ANNUAL REPORT 2014

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

Stock Code: 0980

4,291

Province	Hypermarket	Supermarket	Convenience Store
Shanghai	40	1588	1078
Zhejiang	54	245	178
Jiangsu	28	298	3
Liaoning	0	0	321
Guangxi	5	179	0
Beijing	3	1	139
Anhui	10	63	0
Jiangxi	0	15	0
Henan	8	7	0
Inner Mongolia	0	9	0
Shandong	0	6	0
Sichuan	2	0	0
Heilongjiang	2	0	0
Tianjin	2	0	0
Hebei	0	2	0
Fujian	2	0	0
Guangdong	1	1	0
Chongqing	0	1	0

Hypermarket
Supermarket
Convenience Store

Contents

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LIANHUA SUPERMARKET HOLDINGS CO., LTD.

Lianhua Supermarket Holdings Co., Ltd. ("Lianhua Supermarket" or the "Company") commenced its business in Shanghai in 1991. In the past 24 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 2014, Lianhua Supermarket and its subsidiaries (the "Group") operated a total of 4,291 outlets (excluding those operated by the Company's associated companies) spanning 18 provinces and municipalities across the nation. The Company has maintained its leading position in the fast moving consumer goods retail industry in the People's Republic of China (the "PRC"). Lianhua Supermarket was one of the first Chinese retail chain operators to be listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), on 27 June 2003.

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

Corporate Information

Directors

Executive Directors

Mr. Chen Jian-jun (Chairman)
Mr. Hua Guo-ping
Ms. Cai Lan-ying (Resigned on 27 June 2014)
Ms. Qi Yue-hong
Mr. Zhou Zhong-qi
Mr. Shi Hao-gang

Non-Executive Directors

Mr. Li Guo-ding (Deputy Chairman)
Ms. Wu Jie-qing
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
Mr. Huo Jia-zhen

Remuneration and Appraisal Committee

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

Strategic Committee

Mr. Chen Jian-jun (Chairman)
Mr. Li Guo-ding
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
Mr. Huo Jia-zhen
Ms. Qi Yue-hong

Supervisors

Mr. Wang Zhi-gang
Ms. Tao Qing
Mr. Wang Long-sheng (Resigned on 27 June 2014)
Ms. Qian Li-ping

Joint Company Secretary

Ms. Hu Li-ping
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
Harcourt Building
39 Gloucester Road
Wanchai
Hong Kong

Telephone

86 (21) 5262 9922

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86 (21) 5279 7976

Company Website

lianhua.todayir.com

Shareholder's Enquiries

Contact Information of the Company

Department of Securities Affairs
Tel: 86 (21) 5278 9576
Fax: 86 (21) 5279 7976

Hong Kong Share Registrar and Transfer Office

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

Share Information

Listing Place

The Stock Exchange of Hong Kong Limited

Listing Date

27 June 2003

SEHK Stock Code

980

Number of H shares Issued

372,600,000 H shares

Year-end Date

31 December

Results Announcements

Interim Results for 2014 were published on 28 August 2014
Annual Results for 2014 were published on 27 March 2015

Dividends

Interim Dividends: Nil
Proposed Final Dividends: Nil

2014 Annual General Meeting

To be convened at 10:00 a.m. on Wednesday, 24 June 2015

Major achievements

1 JANUARY

Li Lan, the store manager of Qingpu store of Shanghai Century Lianhua Supermarket Development Company Limited (上海世紀聯華超市發展有限公司) ("Century Lianhua", a subsidiary of Lianhua Supermarket), was awarded the honourable title of the "Best Seller Under the Staff Performance Competition of Shanghai Commercial Industry (上海市商業職工立功競賽銷售狀元)" by Joint Association of Commercial Labour Union of Shanghai (上海市商業行業工會聯合會).

Lianhua Supermarket was awarded the honourable title of the "2013 Shanghai Quality Management Award (2013年上海市品質管理獎)" by the People's Government of Hongkou District, Shanghai.

2 FEBRUARY

Lianhua Supermarket was awarded the honourable title of the "2013 Safety Model Unit of Shanghai (2013年度上海市平安示範單位)" by the Social Management and Comprehensive Governance Commission of Shanghai (上海市社會管理綜合治理委員會).

Guangxi Lianhua was awarded the honourable title of the "2013 Advanced Commercial Unit" by the Guangxi Autonomous Region.

Major achievements

3

MARCH

4

APRIL

On 19 March, Han Zheng, the secretary of Shanghai Municipal Party Committee, together with Shen Xiaoming, the member of municipal standing committee and the party secretary of Pudong New Area, Yin Hong, the member of municipal standing committee and the secretary-general of party committee, and Chen Yanfeng, the Commissioner of Pudong New Area Market Supervision and Management Bureau (浦東新區市場監督管理局), visited and inspected the Pudian Road store of Century Lianhua.

Lianhua Supermarket was awarded the title of "Shanghai Famous Trademark (上海市著名商標)" by Shanghai Administration for Industry & Commerce.

Hua Guoping, the general manager of Lianhua Supermarket, was awarded the honourable title of "Outstanding Innovative Award for Chain Enterprise (連鎖經營傑出創新獎)" by the Shanghai Chain Enterprise Association.

Fang Yuqun and Cheng Demin, the store manager of Xianghua store and Baise store of Shanghai Lianhua Supermarket Development Co., Ltd. (上海聯華超級市場發展有限公司) ("New Supermarket", a subsidiary of Lianhua Supermarket) respectively, and Wang Jiajing, the store manager of Zhuanqiao store of Century Lianhua, were awarded the title of "Golden Store Manager of Chain Enterprise (連鎖經營金鎖店長)" by the Shanghai Chain Enterprise Association.

The Xianghua store of New Supermarket, the Stadium store of Century Lianhua and the Huating store of Shanghai Lianhua Quick Convenience Stores Company Limited (上海聯華快客便利有限公司) ("Quick Convenience") were awarded the title of "Consumer-satisfied Chain Store (消費者滿意連鎖店)" by the Shanghai Chain Enterprise Association.

The Jingjiang store of Century Lianhua was awarded the title of "Safety Demonstrative Unit for Consumption of Jiangsu (江蘇消費者滿意放心示範單位)" by Jiangsu Province.

The Huamu store of Century Lianhua was awarded the honourable title of "Demonstrative Network for Protection of Customers' Right of Shanghai (上海市消費者權益保護示範聯絡點)" by Shanghai Administration for Industry & Commerce.

At the 20th anniversary ceremony of Shanghai Chain Enterprise Association (1994-2014), Lianhua Supermarket was awarded the honourable title of "Golden Chain Enterprise (金牌連鎖企業)".

Lianhua Supermarket was awarded the honourable title of "2013 Shanghai Quality Management Award (2013年上海市品質管理獎)" by the Shanghai Association of Quality (上海市品質協會).

Major achievements

5

MAY

6

JUNE

Under the principle of procurement at the planting base through connection between the farms and supermarkets, Lianhua Supermarket cooperated with Chongming Jingjie Vegetable Professional Cooperative (崇明靜捷蔬菜專業合作社) to establish a vegetable planting base with 1,200 mu farmland managed by Lianhua. This enhanced our control over the quality and safety of the vegetables.

The Qingpu store of Century Lianhua was awarded the honourable title of "National Pioneer Labour Award (全國工人先鋒號)" by All China Federation of Trade Unions.

Fang Guojin, the coordinate commissioner of the logistics management headquarter of Lianhua Supermarket, was awarded the honourable title of "Shanghai Labour Day Labour Award (上海市五•一勞動獎章)" by Shanghai Association of Labour Unions (上海市總工會).

The Changli store of New Supermarket was awarded the honourable title of "Shanghai Pioneer Labour Award (上海工人先鋒號)" by Shanghai Association of Labour Unions.

Lianhua Supermarket officially commenced the business consolidation in Jiangsu.

Major achievements

7

JULY

8

AUGUST

Lianhua Supermarket successfully passed the approval of ISO9001 external quality system.

On 28 August, the Tiwer City (天華世紀城) Yiwu store of Hangzhou Lianhua Huashang Group Co., Ltd. ("Hangzhou Lianhua Huashang"), a subsidiary of the Company, officially opened.

Major achievements

9 SEPTEMBER

The "Vegetable Order Anytime (蔬菜隨心訂)" operation, as jointly conducted by Lianhua E-commerce Business Co., Ltd. ("Lianhua E-business"), the procurement headquarters for fresh produce and the three major business segments, was launched at Lianhua Mart (www.lhmart.com) on 25 September. The "Vegetable Order Anytime" has adopted a brand new mode of ordering online with picking up at store. This was a trial operation in exploring the most suitable transformation of our value chain towards e-commerce under the corporate reform on e-commerce of Lianhua Supermarket. Meanwhile, the e-commerce operation and physical stores of Lianhua Supermarket can interact and complement each other in terms of sales.

10 OCTOBER

In exploring the transformation on member service and marketing direction, Hangzhou Lianhua Huashang launched the "Thousand Babies (千人寶貝)" program. It aimed to conduct marketing activities on targeted consumers, and establish the professional platform on mother and baby products, namely "Miaomi City (妙喵城)".

Major achievements

11
NOVEMBER

Century Lianhua was awarded the honourable title of "Four-star Credible Enterprise (四星級誠信創建企業)" in Shanghai by the Committee for Shanghai Credible Enterprise Campaign (上海市"企業誠信創建"活動組委會) and the Shanghai Chain Enterprise Association.

The Luodian store, Xianxia store and Qingpu store of Century Lianhua were awarded the honourable title of "2013-2014 Advanced Enterprises for Quality Commercial Service in Shanghai (2013-2014年上海商業優質服務先進集體)" by the Shanghai Commercial Association (上海市商業聯合會).

The Liuan store and Wuhu Nanrui store of Century Lianhua were awarded the title of "Credible Demonstrative Enterprise on Labour Protection (勞動保障誠信示範企業)" by the Bureau of Human Resources and Social Security of Liuan City and the Bureau of Human Resources and Social Security of Wuhu City, respectively.

The Chaohu store of Century Lianhua was awarded the honourable title of "Grade A Credible Enterprise on Labour Protection (勞動保障誠信A級企業)" in Chaohu City for 2014 by the Bureau of Human Resources and Social Security of Chaohu City.

Yu Guowei, the head of fresh produce department and the store manager of Shanghai Pudian store of Century Lianhua, and Chen Zuohong, the head of fresh produce and cooked food department in Luodian store of Century Lianhua, were awarded the honourable title of "2013-2014 Individual Award for Quality Commercial Service in Shanghai (2013-2014年上海商業優質服務先進個人)" by the Shanghai Commercial Association.

12
DECEMBER

Century Lainhua was awarded the title of "Enterprises Adhering to Protect Old Tastes, Old Stories and Old Brands, and upholding integrity concept, and the 2014 Shanghai Demonstrative Enterprise on Food Safety (老味道、老故事、老品牌—堅守誠信的力量暨2014年上海市食品安全示範企業)" by Shanghai Food Safety Federation (上海市食品安全工作聯合會).

L E A D I N G

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 2014 to our shareholders.

In 2014, the chain supermarket industry was under intense pressure due to an adjusted market structure and the gradual integration of channels by online and offline retailers which resulted in enormous developmental challenges. Facing this challenging market environment, the Group adopted "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) as its general working guidelines, and faced the challenges by focusing on transformation of profitability mode, operation mode and incentive scheme mode under the main guideline of deepening reform, thus achieving certain operating results and reversing to a certain extent the decline of results.

In 2014, the Group recorded a revenue of RMB29,152million, representing a decrease of 4.1% from 2013. Operating profit was under pressure from decreased sales and rising fixed costs, and reached RMB242 million, a decrease of 9.0% from 2013. Profit and total comprehensive income for the year attributable to owners of the Company was RMB31 million, representing a decrease of 41.4% from 2013. Basic earnings per share amounted to RMB0.03. However, as the gross profit margin and the consolidated income margin both increased through the Group's unremitting efforts, the decline in operating profit slowed.

In-line with the requirements for China's entry into the WTO, China's retail market has opened up to the world starting on 11 December 2004, and become a fully competitive market. Lianhua Supermarket has gone through many trials and hardships, and developed and grew stronger in the baptism of such a market, enabling it to grow up into an excellent domestic chain supermarket operator. Over 24 years of development, Lianhua Supermarket has been market-oriented by seizing strategic opportunities arising from the China's market for chain supermarket and grasping market opportunities by cross-regional development, so as to gradually create and developed its brand influence, and thus established its industry leadership.

Chairman's Statement

The Group will strengthen its executive capacity, innovation capacity and growth drivers. Through comprehensive reforms and establishment of its supply chain system, the Group will continue to improve its own strengths while innovate ways and channels for strategic cooperation to realize regional expansion and a leap-forward development, striving to develop itself into a regional-leading fast-moving consumer goods retailer with its network radiating to East China in the next three years.

Chairman's Statement

The market is constantly changing. China's retail market today has witnessed drastic changes in supply and demand, and shifted from a retailer-oriented market to a consumer-oriented market. There are also radical changes in consumers' consumption pattern, concept and format. Amid these changes, demand for retailer reform became stronger.

Looking back, the whole retail industry bravely moved forward in 2014, and the key words throughout the year were reform and rebirth. With the boudaries between retail segments blurring, small shopping malls format and small-size businesses and convenience stores in the community have replaced traditional hypermarkets to become the new favorites of foreign and local retailers. The representatives of domestic traditional e-commerce giants started to seek recognition from international capital markets and were listed abroad one after another. Physical retailers including the Group took counter-attack measures to challenge traditional e-commerce giants with the inventory market space. Cross-industry resources integration, mergers and acquisitions among giants became a hot industry trend.

The year of 2014 was the first year of deepening reform for the Group. Various reform measures were carried out and deepened orderly. In 2014, in pursuit of gross profit and leveraging the large number of its stores and procurement in bulk, the Group adopted sourcing from the origin, established its self-controlled bases, implemented strategic cooperation, and connected market resources in order to strike the traditional profitability mode and improve competitiveness of its merchandise. Key steps were taken in production, supply and marketing integration, including building a green supply chain by formulating quality standards, connecting quality market resources, controlling the whole process of planting, feeding, harvesting, slaughtering and delivering, with fresh produce for the livelihood of the people including vegetables and meat as a breakthrough. In exploring the operation of sluggish product categories and to change the business mode of home appliances in hypermarkets, the Group reached several strategic cooperation agreements with large home appliance retailers.

