraordinary general meeting held on 20 December 2013)

The former Article 20 of the Article of Association is as follows:

"The shares issued by the Company to investors inside China and to be subscribed for in RMB shall be referred to as "domestic shares". Shares issued by the Company to investors outside China and to be subscribed for in foreign currencies shall be referred to as "foreign shares".

Domestic shares that are listed in China are referred to as domestically-listed domestic shares, and the foreign shares that are listed outside China are referred to as overseas-listed foreign shares. The foreign shares that are listed neither domestically nor abroad shall be referred to as non-listed foreign shares. For the avoidance of doubts, the expression "non-listed foreign shares" referred to herein shall not include "overseas-listed foreign shares". All the non-listed foreign shares issued by the Company were subscribed in foreign currencies by Mitsubishi and Wong Sun Hing.

For the purpose of these Articles, "foreign currencies" means the legal currencies other than RMB of other countries or regions that are recognized by the State's foreign exchange administration authority which can be used to pay for subscription to the shares of the Company."

The amended Article 20 of the Articles of Association is as follows:

"The shares issued by the Company to investors inside China and to be subscribed for in RMB shall be referred to as "domestic shares". Shares issued by the Company to investors outside China and to be subscribed for in foreign currencies shall be referred to as "foreign shares".

Report of Corporate Governance

Domestic shares that are listed in China are referred to as domestically-listed domestic shares, and the foreign shares that are listed outside China are referred to as overseas-listed foreign shares. The foreign shares that are listed neither domestically nor abroad shall be referred to as non-listed foreign shares. For the avoidance of doubts, the expression "non-listed foreign shares" referred to herein shall not include "overseas-listed foreign shares". All the non-listed foreign shares issued by the Company were subscribed in foreign currencies by Wong Sun Hing.

For the purpose of these Articles, "foreign currencies" means the legal currencies other than RMB of other countries or regions that are recognized by the State's foreign exchange administration authority which can be used to pay for subscription to the shares of the Company."

Amendments in Article 21 of the Articles of Association (approved at 2013 extraordinary general meeting held on 20 December 2013)

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

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

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

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

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

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

(1) 715,397,400 domestic shares (380,952,000 shares to be held by Friendship Group; 237,029,400 by Shanghai Bailian Group Investment Co., Ltd.; and 97,416,000 by Bailian Group Co., Ltd.), and 31,602,600 non-listed foreign shares (31,602,600 shares to be held by Wong Sun Hing);

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

Report of the Supervisory Committee

Dear shareholders,

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

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

During the period under review, the Supervisory Committee held three meetings. On 25 March 2013, the Supervisory Committee of the Company held a meeting, at which the Supervisory Committee objectively evaluated the Group's business operation for the year 2012, and was fully satisfied with the work done by the Group in 2012, including the Group's development plan, network expansion, improvement of the internal control systems and conduct of connected transactions. The Supervisory Committee also received reports on the financial position of the Group for 2012 and discussed and adopted the report of the Supervisory Committee for 2012. The Supervisory Committee reviewed the Financial Services Agreement between the Company, Bailian Group and Bailian Finance, and confirmed the aforesaid continuing connected transactions were made in the ordinary course of the Company's business and on normal commercial terms, and the terms were fair and reasonable and in the interest of the Company's shareholders as a whole. On 18 June 2013, the Supervisory Committee of the Company reviewed the 2012 profit distributing agreement of Hangzhou Lianhua Huashang, a subsidiary of the company, and confirmed the aforesaid continuing connected transactions were made in the ordinary course of the Company's business and on normal commercial terms, and the terms were fair and reasonable and in the interest of the Company's shareholders as a whole. On 21 August 2013, the Supervisory Committee held a meeting regarding the operating conditions of the first half of the year ended 30 June 2013 and received reports from the management relating to the financial condition of the first half of 2013.

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

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

Report of the Supervisory Committee

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

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

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

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

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

Independent Auditor's Report

Deloitte.
德勤

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

We have audited the consolidated financial statements of Lianhua Supermarket Holdings Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 99 to 184, which comprise the consolidated and Company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other comprehensive income, consolidated and Company statements of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Independent Auditor's Report

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
26 March 2014

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2013

	NOTES	2013 RMB'000	2012 RMB'000
Turnover	5	30,383,420	28,987,545
Cost of sales		(26,020,830)	(25,058,481)
Gross profit		4,362,590	3,929,064
Other revenue	5	2,272,223	2,530,285
Other income and gains	7	662,770	695,563
Selling and distribution expenses		(6,178,129)	(5,886,383)
Administrative expenses		(737,080)	(716,065)
Other operating expenses		(116,425)	(39,602)
Share of profits of associates		85,896	153,967
Finance costs		(144)	(375)
Profit before tax	8	351,701	666,454
Income tax expenses	9	(216,398)	(214,302)
Total comprehensive income for the year		135,303	452,152
Total comprehensive income attributable to:			
Owners of the Company		52,953	339,947
Non-controlling interests		82,350	112,205
		135,303	452,152
Earnings per share – basic and diluted	12	RMB0.05	RMB0.30

Consolidated Statement of Financial Position

At 31 December 2013

	NOTES	31/12/2013 RMB'000	31/12/2012 RMB'000
Non-current assets			
Property, plant and equipment	13	3,080,898	3,309,928
Construction in progress	14	319,073	254,650
Land use rights	15	344,654	305,906
Intangible assets	16	190,263	187,130
Interests in associates	18	579,335	567,973
Available-for-sale financial assets	19	250,986	36,358
Held-to-maturity financial assets	20	–	239,622
Term deposits	22		
– restricted		1,210,000	1,036,000
– unrestricted		2,000,400	3,200,000
Prepaid rental	23	120,983	106,451
Deferred tax assets	24	203,369	200,951
Other non-current assets	25	20,126	21,608
		8,320,087	9,466,577
Current assets			
Inventories	26	3,404,430	3,055,623
Trade receivables	27	76,682	113,707
Deposits, prepayments and other receivables	28	1,030,083	1,180,816
Amounts due from fellow subsidiaries	29	11,117	10,921
Amounts due from associates	30	26	136
Available-for-sale financial assets	19	258,474	641,252
Held-to-maturity financial assets	20	240,980	–
Financial assets at fair value through profit or loss	21	140,022	–
Term deposits	22		
– restricted		1,271,365	3,345,000
– unrestricted		890,000	401,000
Cash and cash equivalents	31	4,877,493	2,589,154
		12,200,672	11,337,609
Total assets		20,520,759	20,804,186

Consolidated Statement of Financial Position

At 31 December 2013
(continued)

	NOTES	31/12/2013 RMB'000	31/12/2012 RMB'000
Capital and reserves			
Share capital	36	**1,119,600**	1,119,600
Reserves		**2,251,728**	2,284,180
Equity attributable to owners of the Company		**3,371,328**	3,403,780
Non-controlling interests	37	**277,292**	364,900
Total equity		**3,648,620**	3,768,680
Non-current liability			
Deferred tax liabilities	24	**88,398**	84,619
Current liabilities			
Trade payables	32	**4,542,397**	4,295,654
Other payables and accruals	33	**2,110,854**	2,213,756
Coupon liabilities	34	**9,930,631**	10,259,260
Deferred income		**16,114**	17,741
Amounts due to fellow subsidiaries	29	**44,169**	35,802
Amounts due to associates	30	**16,571**	8,904
Bank borrowings	35	**2,000**	2,000
Tax payable		**121,005**	117,770
		16,783,741	16,950,887
Total liabilities		**16,872,139**	17,035,506
Total equity and liabilities		**20,520,759**	20,804,186
Net current liabilities		**4,583,069**	5,613,278
Total assets less current liabilities		**3,737,018**	3,853,299

The consolidated financial statements on pages 99 to 184 were approved and authorised for issue by the Board of Directors on 26 March 2014 and are signed on its behalf by:

Chen Jian-jun
DIRECTOR

Zhou Zhong-qi
DIRECTOR

Statement of Financial Position

At 31 December 2013

	NOTES	31/12/2013 RMB'000	31/12/2012 RMB'000
Non-current assets			
Property, plant and equipment	13	235,816	249,109
Construction in progress	14	6,705	5,418
Land use rights	15	29,102	30,031
Intangible assets	16	14,959	18,670
Investments in subsidiaries	17	1,796,145	1,885,784
Interests in associates	18	256,732	233,074
Available-for-sale financial assets	19	218,363	3,735
Held-to-maturity financial assets	20	–	239,622
Term deposits	22		
– restricted		10,000	3,000
– unrestricted		220,000	300,000
Deferred tax assets	24	3,430	6,084
Other non-current assets	25	2,839	2,986
		2,794,091	2,977,513
Current assets			
Inventories	26	467,581	516,159
Trade receivables	27	–	86
Deposits, prepayments and other receivables	28	105,010	84,113
Amounts due from subsidiaries	17	6,695,741	6,816,695
Amounts due from associates	30	26	136
Available-for-sale financial assets	19	258,474	430,391
Held-to-maturity financial assets	20	240,980	–
Financial assets at fair value through profit or loss	21	140,022	–
Tax recoverable		–	21
Term deposits	22		
– restricted		318,365	10,000
– unrestricted		70,000	–
Cash and cash equivalents	31	1,027,715	81,480
		9,323,914	7,939,081
Total assets		12,118,005	10,916,594

Statement of Financial Position

At 31 December 2013
(continued)

	NOTES	31/12/2013 RMB'000	31/12/2012 RMB'000
Capital and reserves			
Share capital	36	1,119,600	1,119,600
Reserves		3,222,027	2,814,188
Total equity		4,341,627	3,933,788
Non-current liability			
Deferred tax liabilities	24	6	–
Current liabilities			
Trade payables	32	2,679,814	2,322,539
Other payables and accruals	33	29,286	53,618
Coupon liabilities	34	3,322,421	3,746,903
Amounts due to fellow subsidiaries	29	41,818	33,182
Amounts due to subsidiaries	17	1,680,054	817,660
Amounts due to associates	30	16,571	8,904
Tax payable		6,408	–
		7,776,372	6,982,806
Total liabilities		7,776,378	6,982,806
Total equity and liabilities		12,118,005	10,916,594
Net current assets		1,547,542	956,275
Total assets less current liabilities		4,341,633	3,933,788

Consolidated Statement of Changes in Equity

For the year ended 31 December 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 (Note 37)	Total RMB'000
At 1 January 2012	1,119,600	258,353	(201,653)	365,931	1,771,678	3,313,909	307,737	3,621,646
Profit for the year	–	–	–	–	339,947	339,947	112,205	452,152
Profit appropriation	–	–	–	70,089	(70,089)	–	–	–
Dividends paid to non-controlling interests	–	–	–	–	–	–	(52,247)	(52,247)
2011 final dividend (Note 11)	–	–	–	–	(134,352)	(134,352)	–	(134,352)
2012 interim dividend (Note 11)	–	–	–	–	(89,568)	(89,568)	–	(89,568)
Acquisition of additional equity interests in subsidiaries	–	–	(26,156)	–	–	(26,156)	(2,795)	(28,951)
At 31 December 2012	1,119,600	258,353	(227,809)	436,020	1,817,616	3,403,780	364,900	3,768,680
Profit for the year	–	–	–	–	52,953	52,953	82,350	135,303
Profit appropriation	–	–	–	56,891	(56,891)	–	–	–
Dividends paid to non-controlling interests	–	–	–	–	–	–	(169,564)	(169,564)
2012 final dividend (Note 11)	–	–	–	–	(78,372)	(78,372)	–	(78,372)
Acquisition of additional equity interests in subsidiaries	–	–	(7,033)	–	–	(7,033)	(394)	(7,427)
At 31 December 2013	1,119,600	258,353	(234,842)	492,911	1,735,306	3,371,328	277,292	3,648,620

Notes:

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

(b) Other reserve of the Group mainly represents:

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

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

iii. acquisition of additional equity interests in subsidiaries.