Regarding the establishment of its supply chain, the Group consolidated operational functions of logistics

Chairman's Statement

headquarters, Shanghai Lianhua Supermarket Distribution Co., Ltd ("Lianhua Distribution") and Shanghai Hualian Supermarket Logistics Co., Ltd ("Hualian Logistics") to establish Shanghai Lianhua Logistics Co., Ltd (上海聯華物流有限公司) ("Jiangqiao Logistics"), the trial operation of which has already begun. The Jiangqiao Logistics Project made progress steadily. Its civil works were in the final phase, its decoration construction started in full swing, and its three systems, namely warehouse management, transportation management and logistics control, have entered the joint test stage, and were ready to commence operation.

In 2014, the Group broke the traditional management mode that hindered its development. The Group carried out pilot reforms in Jiangsu Province to deduct levels, break format management, and streamline administration and delegate power to the lower levels, so as to establish its regional leadership. The Group established a three-tier management structure of the headquarter, regions and stores to realize a flattened organization structure.

In 2014, in response to long-term accumulated and complicated conflicts between operation and procurement in the retail industry, the Group boldly pursued reforms on nine business management systems including new product introduction, merchandise elimination, order management, price management, structure management, shelf management, special display management, marketing management and inventory management, laying a foundation for setting up a high-efficient and synchronized operation management system.

The rapid development of e-commerce not only overturned the existiong pattern of distribution channels, but also catalyzed the change of consumption habits, facilitated the diversity of consumption behavior, and constantly promoted innovation on marketing models. In 2014, the Group seized the strategic opportunity arising from the e-commerce platform establishment of Bailian Group Co., Ltd. ("Bailian Group"), its parent company, and proactively carried out deployment to establish an e-commerce leading

group and working group as well as an e-commerce management department, guaranteeing the implementation of the omni channel strategy and establishing an omni-channel retailing model.

The Group also kicked off various reforms of its incentive system. The Group was fully aware that this round of reform was more complicated, difficult and systematic than before, because it requires not only a comprehensive top-level design, but stimulation of the initiatives and creativity of participants to learn from practice. Therefore, coordination is required for achieving such synergy. Therefore, in 2014, the Group continued to promote its performance-based corporate culture, reformed employee assessment measures, and highlighted its core culture, i.e., "Convince employees with performance; Assess employees based on performance; Select employees based on performance; Motivate employees based on performance". Such efforts included implementing contract operation of stores, enabling them to focus on sales and motivating their leaders and employees. The Group also reformed its assessment measures on merchandise buyers, encouraging them to transform themselves into all-around buyers of "procurement staff + sales personnel".

Entering 2015, regarding the macro economic situation, the "New Normal" will become the keynote in the near future. The framework of another round of economic structure

Chairman's Statement

reform will also further affect real economy, and provide positive "stimulus" effect. In view of the industry trend, the omni-channel era interacting with overproduction and material abundance has given rise to more choices, and the accelerated pace of living and the rise of new generation consumers have enhanced independent consumer consciousness. The Central Economic Work Conference has given high expectations on reform of state-controlled and state-owned enterprises, and determined the guiding principle of "improving core competitiveness of state-owned enterprises with focus on strengthening enterprise's vitality and improving its efficiency, and establishing a modern enterprise system characterized by clearly defined ownership and power and responsibility, separation of enterprise from administration, and scientific management". For both the central government and local governments, reform has been listed as a priority in 2015.

China's economic structure is experiencing a comprehensive upgrade and adjustment, and the direction of reform for state-controlled and state-owned enterprises is clear. However, as we all know, any reform will not happen overnight, and it calls for wisdom and courage or even composure. The strong pass of the enemy is like through passing a wall of iron, yet with firm strides, we are conquering its summit. In 2015, as a major state-owned enterprise in the traditional distribution industry, the Group will follow the working guidelines of "enhancing capability, strengthening basic skills, grasping opportunities from transformation, facilitating development", continue to adhere to the main guideline of deepening reform, promote the reform for its three key models on profitability, operation and incentive scheme, promote the transformation of corporate operation mechanism into a market-oriented and professional mechanism, find out and make up for deficiencies, enhance internal management and the efficiency of its supply chain, thereby increasing sales and improving efficiency.

In 2015, The Group will strengthen its executive capacity, innovation capacity and growth drivers. Through comprehensive reforms and establishment of its supply chain system, the Group will continue to improve its own strengths while innovate on ways and channels for strategic cooperation to realize regional expansion and a leap-forward development, striving to develop itself into a regional-leading fast moving consumer goods retailer with its network radiating East China in the next three years.

In 2015, the Board of the Company will further enhance its corporate governance, and strengthen the supervisory roles of various professional committees of the Board as well as independent directors. The Board will improve its efficiency in decision making, strategic planning, incentive management and significant investments, thus achieve practical results for various work. The Group will create more room for sales growth by taking practical actions, achieve healthy development and create more value for all shareholders.

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

By order of the Board
Chen Jian-jun
Chairman

27 March 2015
Shanghai, the PRC

Five Years Financial Highlights

Unit: RMB'000 For the year ended 31 December	2014	2013	2012	2011	2010
Turnover	29,152,454	30,383,420	28,987,545	27,520,176	25,905,343
Hypermarkets	17,513,911	18,234,857	17,253,783	16,082,043	14,578,596
– Percentage to turnover (%)	60.08	60.02	59.52	58.44	56.28
Supermarkets	9,544,941	10,151,879	9,819,043	9,617,432	9,432,815
– Percentage to turnover (%)	32.74	33.41	33.87	34.95	36.41
Convenience stores	2,013,456	1,934,450	1,837,821	1,733,631	1,746,729
– Percentage to turnover (%)	6.91	6.37	6.34	6.30	6.74
Other businesses	80,146	62,234	76,898	87,070	147,203
– Percentage to turnover (%)	0.27	0.20	0.27	0.31	0.57
Gross profit	4,241,145	4,362,590	3,929,064	3,956,440	3,612,966
Gross profit margin (%)	14.55	14.36	13.55	14.38	13.95
Consolidated income margin (%) (Note 1)	24.46	24.02	24.68	25.71	25.01
Operating profit (Note 1)	241,816	265,805	512,487	829,373	775,200
Operating profit margin (%) (Note 1)	0.83	0.87	1.77	3.01	2.99
Profit and Total Comprehensive Income for attributable to owners of the Company	31,033	52,953	339,947	626,727	622,414
Net profit margin (%) (Note 1)	0.11	0.17	1.17	2.28	2.40
Earnings per share (RMB) (Note 2)	0.03	0.05	0.30	0.56	0.56
Interim dividend per share (RMB) (Note 3)	–	–	0.08	0.08	0.15
Final dividend per share (RMB) (Note 3)	–	–	0.07	0.12	0.18

Unit: RMB'000 As at 31 December	2014	2013	2012	2011	2010
Net assets	3,674,386	3,648,620	3,768,680	3,621,646	3,224,801
Total assets	18,428,359	20,520,759	20,804,186	20,313,931	18,452,840
Total liabilities	14,753,973	16,872,139	17,035,506	16,692,285	15,228,039
Net cash flow	267,777	2,288,339	(2,977,217)	(14,863)	1,389,208
Average return on total assets (%)	0.16	0.26	1.65	3.23	3.68
Average return on net assets (%)	0.92	1.56	10.12	20.19	23.23
Gearing ratio (%) (Note 4)	0.01	0.01	0.01	0.01	–
Liquidity ratio (times)	0.77	0.73	0.67	0.73	0.80
Turnover of trade payables (days)	58	59	59	62	61
Turnover of inventories (days)	40	40	37	38	37

Notes:

1. Consolidated income margin (%) = (Gross profit + Other income + Other revenues)/Turnover
   Operating Profit = Profit before taxation – Share of profits of associates
   Operating Profit Margin = (Profit before taxation – Share of profits of associates) / Turnover
   Net Profit Margin = Profit and Total Comprehensive Income for the year attributable to owners of the Company / Turnover
2. Earnings per share for each of the year ended 31 December 2010 have been adjusted retrospectively for the bonus issue effective in September 2011.
3. The total shares of the Company increased to 1,119,600,000 shares from 622,000,000 shares due to the bonus issue effective in September 2011. Meanwhile the directors do not recommend the payment of the final dividend at the Board meeting held on 27 March 2015.
4. Gearing ratio (%) = Loans/Total assets

GROWING


9.90
24.50
9.90
9.90

Management Discussion and Analysis

Operating Environment

In 2014, China's economic growth continued to outpace that of other economies around the world. Meanwhile, with a complicated global economic environment and the continuous adjustment of domestic economic structure, the Chinese economy entered a "new normal" stage, which focused on growth quality and structure optimization. Hence, China's economic growth gradually slowed down.

In light of the complicated domestic and global economic environment, as well as the extremely difficult missions on reform and development initiatives, the Chinese government adhered to its principle of achieving growth amid stability, and continued to implement proactive fiscal policy and stable monetary policy. It gave priority to targeted regulation on top of interval regulation and launched a series of policies and measures aimed at stabilizing growth, promoting reform and restructuring as well as boosting the overall welfare of its people. According to the National Bureau of Statistics, in 2014, China's gross domestic product (GDP) increased by 7.4% year over year, amounting to RMB63.65 trillion. The domestic economic environment remained stable under the new normal environment.

In 2014, urban and rural residents' disposable income continued to grow but at a slower pace. The domestic disposable income of Chinese residents was RMB20,167, representing a 10.1% nominal growth rate and an 8.0% actual growth rate after excluding the impact of inflation year over year. Urban disposable income per capita was RMB28,844, representing a 9.0% nominal growth rate and a 6.8% actual growth rate after excluding the impact of inflation year over year. The actual growth rate of urban disposable income per capita in 2014 was 0.2 percentage point lower than that of 2013. Rural cash income per capita was RMB8,896, which represented a 11.2% nominal growth rate and a 9.2% real growth rate after excluding the impact of inflation year over year. The actual growth rate of rural cash income per capita in 2014 was 0.1 percentage point lower than that of 2013. The Gini coefficient for

Management Discussion and Analysis

national income was 0.469 in 2014. As the structure of domestic demand continued to improve, the final consumption expenditure accounted for 51.2% of GDP in 2014, representing an increase of 3.0 percentage points compared to last year.

In 2014, the consumer price index (CPI) increased by 2.0% year over year as a result of the effective economic regulations by the Chinese government. However, the producer price index (PPI), a leading indicator of CPI, continued its decreasing trend since March 2012, indicating sluggish domestic economic growth and weak expansion of real aggregate demand. Although the Chinese government introduced a number of structural "micro stimulus" packages, the effects of those measures remained to be seen. Traditional industries still suffered from the restructuring of economy. With the weak momentum in the physical retail industry, sluggish domestic demand and continuous decline in customer concentration, the whole retail industry entered into a phase of structure transformation and further adjustment. In general, department stores and supermarkets faced pressure of declining results performance, shrinking customer flow, merger and acquisition, and closure of stores to limit losses. On the other hand, as online shopping became mature, e-commerce started further integration with physical retailers. The integration impacted traditional retailers, which was further supported by statistics of domestic retail industry.

According to the National Bureau of Statistics, the total retail sales of social consumer goods for 2014 was RMB26.24 trillion, representing a 12.0% nominal growth (a 10.9% actual growth excluding inflation) year over year, which was 1.1 percentage points lower than that of 2013. It is worth noting that the domestic online sales amounted to RMB2.79 trillion, representing a growth rate of 49.7% year over year and accounting for over 10.0% of the total retail sales of social consumer goods.

According to the statistics from the China National Commercial Information Center, in 2014, retail sales of the top 100 largest retail enterprises in China increased by only 0.4% year over year, which was 8.5 percentage points lower than that of 2013. This was the third consecutive year of slowdown in growth since 2012, and the growth was the lowest since 2005. There was significant slowdown in growth rate of products such as oil and foodstuff, meat products, health supplements, daily groceries, apparels and home appliances, or decreased sales of such products compared to last year. The sales of 5,000 major retail enterprises in China monitored by the Ministry of Commerce of the People's Republic of China ("MOC") rose by 6.3% year over year, which was 2.6 percentage points lower than that of 2013. Sales from supermarket enterprises rose by only 5.5% year over year, which was 2.8 percentage points lower than that of 2013.

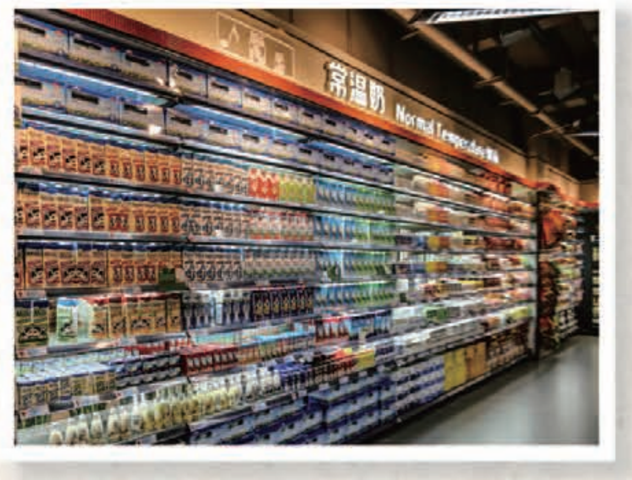
In conclusion, in 2014, the Group and the supermarket chain industry as a whole faced unprecedented challenges and tremendous pressure, resulting in an increased pressure on operating results for 2014.

Financial Review

Growth in turnover and consolidated income

During the period under review, the Group's turnover was RMB29,152 million, which represented a decrease of approximately 4.1% year over year. Same store sales decreased by approximately 5.52%, representing a

Management Discussion and Analysis



decrease of 7.65 percentage points year over year. The adverse effects of macro-economic slowdown, significant decrease of institutional group consumption and the rapid development of online retailing on physical chain supermarkets were increasing. There was a decline in overall sales for 2014 since the majority of the Group's outlets are located in first and second tier cities relatively affected by market saturation with slower growth in recent years. Facing the challenging environment, the Group continuously strove to constantly optimize its merchandise structure, enhance the consolidated income from its merchandise, strictly control various costs and expenses and minimize the effect of sales decline on earnings. Meanwhile, in order to enhance the capability to maintain sustainable development, the Group put greater efforts on the reform of three major models, namely business model, operational model and incentive model, in 2014, aiming to solve the existing problems.

During the period under review, the Group recorded a gross profit of approximately RMB4,241 million, representing a decrease of 2.8% year over year due to the decline in sales. The decline in gross profit was lower than that of revenue. Gross profit margin continued to increase by 0.19 percentage point to 14.55%. Gross profit margin increased primarily because the Group managed to lower its purchasing costs by stepping up its efforts to negotiate with suppliers, strengthening the source procurement of merchandise, promoting the "fee-to-ratio" project, as well as increasing sales rebates from suppliers.

During the period under review, consolidated income reached approximately RMB7,130 million, representing a decrease of 2.3% year over year. The decrease was mainly attributable to the fact that: (1) the number of customers visiting physical stores decreased because online businesses leveraged the advantage of the intensive management on information platform and boosted their sales through low price strategy. The decrease in store sales resulted in decline in gross profit; and (2) the Group slowed down the opening of new stores and closed down loss-incurring outlets and the total order amount decreased. Income from suppliers decreased by RMB75 million year over year. As the decline in consolidated income was smaller than that of turnover, consolidated income margin increased by 0.44 percentage point year over year to approximately 24.46%.

During the period under review, demand from institutional group consumption significantly shrunk. The growth in sales of the Group's single-purpose pre-paid cards showed a downward trend, while the redemption of the pre-paid cards started to increase. Although the Group maintained sufficient cash flow and managed its cash prudently, the return on capital decreased by approximately RMB32,118 thousand year over year due to decline in net cash flow.

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Operating cost and net profit

During the period under review, total distribution expenses and administrative expenses of the Group amounted to approximately RMB6,862,246 thousand, representing a decrease of RMB52,963 thousand or approximately 0.8% year over year. The decrease was mainly attributable to the facts that: (1) the Group focused on the performance management over input and output, resulting in a decrease in promotion costs of approximately RMB54,265 thousand; and (2) electricity expenses were effectively controlled through energy management, recording a decrease of approximately RMB12,177 thousand year over year. (3) major cost items such as rent and labor expenses maintained their rises and amounted to RMB1,762,288 thousand and RMB2,933,434 thousand, respectively. During the period under review, many local governments across China increased their minimum wage levels and social welfare. In Shanghai and Hangzhou, the minimum wage increased from RMB1,620 to RMB1,820 and RMB1,470 to RMB1,650 in 2014, respectively. The overall labor costs further increased by RMB23,350 thousand with the increase in minimum wage level and social welfare. The Group minimized the rise in labor costs by optimizing staff structure, improving employee incentive mechanism, reducing redundant employees, as well as promoting store contracting.

During the period under review, the Group recorded an operating profit of RMB241,816 thousand, representing a decrease of 9.0% year over year. Operating profit margin slightly decreased by 0.04 percentage point year over year to 0.83%. Facing the sluggish environment in retail operation of chain supermarkets, the Group adhered to its innovative works and business transformation. During the period under review, the Group took the following measures to cope with the challenges arising from the increase in overall costs: (1) strengthen the establishment of fresh produce system and establish a comprehensive supply chain system. The Group increased the types of fresh produce and expanded the sale of fresh produce, thereby increasing customer traffic; (2) control various fees and expenses, including promotion fees and information fees, in order to boost performance; (3) enhance employment system and promote the responsible mechanism for store operation and contracting as to cope with the rigid rise in labor costs; and (4) promote the installation of energy-efficient equipment and actively seek financial support from the government.

Management Discussion and Analysis

During the period under review, the Group's share of profits of associates amounted to RMB58,113 thousand, representing a decrease of 32.3% year over year. Online sales also affected the performance of the Company's associates. In addition, new outlets opened in recent years remained in their incubation periods. At the same time, due to the increase in labor, rental and advertisement expenses, operating costs increased, dragging down the profit of the Company's associates. Shanghai Carhua Supermarket Company Limited ("Shanghai Carhua") opened one new outlet during the period under review. As at 31 December 2014, Shanghai Carhua had a total of 29 outlets.

During the period under review, the tax charge of the Group was RMB179,040 thousand, representing a decrease of approximately RMB37,358 thousand year over year. The Group closely monitored the implementation of financial support policies by the Chinese government and took measures that lowered the overall effective tax rate at the Group level by striving for local government funding. However, with the expiration of the tax holiday enjoyed by mature outlets, the requirement to pay taxes separately by individual outlet also made it impossible for the Group to lower its overall tax tariff by re-balancing profit and loss at the Group level. During the period under review, the effective EIT tax rate of the Group was up to 59.69%, though recording a decrease of 1.84 percentage points.

During the period under review, the Group recorded profit before tax of approximately RMB299,929 thousand, representing a decrease of 14.7% year over year. Profit and total comprehensive income for the year attributable to owners of the Company was RMB31,033 thousand, representing a decrease of 41.4% year over year. Net profit margin attributable to shareholders of the Company was 0.11%. Basic earnings per share were RMB0.03 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 RMB267,777 thousand, mainly due to the decrease of term deposits due over one year. Cash and cash equivalents and term deposits as at the end of the period were RMB9,494,670 thousand.

As of 31 December 2014, account payable turnover days were approximately 58 days, and inventory turnover days were approximately 40 days.

During the period under review, the Group did not use any financial instruments for hedging purposes and did not issue any hedging instruments as at 31 December 2014.

Growth in retail businesses

Hypermarkets

During the period under review, the turnover of the Group's hypermarket segment decreased by approximately 4.0% year over year to RMB17,513,911 thousand, accounting for approximately 60.1% of the Group's turnover. Gross profit was approximately RMB2,533,376 thousand. Gross profit margin increased by 0.66 percentage point to 14.46%. Same store sales decreased by 7.14%. Consolidated income margin was 24.41%, representing an increase of 0.78 percentage point year over year. The segment operating profit was approximately RMB98,030 thousand,

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representing a decrease of 0.5% year over year. Operating profit margin increased by 0.02 percentage point year over year to 0.56%. During the period under review, growth in domestic consumption slowed down. Meanwhile leveraging on its convenience nature, online sales produced strong adverse effect on chain supermarkets business, especially hypermarkets business. There was a slowdown in the growth of chain supermarkets business in China's first and second tier cities. The Group fully acknowledged the challenging business environment. It focused on the performance of its operation, and continued to adopt a "two-pronged driving" policy of building its image and enhancing its competitiveness. Hence, the operating profit from hypermarket operation recorded slight decrease, while margins increased once again: Firstly, the Group enhanced the quality of outlets through outlet management. While maintaining high standards for newly-opened outlets, the Group continued to add support to its semi-matured outlets, facilitated transformation and upgrade of the existing outlets, as well as closed down loss-incurring stores. It also expanded and consolidated market share through its "key outlets" strategy. Secondly, the Group accelerated the functional adjustments of its outlets and highlighted the display of merchandise by 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, instead of displaying merchandise in accordance with the types of merchandises in the past. Meanwhile, the Group attached great importance to sublease area that can provide strong backup to its outlets and enhance the customers' one-stop shopping, recreation and dining experience in the outlets. Thirdly, the Group carefully selected price-sensitive daily groceries based on its understanding of consumers' shopping habit of comparing prices and closely matched its price of daily groceries with the market price information published by the government from time to time and continuously promoted its "Beneficial Life" (惠生活) marketing and promotional campaign. It also increased the procurement in fresh produce such as vegetables. The Group created a lower price perception which helped increase customer traffic, trigger customers' enthusiasm in shopping and drive sales of non-price-sensitive products. Fourthly, based on the "input-output" principle and centering to the performance of operations, the Group controlled various expenses and costs, including labour cost, marketing and promotion fees and information maintenance fees.

As of 31 December	**2014**	2013
Gross Profit Margin (%)	**14.46**	13.80
Consolidated Income Margin (%)	**24.41**	23.63
Operating Profit Margin (%)	**0.56**	0.54

Supermarkets

During the period under review, the turnover of the Group's supermarket segment decreased by approximately 6.0% year over year to RMB9,544,941 thousand, which accounted for approximately 32.7% of the Group's turnover. Same store sales decreased by 4.88%. Gross profit decreased by approximately 9.7% year over year to RMB1,382,332 thousand, and gross profit margin decreased by approximately 0.61 percentage point to approximately 14.48%. Consolidated income margin of the supermarket segment was approximately 23.33%, representing an increase of approximately 0.05 percentage point year over year. The segment's operating profit was RMB227,277 thousand, and operating profit margin was 2.38%. During the period under review, community supermarkets were popular among consumers due to long business hours and were easy to access. However, the Group operated many supermarkets, and many mature outlets with lease contracts approaching expiry had 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 were not able to attain the equivalent sales and profitability as that of mature ones within a short period of time. Moreover, revenue had been hindered by the advent of e-commerce, wet markets and other wholesale markets. Hence, outlet sales recorded decline for the first time. Meanwhile, continuous rise in major cost items such as labor cost and rents put pressure on the profitability of

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supermarkets. Looking forward, supermarkets will enjoy a better operating environment as compared with other retail chain segments. The Group will focus on fresh produce operations with the support of omni channel online marketing, accelerate outlet transformation, carry forward its key outlet strategy, and optimize product categories by enhancing the performance of core merchandise so as to maintain its market share.

As of 31 December	2014	2013
Gross Profit Margin (%)	14.48	15.09
Consolidated Income Margin (%)	23.33	23.28
Operating Profit Margin (%)	2.38	2.90

Convenience Stores

During the period under review, the convenience store segment recorded a turn over of approximately RMB2,013,456 thousand, representing an increase of approximately 4.1% year over year, which accounted for approximately 6.9% of the Group's turnover. Same store sales increased by 11.93%. The convenience store segment recorded gross profit of RMB323,096 thousand, representing an increase of approximately RMB10,979 thousand or 3.5 percentage points, which was mainly attributable to the increase in turnover of high-end stores year over year. The convenience store segment focused on transforming its existing stores into high-end stores by introducing appropriate merchandise through continuous optimization of merchandise structure so as to increase customer traffic, thereby boosting sales. On the other hand, it promoted the implementation of O2O sales model in order to attract young customers through online sales and offline purchase. In Shanghai and Dalian markets, convenience store segment enjoyed the fastest growth in the chain supermarket industry. This reflected the increase in customer loyalty of convenience store segment, and indicated room for development of this segment. During the period under review, despite the rise in major cost items such as labor cost and rent as affected by the macroeconomic environment, the convenience store segment accelerated outlet transformation, updated new products, enhanced instant food promotion, and increased provision of value-added services in order to offset the increase in expenses by boosting sales to increase income from merchandise. Hence, the net profit achieved bottoming out in this segment. During the period under review, consolidated income margin was 22.97%, representing a decrease of 0.95 percentage point year over year. Operating loss was approximately RMB84,189 thousand, representing a decrease of loss of approximately RMB2,250 thousand year over year. Looking forward, the Group will continue to facilitate the transformation and upgrade in convenience store segment. With the support of e-commerce information platform, the Group shall adopt innovative value-added earning model and control various costs and expenses, aiming to achieve the goal of reducing loss.

As of 31 December	2014	2013
Gross Profit Margin (%)	16.05	16.13
Consolidated Income Margin (%)	22.97	23.92
Operating Profit Margin (%)	-4.18	-4.47

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Capital structure

As at 31 December 2014, 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 increased from approximately RMB3,371,328 thousand to approximately RMB3,402,361 thousand, which was mainly attributable to the profit for the period amounting to approximately RMB31,033 thousand.

Details of the Group's pledged assets

As at 31 December 2014, the Group did not pledge any assets.

Exposure to foreign exchange risk

Most of the Group's 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 risk. The Directors of the Company believed that the Group was able to meet its foreign exchange requirements.

Share capital

As at 31 December 2014, the issued share capital of the Company was as follows:

Class of shares	Number of shares in issue	Percentage
Domestic shares	715,397,400	63.90
Unlisted foreign shares	31,602,600	2.82
H shares	372,600,000	33.28
Total	1,119,600,000	100.00

Contingent liabilities

As at 31 December 2014, the Group did not have any material contingent liabilities.

Operating Review

Outlet development

During the period under review, in response to recent new domestic economic trends and new developments in the retail industry, the Group strove to achieve its strategic goal of "Becoming the Regional Leader and a National Strong Player". It paid close attention to the positioning of new outlets, accelerated the optimization of outlet structure, enhanced its operating capabilities and strengthened its competitiveness in operating markets. Hence, The Group proactively adjusted its outlet development model, decreased the pace and carefully planned for new outlet expansion to improve the success rate of new outlets, and streamlined underperforming outlets on a timely basis in order to enhance the competitiveness of its outlets across all segments and achieve the goal of loss minimization and profit maximization.

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During the period under review, four new hypermarkets were opened, among which two were located in Hangzhou, Zhejiang Province, one in Yiwu, Zhejiang Province and another one in Zhengzhou, Henan Province. These new hypermarkets consolidated the Group's market share in regions where it had competitive advantages. Yiwu is one of the richest cities in China with promising prospects. The Group's ultra-large hypermarket in Yiwu fully reflected the development strategy of the Group. The property in Yiwu had a gross floor area of approximately 80,000 sq. m. and comprised of five floors above the ground level and two floors underground. The first, second and third floors were used as a hypermarket and sublease areas. The remaining portions of the property were used for parking lots and ancillary facilities. The Group's Yiwu ultra-large hypermarket integrated shopping, leisure and catering experience. In particular, it focused on the consumption experience of its customers, and the integration of online and offline shopping. Since its opening on 28 August 2014 to the end of 2014, the average daily number of visitors was 7,478, and its daily sales was RMB998 thousand. It is likely to reach the breakeven point in the next two to three years. The Group currently already has one hypermarket in Yiwu, representing over one-third of the market share of local hypermarket business. Benefiting from the opening of this new ultra-large hypermarket, the Group is expected to maintain over 60% of market share in hypermarkets in Yiwu.

During the period under review, the Group maintained a steady pace of development with 158 new supermarkets comprised of 23 directly-operated stores and 135 franchised stores. The development of directly-operated outlets was advanced steadily with the expansion of new outlets and the transformation of existing outlets. For the franchising business, its development in Shanghai was considered a top priority as the Group worked to improve its outlet quality and standardize store operations. It also strove to improve the renewal terms of expiring outlets. These measures helped to ensure the sustainable development of the supermarket segment while maintaining a reasonable scale.

During the period under review, 113 new convenience stores were opened, comprising of 32 directly-operated stores and 81 franchised stores, representing a rational decrease in the pace of growth. During the period under review, the Group's convenience store segment broadened its sources of income and reduced its expenditure. The Group continued to promote the transformation of its existing outlets with a total of 89 undergoing successful changes. Due to intense competition, growth of franchised outlets was lower than expected. During the period under review, subject to the maintenance of the scale of directly-operated stores, effective adjustment was made to the structure of directly-operated convenience stores. The Group continued to streamline certain outlets that showed limited potential. It also adjusted its commercial layout and positioning strategy. Hence, it successfully launched high-end compound outlets, and improved the quality of its outlets.