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

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

Statement of Changes in Equity

For the year ended 31 December 2013

	Share capital RMB'000	Capital reserve RMB'000	Other reserve RMB'000	Statutory common reserve fund RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2012	1,119,600	258,353	3,595	365,931	1,706,054	3,453,533
Profit for the year	–	–	–	–	704,175	704,175
Profit appropriation	–	–	–	70,089	(70,089)	–
2011 final dividend (Note 11)	–	–	–	–	(134,352)	(134,352)
2012 interim dividend (Note 11)	–	–	–	–	(89,568)	(89,568)
At 31 December 2012	1,119,600	258,353	3,595	436,020	2,116,220	3,933,788
Profit for the year	**–**	**–**	**–**	**–**	**486,211**	**486,211**
Profit appropriation	**–**	**–**	**–**	**56,891**	**(56,891)**	**–**
2012 final dividend (Note 11)	**–**	**–**	**–**	**–**	**(78,372)**	**(78,372)**
At 31 December 2013	**1,119,600**	**258,353**	**3,595**	**492,911**	**2,467,168**	**4,341,627**

The amount of the Company's retained profits available for distribution to shareholders as at 31 December 2013 amounted to approximately RMB2,467,168,000 (2012: RMB2,116,220,000).

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	NOTE	2013 RMB'000	2012 RMB'000
Profit before taxation		351,701	666,454
Adjustments for:			
Depreciation of property, plant and equipment		516,830	538,866
Amortisation of land use rights		5,557	5,267
Amortisation of intangible assets		9,793	10,808
Amortisation of other non-current assets		1,482	1,523
Penalty income from deposit paid for acquisition of properties		(39,000)	–
Loss on disposal of property, plant and equipment and intangible assets		7,289	117
Impairment loss on property, plant and equipment recognised		43,226	26,616
Allowance for write-down of inventories		21,239	2,328
Interest income from available-for-sale financial assets		(31,443)	(52,709)
Interest income from held-to-maturity financial assets		(15,558)	(18,149)
Unrealised fair value gain on financial assets at fair value through profit or loss		(22)	–
Share of profits of associates		(85,896)	(153,967)
Dividend from unlisted equity investments		(377)	(10,011)
Gain on disposal of an associate		(8,963)	–
Reversal of allowance for doubtful debts		(3,836)	(978)
Interest income		(420,821)	(405,793)
Interest expense		144	375
Operating profit before movements in working capital		351,345	610,747
(Increase) Decrease in inventories		(370,046)	362,871
Decrease (Increase) in trade and other receivables		75,134	(6,927)
Decrease in prepaid rental		24,881	27,624
Decrease in amounts due from associates		110	–
Increase in amounts due from fellow subsidiaries		(196)	(111)
Increase (Decrease) in amounts due to fellow subsidiaries		8,367	(36,828)
(Decrease) Increase in deferred income		(1,627)	2,224
Decrease (Increase) in restricted term deposits		1,899,635	(1,399,800)
Increase (Decrease) in trade and other payables		225,050	(115,637)
(Decrease) Increase in coupon liabilities		(328,629)	503,231
Increase (Decrease) in amounts due to associates		7,667	(4,110)
Cash from (used in) generated from operations		1,891,691	(56,716)
Income taxes paid		(211,802)	(279,930)
Interest received		261,257	330,767
Interest paid		(144)	(375)
Net cash from (used in) operating activities		1,941,002	(6,254)

Consolidated Statement of Cash Flows

For the year ended 31 December 2013
(continued)

	NOTE	2013 RMB'000	2012 RMB'000
Investing activities			
Purchase of property, plant and equipment and construction in progress		(508,736)	(737,752)
Refund of deposit paid for acquisition of properties		240,000	60,000
Purchase of land use right		(45,177)	(6,614)
Proceeds from disposal of property, plant and equipment		6,747	12,389
Purchase of intangible assets		(11,327)	(8,918)
Purchase of available-for-sale financial assets		(450,000)	(400,000)
Purchase of financial assets at fair value through profit or loss		(140,000)	–
Dividend from unlisted equity investments		377	10,011
Capital investments in associates		(26,824)	(23,951)
Proceeds on disposal of an associate		16,400	–
Proceeds on deregistraiton of an associate		201	–
Dividends received from associates		93,646	127,025
Proceeds on redemption of available-for-sale financial assets		649,593	265,882
Interest income from held-to-maturity financial assets		14,200	29,083
Proceeds on redemption of held-to-maturity financial assets		–	133,000
Withdrawal of unrestricted term deposits		3,601,000	1,475,000
Placement of unrestricted term deposits		(2,890,400)	(3,601,000)
Penalty income from deposit paid for acquisition of properties		39,000	–
Net cash used in investing activities		588,700	(2,665,845)
Financing activities			
Dividends paid to owners of the Company		(78,372)	(223,920)
Dividends paid to non-controlling shareholders		(155,564)	(52,247)
Acquisition of additional equity interests in subsidiaries		(7,427)	(28,951)
Net cash used in financing activities		(241,363)	(305,118)
Net increase (decrease) in cash and cash equivalents		2,288,339	(2,977,217)
Cash and cash equivalents at 1 January		2,589,154	5,566,371
Cash and cash equivalents at 31 December		4,877,493	2,589,154
Analysis of the balances of cash and cash equivalents:			
Bank balances and cash		4,877,493	2,589,154

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

1. PRINCIPAL ACTIVITIES

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

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

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

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

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

New and revised HKFRSs Applied in the current year

The Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year.

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009 – 2011 Cycle
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
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 HKAS 1	Presentation of Items of Other Comprehensive Income
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine

Except as described below, the application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years or on the disclosure set out in these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

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

New and revised HKFRSs Applied in the current year (continued)

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

In the current year, the Group has applied for the first time the package of five standards on consolidation, joint arrangements, associates and disclosures comprising HKFRS 10 *Consolidated Financial Statements*, HKFRS 11 *Joint Arrangements*, HKFRS 12 *Disclosure of Interests in Other Entities*, HKAS 27 (as revised in 2011) *Separate Financial Statements* and HKAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*, together with the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 regarding transitional guidance.

The impact of the application of these standards is set out below.

Impact of the application of HKFRS 10

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and HK (SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in HKFRS 10 to explain when an investor has control over an investee.

Impact of the application of HKFRS 12

HKFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries and associates. In general, the application of HKFRS 12 has resulted in more extensive disclosures in the consolidated financial statements (please see notes 19 and 37).

HKFRS 13 Fair Value Measurement

The Group has applied HKFRS 13 for the first time in the current year. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements. The scope of HKFRS 13 is broad: the fair value measurement requirements of HKFRS 13 apply to both financial instrument items and non financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are within the scope of HKAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

HKFRS 13 defines the fair value of an asset as the price that would be received to sell an asset (or paid to transfer a liability, in the case of determining the fair value of 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

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

New and revised HKFRSs Applied in the current year (continued)

HKFRS 13 Fair Value Measurement (continued)

HKFRS 13 requires prospective application. In accordance with the transitional provisions of HKFRS 13, the Group has not made any new disclosures required by HKFRS 13 for the 2012 comparative period (please see notes 14 and 38c for the 2013 disclosures). Other than the additional disclosures, the application of HKFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The Group has applied the amendments to HKAS 1 *Presentation of Items of Other Comprehensive Income*. Upon the adoption of the amendments to HKAS 1, the Group's 'statement of comprehensive income' is renamed as the 'statement of profit or loss and other comprehensive income'. Furthermore, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income 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 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. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

New or revised standards and interpretations that have been issued but not yet effective

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[1]
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions[2]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets[1]
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle[2]
HKFRS 9	Financial Instruments[3]
HKFRS 14	Regulatory Deferral Accounts[5]
HK(IFRIC)-Int 21	Levies[1]

1 Effective for annual periods beginning on or after 1 January 2014.

2 Effective for annual periods beginning on or after 1 July 2014.

3 Available for application – the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised.

4 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions.

5 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

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

New or revised standards and interpretations that have been issued but not yet effective (continued)

Annual Improvements to HKFRSs 2010-2012 Cycle

The Annual Improvements to HKFRSs 2010-2012 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of HKFRS 9 or HKAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in profit and loss.

The amendments to HKFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.

The amendments to HKFRS 8 (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have similar economic characteristics'; and (ii) clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

The amendments to the basis for conclusions of HKFRS 13 clarify that the issue of HKFRS 13 and consequential amendments to HKAS 39 and HKFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial.

The amendments to HKAS 16 and HKAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to HAKS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The directors do not anticipate that the application of the amendments included in the Annual Improvements to HKFRSs 2010-2012 Cycle will have a material effect on the Group's consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

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

New or revised standards and interpretations that have been issued but not yet effective (continued)

Annual Improvements to HKFRSs 2011-2013 Cycle

The *Annual Improvements to HKFRSs 2011-2013 Cycle* include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to HKFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, HKAS 39 or HKFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within HKAS 32.

The amendments to HKAS 40 clarify that HKAS 40 and HKFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

(a) the property meets the definition of investment property in terms of HKAS 40; and

(b) the transaction meets the definition of a business combination under HKFRS 3.