As at 31 December 2014, the Group had a total of 4,291 outlets, representing a decrease of 239 outlets since the end of 2013 mainly due to the overall development pace of franchised outlets being slower than expected. Approximately 84% of the Group's outlets were located in Eastern China.

	Hypermarkets	Supermarkets	Convenience Stores	Total
Direct operation	157	619	842	1,618
Franchised operation	–	1,796	877	2,673
Total	157	2,415	1,719	4,291

Deepening Reform

During the period under review, in response to the changes in consumer behavior and the challenges arising from the continuous slowdown in overall industry growth, the Group focused on reforms to change its earning and business model, explored merchandise channels, and pushed forward operational structural reform, regional business pilot programs and incentive mechanism reform in an orderly manner.

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During the period under review, returning to its retail business essence, the Group implemented the "fee-to-ratio" reform to establish a gross profit oriented procurement system, thereby making a breakthrough in its earning model. Through the implementation of various measures such as lowering the sourcing cost and increasing gross profit, the percentage of rebates linked to sales had increased. During the period under review, the Group actively entered into a fee-to-ratio reform agreement with suppliers to increase the rebate rate and gross profit.

During the period under review, leveraging the "Regionalization" reform, the Group proactively facilitated the reform on operating system, reduced management levels, adjusted organizational structure, and improved operating efficiency. Striving for the regional positioning focused on profit and making a breakthrough with the reform in Jiangsu, the Group integrated the direct sale system of its hypermarkets and supermarkets in Jiangsu into a regional subsidiary in Jiangsu. Meanwhile, it optimized the operational and management system and procedure in the headquarters and Jiangsu, and fully promoted the work on "Simplifying Administrative Structure" regionalization reform, thereby ensuring the orderly operation within the region.

During the period under review, the Group proactively optimized various business processes and focused on pilot contract operation. Through streamlining and optimization, the Group confirmed the catalog of necessary merchandise items for various segments, and rearranged the responsibilities of stores. The Group established its organizational structure with the headquarters leveraging its competitive edges in integrated and efficient chain, while the outlets focusing on site management and customer service, and reformed its organizational structure, streamlined the management levels and transformed functions on such basis. It also focused on site service and put great efforts on promoting sales. During the period under review, the Group implemented its reform on fresh produce business model by promoting contracting operation for vegetable and fruit in hypermarkets and supermarkets in Shanghai, thereby stimulating the vigors of stores. This measure not only effectively motivated employees and the management of the stores, but also increased both sales and gross profit of fresh produce in the pilot stores.

In accordance with the basic principles of incentives reform, the Group strengthened compensation management, and standardized internal allocation during the period under review. The Group established an incentive mechanism to efficiently make internal assessments. During the period under review, the Group also increased the transparency of its distribution, established remuneration packages and changed assessment measures to link compensation of employees to the Group's performances. These changes resulted in better staff initiatives.

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Transformation and Improvement

During the period under review, the Group deepened the transformation of its business and further strengthened the professional management. Focusing on outlet positioning, merchandise optimization and upgrade and transformation of generatrix design, the Group's hypermarkets gradually attracted more tenants from various brands, in particular, catering brands, which had greatly enhanced the Group's capability to attract customers. This had also enriched the composition of catering and public facilities, convenience services and other ancillary services in stores and increased customer interaction within the stores. Supermarkets in Shanghai were divided into small, medium and large scale ones equipped with their respective merchandise files and were individually improved along with the surrounding business environment. In Zhejiang province, the position, coverage and competitiveness of the Group's community-based supermarkets were strengthened with the addition of convenience services such as postal services, laundry and Nonghua lunchboxes that improved the cohesion of community services. For merchandise management, the merchandise structure was adjusted and streamlined in accordance with the characteristics of community-based supermarkets and the available categories of fresh produce were increased, in order to turn community-based supermarkets into one-stop shopping areas of "real-time convenience + relaxing experience + fresh specialty + retail". For convenience stores, the Group proactively developed high-end convenience stores, where the trial of compound catering outlet was conducted through the promotion of fresh soybean milk, coffee and fresh lunch-box. Such fresh foods targeted at young consumers working at commercial buildings and were popular among them.

During the period under review, the Group strengthened its fundamental management and improved management's efficiency. The Group also optimized its management systems and processes. The Group employed micromanagement to standardize and institutionalize various operational practices, strengthen basic management of store operations, and improve store operating capacity. During the period under review, in order to further improve price management, and enhance gross profit levels while maintaining its price image, the Group's hypermarket segment conducted daily gross

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profit monitoring, including analysis of abnormal gross profit, regulation of merchandise of negative gross profit and high-in low-out merchandise remark, while also regularly analyzed gross profit of various types of goods with different marketing grades under the gross profit investment concept of grade marketing, strictly controlled the overall gross profit level. With respect to merchandise prices, the Group continued to carry out market researches, compared and drew on the successful experience with merchandise prices, promotional activities, number of SKUs and their prices. The Group applied these concepts to the merchandise price system, thereby optimizing its pricing and enhancing overall image. During the period under review, the streamlining project of the Group's convenience store segment gradually created a solid base from which the Group can reinforce its position. The Group focused on imported products, fresh merchandise and "Little-Q" branded products to optimize merchandise structure and enhance major products operation in accordance with the relevant categories confirmed early this year. It also constantly introduced new products in order to attract customers and increase sales.

Concept Innovations

During the period under review, "Lianhua Mart", the Group's one-stop e-commerce website, continued to develop steadily. Leveraging its on-the-spot outlets, the Group developed the trial of "order online, pickup in store". In accordance with the integrated strategy of the e-commerce of Bailian Group, the Group grasped the opportunities to proactively apply internet technologies and enter into the internet economy. It also took full advantage of existing network and member resources to give play to its payment advantage and create synergies among its multi segments. The Group strove to create a unique omni-channel mode with user-oriented characteristics and seamless online and offline connections, enhancing the competitiveness of the Group's physical stores.

During the period under review, the Group's marketing events were actively "connected with the internet". The Group launched accurate and efficient marketing modes. Apart from traditional marketing events, the Group increased its investments in new media and channels for various

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segments. It provided more interactive experience events, and established platforms for WeChat marketing, Alipay payment and online group buying. Through the cross-border cooperation on mobile internet, the Group can continue to attract and expand its online customer base.

To increase customer traffic, sales and profit, the Group implemented initiatives in its merchandise procurement process during the period under review. These initiatives included the expansion of the procurement scope for more daily groceries, introduction of more "Popular, Special and Excellent" brands to enrich the beef and lamb categories in stores. The Group also adjusted its operation of seafood products from traditional joint operations to self-procurement and self-marketing. In respect of the procurement methods, the Group procured from both wholesale markets and place of origin. The Group procured live fishes from wholesale markets based on their characteristics while sourced other seafood directly from their place of origin so as to implement special operation. During the period under review, the Group's direct sourcing of aquatic products built the supply chain of "delivering seafood products directly from pier to kitchen". During the period under review, the Group directly sourced over 150 types of fruit since March 2014, among which 100 types of fruit increased in sales year over year.

Fresh produce food product is vital for chain supermarkets. During the period under review, focusing on vegetable and meat products, the Group implemented processes to re-engineering and enhanced the efficiency of its supply chain, thereby establishing its abilities in the operation of strategic fresh produce. By setting up quality standards, products sourced directly from suppliers, as well as managing and controlling the whole process from plantation and rear to harvest, butcher and delivery, the Group initially established the "Lianhua Assurance Vegetable" brand, and built up a quality image. The Group had established a total of 100 fresh produce bases for 5 types of product categories including vegetable, fruit, egg product, seafood and meat product, covering 215 SKUs. During the period under review, the Group cooperated with a local professional vegetable union in Chongming, Shanghai, and entered into an agreement concerning vegetable cultivation on an area of 1,200 mu to establish a vegetable cultivation supply base managed by Lianhua Supermarket itself. Hence, the Group achieved whole-process monitoring from source plantation to sale in stores. Vegetables from self-managed farms were generally of higher quality and sold in competitive price.

During the period under review, the Group rebuilt its "Lianhua Tianyuan" pork brand. Through tendering and introducing quality suppliers, the Group selected Shanghai Oriental Agricultural and Livestock Farm (上海東方種畜場)

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and Shanghai Fengjin Pig Farm (上海奉金生豬養殖) as its farm bases. It also selected Shanghai Wufeng Food (上海五豐上食) as its butcher and delivery service provider. The products were sold in the Group's stores in Shanghai since 20 September 2014. The sales amounted to RMB11.23 million with a decrease of 3% in average sourcing cost year over year. Hence, the good image of "Tianyuan" meat product was re-established.

During the period under review, to cope with the difficult operating environment of traditional retail enterprises in non-food categories such as home appliances and textile products, the Group made a breakthrough by establishing a cooperative relationship with professional home appliance chain enterprises. Leveraging their operating capabilities and resource competitiveness, the Group expanded its existing home appliance operations, and developed a new method to enhance the sales growth of sluggish products.

During the period under review, according to the investment feasibility report, further investment was needed for the cosmeceutical business invested by the Group. Over the recent years, the demand for cosmeceutical products had been increasing, whether through physical stores or e-commerce stores. Based on historical trends, the Group adjusted its philosophy on outlet development, merchandise management and store operations, resulting in enhancement of the overall operating standard. Some of the stores which were operated at an early stage, started making profit. However, in general, the pace of development of cosmeceutical stores was much slower than expected. Although the competition among outlets was less fierce as compared to the past few years, it did take time for the stores to make profit. In view of the current financial conditions of the Group and the prospects of the cosmeceutical business, the Board decided not to increase its investment in the cosmeceutical business but to transfer the entire 43% of its equity interest to other shareholders.

Cost Control and Efficiency Increase

During the period under review, various costs such as labor and rental costs increased rapidly. The Group implemented a series of cost control measures to cope with challenges arising from the overall cost increase. In 2014, these various costs amounted to RMB6,862 million in aggregate, representing a decrease of approximately RMB52.963 million as compared to 2013, among which, the labor costs increased by RMB23.35 million as compared to 2013 to RMB2,933 million. Provided that the remuneration of frontline staff recorded had two-digit growth on average, the Group achieved cost controls by optimizing staff structure and organizational systems.

During the period under review, the Group improved and strengthened internal control in order to boost sales, reduce costs and increase efficiency. The Group strengthened budget control through implementing inspections and laid out a detailed plan to implement the reform on bidding process so as to regulate investment controls.

The Group also options to implement centralized purchasing of assets, improved the management and utilisation of idle assets, implemented a real-time tracking system of energy cost and depreciation and amortization expenses and set up an "energy-saving store model" to further reduce costs. In addition, the Group further strengthened communication between its asset engineering and operational divisions, especially with regards to renovating stores, so as to fully utilize idle assets and reduce overall investments in store transformation.

During the period under review, the Group enhanced its audit work in order to prevent operational risks. During the period under review, the audit office of the Group completed 73 audit projects. The Group enhanced its control over operational risks and promoted positive operating cycle through various audit works. The audit control and monitoring on construction projects helped the Group lower investment costs and control investment risks to a certain extent.

Employment, Training and Development

As of 31 December 2014, the Group had a total of 52,905 employees, with a decrease of 3,282 employees during the period under review, costing RMB2,933,434 thousand in total.

During the period under review, centering on incentive mechanism reform of "enhancement of remuneration management, standardization of internal allocation, establishment of incentive mechanism, and implementation of performance appraisal", the Group changed the process of its annual performance review for procurers and emphasized the principle of monthly performance review, which ensured a timely feedback on procurers. With respect to the frontline staff of stores, the Group commenced a trial of contracted management of fresh produce, which featured the principle of more pay for more work. With respect to second-tier companies, the Group adopted result-linked performance review, which featured the principle of linking with the results. Regarding supporting departments, the Group adopted a sale-oriented review, which featured the principle of service. In respect of functional departments under the headquarters, the Group adopted the key project tracking model, which featured the principle of issue orientation.

During the period under review, centering on the goal of "courses management, skill training and platform establishment", the Group strove to consolidate training into actual operation and business. It helped solve the business problems and provide training guidance and supporting training resources to the business departments. The Group enhanced standardized supervision of training, ensuring that the Group gets real benefits from the

training work. On such basis, the Group further optimized various types of training management systems including the "Incentive System of Professional Technology and Vocational Skills Training" and "Mentoring Management Methods" in order to solve the new problems and issues encountered in training work and ensure scientific, fair and reasonable training. Meanwhile, the Group strengthened the establishment and development of its internal talent reserve, which provided an excellent platform for internal talent communication, learning and improvement.

Strategy and Plan

In 2015, while the Group will continue to face traffic dispersion of distribution channels and pressure from major industry competitors and the continuous rise of costs, the Group considers these to be opportunities rather than challenges. The "New Normal" will be China's near-term growth strategy. The framework of another round of economic structure reforms will also be further incorporated into real economy, and will certainly produce positive "stimulus" effects. The "micro-stimulus" policies on investment and foreign trade have been implemented continuously. The process of approving investment projects has been accelerated, and real estate policy has been gradually loosened, which implies that the economic policy will be gradually and steadily loosened. On the other hand, Shanghai State-owned Assets Bureau indicated that the reform of state-owned enterprises has entered into an implementation phase, which may further promote the development of the Group. At the same time, the controlling shareholder of the Group will fully commence its works on promoting e-commerce.

In view of the industry situation, the omni-channel era interacting with overproduction and material abundance has provided more choices to consumers, and the accelerated pace of living and the rise of new generation consumers have enhanced independent consumer consciousness. The Group is of the opinion that omni-channel competition has broken the limit between online and offline businesses, and segments of catering, supermarkets and department stores. The key for retail stores upgrade in 2015 will be the implementation of business innovation through e-commercialization. Mergers and acquisitions in the market will also intensify. Apart from acquisition of offline enterprises, acquisition of an online business by an offline business or vice versa has been developing in the market. With the introduction of policies

Management Discussion and Analysis

on urbanization and land transfer, there is great market potential in third and fourth tier cities. There will not be physical change in the fundamental solid environment for the development of chain retail enterprises.

Hence, the Group will strive to attain its major goal of deepening reform in 2015. Based on its general working direction of "enhancing capability, strengthening basic skills, grasping opportunities from transformation, facilitating development", the Group will continue to promote the reform for its three key models on profitability, operation and incentive scheme. The Group will also continue to develop and enhance its operating mechanism with a focus on marketization and professionalism. It will enhance internal management and the efficiency of its supply chain, thereby increasing sales and improving efficiency.