The directors do not anticipate that the application of the amendments included in the *Annual Improvements to HKFRSs 2011-2013 Cycle* will have a material effect on the Group's consolidated financial statements.

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for hedge accounting.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

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

New or revised standards and interpretations that have been issued but not yet effective (continued)

HKFRS 9 Financial Instruments (continued)

Key requirements of HKFRS 9 are described as follows:

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

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

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors are of the opinion that it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed. Changes in the fair value of financial liabilities attributable to changes in credit risk of financial liabilities that are designated as at fair value through profit or loss are disclosed in note 39.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

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

New or revised standards and interpretations that have been issued but not yet effective (continued)

Amendments to HKAS 36 Recoverable Amount Disclosures for Non-Financial Assets

The amendments to HKAS 36 remove the requirement to disclose the recoverable amount of a cash generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements regarding the fair value hierarchy, key assumptions and valuation techniques used when the recoverable amount of an asset or CGU was determined based on its fair value less costs of disposal.

The directors of the Company do not anticipate that the application of these amendments to HKAS 36 will have a significant impact on the Group's consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;

- is exposed, or has rights, to variable returns from its involvement with the investee; and

- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interest in existing subsidiaries

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

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate.

Merger accounting for business combination involving entities under common control

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Merger accounting for business combination involving entities under common control (continued)

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

Goodwill

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

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

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

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

Interests in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Interests in associates (continued)

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

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

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment (or a portion thereof) is classified as held for sale. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with HKAS 39. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Interests in associates (continued)

When a group entity transacts with an associate of the Group (such as a sale or contribution of assets), profits and losses resulting from the transactions with the associate are recognised in the Group' consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Revenue recognition

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

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

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

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

Service income is recognised when services are provided.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

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

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

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

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

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

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

Leasing

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

The Group as lessor

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing (continued)

The Group as lessee

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

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

Leasehold land and building

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

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

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

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

Retirement benefit costs and termination benefits

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

Taxation

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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

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

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Property, plant and equipment

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Intangible assets acquired separately

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

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

Provisions

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

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

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

Effective interest method

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

***Financial assets** (continued)*

Financial asset at fair value through profit or loss

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

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

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

Held-to-maturity investments

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

Available-for-sale financial assets

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

***Financial assets** (continued)*

Loans and receivables

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

Impairment of financial assets

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

***Financial assets** (continued)*

Impairment of financial assets (continued)

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

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

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

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

Financial liabilities and equity instruments

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

Equity instruments

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

Financial liabilities

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity instruments *(continued)*

Effective interest method

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

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Deferred taxation

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

Key sources of estimation uncertainty

Estimated impairment of goodwill

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

Estimated impairment of non-financial assets other than goodwill

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

Useful lives and residual values of property, plant and equipment

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

Net realisable value of inventories

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty (continued)

Estimated store closure provision

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

Fair value measurements and valuation processes

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. The Chief Financial Officer of the Company determines the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The Chief Financial Officer works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The Chief Financial Officer reports the valuation committee's findings to the board of directors of the Company to explain the cause of fluctuations in the fair value of the assets and liabilities.

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Notes 39(3) provide detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets and liabilities.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

5. TURNOVER AND OTHER REVENUE

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

	2013 RMB'000	2012 RMB'000
Turnover		
Sales of merchandise	30,383,420	28,987,545
Other revenue		
Income from suppliers	1,614,687	1,936,934
Gross rental income from leasing of shop premises	585,075	517,913
Royalty income from franchised stores	58,681	57,506
Commission income from coupon redemption in other retailers	13,780	17,932
	2,272,223	2,530,285
Total revenue	32,655,643	31,517,830

6. SEGMENT INFORMATION

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

The reportable operating segments of the Group are as follows:

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

6. SEGMENT INFORMATION (continued)

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

	Segment revenue		Segment results	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Hypermarkets	**19,665,632**	18,883,020	**98,557**	233,788
Supermarkets	**10,854,975**	10,572,139	**294,820**	284,621
Convenience stores	**2,052,961**	1,963,173	**(86,439)**	(24,123)
Other operations	**82,075**	99,498	**689**	27,721
	32,655,643	31,517,830	**307,627**	522,007

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

	2013	2012
	RMB'000	RMB'000
Segment results	**307,627**	522,007
Interest income	**57,848**	63,980
Unallocated income	**68,696**	54,943
Unallocated expenses	**(168,366)**	(128,443)
Share of profits of associates	**85,896**	153,967
Consolidated profit before taxation	**351,701**	666,454

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

6. SEGMENT INFORMATION (continued)

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

	31/12/2013 RMB'000	31/12/2012 RMB'000
Segment assets		
– Hypermarkets	11,592,647	11,639,101
– Supermarkets	5,748,074	6,611,410
– Convenience Stores	710,582	531,960
– Other operations	151,823	371,930
Total segment assets	18,203,126	19,154,401
Investments in associates	579,335	567,973
Other unallocated assets (note)	1,738,298	1,081,812
Total assets	20,520,759	20,804,186

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

Other segment information

2013

	Hypermarkets RMB'000	Supermarkets RMB'000	Convenience stores RMB'000	Other operations RMB'000	Total RMB'000
Amounts included in the measure of segment results or segment assets:					
Addition to non-current assets (note)	228,168	176,476	65,175	212	470,031
Depreciation	318,155	144,672	39,464	14,539	516,830
Amortisation	3,306	6,957	814	5,755	16,832
Impairment losses on property, plant and equipment	39,592	3,240	394	–	43,226
Loss on disposal of property, plant and equipment and intangible assets	1,943	4,438	329	579	7,289
Interest income	272,066	73,947	9,351	65,457	420,821
Finance costs	–	–	–	144	144

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

6. SEGMENT INFORMATION (continued)

Other segment information (continued)

2012

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

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

Geographical information

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

Information about major customers

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

7. OTHER INCOME AND GAINS

	2013 RMB'000	2012 RMB'000
Interest income on bank balances and term deposits	420,821	405,793
Government subsidies (note)	49,559	65,640
Fair value change on financial assets at fair value through profit or loss	12,673	3,938
Interest income from available-for-sale financial assets	31,443	52,709
Interest income from held-to-maturity financial assets	15,558	18,149
Gain on disposal of an associate	8,963	–
Dividend from unlisted equity investments	377	10,011
Salvage sales	28,224	31,013
Others	95,152	108,310
Total	662,770	695,563

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

8. PROFIT BEFORE TAXATION

	2013 RMB'000	2012 RMB'000
Profit before taxation has been arrived at after charging (crediting):		
Amortisation and depreciation		
Amortisation of other non-current assets (Note 25)	1,482	1,523
Amortisation of intangible assets (Note 16)	9,793	10,808
Amortisation of land use rights (Note 15)	5,557	5,267
Depreciation of property, plant and equipment (Note 13)	516,830	538,866
Total amortisation and depreciation	533,662	556,464
Share of profits of associates		
Share of profit before taxation	(114,607)	(202,003)
Share of taxation	28,711	48,036
	(85,896)	(153,967)
Auditors' remuneration	7,218	5,101
Loss on disposal of property, plant and equipment and intangible assets	7,289	117
Impairment loss on property, plant and equipment recognised (included in other operating expenses)	43,226	26,616
Director's remuneration (Note 10)	10,082	11,139
Salaries, wages and other employee benefits of other staff	2,623,918	2,415,765
Retirement benefit scheme contribution of other staff	276,084	258,661
Total staff costs	2,910,084	2,685,565
Reversal of allowance for doubtful debts	(3,836)	(978)
Allowance for write-down of inventories	21,239	2,328
Cost of inventories recognised as expenses	26,020,830	25,058,481

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

9. INCOME TAX EXPENSE

	2013 RMB'000	2012 RMB'000
Current tax on PRC Enterprise Income Tax ("EIT")	215,037	235,682
Deferred charge (credit) (Note 24)	1,361	(21,380)
	216,398	214,302

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

Under the Law of the PRC on EIT and Implementation Regulation of the EIT Law, the EIT tax rate of the PRC subsidiaries is 25%. Certain subsidiaries are taxed at preferential rate of 15% as those entities which are located in specific provinces of western China and engaged in specific encouraged industries which enjoy a preferential tax rate of 15% under EIT Law. During the year, a group entity is qualified as "High Tech Enterprise" and enjoys a preferential tax rate of 15% under EIT Law and subject to renewal for every three years.

	2013 RMB'000	2012 RMB'000
Profit before tax	351,701	666,454
Tax at PRC EIT tax rate of 25% (2012: 25%)	87,925	166,614
Tax effect of share of profit of associates	(21,474)	(38,492)
Tax effect of expenses not deductible for tax purpose	14,690	9,259
Tax effect of income not taxable for tax purpose	(2,560)	(7,236)
Tax effect of tax losses not recognised	154,586	154,946
Utilisation of tax losses previously not recognised	(14,934)	(70,608)
Effect of preferential tax rates granted to certain PRC subsidiaries	(1,835)	(181)
Tax charge for the year	216,398	214,302

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

10. DIRECTORS', SUPERVISORS' AND EMPLOYEES' REMUNERATION

(1) Directors' emoluments

The remuneration of each director for the year ended 31 December 2013 is set out below:

Name of director	Fees RMB'000	Basic salaries, allowances and benefits in kind RMB'000	Discretionary bonus RMB'000 (note a)	Retirement benefit costs RMB'000	Medical benefits RMB'000	2013 RMB'000	2012 RMB'000
Executive/Non-executive Directors:							
Mr. Hua Guo-ping	–	277	380	52	19	728	881
Ms. Cai Lan-ying	–	277	6,321	75	14	6,687	7,952
Mr. Chen Jian-jun (note b)	–	277	383	52	19	731	–
Mr. Zhou Zhong-qi (note b)	–	23	–	4	2	29	–
Ms. Qi Yue-hong (note c)	–	276	358	52	19	705	–
Mr. Tang Qi (note c)	–	84	130	12	5	231	853
Ms. Xu Ling-ling (note d)	–	277	23	52	19	371	853
Mr. Ma Xin-sheng (note e)	–	–	–	–	–	–	–
Mr. Wang Zhi-gang (note f)	–	–	–	–	–	–	–
Mr. Kazuyasu Misu	–	–	–	–	–	–	–
Mr. Wong Tak Hung	–	–	–	–	–	–	–
Independent non-executive Directors:							
Mr. Lee Kwok Ming, Don	150	–	–	–	–	150	150
Mr. Zhang Hui Ming	150	–	–	–	–	150	150
Mr. Xia Da Wei	150	–	–	–	–	150	150
Mr. Huo Jia-zhen (note g)	50	–	–	–	–	50	–
Mr. Lin Yi-bin (note g)	100	–	–	–	–	100	150
2013	600	1,491	7,595	299	97	10,082	
2012	600	1,108	9,138	226	67		11,139

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

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

(1) Directors' emoluments (continued)

notes:

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

(b) Mr. Chen Jian-jun and Mr. Zhou Zhong-qi were elected as executive director of the Company on 20 December 2013.