In 2015, the Group will continue to facilitate the transformation and innovation on business and operation mode of existing stores while steadily developing new outlets in terms of quality and quantity. Hypermarket segment shall continue to pilot community commercial centers or neighbourhood shopping centers mode. Supermarket segment will focus on fresh produce. Convenience stores will be further classified to accelerate the transformation on stores with high customer traffic, stores located in business districts, community-based stores and stores in special business district. For franchised stores, the Group will look to optimize its support system for franchise business, improve the service standard of franchised stores, and promote the rapid development of franchise business with a focus on quality.

The establishment of an e-commerce operation by Bailian Group, the controlling shareholder of the Group, shall provide a new source of profit of the Group in 2015. In accordance with the integrated strategy of the e-commerce of Bailian Group, the Group will establish a five-step business model comprising of introduction, transfer, transaction, delivery and after-sale service leveraging the competitive edges of Bailian Group on outlet scale, commodity resources, pre-paid cards, member sources and settlement. First of all, the Group will implement trial operation at certain hypermarkets, supermarkets and convenience stores, and promote e-commerce operations such as online sales, on-site experiences, online order and store pick-ups and logistics deliveries etc. Based on the trial operation, the Group will promote e-commerce operation to other stores in Shanghai. On 12 December 2014, the Group's outlets in Zhejiang participated in the promotional event of limited 50% discount initiated by Alipay, increasing the sales of that day by over 70%. Hence, with full commencement of the e-commerce operation of Bailian Group, the sales of the Group's physical outlets will have a certain potential in growth.

With the increasingly rigid costs, the Group must speed up the growth rate in merchandise income over that in costs in order to continuously increase profitability. The Group will continue to promote profitability model, the reforms on its procurement model, and establish a gross-profit-oriented tendering and procurement operation model. The Group will increase the portion of direct procurement, integrate the sourcing channels for imported goods, implement innovative procurement methods for non-food products, enhance the introduction of new products, enhance the capability to self-operate its merchandise, and promote the growth in merchandise income. It will expand and improve its core merchandise, enhance operating capability

Management Discussion and Analysis

and strengthen operation fundamentals. The Group will strengthen its procurement of fresh produce, aiming to build up a solid supply chain on fresh produce and improve core competitiveness. It will also expand source procurement of fresh produce, enhance procurement methods, and accelerate the establishment of fresh produce base. The Group will establish its central kitchen, thereby strengthening its capability on self-operation business and development of fresh produce.

2015 will be a crucial year for the optimization and streamline of the headquarters of the Group in developing a highly efficient headquarters. Leveraging the state-owned enterprise reform, the Group will focus on marketization, redundancy reduction, integration and professionalism to support the reform on profitability model, operational model and incentive model, and pave the way for the long-term development of the Group. This will be a significant and challenging mission in 2015. However, the Group believes that the reform on organizational system will be a success with the deepening reform on state-owned enterprises and the support of the controlling shareholder.

In the age when omni-channel retailing grows rapidly, information, lifestyle and consumption philosophy all change rapidly with the penetration of the internet. The operation of an enterprise cannot remain unchanged or, in particular, cannot be guided by a stubborn mindset. The need for staple will always exist and the competition in the retail market will separate the weak from the strong. While deepening reform, the Group always adheres to cultural development, fully recognizes the nature of chain supermarket business and enhances efficiency through process re-engineering. The Group will stay customer-oriented to improve customer experience and persist in providing good merchandise and service.


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MOVING

Profiles of Directors, Supervisors and Senior Management

Executive Directors

Mr. Chen Jian-jun, aged 57, a senior economist, is the vice president of Bailian Group, 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 organisation office of Shanghai First Commercial Bureau (上海市商業一局), deputy human resources manager and human resources 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 head of the disposal centre of Bailian Group and secretary of general party branch of Bailian Group and was appointed as the party secretary and secretary of disciplinary committee of the supermarket merchandising division of Bailian Group since April 2007. 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 Bailian Co., Limited ("Shanghai Bailian",上海百聯集團股份有限公司, formerly known as Shanghai Friendship Incorporated Company) (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 52, 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 Bailian. 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 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. Qi Yue-hong, aged 45, 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 manager of the supervision and audit office of Shanghai No. 1 Department Store Co., Ltd. ("No.1 Department Store") (上海市第一百貨商店股份有限公司, a company used to be listed on the Shanghai Stock Exchange who changed its name to Shanghai Bailian Group Incorporated Company (上海百聯集團股份有限公司) in November 2004 and was incorporated into Shanghai Bailian 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 human resources department of Shanghai Yibai (Holdings) Company Ltd. (上海一百集團有限公司) 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 Hualian Mansion Co., Ltd. ("New Hualian Mansion") (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 Incorporated Company (上海百聯集團股份有限公司, a company formerly listed on the Shanghai Stock Exchange and was incorporated into Shanghai Bailian in 2011) 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 57, 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 No.1 Department Store 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 joined the Group from 26 November 2013 and served as the chief financial officer of the Company. Mr. Zhou 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. Mr. Zhou resigned the position of joint company secretary in October 2014.

Profiles of Directors, Supervisors and Senior Management

Mr. Shi Hao-gang, aged 57, 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 workshop head 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. From March 2012 to March 2014, Mr. Shi has served as the general manager and deputy party secretary of New Supermarket. Since March 2014, Mr Shi has served as the deputy general manager of the Company. Mr. Shi was appointed as the executive director of the Company in June 2014.

Ms. Cai Lan-ying (Note), aged 62, 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 Group and served as general manager. She was appointed as the chairman of Hangzhou Lianhua Huashang in July 2002. Ms. Cai was awarded the prize of "Zhejiang Outstanding Entrepreneur" (浙江省優秀企業家) in 1990. She was also awarded the prize "Outstanding Operator with Prominent Contribution in Business and Trading Enterprises of Hangzhou in 2004" (杭州市二零零四年度突出貢獻商貿服務企業優秀經營者) in March 2005. Ms. Cai was appointed as an executive director of the Company since September 2004 and resigned as an executive director of the Company in June 2014.

Non-Executive Directors

Mr. Li Guo-ding, aged 59, graduated from Staff and Worker University of Shanghai First Commerce Bureau (上海市第一商業局職工學校) with a college degree in commerce and economics. Mr. Li served for Shanghai Hualian Commercial Building (上海市華聯商廈) successively as sales clerk and manager from April 1976 to May 1994. From May 1994 to May 2003, he worked as assistant to general manager of Shanghai Hualian Co., Ltd. (上海華聯商廈股份有限公司), general manager of New Hualian Mansion and deputy general manager of Shanghai Hualian Co., Ltd. (上海華聯商廈股份有限公司). He was the general manager and deputy secretary of general party committee of Shanghai No. 1 Yao Han Co., Ltd. (上海第一八佰伴有限公司) from May 2003 to October 2010, and during which became the general manager of the department store segment of Shanghai Yibai (Holdings) Company Ltd. (一百集團有限公司), the deputy general manager of the department store segment of Bailian Group, deputy general manager of Shanghai Bailian, and then promoted as general manager, deputy party secretary and director of Shanghai Bailian in March 2010. Mr. Li has been the general manager, deputy party secretary and director of Shanghai Bailian since October 2011. Mr. Li has been appointed as a non-executive director of the Company since June 2014.

Profiles of Directors, Supervisors and Senior Management

Ms. Wu Jie-qing, aged 40, graduated from Shanghai Academy of Social Sciences (上海社會科學院) with a master's degree in Industrial Economics. Ms. Wu served for Shanghai Friendship Group Co., Ltd (上海友誼集團有限公司) ("Friendship Group") as an officer of investment department from July 1997 to December 1999. She worked with Shanghai Bailian as director assistant of securities office from December 1999 to October 2001, and from October 2001 to October 2003, she worked at the strategy research office and human resources department of Friendship Group. Since October 2003, she has been supervisor of financial management department and securities affairs department, deputy director of securities affairs department and deputy director and director of asset management department of Bailian Group. Ms. Wu has been appointed as a non-executive director of the Company since June 2014.

Mr. Wong Tak Hung, aged 63, 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. Kazuyasu Misu (Note), aged 58. From April 1979 to April 2004, Mr. Misu worked successively in the Foods Administration Department and the Processed Foods Department B of Mitsubishi Corporation (三菱商事株式會社), Mitsubishi Corporation (U.K.) (英國三菱商事株式會社) and the Food Materials Department of Mitsubishi Corporation. From April 2004 to April 2009, Mr. Misu successively served as the general manager of the Processed Foods C Unit, the general manager of the Confectionery and Pet Foods Unit, the acting general manager, and then the general manager, of Living Essentials Group CEO Office of Mitsubishi Corporation. Mr. Misu held position as a director in Yonekyu Co., Ltd. (米久株式會社) (a company listed on the Tokyo Stock Exchange) for the period from May 2007 to May 2008. He also served as a director in Nippon Meat Packers, Inc. (日本火腿株式會社) (a company listed on Osaka Securities Exchange, Tokyo Stock Exchange and the Euronext Paris S.A.) during the period from June 2008 to March 2009. From March 2009 to March 2011, he served as a director in Coca-Cola Central Japan Co., Ltd. (a company listed on Tokyo Stock Exchange and Nagoya Stock Exchange) and a director in Ryoshoku Limited (菱食株式會社) (a company listed on the Tokyo Stock Exchange, currently Mitsubishi Shokuhin Co., Ltd. (三菱食品株式會社)). From April 2009 to March 2011, he worked as the Division COO of the Foods (Products) Division of Mitsubishi Corporation. Since April 2011, he has served as an executive director in Mitsubishi Corporation. Mr. Misu joined the Group in September 2009. Mr. Misu resigned the position of non-executive director in March 2014.

Profiles of Directors, Supervisors and Senior Management

Independent Non-Executive Directors

Mr. Xia Da-wei, aged 62, is the director of the academic committee, a professor, and a doctoral tutor, of Shanghai National Accounting Institute and deputy chairman of the Chinese Industrial Economic Association (中國工業經濟學會), consultant of China Accounting Standards Committee of the Ministry of Finance (財政部會計準則委員會), a member of the Committee on Internal Control Standard of Enterprises of the Ministry of Finance (財政部企業內部控制標準委員會), honorary professor of The Chinese University of Hong Kong (香港中文大學), part-time professor of the School of Management of Fudan University and member of the listing committee of Shanghai Stock Exchange. Mr. Xia is also an independent non-executive director of China Rongsheng Heavy Industries Group Holdings Limited (中國熔盛重工集團控股有限公司) (a company listed on the Stock Exchange), an independent director of Shanghai Electric Power Co., Ltd. (上海電力股份有限公司) (a company listed on the Shanghai Stock Exchange) and an independent director of China United Network Communications Limited (中國聯合網絡通信股份有限公司) (a company listed on the Shanghai Stock Exchange). He joined the Group in September 2004.

Mr. Lee Kwok Ming, Don, aged 57, 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 30 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 58, 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 Haibo Co., Ltd. (上海海博股份有限公司) (a company listed on the Shanghai Stock Exchange) and Shanghai Jielong Industry Group Corporation Limited (上海界龍實業集團股份有限公司) (a company listed on the Shanghai Stock Exchange) respectively. He joined the Group in January 2003.

Mr. Huo Jia-zhen, aged 53, holds a doctorate degree in Management from Tongji University. He is currently a professor 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") for the 2013 and 2014 sessions, a standing member of the Society of Management Science and Engineering 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

Profiles of Directors, Supervisors and Senior Management

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 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. He joined the Group in August 2013.

Supervisors

Mr. Wang Zhi-gang, aged 58, 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 Group Co., Ltd. (上海百聯集團股份有限公司). 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 has been appointed as Head of the Supervisors Committee in June 2014.

Ms. Tao Qing, aged 49, graduated from the Party School of C.C. of C.P.C. (中央黨校) with master degree in economy management. Ms. Tao served for the finance department of Shanghai Hualian Commercial Building (上海華聯商廈) successively as clerk, section member, team leader and deputy section chief from September 1985 to June 1996. She was the manager of the finance division of New Hualian Mansion from June 1996 to June 1999, the deputy manager of the finance department of Shanghai Hualian Co., Ltd and the chief financial officer of New Hualian Mansion from June 1999 to February 2000, and promoted as general manager of the finance department of Shanghai Hualian Co., Ltd and the chief financial officer of New Hua Lian Mansion in February 2000. She took the role of chief financial officer of Shanghai Jinzhao International Trading Co., Ltd. (上海金照國際商貿有限公司) from January 2001 to January 2004. Ms. Tao has been the director assistant of the auditing center, manager of the No.1 auditing division, deputy director and director of the auditing center of Bailian Group since January 2004. Ms Tao has been appointed as supervisor of the Company since June 2014.

Ms. Qian Li-ping, aged 46, 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 joined the Group and 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. Wang Long-sheng (Note), aged 62, a senior economist, graduated from Shanghai East China Normal University in 1998 with a Master's degree in decision-making management. Between 1986 and 2005, Mr. Wang has worked for Shanghai Friendship Antique & Curio Store (上海友誼古玩商店), Shanghai Hongqiao Friendship Shopping Centre (上海虹橋友誼商城), Shanghai Friendship Overseas Chinese Joint Stock Company Limited (上海友誼華僑股份有限公司), China Tour Souvenir Head Company (中華旅遊紀念品總公司), Shanghai Friendship Group Decoration Company (上海友誼集團裝潢總匯), Homemart Decoration Materials Company Limited (好美家裝潢建材有限公司), Shanghai Friendship Nanfang Shopping Center (上海友誼南方購物中心), Shanghai Bailian Xijiao Shopping Center (上海百聯西郊購物中心) and Shanghai Friendship. Mr. Wang has been the general manager of Shanghai Bailian 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 Bailian. Mr. Wang resigned the position of supervisor of the Company in June 2014.

Company Secretary

Ms. Hu Li-ping. aged 50, graduated from Shanghai Lixin University of Commerce (上海立信會計專科學校) with a diploma in Accounting in 1989 and graduated from Macau University of Science and Technology with a Master's Degree in Business Administration in 2003. She is an accountant as approved by the Ministry of Finance of the PRC in 1998. She served as the head of the Finance Section and the chief of the Financial Department of New Supermarket from December 1992 to January 1997. She served as the Deputy Manager, Manager of Financial Department and the Chief Financial Officer of Hualian Supermarket Co., Ltd from January 1997 to November 2013. Ms. Hu was also the Chief Financial Officer of New Supermarket from July 2010 to November 2013. She has been the Chief of Financial Administration Department of the Company since November 2013. She was also appointed as the Chief of Securities Affairs Department of the Company from August 2014, responsible for, among others, ensuring the Group's compliance with relevant law and regulations, the preparation and dissemination of interim and annual reports, announcements and circulars of the Company in compliance with the Listing Rules. Ms. Hu has more than 10 years experience in the finance and management of listed companies in the consumer industry. Ms. Hu was appointed as joint company secretary of the Company in 16 October 2014.