(c) Mr. Tang Qi resigned from the office of executive director of the Company on 18 June 2013. The Board of the Company elected Ms. Qi Yue-hong as the new executive director of the Company on the same date.

(d) Ms. Xu Ling-ling resigned from the office of executive director of the Company on 20 December 2013.

(e) Mr. Ma Xin-sheng resigned from the office of non-executive director of the Company on 20 December 2013.

(f) Mr. Wang Zhi-gang resigned from the office of non-executive director of the company on 26 Nov 2013 and was elected as the new supervisor of the Company on 20 December 2013.

(g) Mr. Lin Yi-bin resigned from the office of independent non-executive director of the Company on 30 August 2013. Mr. Huo Jia-zhen was elected as the new non-executive director of the Company on the same date.

None of the directors waived any emoluments during the years ended 31 December 2013 and 2012.

Notes to the Consolidated Financial Statements

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

(2) Supervisory committee members' emoluments

The remuneration of each supervisor for the year ended 31 December 2013 is set out below:

Name of supervisor	Fees RMB'000	Basic salaries, allowances and benefits in kind RMB'000	Discretionary bonus RMB'000 (note a)	Retirement benefit costs RMB'000	Medical benefits RMB'000	2013 RMB'000	2012 RMB'000
Mr. Wang Zhi-gang (note b)	–	–	–	–	–	–	–
Ms. Qian Li-ping (note c)	–	23	–	4	2	29	–
Mr. Chen Jian-jun (note d)	–	–	–	–	–	–	881
Mr. Wang Long-sheng	–	–	–	–	–	–	–
Mr. Dao Shu-rong (note c)	–	277	23	52	19	371	853
2013	–	300	23	56	21	400	
2012	–	554	1,048	96	36		1,734

note:

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

(b) Mr. Wang Zhi-gang resigned from the office of non-executive director of the company on 26 Nov 2013 and was elected as the new supervisor of the Company on 20 December 2013.

(c) Mr. Dao Shu-rong resigned from the office of supervisor of the Company on 3 December 2013. Ms. Qian Li-ping was elected as the new supervisor of the Company on the same date.

(d) Mr. Chen Jian-jun resigned from the office of supervisor of the Company on 20 December 2013 and was elected as executive director.

None of the supervisors waived any emoluments during the years ended 31 December 2013 and 2012.

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

(3) Senior managers' emoluments

The remuneration of each senior manager for the year ended 31 December 2013 is set out below:

Name of Senior manager	Fees RMB'000	Basic salaries, allowances and benefits in kind RMB'000	Discretionary bonus RMB'000	Retirement benefit costs RMB'000	Medical benefits RMB'000	2013 RMB'000	2012 RMB'000
Mr. Zhang Guo-hong	–	252	358	52	19	681	802
Mr. Liang Bao-long	–	252	358	52	19	681	566
Ms. Qi Yue-hong	–	–	–	–	–	–	621
2013	–	504	716	104	38	1,362	
2012	–	635	1,186	122	46		1,989

(4) Five highest paid individuals

The five highest paid individuals were executives of the Group for the two years. Except for Ms. Cai Lan-ying (2012: Ms. Cai Lan-ying), who is the director of the Company, none of them was a director or supervisor of the Company. The aggregate emoluments of these five highest paid individuals are as follows:

	2013 RMB'000	2012 RMB'000
Basic salaries, allowances and benefits-in-kind	1,141	1,111
Discretionary bonuses	25,248	29,974
Retirement benefit costs	376	410
Medical benefits	69	64
	26,834	31,559

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

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

(4) **Five highest paid individuals** (continued)

Their emoluments fall within the following bands:

	Number	
	2013	2012
HK$5,500,001 – HK$6,000,000	**3**	–
HK$6,500,001 – HK$7,000,000	**–**	3
HK$7,500,001 – HK$8,000,000	**1**	–
HK$8,000,001 – HK$8,500,000	**1**	1
HK$9,500,001 – HK$10,000,000	**–**	1

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

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11. DIVIDEND

	2013 RMB'000	2012 RMB'000
Dividend recognised as distribution during the year:		
2012 interim dividend RMB0.08 per share	–	89,568
2012 final dividend RMB0.07 (2012: 2011 final dividend RMB0.12) per share	78,372	134,352
	78,372	223,920

The directors do not recommend the payment of the final dividend (2012: RMB0.07 per share totalling RMB78,372,000) for the current year and is subject to approval by the shareholders of the Company in the upcoming annual general meeting.

12. EARNINGS PER SHARE

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

	2013 RMB'000	2012 RMB'000
Earnings		
Profit for the year attributable to owners of the Company	52,953	339,947
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	1,119,600,000	1,119,600,000

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

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13. PROPERTY, PLANT AND EQUIPMENT

The Group	Buildings RMB'000	Leasehold improvements RMB'000	Transportation vehicles and equipment RMB'000	Operating and office equipment RMB'000	Total RMB'000
COST					
At 1 January 2012	2,038,068	2,205,373	282,020	1,682,946	6,208,407
Additions	14,800	258,840	26,949	222,268	522,857
Transfer from construction in progress	–	42,967	–	262	43,229
Disposals	(15,262)	(114,331)	(9,711)	(127,167)	(266,471)
At 31 December 2012	2,037,606	2,392,849	299,258	1,778,309	6,508,022
Additions	3,670	122,633	23,214	142,389	291,906
Transfer from construction in progress	27,321	22,380	–	4,932	54,633
Disposals	(380)	(269,973)	(29,817)	(138,868)	(439,038)
At 31 December 2013	**2,068,217**	**2,267,889**	**292,655**	**1,786,762**	**6,415,523**
DEPRECIATION					
At 1 January 2012	376,031	1,354,850	149,761	930,344	2,810,986
Provided for the year	63,554	258,242	27,786	189,284	538,866
Eliminated on disposals	–	(90,226)	(9,002)	(104,845)	(204,073)
At 31 December 2012	439,585	1,522,866	168,545	1,014,783	3,145,779
Provided for the year	62,891	265,964	27,135	160,840	516,830
Eliminated on disposals	–	(269,098)	(24,029)	(97,083)	(390,210)
At 31 December 2013	**502,476**	**1,519,732**	**171,651**	**1,078,540**	**3,272,399**
IMPAIRMENT					
At 1 January 2012	–	34,380	1,512	23,554	59,446
Provided for the year	–	19,047	–	7,569	26,616
Eliminated on disposals	–	(26,937)	–	(6,810)	(33,747)
At 31 December 2012	–	26,490	1,512	24,313	52,315
Provided for the year	–	23,963	–	19,263	43,226
Eliminated on disposals	–	(23,880)	–	(9,435)	(33,315)
At 31 December 2013	**–**	**26,573**	**1,512**	**34,141**	**62,226**
CARRYING VALUES					
At 31 December 2013	**1,565,741**	**721,584**	**119,492**	**674,081**	**3,080,898**
At 31 December 2012	1,598,021	843,493	129,201	739,213	3,309,928

Notes to the Consolidated Financial Statements

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13. PROPERTY, PLANT AND EQUIPMENT (continued)

notes:

(a) An impairment loss of RMB43,226,000 (2012: RMB26,616,000) on certain items of property plant and equipment was recognised during the year as a result of the decrease in recoverable amounts due to the loss incurred by certain hypermarkets, supermarkets and convenience stores.

(b) Amongst the depreciation expense of RMB516,830,000 (2012: RMB538,866,000), RMB474,226,000 (2012: RMB496,914,000) and RMB42,604,000 (2012: RMB41,952,000) were included in selling and distribution expenses and administrative expenses respectively.

(c) As of 31 December 2013, the carrying amount of certain buildings without building ownership certificates is RMB38,393,000 (2012: RMB17,070,000) in aggregate.

The Company	Buildings RMB'000	Leasehold improvements RMB'000	Transportation vehicles and equipment RMB'000	Operating and office equipment RMB'000	Total RMB'000
COST					
At 1 January 2012	290,902	869	6,836	37,621	336,228
Additions	–	–	2,683	6,000	8,683
Disposals	–	–	(3,290)	(2,083)	(5,373)
At 31 December 2012	290,902	869	6,229	41,538	339,538
Additions	–	–	–	765	765
Transfer from construction in progress	–	334	–	–	334
Disposals	(380)	–	(1,455)	(893)	(2,728)
At 31 December 2013	**290,522**	**1,203**	**4,774**	**41,410**	**337,909**
DEPRECIATION					
At 1 January 2012	57,120	239	3,486	19,752	80,597
Provided for the year	6,980	174	637	5,652	13,443
Eliminated on disposals	–	–	(1,665)	(1,946)	(3,611)
At 31 December 2012	64,100	413	2,458	23,458	90,429
Provided for the year	7,867	391	595	4,939	13,792
Eliminated on disposals	–	–	(1,363)	(765)	(2,128)
At 31 December 2013	**71,967**	**804**	**1,690**	**27,632**	**102,093**
CARRYING VALUES					
At 31 December 2013	**218,555**	**399**	**3,084**	**13,778**	**235,816**
At 31 December 2012	226,802	456	3,771	18,080	249,109

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13. PROPERTY, PLANT AND EQUIPMENT (continued)

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

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

14. CONSTRUCTION IN PROGRESS

The Group	**Construction in progress RMB'000**
At 1 January 2012	67,765
Additions	232,271
Transfer to property, plant and equipment (Note 13)	(43,229)
Transfer to intangible assets (Note 16)	(2,157)
At 31 December 2012	254,650
Additions	121,621
Transfer to property, plant and equipment (Note 13)	(54,633)
Transfer to intangible assets (Note 16)	(2,565)
At 31 December 2013	**319,073**

The Company	**RMB'000**
At 1 January 2012	4,369
Additions	3,206
Transfer to intangible assets (Note 16)	(2,157)
At 31 December 2012	5,418
Additions	1,621
Transfer to property, plant and equipment (Note 13)	(334)
At 31 December 2013	**6,705**

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15. LAND USE RIGHTS

The Group	**Land use rights RMB'000**
COST	
At 1 January 2012	358,695
Additions	6,614
At 31 December 2012	365,309
Additions	45,177
At 31 December 2013	**410,486**
AMORTISATION	
At 1 January 2012	48,869
Charge for the year	5,267
At 31 December 2012	54,136
Charge for the year	5,557
At 31 December 2013	**59,693**
CARRYING VALUES	
At 31 December 2013	**350,793**
At 31 December 2012	311,173

	31/12/2013 RMB'000	31/12/2012 RMB'000
Analysed for reporting purposes as:		
Non-current portion	**344,654**	305,906
Current portion to be charged to the profit or loss next year included in deposits, prepayments and other receivables (Note 28)	**6,139**	5,267
Total	**350,793**	311,173

notes:

(a) Amongst the amortisation charge for the year of RMB5,557,000 (2012: RMB5,267,000), RMB2,935,000 (2012: RMB2,644,000) and RMB2,622,000 (2012: RMB2,623,000) were included in selling and distribution expenses and administrative expenses respectively.

(b) As at 31 December 2012, the carrying amount of a piece of land without land use right certificate was RMB124,165,000 and the group has obtained the respective land use right certificate during the year 2013.

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15. LAND USE RIGHTS (continued)

The Company	**Land use rights RMB'000**
COST	
At 1 January 2012, 31 December 2012 and 31 December 2013	43,035
AMORTISATION	
At 1 January 2012	11,146
Charge for the year	929
At 31 December 2012	12,075
Charge for the year	929
At 31 December 2013	**13,004**
CARRYING VALUES	
At 31 December 2013	**30,031**
At 31 December 2012	30,960

	31/12/2013 RMB'000	31/12/2012 RMB'000
Analysed for reporting purposes as:		
Non-current portion	**29,102**	30,031
Current portion to be charged to the profit or loss next year included in deposits, prepayments and other receivables (Note 28)	**929**	929
	30,031	30,960

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

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16. INTANGIBLE ASSETS

The Group	Software RMB'000	Goodwill RMB'000	Total RMB'000
COST			
At 1 January 2012	150,204	172,000	322,204
Additions	8,918	–	8,918
Transfer from construction in progress (Note 14)	2,157	–	2,157
Disposals	(8,819)	(20,059)	(28,878)
At 31 December 2012	152,460	151,941	304,401
Additions	11,327	–	11,327
Transfer from construction in progress (Note 14)	2,565	–	2,565
Disposals	(4,962)	–	(4,962)
At 31 December 2013	**161,390**	**151,941**	**313,331**
AMORTISATION AND IMPAIRMENT			
At 1 January 2012	115,282	20,059	135,341
Charge for the year	10,808	–	10,808
Eliminated on disposals	(8,819)	(20,059)	(28,878)
At 31 December 2012	117,271	–	117,271
Charge for the year	9,793	–	9,793
Eliminated on disposals	(3,996)	–	(3,996)
At 31 December 2013	**123,068**	**–**	**123,068**
CARRYING VALUES			
At 31 December 2013	**38,322**	**151,941**	**190,263**
At 31 December 2012	35,189	151,941	187,130

notes:

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

(b) Amongst the amortisation charge for the year of RMB9,793,000 (2012: RMB10,808,000). RMB1,489,000 (2012: RMB5,280,000) and RMB8,304,000 (2012: RMB5,528,000) were included in selling and distribution expenses and administrative expenses respectively.

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

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16. INTANGIBLE ASSETS (continued)

Impairment tests for goodwill

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

	31/12/2013 RMB'000	31/12/2012 RMB'000
Supermarkets	101,731	101,731
Hypermarkets	45,944	45,944
Others	4,266	4,266
	151,941	151,941

The recoverable amounts of the cash-generating units are determined based on a value in use calculations. That calculation uses cash flow projections based on financial budgets approved by management covering a one-year period as extrapolated for 15 years using a growth rate of 0% to 10% (2012: 0% to 10%), as appropriate, and a discount rate of 9% (2012: 9%). This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the relevant cash-generating unit's past performance and management's expectations for the market condition. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amounts of cash-generating units to exceed their aggregate recoverable amounts.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

16. INTANGIBLE ASSETS (continued)

Impairment tests for goodwill (continued)

The Company	**Software**
	RMB'000
COST	
At 1 January 2012	35,185
Additions	4,619
Transfer from construction in progress	2,157
At 31 December 2012	41,961
Additions	283
At 31 December 2013	**42,244**
AMORTISATION	
At 1 January 2012	19,105
Charge for the year	4,186
At 31 December 2012	23,291
Charge for the year	3,994
At 31 December 2013	**27,285**
CARRYING VALUES	
At 31 December 2013	**14,959**
At 31 December 2012	18,670

17. INVESTMENTS IN SUBSIDIARIES

The Company	**31/12/2013**	31/12/2012
	RMB'000	RMB'000
Unlisted equity investments, at cost	**1,949,145**	1,945,784
Less: Impairment losses (note)	**(153,000)**	(60,000)
	1,796,145	1,885,784

note: For the year ended 31 December 2013, the Company further recognised impairment loss of RMB93,000,000 (2012: nil) in relation to the investment costs on subsidiaries in the PRC in order to reflect the decrease in their estimated recoverable amounts in the current year.

Particulars of the Company's principal subsidiaries at 31 December 2013 are set out in note 43.

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18. INTERESTS IN ASSOCIATES

The Group	**31/12/2013**	31/12/2012
	RMB'000	RMB'000
Unlisted equity investments, at cost	**257,561**	233,903
Share of post – acquisition profits, net of dividends received	**321,774**	334,070
	579,335	567,973

The Company	**31/12/2013**	31/12/2012
	RMB'000	RMB'000
Unlisted equity investments, at cost	**256,732**	233,074

Interests in associates as at 31 December 2013 include goodwill of RMB6,787,000 (2012: RMB6,787,000).

At December 31, 2013 and 2012, the Group had interests in the following associates:

Name of entities	**business structure**	**Place of registration and operation**	**Percentage of equity interest attributable to the Group**		**Principal activities**
			2013	2012	
			%	%	
Shanghai Lianhua Fuxing Pharmacy Chain Co., Ltd.	Corporate	The PRC	**50.00**	50.00	Drugstore
Shanghai Carhua Supermarket Co., Ltd. (Carhua)	Corporate	The PRC	**45.00**	45.00	Hypermarket
Shanghai Lianhua Supermarket Food Co., Ltd. (note a)	Corporate	The PRC	**–**	40.00	Trading company
Shanghai Sanming Taige Information Technology Co., Ltd.	Corporate	The PRC	**45.00**	45.00	Trading company
Shanghai Gude Commerce Company	Corporate	The PRC	**27.00**	27.00	Trading company

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18. INTERESTS IN ASSOCIATES (continued)

Name of entities	business structure	Place of registration and operation	Percentage of equity interest attributable to the Group		Principal activities
			2013 %	2012 %	
Shanghai Denuo Product Testing Co., Ltd. (note b)	Corporate	The PRC	–	20.00	Food quality testing
Tianjin Yishang Friendship Holdings Co., Ltd. (Tianjin Yishang)	Corporate	The PRC	20.00	20.00	Department stores
Lianhua Mei Ri Ling Commercial (Shanghai) Co., Ltd.	Corporate	The PRC	43.00	43.00	Cosmetic drugstore

All of the above associates are accounted for using the equity method in these consolidated financial statements.

notes:

(a) Shanghai Lianhua Supermarket Food Co., Ltd was deregistered on 5 August 2013.

(b) Shanghai Denuo Product Testing Co., Ltd was disposal of to an independent third party on August 2013.

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18. INTERESTS IN ASSOCIATES (continued)

The summarised financial information in respect of the Group's material associates at the end of the reporting period is set out below representing amounts shown in the associate's financial statements prepared in accordance with HKFRSs:

Carhua

	31/12/2013 RMB'000	31/12/2012 RMB'000
Current assets	1,535,327	1,411,572
Non-current assets	1,128,199	1,132,618
Current liabilities	1,763,291	1,689,111
Non-current liabilities	–	–

	2013 RMB'000	2012 RMB'000
Revenue	5,765,570	5,597,543
Profit for the year	200,942	217,395
Dividends received from the associate during the year	88,328	115,827
Capital contribution received during the year	40,498	34,113

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2013 RMB'000	2012 RMB'000
Net assets of Carhua	900,235	855,079
Proportion of the Group's ownership interest in Carhua	45%	45%
Carrying amount of the Group's interest in Carhua	405,106	384,786

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18. INTERESTS IN ASSOCIATES (continued)

Tianjin Yishang

	31/12/2013 RMB'000	31/12/2012 RMB'000
Current assets	456,442	548,906
Non-current assets	2,974,381	2,728,884
Current liabilities	1,387,350	1,638,283
Non-current liabilities	1,306,940	894,074

	2013 RMB'000	2012 RMB'000
Revenue	3,658,517	3,882,264
(Loss) Profit for the year	(8,900)	112,752
Dividends received from the associate during the year	–	4,598

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2013 RMB'000	2012 RMB'000
Net assets of Tianjin Yishang	736,533	745,433
Proportion of the Group's ownership interest in Tianjin Yishang	20%	20%
The Group's interest in Tianjin Yishang	147,307	149,087
Goodwill	6,787	6,787
Carrying amount of the Group's interest in Tianjin Yishang	154,094	155,874

Aggregate information of associates that are not individually material:

	31/12/2013 RMB'000	31/12/2012 RMB'000
The Group's share of (loss) profit	(2,748)	200
Aggregate carrying amount of the Group's interests in these associates	20,315	27,313

Notes to the Consolidated Financial Statements

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19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

The Group	**31/12/2013**	31/12/2012
	RMB'000	RMB'000
Non-current		
Legal person shares, at fair value (note a)	**312**	312
Unlisted equity investments, at cost (note b)	**36,046**	36,046
Unlisted managed investment funds, at cost (note c)	**214,628**	–
	250,986	36,358
Current		
Unlisted debt investments, at cost (note d)	**258,474**	210,861
Unlisted managed investment funds, at cost (note c)	**–**	430,391
	258,474	641,252
Total	**509,460**	677,610

The Company	**31/12/2013**	31/12/2012
	RMB'000	RMB'000
Non-current		
Legal person shares, at fair value (note a)	**312**	312
Unlisted equity investments, at cost (note b)	**3,423**	3,423
Unlisted managed investment funds, at cost (note c)	**214,628**	–
	218,363	3,735
Current		
Unlisted debt investments, at cost (note d)	**258,474**	–
Unlisted managed investment funds, at cost (note c)	**–**	430,391
Total	**476,837**	434,126

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

notes:

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

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

(c) The investments represent funds placed into certain licensed trust companies in the PRC, which in turn placed the funds in certain corporations in the PRC (the "PRC Corporations"). The principal and interests derived from the placing of the funds into the PRC Corporations by the licensed trust companies are (i) secured by listed or unlisted securities held by the PRC Corporations; (ii) guaranteed by related companies of the PRC Corporations; and (iii) guaranteed by land use rights of the PRC Corporations (2012: (i) secured by listed or unlisted securities held by the PRC Corporations; and (ii) guaranteed by related companies of the PRC Corporations; and (iii) guaranteed by land use rights of the PRC Corporations). The investments carry interest rates ranging from 9.5% (2012: 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 ranging from 4.9% to 5.5% (2012: 6.2% to 6.5%) per annum upon maturity.