Profiles of Directors, Supervisors and Senior Management

Mr. Mok Chung Kwan Stephen, aged 50, 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 Wale, 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 ("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.

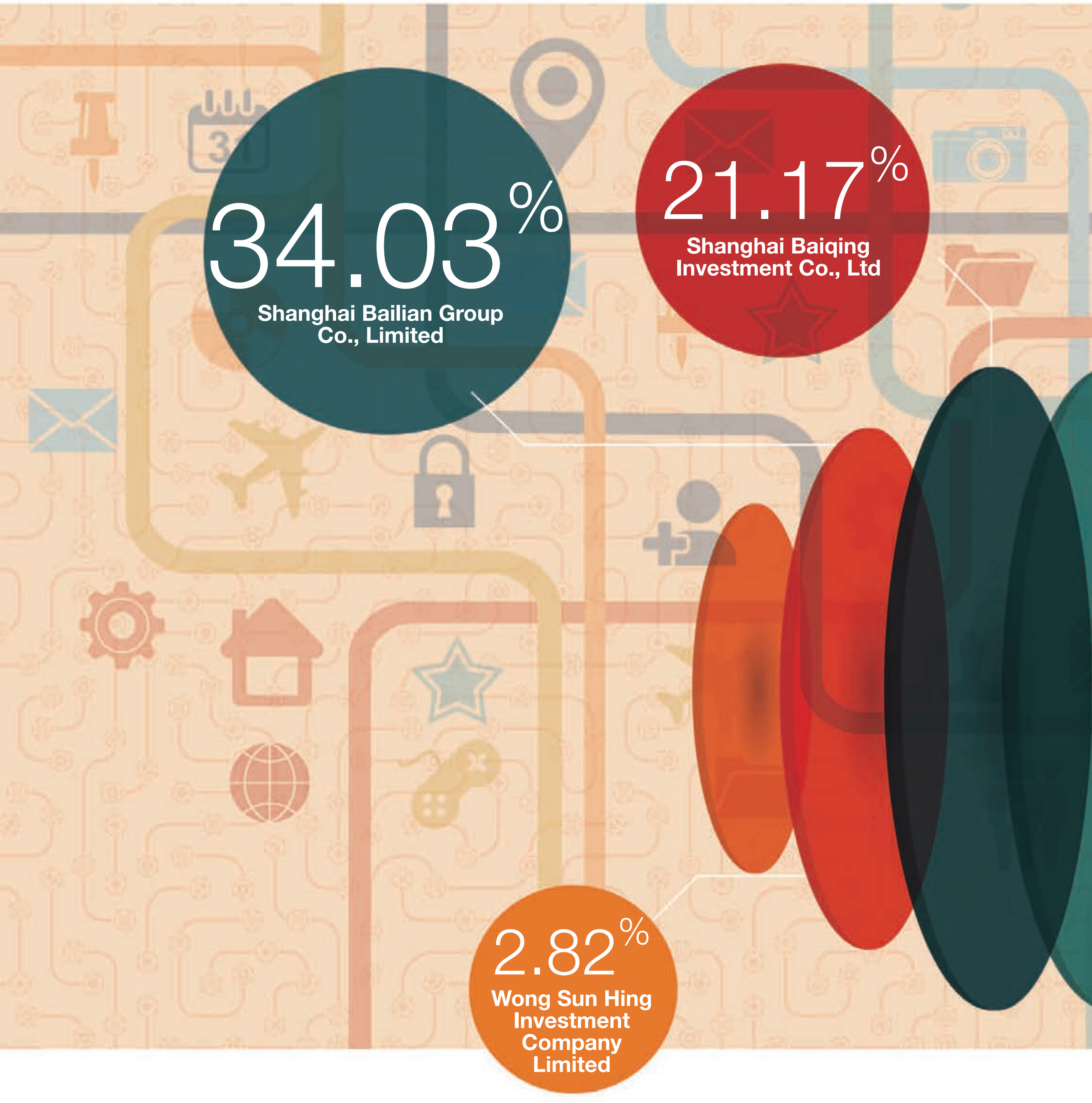
Senior Management

Mr. Liang Bao-long, aged 50, 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. Zhang Guo-hong (Note), aged 43, 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. Zhang resigned all the duties of the Company in April 2014.

Note: The profiles of the Directors, supervisors and senior management who have resigned are as at the effective dates of their respective resignation.

Shareholding Structure



Shareholding Structure

REAPING

Report of the Directors

The Board is pleased to present to the shareholders its report of the Company for the year ended 31 December 2014.

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:

	2014 Percentage	2013 Percentage
Purchases		
Largest supplier	**1.74**	12.19
Five largest suppliers	**4.71**	19.43
Sales		
Largest customer	**0.06**	0.06
Five largest customers	**0.25**	0.17

During the year ended 31 December 2014, 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 2014, 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 Distribution, 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.

As at 31 December 2014, the Company's principal associated company is Shanghai Carhua.

Please refer to note 18 and 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 2014 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 2014 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 2014 is set out in the consolidated statement of cash flow on pages 106 to 107 of the annual report.

Dividend distribution

The Board recommends not to distribute final dividend for the year ended 31 December 2014.

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.

Report of the Directors

Fixed assets

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

Bank loans, overdrafts and other borrowings

As at 31 December 2014, 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, i.e. 28 June 2011, for every 10 shares held by them by way of capitalization of the capital reserve fund on 8 September 2011. The total number of shares of the Company in issue increased from 622,000,000 shares to 1,119,600,000 shares. H shares in issue increased from 207,000,000 shares to 372,600,000 shares, representing approximately 33.28% of the Company's total share capital. Please refer to the circular of the Company dated 13 May 2011 for the details of the issue.

Information on the performance of H shares of the Company in 2014:

Highest trading price per H share during the year	HK$6.10
Lowest trading price per H share during the year	HK$3.55
Total turnover volume of H shares during the year	366 million shares
Closing price per H share as at 31 December 2014	HK$3.89

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 2014, the classes and number of shares of the Company are as follows:

Class of shares	No. of issued shares ('000 shares)	Percentage (%)
Domestic shares	715,397.4	63.90
Attributable to:		
Shanghai Bailian Group Co., Limited (Note 1)	380,952.0	34.03
Shanghai Baiqing Investment Co., Ltd. ("Baiqing Investment") (Note 2)	237,029.4	21.17
Bailian Group Co., Ltd. (Note 1)	97,416.0	8.70
Unlisted foreign shares	31,602.6	2.82
Attributable to:		
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:

1. On 23 December 2014 and 21 January 2015, Shanghai Bailian entered into an equity exchange agreement and a supplement agreement with Bailian Group, pursuant to which, Shanghai Bailian conditionally agreed to transfer 156,744,000 unlisted domestic shares, represents approximately 14% equity interest of the Company together with its interest in a property located in No.3, Lane 8 Zhongshan Road (E-2) in Shanghai and cash consideration of RMB15,091,987.63, to Bailian Group in exchange for 40% equity interest of Shanghai Sanlian (Group) Co., Limited (上海三聯(集團)有限公司) owned by Bailian Group. The equity exchange is subject to the satisfaction of the conditions precedent to the agreement. As at the date of this report, the equity exchange is not completed.

2. Former Name: Shanghai Bailian Group Investment Co., Ltd.

Number of shareholders

As at 31 December 2014, details of shareholders as recorded in the register of shareholders of the Company are as follows:

Total number of shareholders	34
Shareholders of domestic shares	3
Shareholders of unlisted foreign shares	1
Shareholders of H shares	30

Legal status of unlisted foreign shares

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

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

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

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

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

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

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

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

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

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

(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 2014, except Mr. Xia Da-wei (an independent non-executive Director) holds 8,694 shares of Shanghai Bailian; and (ii) Mr. Wang Long-sheng (a supervisor) holds 4,195 shares of Shanghai Bailian, 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 2014, Mr. Chen Jian-jun and Mr. Hua Guo-ping (Mr. Chen Jian-jun and Mr. Hua Guo-ping are the Directors of the Company) are supervisor and director of Shanghai Bailian. As disclosed below, Shanghai Bailian had interests in the shares of the Company as at 31 December 2014 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 2014, 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 Bailian (Notes 1 & 2)	Domestic Shares	617,981,400	55.20%	82.73%	–
Baiqing Investment (Note 1)	Domestic Shares	237,029,400	21.17%	31.73%	–
Bailian Group (Note 2)	Domestic Shares	715,397,400	63.90%	95.77%	–
Coronation Fund Managers Limited	H Shares	47,508,300 (L)	4.24% (L)	–	12.75% (L)
JPMorgan Chase & Co.	H Shares	39,492,014 (L) 752,000 (S) 21,762,214 (P)	3.53% (L) 0.07% (S) 1.94% (P)	– – –	10.59% (L) 0.20% (S) 5.84% (P)
Corornation Global Fund Managers (Ireland) Ltd	H Shares	37,130,454 (L)	3.32% (L)	–	9.97% (L)
Invesco Hong Kong Limited	H Shares	36,691,000 (L)	3.28% (L)	–	9.85% (L)
The Bank of New York Mellon Corporation	H Shares	33,534,704 (L) 11,624,600 (P)	3.00% (L) 1.04% (P)	– –	9.00% (L) 3.12% (P)
Invesco Greater China Equity Fund	H Shares	23,175,000 (L)	2.07% (L)		6.22% (L)
The Boston Company Asset Management LLC	H Shares	22,381,000 (L)	2.00% (L)	–	6.01% (L)
Julius Baer International Equity Fund	H Shares	21,944,804 (L)	1.96% (L)	–	5.89% (L)
Templeton Asset Management Limited	H Shares	18,866,000 (L)	1.69% (L)	–	5.06% (L)
The Dreyfus Corporation	H Shares	18,679,000 (L)	1.67% (L)	–	5.01% (L)

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

Notes:

1. As at 31 December 2014, Shanghai Bailian owns 100% interests in Baiqing Investment.

2. As at 31 December 2014, Bailian Group directly and indirectly holds approximately 49.26% of the shares in Shanghai Bailian. Therefore, Bailian Group is deemed to have interest in the Company.

   As at 31 December 2014, Shanghai Bailian 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 Baiqing Investment.

   As at 31 December 2014, Mr. Chen Jian-jun, the Chairman of the Company, was the vice chairman of the supervisory committee of Shanghai Bailian; Mr. Hua Guo-ping, the executive Director of the Company, was the director of Shanghai Bailian.

3. On 23 December 2014 and 22 January 2015, Shanghai Bailian Group Co., Limited entered into an equity exchange agreement and a supplement agreement with Bailian Group, pursuant to which, Shanghai Bailian conditionally agreed to transfer 156,744,000 unlisted domestic shares, together with its interest is a property located in No.3, Lane 8 Zhongshan Road (E-2) in Shanghai and cash consideration of RMB15,091,987.63, to Bailian Group in exchange for 40% equity interest of Shanghai Sanlian (Group) Co., Limited (上海三聯（集團）有限公司) owned by Bailian Group. The equity exchange is subject to the satisfaction of the conditions precedent to the agreement. As at the date of this report, the equity exchange 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 2014 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 2014.

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 Bailian. 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.

Report of the Directors

Share capital interests held by the Directors and Supervisors

As at 31 December 2014, except (i) Mr. Xia Da-wei (an independent non-executive Director) holds 8,694 shares of Shanghai Bailian; and (ii) Mr. Wang Long-sheng (a supervisor) holds 4,195 shares of Shanghai Bailian, none of the Directors, Supervisors or chief executive officer of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation (as defined in the SFO) which were required by section 352 of the SFO to be recorded in the register referred to therein, or required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors and Supervisors

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

Executive Directors:

Mr. Chen Jian-jun (Chairman)
Mr. Hua Guo-ping
Ms. Cai Lan-ying (Note 1)
Ms. Qi Yue-hong
Mr. Zhou Zhong-qi
Mr. Shi Hao-gang (Note 2)

Non-executive Directors:

Mr. Li Guo-ding (Note 3)
Ms. Wu Jie-qing (Note 4)
Mr. Kazuyasu Misu (Note 5)
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

Supervisors:

Mr. Wang Zhi-gang (Chairman, Note 6)
Ms. Tao Qing (Note7)
Mr. Wang Long-sheng (Note 8)
Ms. Qian Li-ping

Notes:

1: Ms. Cai Lan-ying resigned from the office of executive director on 27 June 2014.

2: Mr. Shi Hao-gang was appointed as executive director on 27 June 2014.

3: Mr. Li Guo-ding was appointed as non-executive director on 27 June 2014.

4: Ms. Wu Jie-qing was appointed as non-executive director on 27 June 2014.

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

6: Mr. Wang Zhi-gang was appointed as chairman of the Supervisors Committee of the Company on 27 June 2014.

7: Ms. Tao Qing was appointed as supervisor of the Company on 27 June 2014.

8: Mr. Wang Long-sheng resigned from the office of Supervisor of the Company on 27 June 2014.

Details of the profile of the Directors, Supervisors and senior management of the Company are set out on pages 42 to 49.

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 2016, 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 previous 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 year, the Group had significant transactions with related parties (as detailed in note 43 to the consolidated financial statements), certain of which fall into connected or continuing connected transactions within the meaning of Charter 14A of the Listing Rules, the details of which are set out below:

(a) Connected and related party transactions

	2014 RMB'000	2013 RMB'000
Sales to fellow subsidiaries	–	158,390
Purchases from fellow subsidiaries	168,078	216,492
Rental expenses and property management fee paid to fellow subsidiaries (note)	77,380	62,988
Rental income from fellow subsidiaries	12,606	12,606
Commission income received from fellow subsidiaries	811	1,027
Commission income arising from the redemption of coupon liabilities with a fellow subsidiary	12,395	16,134
Commission charges arising from the redemption of coupon liabilities with a fellow subsidiary	12,675	13,833
Maximum daily balance of deposits in fellow subsidiaries	831,225	315,365

Note: The transaction include continuing connected transactions of RMB12,442 thousand (2013: RMB12,163 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

	2014 RMB'000	2013 RMB'000
Purchases from associates – Shanghai Gude Commercial Trading Co., Ltd., Shanghai Sanming Taige Information Technology Co., Ltd. and Shantou Lianhua South Purchase and Distribution Co., Ltd.	31,462	25,723

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 – Zhejiang Yiwu Leasing Agreement

On 15 July 2014, Zhejiang Century Lianhua Supermarket Co., Ltd. ("Zhejiang Century Lianhua") entered into the Zhejiang Yiwu Leasing Agreement with Yiwu City Life Supermarket Co., Ltd ("Yiwu City Life"), pursuant to which, Zhejiang Century Lianhua agreed to lease the Yiwu Property from Yiwu City Life commencing from 15 July 2014 to 14 July 2015 (both days inclusive).