20. HELD-TO-MATURITY FINANCIAL ASSETS

The Group and the Company	**31/12/2013**	31/12/2012
	RMB'000	RMB'000
Non-current		
Unlisted PRC government certificate bonds with fixed interest of 4.0% per annum and maturity date in 2014	–	37,216
Listed corporate bond with fixed interest of 7.1% per annum and maturity date in 2014	–	202,406
	–	239,622
Current		
Unlisted PRC government certificate bonds with fixed interest of 4.0% per annum	**38,523**	–
Listed corporate bond with fixed interest of 7.1% per annum	**202,457**	–
Total	**240,980**	239,622

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20. HELD-TO-MATURITY FINANCIAL ASSETS (continued)

The carrying amounts of the Group's and Company's unlisted held-to-maturity financial assets approximate their fair value. The carrying amounts of the listed held-to-maturity financial assets of the Group and the company approximate their fair value as referenced to quoted prices in active markets. These held-to-maturity investments will be matured in year 2014, and were all classified as current assets as at 31 December 2013, accordingly.

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group and the Company	**31/12/2013**	31/12/2012
	RMB'000	RMB'000
Trust product	**140,022**	–

The product is offered by a trust company in the PRC where funds are mainly invested in low risk and unlisted debt products. The carrying amounts of the Group's and Company's trust product approximate their fair value.

22. TERM DEPOSITS

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

As at 31 December 2013, restricted term deposits amounting to RMB2,481,365,000 (2012: RMB4,381,000,000), RMB328,365,000 (2012: RMB13,000,000) are placed by the Group and the Company, respectively, with certain banks as a security for coupons issued to customers and are not available for other use by the Group.

The effective interest rates on term deposits range from 3.25% to 5.00% (2012: 2.86% to 5.13%) per annum for the group and for the company range from 3.30% to 4.13% (2012: 3.25% to 4.40%) per annum. The carrying amounts of the term deposits of the Group and the Company approximate their fair value.

23. PREPAID RENTAL

Prepaid rental is for the lease of certain store premises and is amortised over the relevant lease periods. Prepaid rental, amounting to RMB326,834,000 (2012: RMB366,247,000), to be charged to the consolidated statement of comprehensive income within one year subsequent to the end of the reporting period is included in current assets as prepayments (see Note 28).

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24. DEFERRED TAXATION

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

The Group	31/12/2013 RMB'000	31/12/2012 RMB'000
Deferred tax assets	203,369	200,951
Deferred tax liabilities	(88,398)	(84,619)
	114,971	116,332

The Company	31/12/2013 RMB'000	31/12/2012 RMB'000
Deferred tax assets	3,430	6,084
Deferred tax liabilities	(6)	–
	3,424	6,084

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

The Group	Fair value adjustments RMB'000	Pre-operating expenses RMB'000	Bad debt and inventory provisions RMB'000	Accrued expenses RMB'000	Accrued income RMB'000	Rental expenses RMB'000	Total RMB'000
At 1 January 2012	(47,261)	394	4,325	18,941	–	118,553	94,952
Credit (charge) to profit or loss	2,057	354	(244)	39,340	(39,415)	19,288	21,380
At 31 December 2012	(45,204)	748	4,081	58,281	(39,415)	137,841	116,332
Credit (charge) to profit or loss	2,051	(748)	(1,192)	(7,043)	(5,830)	11,401	(1,361)
At 31 December 2013	(43,153)	–	2,889	51,238	(45,245)	149,242	114,971

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24. DEFERRED TAXATION (continued)

The Company	Fair value adjustments RMB'000	Deferred tax in respect of bad debt and accrued expenses RMB'000	Total RMB'000
At 1 January 2012	–	7,196	7,196
Credit to profit or loss	–	(1,112)	(1,112)
At 31 December 2012	–	6,084	6,084
Credit to profit or loss	(6)	(2,654)	(2,660)
At 31 December 2013	**(6)**	**3,430**	**3,424**

The Group has unutilised tax losses of approximately RMB2,037,137,000 (2012: RMB1,341,898,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unutilised tax losses due to the unpredictability of future profit streams. The unrecognised tax losses will expire as follows:

The Group	31/12/2013 RMB'000	31/12/2012 RMB'000
Year of expiry		
2013	–	50,049
2014	289,402	301,356
2015	430,306	484,147
2016 to 2018 (2012: 2015 to 2017)	1,317,429	506,347
	2,037,137	1,341,898

25. OTHER NON-CURRENT ASSETS

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

Amongst the amortisation of RMB1,482,000 (2012: RMB1,523,000), RMB1,335,000 (2012: RMB1,335,000) and RMB147,000 (2012: RMB188,000) were included in selling and distribution expenses and administrative expenses respectively.

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26. INVENTORIES

The Group	**31/12/2013**	31/12/2012
	RMB'000	RMB'000
Merchandise for resale	**3,422,392**	3,041,464
Write-down for obsolescence	**(28,149)**	(6,910)
	3,394,243	3,034,554
Low value consumables	**10,187**	21,069
	3,404,430	3,055,623

The Company	**31/12/2013**	31/12/2012
	RMB'000	RMB'000
Merchandise for resale	**467,581**	516,159
Low value consumables	**–**	–
	467,581	516,159

27. 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 (2012: 30 to 60 days), is as follows:

The Group	**31/12/2013**	31/12/2012
	RMB'000	RMB'000
Within 30 days	**74,857**	104,915
31-60 days	**860**	5,922
61-90 days	**238**	2,177
91 days – one year	**727**	693
	76,682	113,707

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27. TRADE RECEIVABLES (continued)

Movement in allowance for doubtful debts is as follows:

	2013 RMB'000	2012 RMB'000
1 January	10,193	9,693
Impairment losses recognised	–	500
Amounts reversed during the year	(2,653)	–
Amounts wrote-off during the year	(5,849)	–
31 December	1,691	10,193

The Company	31/12/2013 RMB'000	31/12/2012 RMB'000
Within 30 days	–	86

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

28. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

The Group	31/12/2013 RMB'000	31/12/2012 RMB'000
Land use right – current portion (Note 15)	6,139	5,267
Prepaid rental (Note 23)	326,834	366,247
Deposits and prepayments	156,349	124,915
Other receivables net of allowance for doubtful debts (note a)	540,761	444,387
Recoverable deposit for acquisition of properties (note b)	–	240,000
	1,030,083	1,180,816

notes:

(a) Other receivables included mainly interest recoverable from bank deposits in both years;

(b) In 2011, the Group paid RMB300 million as deposits for acquisition of properties in Hangzhou for the purpose of hypermarket operation by the Group. Due to delay in property development, the premises could not be transferred to the Group as scheduled in December 2013. The Group therefore came into an agreement with the property developer to accept cancellation of the transaction upon full refund of the RMB300 million. In December 2012, RMB60 million was refunded. The remaining deposit balance of RMB240 million, together with the penalty income of RMB39 million, were refunded to the group during the year.

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For the year ended 31 December 2013

28. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (continued)

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

	2013 RMB'000	2012 RMB'000
1 January	5,611	7,089
Amount recovered during the year	(1,183)	(1,478)
Amounts wrote-off during the year	(11)	–
31 December	4,417	5,611

The Company	31/12/2013 RMB'000	31/12/2012 RMB'000
Land use right – current portion (Note 15)	929	929
Deposits and prepayments	6,403	4,816
Other receivables net of allowance for doubtful debts	97,678	78,368
	105,010	84,113

29. 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 (2012: 30 to 60 days). As at 31 December 2013, balances of both amounts due from/to fellow subsidiaries are all aged within 60 days (2012: 60 days).

30. AMOUNTS DUE FROM/TO ASSOCIATES

Amounts due from/to associates represent balances arising from expenses paid on behalf of certain associates and purchases of merchandise from associates respectively. Balances are all aged within 90 days (2012: 90 days) and the credit terms of the trade balances range from 30 to 90 days (2012: 30 to 90 days). Such balances with associates are unsecured and interest free.

31. CASH AND CASH EQUIVALENTS

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

Bank balances carry interest at prevailing market rates ranging from 0.35% to 4.40% per annum for the year ended 31 December 2013 (2012: ranging from 0.35% to 3.50% per annum).

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32. 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 (2012: 30 to 90 days), is as follows:

The Group	**31/12/2013**	31/12/2012
	RMB'000	RMB'000
Within 30 days	**2,423,941**	2,370,670
31-60 days	**866,503**	822,974
61-90 days	**431,071**	332,375
91 days – one year	**820,882**	769,635
	4,542,397	4,295,654

The Company	**31/12/2013**	31/12/2012
	RMB'000	RMB'000
Within 30 days	**1,216,921**	1,116,132
31-60 days	**599,916**	540,195
61-90 days	**297,188**	189,227
91 days – one year	**565,789**	476,985
	2,679,814	2,322,539

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33. OTHER PAYABLES AND ACCRUALS

The Group	31/12/2013 RMB'000	31/12/2012 RMB'000
Payroll, staff welfare and other staff cost payable	331,532	323,379
Value added tax and other payables	130,136	236,286
Rental payable	693,863	648,568
Deposits from lessees, franchisees and other third parties	176,321	166,758
Dividend payable to non-controlling interest	14,000	–
Amount payable to other retailers upon customers' redemption of coupon issued by the Group	7,032	6,283
Prepayments received from franchisees and other third parties	352,875	305,792
Payables for acquisition of property, plant and equipment and low value consumables	85,820	199,468
Store closure provision	57,356	28,578
Accruals	76,062	86,215
Advance from customers	118,566	136,010
Other miscellaneous payables	67,291	76,419
	2,110,854	2,213,756

The Company	31/12/2013 RMB'000	31/12/2012 RMB'000
Payables for acquisition of property, plant and equipment	1,661	12,481
Accruals	6,542	26,870
Other miscellaneous payables	21,083	14,267
	29,286	53,618

34. COUPON LIABILITIES

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

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35. BANK BORROWINGS

The Group	31/12/2013 RMB'000	31/12/2012 RMB'000
Bank loans, repayable within one year, unsecured, with interest rate of 7.20% (2012: 7.08%) per annum	2,000	2,000

The bank borrowing was repayable within one year, but subject to renewal on a yearly roll over basis at the end of the maturity date. During the year, such loan was renewed and would matured on 26 August 2014, it was classified as current liabilities, accordingly.

36. SHARE CAPITAL

	Number of shares of RMB1.00 each		Nominal value	
	31/12/2013	31/12/2012	31/12/2013 RMB'000	31/12/2012 RMB'000
Registered, issued and fully paid:				
At 1 January 2012, 31 December 2012 and 31 December 2013	1,119,600,000	1,119,600,000	1,119,600	1,119,600

The share capital of the Company as at 31 December 2013 and 2012 comprises:

	Number of shares of RMB1.00 each		Nominal value	
	31/12/2013	31/12/2012	31/12/2013 RMB'000	31/12/2012 RMB'000
Domestic shares	639,977,400	639,977,400	639,977	639,977
Unlisted foreign shares	107,022,600	107,022,600	107,023	107,023
H shares	372,600,000	372,600,000	372,600	372,600
	1,119,600,000	1,119,600,000	1,119,600	1,119,600

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

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37. NON-CONTROLLING INTERESTS

	2013 RMB'000	2012 RMB'000
Balance at beginning of year	364,900	307,737
Share of profit for the year	82,350	112,205
Dividend paid to non-controlling interest during the year	(169,564)	(52,247)
Acquisition of additional equity interests in subsidiaries	(394)	(2,795)
	277,292	364,900

The summarised financial information in respect of the Group's subsidiary that has material non-controlling interests, namely Hangzhou Lianhua Huashang Group Co., Ltd. ("Lianhua Huashang") and its subsidiaries at the end of the reporting period is set out below. The summarised financial information blow represents amounts before intra group eliminations:

Lianhua Huashang and its subsidiaries

	2013 RMB'000	2012 RMB'000
Current assets	7,529,935	7,431,950
Non-current assets	1,772,946	2,012,272
Current liabilities	8,373,439	8,425,886
Non-current liabilities	91,786	84,140
Equity attributable to owners of the Company	640,866	723,451
Non-controlling interests	196,790	210,745

	31/12/2013 RMB'000	31/12/2012 RMB'000
Revenue	13,518,385	12,337,679
Other operating profit	(13,085,494)	(11,846,229)
Profit for the year	432,891	491,450
Profit attributable to owner of the Company	361,422	391,577
Profit attributable to non-controlling interests	71,469	99,873
Dividends paid to non-controlling shareholders	85,424	45,558

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37. NON-CONTROLLING INTERESTS (continued)

Lianhua Huashang and its subsidiaries (continued)

	2013 RMB'000	2012 RMB'000
Net cash inflow from operating activities	2,576,833	325,623
Net cash outflow from investing activities	(470,914)	(765,032)
Net cash outflow from financing activities	(541,067)	(456,040)
Net cash inflow (outflow)	1,564,852	(895,449)

38. CAPITAL RISK MANAGEMENT

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

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

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

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39. FINANCIAL INSTRUMENTS

(1) Categories of financial instruments

Financial assets

The Group	**31/12/2013**	31/12/2012
	RMB'000	RMB'000
Financial assets at fair value through profit or loss	**140,022**	–
Held-to-maturity investments	**240,980**	239,622
Available-for-sale financial assets	**509,460**	677,610
Loans and receivables (including cash and cash equivalents)	**10,877,844**	11,380,305
	11,768,306	12,297,537

The Company	**31/12/2013**	31/12/2012
	RMB'000	RMB'000
Financial assets at fair value through profit or loss	**140,022**	–
Held-to-maturity investments	**240,980**	239,622
Available-for-sale financial assets	**476,837**	434,126
Loans and receivables (including cash and cash equivalents)	**8,439,525**	7,289,765
	9,297,364	7,963,513

Financial liabilities

The Group	**31/12/2013**	31/12/2012
	RMB'000	RMB'000
Bank borrowings	**2,000**	2,000
Other financial liabilities, at amortised cost	**6,055,058**	5,847,450
	6,057,058	5,849,450

The Company	**31/12/2013**	31/12/2012
	RMB'000	RMB'000
Other financial liabilities, at amortised cost	**4,447,543**	3,235,494

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39. FINANCIAL INSTRUMENTS (continued)

(2) Financial risk management objectives and policies

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

Interest rate risk

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

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

The sensitivity analysis below has been determined based on the exposure to interest rates for the Group's and the Company's variable-rate bank balances and team deposits. The analysis is prepared assuming the variable-rate financial assets outstanding at the end of the reporting period were outstanding for the whole year. A 10-basis point (2012: 10-basis point) increase or decrease in the interest rates is the sensitivity rate used when reporting interest risk internally to key management personal and represent management's assessment of the reasonably possible change in interest rates.

If the interest rate had been 10-basis point (2012: 10-basis point) higher/lower and all other variables were held constant, the Group's post-tax profit for the years ended 31 December 2013 and 2012 would have been increased/decreased by approximately RMB8,172,555 and RMB8,435,073 whilst the Company's post-tax profit for the years ended 31 December 2013 and 2012 would have been increased/decreased by approximately RMB1,697,204 and RMB621,455.

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39. FINANCIAL INSTRUMENTS (continued)

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

Equity price risk

The Group and the Company was exposed to equity price risk in relation to its available-for-sale financial assets in legal person shares and debt security price risk in relation to its financial assets at fair value through profit or loss. The legal person shares were measured at fair value at each balance sheet date. These legal person shares were under undertaking not for trading for certain periods and the Group and the Company disposed of a substantial portion during the year ended 31 December 2013 upon release of the restriction. In management's opinion, the sensitivity of legal person shares is then insignificant to the Group and the Company.

The Group currently does not have a price risk hedging policy and the management will continue to monitor price risk exposure and consider hedging against it should the need arise.

The sensitivity analyses below have been determined based on the exposure to debt security in relation to the Group's and the Company's financial assets at fair value through profit or loss at the reporting date.

If the prices of the debt instruments had been 5% (2012: 5%) higher/lower, post-tax profit for the year ended December 31, 2013 would have increased/decreased by RMB5,251,000 (2012: nil) as a result of the changes in fair value of the financial assets at fair value through profit or loss.

Credit risk

As at 31 December 2013, the Group and the Company's maximum exposure to credit risk which will cause a financial loss to the Group and the Company due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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

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39. FINANCIAL INSTRUMENTS (continued)

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

***Credit risk** (continued)*

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

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

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

As at 31 December 2013, balances with the five largest bank accounted for 78.5%of total term deposits and cash and cash equivalents of the Group (2012: 68.4%). As at 31 December 2013, balances with the five largest bank accounted for 90.9%of total term deposits and cash and cash equivalents of the Company (2012: 85.8%).

Liquidity risk

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

As of 31 December 2013, the Group has net current liabilities of RMB4,583,069,000 (2012: RMB5,613,278,000). Taking into account of the support from its holding companies, the directors of the Company consider the liquidity risk is properly monitored.

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

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For the year ended 31 December 2013

39. FINANCIAL INSTRUMENTS (continued)

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

***Liquidity risk** (continued)*

The Group

Financial liabilities	Weighted average interest rate %	On demand or less than 6 months RMB'000	6 months to 1 year RMB'000	Over 1 year RMB'000	Undiscounted cash flows RMB'000	Carrying amount RMB'000
As at 31 December 2013						
Trade payables	–	4,542,397	–	–	4,542,397	4,542,397
Other payables and accruals	–	1,451,921	–	–	1,451,921	1,451,921
Amounts due to fellow subsidiaries	–	44,169	–	–	44,169	44,169
Amounts due to associates	–	16,571	–	–	16,571	16,571
Bank borrowings	7.20	–	2,144	–	2,144	2,000
		6,055,058	2,144	–	6,057,202	6,057,058
As at 31 December 2012						
Trade payables	–	4,295,654	–	–	4,295,654	4,295,654
Other payables and accruals	–	1,507,090	–	–	1,507,090	1,507,090
Amounts due to fellow subsidiaries	–	35,082	–	–	35,082	35,082
Amounts due to associates	–	8,904	–	–	8,904	8,904
Bank borrowings	7.08	–	2,142	–	2,142	2,000
		5,847,450	2,142	–	5,849,592	5,849,450

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39. FINANCIAL INSTRUMENTS (continued)

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

***Liquidity risk** (continued)*

The Company

Financial liabilities	Weighted average interest rate %	On demand or less than 6 months RMB'000	6 months to 1 year RMB'000	Over 1 year RMB'000	Undiscounted cash flows RMB'000	Carrying amount RMB'000
As at 31 December 2013						
Trade payables	–	2,679,814	–	–	2,679,814	2,679,814
Other payables and accruals	–	29,286	–	–	29,286	29,286
Amounts due to subsidiaries	–	1,680,054	–	–	1,680,054	1,680,054
Amounts due to fellow subsidiaries	–	41,818	–	–	41,818	41,818
Amounts due to associates	–	16,571	–	–	16,571	16,571
		4,447,543	–	–	4,447,543	4,447,543
As at 31 December 2012						
Trade payables	–	2,322,539	–	–	2,322,539	2,322,539
Other payables and accruals	–	53,209	–	–	53,209	53,209
Amounts due to subsidiaries	–	817,660	–	–	817,660	817,660
Amounts due to fellow subsidiaries	–	33,182	–	–	33,182	33,182
Amounts due to associates	–	8,904	–	–	8,904	8,904
		3,235,494	–	–	3,235,494	3,235,494

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

39. FINANCIAL INSTRUMENTS (continued)

(3) Fair value measurements of financial instruments

This note provides information about how the Group and the Company determines fair values of various financial assets and financial liabilities.

Fair value of the Group's and the Company's financial assets that are measured at fair value on a recurring basis.