Bailian Group is the controlling Shareholder of Shanghai Bailian, a controlling Shareholder of the Company. Yiwu City Life is a wholly-owned subsidiary of Bailian Group and is therefore a connected person (as defined in Chapter 14A of the Listing Rules) of the Company and the transaction contemplated under the Zhejiang Yiwu Leasing Agreement constitutes a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

The rent payable by Zhejiang Century Lianhua under the Zhejiang Yiwu Leasing Agreement for the period from 15 July 2014 to 14 July 2015 is RMB54,000,000 per annum and RMB4,500,000 per month.

It is agreed that it will be rent free for the period from 15 July 2014 to 14 October 2014 (both days inclusive) and the rent of the period from 15 October 2014 to 14 January 2015 (both days inclusive) will be half of the usual monthly rent, i.e., RMB2,250,000 per month.

The rent is payable by Zhejiang Century Lianhua by way of cash on a monthly basis.

As each of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the transaction contemplated under the Zhejiang Yiwu Leasing Agreement is more than 0.1% but less than 5%, the transaction contemplated under the Zhejiang Yiwu Leasing Agreement is subject to the reporting, annual review and announcement requirements but is exempted 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 15 July 2014 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).

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;

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(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 Bailian, 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.

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 announcement and circular of the Company dated 28 February 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 Bailian, 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 Bailian, 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 Bailian, and thus such transaction constitutes 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 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 Bailian (a substantial shareholder of the Company), such transactions constitute continuing connected transactions of the Company.

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

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

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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 Bailian (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 Group Incorporated Company, being merged into Shanghai Bailian, as the lessee entered into a lease agreement in respect of the property located at the first to third floors of Century Lianhua Yuqiao Shopping Centre, No. 2420 Hu Nan Road, Pudong New District, Shanghai, the PRC. The maximum annual amount of the transactions payable by Shanghai Bailian under this lease agreement are set out as follows:

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

The relevant details are set out in the announcement of the Company dated 15 July 2011. Lianhua Yuqiao is a subsidiary of the Company, and Shanghai Bailian is a subsidiary of Bailian Group. As Bailian Group is the controlling shareholder of Shanghai Bailian (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:

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.

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.	

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

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

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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.

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

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

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

(a) in the ordinary and usual course of business of the Company;

(b) on normal commercial terms or on terms no less favorable to the Company than terms available to or from independent third parties; and

(c) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements HKSAE 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions in accordance with the Rule 14A.

By order of the Board

Chen Jian-jun
Chairman

27 March 2015
Shanghai, the PRC

Report of Corporate Governance

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

The Board is pleased to confirm that save and except for the matters as set out below, the Company has complied with all the code provisions in the "Corporate Governance Code" (the "Code") under Appendix 14 of the Listing Rules during the period under review. Apart from the following deviation, none of the Directors is aware of any information that would reasonably indicate that the Company is not or was not for any time of the period under review in compliance with the Code. Details of the deviation are set out as follows:

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

For Provision A.6.7 of the Code:

Mr. Wong Tak Hung, non-executive Director, and Mr. Kazuyasu Misu, non-executive Director then, were unable to attend the 13th meeting of the fourth session of the Board convened on 26 March 2014 by the Company due to their other work engagements.

Mr. Wong Tak Hung, non-executive Director was unable to attend the first meeting of the fifth session of the Board convened on 27 June 2014 by the Company due to his other work engagements.

Ms. Qi Yue-hong, executive Director, Ms Wu Jie-qing, non-executive Director and Mr. Wong Tak Hung, non-executive Director were unable to attend the second meeting of the fifth session of the Board convened on 28 August 2014 by the Company due to their other work engagements.

Mr. Li Guo-ding and Mr. Wong Tak Hung, non-executive Directors, and Mr. Xia Da-wei, independent non-executive Director, were unable to attend the extraordinary general meeting and class meetings of the Company convened on 5 December 2014 due to their other work engagements.

Mr. Li Guo-ding, non-executive Directors, and Mr. Zhang Hui-ming, independent non-executive Director, were unable to attend the third meeting of the fifth session of the Board convened on 17 December 2014 by the Company due to their other work engagements.

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After receiving the relevant materials for the Board meeting, the above mentioned Directors have authorized other Directors of the Company to attend the meeting and vote on their behalf. The matters considered at the Board meeting were ordinary matters and all resolutions were passed smoothly. The Company had sent the related minutes of the relevant meeting subsequently to all members of the Board to enable the Directors who were unable to attend the meeting to understand the resolutions passed at the meeting.

Moreover, the Company has provided the relevant materials and all necessary information relating to the extraordinary general meeting and class meetings to all members of the Board before the meetings. Special resolutions 2(a) was smoothly passed at the extraordinary general meeting and class meetings, while special resolutions 1 and 2(b) were not passed by Shareholders. The Company had sent the related minutes of such meetings to all members of the Board after the extraordinary general meeting and class meetings so that 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. Wong Tak Hung, non-executive Director, were unable to attend the 2013 annual general meeting of the Company convened on 27 June 2014 due to their other work engagements. The Company has provided the relevant materials relating to the 2013 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 12 Directors, five of whom are executive Directors including the chairman of the Board and three 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 27 June 2014, the fifth 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 2016 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 2016, and such term is renewable subject to the applicable laws. The names of Directors referred herein are members of the fifth 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;

– 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 four Board meetings, 2013 annual general meeting and one extraordinary general meeting and class meetings during the year. Attendance record of the Directors is as follows:

	Meetings Attended/Held		
Directors	**Board Meetings**	**2013 Annual General Meeting**	**Extraordinary General Meeting/class meetings**
Executive Directors			
Mr. Chen Jian-jun (Chairman)	4/4	1/1	1/1
Mr. Hua Guo-ping	4/4	1/1	1/1
Ms. Cai Lan-ying (Note 1)	1/1	1/1	0/0
Ms. Qi Yue-hong	3/4	1/1	1/1
Mr. Zhou Zhong-qi	4/4	1/1	1/1
Mr. Shi Hao-gang (Note 2)	3/3	1/1	1/1
Non-executive Directors			
Mr. Li Guo-ding (Note 3)	2/3	0/0	0/1
Ms Wu Jie-qing (Note 4)	2/3	0/0	1/1
Mr. Wong Tak Hung	1/4	0/1	0/1
Mr. Kazuyasu Misu (Note 5)	0/1	0/0	0/0
Independent Non-executive Directors			
Mr. Xia Da-wei	4/4	1/1	0/1
Mr. Lee Kwok Ming, Don	4/4	1/1	1/1
Mr. Zhang Hui-ming	3/4	1/1	1/1
Mr. Huo Jia-zhen	4/4	1/1	1/1

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Notes:

1. Ms. Cai Lan-ying resigned from the office of executive director on 27 June 2014.

2. Mr. Shi Hao-gang was appointed as executive director on 27 June 2014.

3. Mr. Li Guo-ding was appointed as non-executive director on 27 June 2014.

4. Ms. Wu Jie-qing was appointed as non-executive director on 27 June 2014.

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

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

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

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

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

Trainings of Directors

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

During the 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	√	√	
Shi Hao-gang	√	√	
Non-executive Directors			
Li Guo-ding	√		
Wu Jie-qing	√	√	
Wong Tak Hung	√		
Kazuyasu Misu	√		√
Independent Non-executive Directors			
Xia Da-wei	√		
Lee Kwok Ming, Don	√	√	√
Zhang Hui Ming	√		
Huo Jia-zhen	√	√	

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.

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.

Report of Corporate Governance

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

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

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

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

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

(5) formulates the basic rules of the Company;

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

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

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

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

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

Board Committees

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

As approved by ordinary resolutions at the annual general meeting on 27 June 2014, the fifth session of the Board was established. On the same day, the Board established the fifth 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, Mr. Zhang Hui-ming and Mr. Huo Jia-zhen and was chaired by Mr. Lee Kwok Ming, Don. The fifth session of the Remuneration and Appraisal Committee of the Company comprised Mr. Xia Da-wei, Mr. Zhang Hui-ming, Mr. Huo Jia-zhen and Mr. Hua Guo-ping and was chaired by Mr. Xia Da-wei. The fifth session of the Strategic Committee of the Company comprised Mr. Chen Jian-jun, Mr. Li Guo-ding, Mr. Hua Gou-ping and Mr. Zhang Hui-ming and was chaired by Mr.Chen Jian-jun. The fifth session of the Nomination Committee of the Company comprised Mr. Zhang Hui-ming, Mr. Xia Da-wei, Mr. Huo Jia-zhen and Ms. Qi Yue-hong and was chaired by Mr. Zhang Hui-ming. The Board has authorised the committees to formulate their respective terms of reference.

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

Audit Committee

The Board passed a resolution on 27 June 2014 to establish the fifth session of the Audit Committee. The Audit Committee currently comprises three members, including four independent non-executive Directors (including the Chairman). The Board confirms that each member of the Audit Committee has extensive business experience and the Audit Committee has a desirable mix of operational, accounting and financial expertise. The primary duties, roles and functions of the Audit Committee of the Company are:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

During the year ended 31 December 2014, the Audit Committee held three meetings and performed major work including review of annual and interim financial reports, internal control, continuing connected transactions and maintaining proper relationship between the Group and external and internal auditors etc.

The Audit Committee of the Company held a meeting on 12 March 2014 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 2013, 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 2013 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 2013 and suggested to re-appoint the domestic and international auditors for 2014. The Audit Committee confirmed that the continuing connected transactions of the Company in 2013 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 June 2014 to agree to select Mr. Lee Kwok Ming, Don as chairman of the fifth session of Audit Committee.

The Audit Committee of the Company held a meeting on 14 August 2014 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 2014 had complied with the applicable accounting standards, requirements of the Stock Exchange and legal requirements, and had made adequate disclosures. In relation to its review of the Group internal control, the Audit Committee concluded that the Group's internal control system was effective.

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

Set out below is the attendance record of the meetings of the Audit Committee in 2014:

Name	12 March 2014	7 June 2014	14 August 2014
Independent Non-executive Directors			
Mr. Lee Kwok Ming, Don (Chairman)	Present	Present	Present
Mr. Zhang Hui-ming	Present	Present	Present
Mr. Xia Da-wei	Present	Present	Present
Mr. Huo Jia-zhen	Present	Present	Present

Remuneration and Appraisal Committee

On 27 June 2014, the Board passed a resolution to establish the fifth session of the Remuneration and Appraisal Committee. The Remuneration and Appraisal Committee currently comprises four members, including three 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;

(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 2014, the Remuneration and Appraisal Committee held three meetings 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 24 March 2014. 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 seven executive Directors, two Supervisors, the senior management formed by deputy general managers and assistants to general manager for 2013.

The Remuneration and Appraisal Committee held a meeting on 3 June 2014, agreed to make recommendations to the Board to suggest to the general meetings to apply the new remuneration policy for the executive directors and supervisors (paid by the Company) since the year of 2014.

The Remuneration and Appraisal Committee held a meeting on 27 June 2014, agreed to select Mr. Xia Da-wei as the chairman of the fifth session of the Remuneration and Appraisal Committee.

Set out below is the attendance record of the meetings of the Remuneration and Appraisal Committee in 2014:

Name	24 March 2014	3 June 2014	27 June 2014
Independent Non-executive Directors			
Mr. Xia Da-wei (Chairman)	Present	Present	Present
Mr. Zhang Hui-ming	Present	Present	Present
Mr. Huo Jia-zhen (Note)	–	–	Present
Executive Director			
Mr. Hua Guo-ping	Present	Present	Present

Note: Mr. Huo Jia-zhen was appointed as member of the Remuneration and Appraisal Committee on 27 June 2014.

Nomination Committee

On 27 June 2014, the Board passed a resolution to establish the fifth session of the Nomination Committee. The Nomination Committee currently comprises four members, including three 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;

(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.

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During the year ended 31 December 2014, 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 12 March 2014 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 2013. 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 2013.

The Nomination Committee of the Company held a meeting on 24 March 2014. In the demand of business development and as recommended by the general manager of the Company, the Nomination Committee of the Company agreed to nominate Mr. Shi Hao-gang to the Board as a candidate of deputy general manager of the Company.

The Nomination Committee of the Company held a meeting on 3 June 2014 and discussed the candidates for the Director of the fifth session of the Board. In view of the expiry of the term of the fourth session of the Board upon on the date of the 2013 annual general meeting, and the recommendation from Shanghai Bailian, Baiqing Investment, Bailian Group and Wong Sun Hing Investment Co., Ltd., the Nomination Committee of the Company agreed to recommend Mr. Chen Jian-jun, Mr. Hua Guo-ping, Ms. Qi Yue-hong, Mr. Zhou Zhong-qi and Mr. Shi Hao-gang as candidates for executive Directors of the fifth session of the Board; recommend Mr. Li Guo-ding, Ms. Wu Jie-qing and Mr. Wong Tak Hung as candidates for non-executive Directors of the fifth session of the Board. By recommendation from the office of the general manager of the Company, the Nomination Committee of the Company agreed to recommend Mr. Xia Da-wei, Mr. Lee Kwok Ming, Don, Mr. Zhang Hui-ming and Mr. Huo Jia-zhen as candidates for independent non-executive Directors of the fifth session of the Board.

The Nomination Committee of the Company held a meeting on 27 June 2014 and agreed to select Mr. Zhang Hui-ming as chairman of the fifth session of the Nomination Committee.

The Nomination Committee of the Company held a meeting on 16 October 2014. Since Mr. Zhou Zhong-qi, the then Secretary of the Board and Joint Company Secretary, resigned as the Secretary of the Board and Joint Company Secretary due to work reasons, the Nomination Committee of the Company agreed to nominate Ms. Hu Li-ping to the Board as Secretary of the Board of the Company and nominate Ms. Hu Li-ping and Mr. Stephen Mok as Joint Company Secretary of the Company.

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

Name	12 March 2014	24 March 2014	3 June 2014	27 June 2014	16 October 2014
Independent Non-executive Directors					
Mr. Zhang Hui-ming (Chairman)	Present	Present	Present	Present	Present
Mr. Xia Da-wei	Present	Present	Present	Present	Present
Mr. Huo Jia-zhen (Note)	–	–	–	Present	Present
Executive Director					
Ms. Qi Yue-hong	Present	Present	Present	Present	Present

Notes:

Mr. Huo Jia-zhen was appointed as a member of Nomination Committee on 27 June 2014.