Fair value measurements recognised in the statement of financial position that are measured at fair value on a recurring basis

Some of the Group's and the Company's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

The Group and the Company

Financial assets	Classified as	Fair value as at 31/12/2013 RMB'000	Fair value hierarchy	Basis of fair value measurement/valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
1) Investments in trust products	Financial assets at fair value through profit or loss	Assets – 140,022	Level 3	Discounted cash flow. Future cash flows are estimated based on expected applicable yield of the underlying investment portfolio and adjustments of related expenses, discounted at a rate that reflects the credit risk of various counterparties	Actual yield of the underlying investment portfolio and the discount rate	The higher the actual yield, the higher the fair value

Notes to the Consolidated Financial Statements

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40. CAPITAL COMMITMENTS

The Group

	31/12/2013 RMB'000	31/12/2012 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment, construction of buildings and land use rights:		
– contracted for but not provided in the consolidated financial statements	249,743	310,854
– authorised but not contracted for	831,433	107,907

The Company

	31/12/2013 RMB'000	31/12/2012 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment, construction of buildings and land use rights:		
– contracted for but not provided in the consolidated financial statements	4,406	3,034

41. OPERATING LEASE

(1) The Group as lessee

	31/12/2013 RMB'000	31/12/2012 RMB'000
Minimum lease paid and recognised as an expense under operating leases during the year:		
– Land and buildings	1,684,412	1,628,741

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

	31/12/2013 RMB'000	31/12/2012 RMB'000
Within one year	1,576,656	1,459,764
In the second to fifth years inclusive	5,407,565	5,211,907
Over five years	8,713,930	9,491,681
	15,698,151	16,163,352

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41. OPERATING LEASE (continued)

(1) The Group as lessee (continued)

The minimum lease payments related to leasing of shop premises were negotiated for a lease period ranging from short to medium terms.

The operating lease rental of certain shop premises with a fellow subsidiary is based on the higher of a minimum guaranteed rental or a sales level based rental.

(2) The Group as lessor

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

	2013	2012
	RMB'000	RMB'000
Minimum lease received under operating leases in respect of shop premises during the year	**585,075**	517,913

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

	2013	2012
	RMB'000	RMB'000
Within one year	**237,255**	258,128
In the second to fifth years inclusive	**343,704**	339,364
Over five years	**376,258**	414,694
	957,217	1,012,186

The minimum lease payments related to leasing of shop premises were negotiated for a lease period ranging from short to medium terms.

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42. RETIREMENT BENEFIT PLANS

Defined contribution plans

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

The total cost charged to profit or loss of RMB276,084,000 (2012: RMB258,661,000) represents contributions payable to these scheme by the Group in respect of the current accounting period.

43. RELATED PARTY TRANSACTIONS

Apart from those disclosed under Notes 17, 29 and 30, the Group entered into significant related party transactions during the year, the details of which are set out below:

(1) Related party transactions

	NOTES	2013 RMB'000	2012 RMB'000
Sales to fellow subsidiaries	(a)	158,390	–
Purchases from associates – Shanghai Lianhua Supermarket, Food Co., Ltd., Shanghai Gude Commercial Trading Co., Ltd., Sanming Taige Information Technology Co., Ltd. and Shantou Lianhua South Purchase and Distribution Co., Ltd.	(a)	25,723	28,868
Purchases from fellow subsidiaries	(a)	216,492	176,029
Logistic expense paid to a fellow subsidiary		–	910
Rental expenses and property management fee paid to fellow subsidiaries	(b)	62,988	62,182
Rental income from fellow subsidiaries	(c)	12,606	3,177
Commission income received from fellow subsidiaries	(d)	1,027	1,264
Commission income arising from the redemption of coupon liabilities with a fellow subsidiary	(e)	16,134	17,218
Commission charges arising from the redemption of coupon liabilities with a fellow subsidiary	(e)	13,833	12,395
Restricted term deposits in a fellow subsidiary	(f)	315,365	–

Fellow subsidiaries above are other subsidiaries of Bailian Group.

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43. RELATED PARTY TRANSACTIONS (continued)

(1) Related party transactions (continued)

notes:

(a) This represents sales to and purchase from Bailian Group and purchase from associates in respect of various kinds of merchandise, including but not limited to food products, daily products and electrical appliances, which were calculated in accordance with the terms of the underlying agreement.

(b) 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.

(c) Certain areas of the Group's hypermarket are rented to fellow subsidiaries which were charged in accordance with the terms of the underlying agreements.

(d) The commission income was received from fellow subsidiaries controlled by Bailian Group in relation to the redemption of the coupons issued by the Group and a fellow subsidiary controlled by Bailian Group in retail outlets of these related companies. The commissions were charged at a rate of 0.5% to 1% (2012: at rates ranging from 0.5% to 1.2%) of the sales made through the coupons in the retail outlets of these companies.

(e) According to the business agreement on the settlement of coupon liabilities entered into between 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.

(f) According to the financial services agreement entered into between the Group and a fellow subsidiary controlled by Bailian Group, the fellow subsidiary will provide deposits service to the Company at a deposit rate equal to or more favourable than those offered by other major commercial banks in the PRC in respect of comparable deposits and loans.

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43. RELATED PARTY TRANSACTIONS (continued)

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

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("Government Related Entities") including Bailian Group. Apart from the transactions with fellow subsidiaries disclosed above, the Group has also entered into various transactions, including sales, purchase, and deposits placement, with other Government Related Entities.

In view of the nature of the retail business operated by the Group, the directors are of the opinion that it is impracticable to identify the identities of the counterparties from the sales of merchandise as to whether they are Government Related Entities.

During the two years, significant amount of the Group's purchase were from Government Related Entities and most of the Group's deposits are placed with banks which are also Government Related Entities.

(3) Key management compensation

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

	2013 RMB'000	2012 RMB'000
Salaries and other short-term employee benefits	10,628	13,670
Post-employment benefits	463	447
Other long-term benefits	158	150
	11,249	14,267

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

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44. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES

Details of the Company's principal subsidiaries and associates at 31 December 2013 and 31 December 2012 are as follows:

Name of entities	Date of establishment	Registered and fully paid capital	Proportion voting power and ownership interest held by the Company				Principal activities
		RMB'000	Directly		Indirectly		
			2013	2012	2013	2012	
			%	%	%	%	
(1) Subsidiaries							
Tianjin Yishang Lianhua Supermarket Co., Ltd.	1 September 2002	30,000	100.00	100.00	–	–	Hypermarket
Shanghai Century Lianhua Supermarket Development Co., Ltd. (note b)	24 November 1997	500,000	100.00	100.00	–	–	Hypermarket
Hangzhou Lianhua Huashang Group Co., Ltd.	1 June 2001	120,500	74.19	74.19	–	–	Supermarket
Lianhua Supermarket Jiangsu Co., Ltd.	21 March 2003	50,000	100.00	100.00	–	–	Supermarket and hypermarket
Guangxi Lianhua Supermarket Joint Stock Co., Ltd.	18 November 2001	68,670	95.00	95.00	–	–	Supermarket hypermarket and convenience store
Shanghai Lianhua Supermarket Development Co., Ltd.	8 April 2006	10,000	100.00	100.00	–	–	Supermarket
Lianhua Quik Stores Co., Ltd.	25 November 1997	63,000	100.00	100.00	–	–	Convenience store
Shanghai Lianhua Commercial Trading Co., Ltd. (note a)	27 June 2001	3,000	100.00	30.00	–	65.00	Wholesaling
Shanghai Lianhua Supermarket Distribution Co., Ltd. (note b)	29 October 1998	5,000	100.00	90.00	–	10.00	Purchase and distribution
Lianhua Logistic Co., Ltd.	17 October 2007	50,000	100.00	100.00	–	–	Purchase and distribution

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Details of the Company's principal subsidiaries and associates at 31 December 2013 and 31 December 2012 are as follows: (continued)

Name of entities	Date of establishment	Registered and fully paid capital RMB'000	Proportion voting power and ownership interest held by the Company Directly 2013 %	Directly 2012 %	Indirectly 2013 %	Indirectly 2012 %	Principal activities
(1) **Subsidiaries** (continued)							
Shanghai Lianhua Supermarket Jilin Purchase and Distribution Co., Ltd.	9 August 2000	1,000	51.00	51.00	–	–	Purchase and distribution
Shanghai Lianhua Live and Fresh Food Processing and Distribution Co., Ltd. (note a)	29 December 1999	5,000	90.00	90.00	–	–	Fresh food processing and distribution
Lianhua E-business Co., Ltd. (note a)	4 October 1995	55,000	90.91	90.91	–	–	Trading
Hualian Supermarket Holdings Company Limited	15 August 2006	300,000	99.40	99.40	0.60	0.60	Supermarket
Shanghai Bei Heng Investment Management Co., Ltd.	27 October 2011	30,000	100.00	100.00	–	–	Investment management

notes:

(a) During the year, the Company acquired 20% and 50% equity interest of Shanghai Lianhua Commercial Trading Co., Ltd ("Lianhua Commercial Trading") from Lianhua E-business Co., Ltd. and Shanghai Lianhua Live and Fresh Food Processing and Distribution Co., Ltd., both are subsidiaries of the Company, for cash considerations of RMB658,000 and RMB1,645,000, respectively. After such acquisition, the Lianhua Commercial Trading became a wholly owned subsidiary directly held by the Company.

(b) During the year, the Company acquired 10% equity interest of Shanghai Lianhua Supermarket Distribution Co., Ltd. ("Lianhua Supermarket Distribution"), a subsidiary of the Company, from Shanghai Century Lianhua Supermarket Development Co., Ltd. for a cash consideration of RMB1,057,000. After such acquisition, Lianhua Supermarket Distribution became a wholly owned subsidiary directly held by the Company.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Details of the Company's principal subsidiaries and associates at 31 December 2013 and 31 December 2012 are as follows: (continued)

Name of entities	Date of establishment	Registered and fully paid capital RMB'000	Proportion voting power and ownership interest held by the Company				Principal activities
			Directly		Indirectly		
			2013 %	2012 %	2013 %	2012 %	
(2) Associates							
Shanghai Carhua Supermarket Co., Ltd.	8 February 1995	504,881 (2012: 417,497)	45.00	45.00	–	–	Hypermarket
Tianjin Yishang Friendship Holdings Co., Ltd.	27 October 1998	220,277	20.00	20.00	–	–	Department stores

The above table lists the principal subsidiaries and associates of the Group which, in the opinion of the directors, affected the results or assets of the Group. To give details of other subsidiaries and associates would, in the opinion of the directors, result in excessive length.

All of the subsidiaries and associates described above are limited liability companies established in the PRC. None of the subsidiaries had issued any debt securities at the end of the years.

45. AUTHORISATION FOR THE ISSUE OF THE ACCOUNTS

These consolidated financial statements were authorised for issue by the Company's Board of Directors on 26 March 2014.

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

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