Report of Corporate Governance

Corporate Governance Functions

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

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

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

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

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

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

Directors' and auditors' responsibilities for the accounts

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

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

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as code of conduct for securities transactions by all Directors of the Company. After making specific enquiries to the Directors, the Board is pleased to confirm that all the Directors have fully complied with the provisions under the Model Code during the year ended 31 December 2014.

Remuneration of auditors

The Audit Committee of the Company is responsible for considering the appointment of auditors and reviewing their remuneration. For the year under review, RMB5,649 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 Mr. Zhou Zhong-qi as the joint company secretary of the Company on 16 October 2014, Ms. Hu Li-ping and Mr. Mok Chung Kwan, Stephen (a partner of Eversheds) were appointed as the joint company secretary of the Company with effect from 16 October 2014. Ms. Hu Li-ping, joint company secretary and secretary to the Board of the Company, is the main internal liaison 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 2014, Ms. Hu Li-ping 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 2014 and confirms that the internal control system of the Group is effective.

Organizational structure

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

Authorities and controls

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

Training on internal control

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

Accounting system management

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

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

Internal audit

In order to assess the efficiency of the internal control system in a more effective manner, the internal audit department of the Company inspected, supervised and evaluated the disclosure of financial information, operations 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 2013 annual report and 2014 interim report have been sent to all shareholders.

The Company places great emphasis on communication with shareholders and investors of the Company and the improvement of the Company's transparency. As such, a dedicated department has been set up and designated officers are assigned to handle relations with investors and analysts. During the period under review, the Company received 30 batches of fund managers and analysts and patiently answered their relevant inquiries. Site visits to stores were arranged for them so as to enhance their understanding of the Company's operation and also its latest business developments. The Company made disclosures in a careful, true, accurate, complete and timely manner in strict accordance with applicable laws and regulations, the Articles of Association and the Listing Rules; at the same time, the Company places great emphasis on collecting and analyzing various comments and recommendations from analysts and investors on the Company's operation, which will be compiled into reports regularly and adopted selectively in its operation. The Company has set up a website, allowing investors to access updates on the Company's particulars, statutory announcements, management and recent operating affairs. All published annual reports, interim reports, circulars and announcements since its listing are included in the "Investors Relations" section of the website. The Company persistently adheres to its information disclosure principle of honesty and integrity and actively initiates communications with various parties. In particular, it held seminars, press conferences and one-on-one investor meetings following the announcement of interim and annual results and decisions on major investments. The Company also participates in a series of investor activities and conducts one-on-one communication with investors on a regular basis.

Shareholders' rights

Convening extraordinary shareholders' general meetings by shareholders

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

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

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

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

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

Raising proposals at shareholders' general meetings

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

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

Putting forward enquiries to the Board

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

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

Report of Corporate Governance

Amendments in the Articles of Association

As set out in the circulars of the Company dated 20 October 2014, the Company proposed to make the following amendments to the Articles of Association.

Amendments in Article 1 of the Articles of Association (approved at 2014 extraordinary general meeting and class meetings held on 5 December 2014)

The former third paragraph of Article 1 of the Article of Association is as follows:

"The promoters of the Company are: Shanghai Friendship Group Incorporated Company ("Friendship Group"), Shanghai Industrial United (Group) Commercial Network Development Limited ("Shanghai Industrial Commerce", with its name changed to Shanghai Bailian Group Investment Co., Ltd.), Mitsubishi Corporation ("Mitsubishi"), Wong Sun Hing Investment Company Limited ("Wong Sun Hing") and Shanghai Liding Investment Company Limited. ("Shanghai Liding")."

The amended third paragraph of Article 1 of the Articles of Association is as follows:

"The promoters of the Company are: Shanghai Friendship Group Incorporated Company ("Friendship Group", with its name changed to Shanghai Bailian Group Co., Ltd), Shanghai Industrial United (Group) Commercial Network Development Limited ("Shanghai Industrial Commerce", with its name changed to Shanghai Baiqing Investment Co., Ltd.), Mitsubishi Corporation ("Mitsubishi"), Wong Sun Hing Investment Company Limited ("Wong Sun Hing") and Shanghai Liding Investment Company Limited. ("Shanghai Liding")."

Amendments in Article 21 of the Articles of Association (approved at 2014 extraordinary general meeting and class meetings held on 5 December 2014)

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) 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., respectively), and 31,602,600 non-listed foreign shares (31,602,600 shares to be held 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 Shanghai Bailian Group Co., Ltd; 237,029,400 by Shanghai Baiqing 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 six meetings. On 26 March 2014, the Supervisory Committee of the Company held a meeting, at which the Supervisory Committee objectively evaluated the Group's business operation for the year 2013, and was fully satisfied with the work done by the Group in 2013, 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 2013 and discussed and adopted the report of the Supervisory Committee for 2013. 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 27 June 2014, the Supervisory Committee of the Company discussed and agreed to select Mr. Wang Zhi-gang as chairman of the fifth session of the Supervisory Committee of the Company.

On 15 July 2014, the Supervisory Committee of the Company reviewed the Zhejiang Yiwu Leasing Agreement and agreed to the connected transaction that Zhejiang Century Lianhua,a subsidiary of the Company lease the Yiwu Property located at No. 168 Wang Dao Lu, Yiwu, Zhejiang, the PRC from Yiwu City Life, a wholly-owned subsidiary of Bailian Group commencing from 15 July 2014 to 14 July 2015 (both days inclusive) to develop a hypermarket.The Supervisory Committee of the Company 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 28 August 2014, the Supervisory Committee held a meeting regarding the operating conditions of the first half of the year ended 30 June 2014 and received reports from the management relating to the financial condition of the first half of 2014.

On 9 September 2014, the Supervisory Committee of the Company held a meeting to review the major and connected transaction in relation to the acquisition of Yiwu City Life. The Supervisory Committee of the Company confirmed the aforesaid 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 17 December 2014, the Supervisory Committee of the Company held a meeting to discuss the Capital Increase to Bailian E-commerce Co., Ltd. of Lianhua E-commerce Co., Ltd and the annual cap of rent from the year of 2015 to the year of 2017 for the continuing transaction of Shanghai Xianxia Leasing Agreement. The Supervisory Committee of the Company confirmed the aforesaid continuing

Report of the Supervisory Committee

connected transactions were made in the ordinary course of the Company's business and on normal commercial terms, and the terms were fair and reasonable and in the interest of the Company's shareholders as a whole.

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

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

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 fifth 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

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 176, which comprise the consolidated and Company statements of financial position as at 31 December 2014, 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 Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014 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
27 March 2015

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2014

	NOTES	2014 RMB'000	2013 RMB'000
Turnover	5	**29,152,454**	30,383,420
Cost of sales		**(24,911,309)**	(26,020,830)
Gross profit		**4,241,145**	4,362,590
Other revenue	5	**2,217,525**	2,272,223
Other income and gains	7	**671,086**	662,770
Selling and distribution expenses		**(6,100,913)**	(6,178,129)
Administrative expenses		**(761,333)**	(737,080)
Other operating expenses		**(25,551)**	(116,425)
Share of profits of associates		**58,113**	85,896
Finance costs		**(143)**	(144)
Profit before tax	8	**299,929**	351,701
Income tax expenses	9	**(179,040)**	(216,398)
Total comprehensive income for the year		**120,889**	135,303
Total comprehensive income attributable to:			
Owners of the Company		**31,033**	52,953
Non-controlling interests		**89,856**	82,350
		120,889	135,303
Earnings per share – basic and diluted	12	**RMB0.03**	RMB0.05

Consolidated Statement of Financial Position

At 31 December 2014

	NOTES	31/12/2014 RMB'000	31/12/2013 RMB'000
Non-current assets			
Property, plant and equipment	13	**2,924,276**	3,080,898
Construction in progress	14	**443,667**	319,073
Land use rights	15	**341,812**	344,654
Intangible assets	16	**196,469**	190,263
Interests in associates	18	**557,084**	579,335
Available-for-sale financial assets	19	**36,570**	250,986
Term deposits	22		
– restricted		**266,000**	1,210,000
– unrestricted		**2,095,000**	2,000,400
Prepaid rental	23	**82,895**	120,983
Deferred tax assets	24	**215,749**	203,369
Other non-current assets	25	**18,668**	20,126
		7,178,190	8,320,087
Current assets			
Inventories	26	**2,676,400**	3,404,430
Trade receivables	27	**101,372**	76,682
Deposits, prepayments and other receivables	28	**1,076,927**	1,030,083
Amounts due from fellow subsidiaries	29	**12,888**	11,117
Amounts due from associates	30	**61**	26
Available-for-sale financial assets	19	**246,628**	258,474
Held-to-maturity financial assets	20	**–**	240,980
Financial assets at fair value through profit or loss	21	**2,223**	140,022
Term deposits	22		
– restricted		**1,210,000**	1,271,365
– unrestricted		**778,400**	890,000
Cash and cash equivalents	31	**5,145,270**	4,877,493
		11,250,169	12,200,672
Total assets		**18,428,359**	20,520,759

Consolidated Statement of Financial Position

At 31 December 2014
(Continued)

	NOTES	31/12/2014 RMB'000	31/12/2013 RMB'000
Capital and reserves			
Share capital	36	**1,119,600**	1,119,600
Reserves		**2,282,761**	2,251,728
Equity attributable to owners of the Company		**3,402,361**	3,371,328
Non-controlling interests	37	**272,025**	277,292
Total equity		**3,674,386**	3,648,620
Non-current liability			
Deferred tax liabilities	24	**98,657**	88,398
Current liabilities			
Trade payables	32	**3,713,440**	4,542,397
Other payables and accruals	33	**2,007,891**	2,110,854
Coupon liabilities	34	**8,726,487**	9,930,631
Deferred income		**23,284**	16,114
Amounts due to fellow subsidiaries	29	**48,193**	44,169
Amounts due to associates	30	**5,515**	16,571
Bank borrowings	35	**2,000**	2,000
Tax payable		**128,506**	121,005
		14,655,316	16,783,741
Total liabilities		**14,753,973**	16,872,139
Total equity and liabilities		**18,428,359**	20,520,759
Net current liabilities		**(3,405,147)**	(4,583,069)
Total assets less current liabilities		**3,773,043**	3,737,018

The consolidated financial statements on pages 99 to 176 were approved and authorised for issue by the Board of Directors on 27 March 2015 and are signed on its behalf by:

Chen Jian-jun
DIRECTOR

Zhou Zhong-qi
DIRECTOR

Statement of Financial Position

At 31 December 2014

	NOTES	31/12/2014 RMB'000	31/12/2013 RMB'000
Non-current assets			
Property, plant and equipment	13	**224,943**	235,816
Construction in progress	14	**8,687**	6,705
Land use rights	15	**28,173**	29,102
Intangible assets	16	**11,389**	14,959
Investments in subsidiaries	17	**1,796,145**	1,796,145
Interests in associates	18	**254,232**	256,732
Available-for-sale financial assets	19	**3,735**	218,363
Term deposits	22		
– restricted		**3,000**	10,000
– unrestricted		**455,000**	220,000
Deferred tax assets	24	**2,206**	3,430
Other non-current assets	25	**2,716**	2,839
		2,790,226	2,794,091
Current assets			
Inventories	26	**364,001**	467,581
Deposits, prepayments and other receivables	28	**58,629**	105,010
Amounts due from subsidiaries	17	**5,867,515**	6,695,741
Amounts due from associates	30	**61**	26
Available-for-sale financial assets	19	**214,628**	258,474
Held-to-maturity financial assets	20	**–**	240,980
Financial assets at fair value through profit or loss	21	**–**	140,022
Term deposits	22		
– restricted		**10,000**	318,365
– unrestricted		**310,000**	70,000
Cash and cash equivalents	31	**1,149,482**	1,027,715
		7,974,316	9,323,914
Total assets		**10,764,542**	12,118,005

Statement of Financial Position

At 31 December 2014

(Continued)

	NOTES	31/12/2014 RMB'000	31/12/2013 RMB'000
Capital and reserves			
Share capital	36	**1,119,600**	1,119,600
Reserves		**3,750,977**	3,222,027
Total equity		**4,870,577**	4,341,627
Non-current liability			
Deferred tax liabilities	24	**–**	6
Current liabilities			
Trade payables	32	**2,261,498**	2,679,814
Other payables and accruals	33	**19,531**	29,286
Coupon liabilities	34	**2,723,246**	3,322,421
Amounts due to fellow subsidiaries	29	**48,167**	41,818
Amounts due to subsidiaries	17	**813,849**	1,680,054
Amounts due to associates	30	**5,515**	16,571
Tax payable		**22,159**	6,408
		5,893,965	7,776,372
Total liabilities		**5,893,965**	7,776,378
Total equity and liabilities		**10,764,542**	12,118,005
Net current assets		**2,080,351**	1,547,542
Total assets less current liabilities		**4,870,577**	4,341,633

Consolidated Statement of Changes in Equity

For the year ended 31 December 2014

	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 2013	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
Profit for the year	–	–	–	–	31,033	31,033	89,856	120,889
Profit appropriation	–	–	–	47,398	(47,398)	–	–	–
Dividends paid to non-controlling interests	–	–	–	–	–	–	(95,123)	(95,123)
At 31 December 2014	1,119,600	258,353	(234,842)	540,309	1,718,941	3,402,361	272,025	3,674,386

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 2014

	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 2013	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
Profit for the year	**–**	**–**	**–**	**–**	**528,950**	**528,950**
Profit appropriation	**–**	**–**	**–**	**47,398**	**(47,398)**	**–**
At 31 December 2014	**1,119,600**	**258,353**	**3,595**	**540,309**	**2,948,720**	**4,870,577**

The amount of the Company's retained profits available for distribution to shareholders as at 31 December 2014 amounted to approximately RMB2,948,720,000 (2013: RMB2,467,168,000).

Consolidated Statement of Cash Flows

For the year ended 31 December 2014

	2014 RMB'000	2013 RMB'000
Profit before taxation	**299,929**	351,701
Adjustments for:		
Depreciation of property, plant and equipment	**493,204**	516,830
Amortisation of land use rights	**7,395**	5,557
Amortisation of intangible assets	**11,168**	9,793
Amortisation of other non-current assets	**1,458**	1,482
Penalty income from deposit paid for acquisition of properties	**–**	(39,000)
Loss on disposal of property, plant and equipment and intangible assets	**1,329**	7,289
Impairment loss on property, plant and equipment recognised	**10,455**	43,226
Allowance for write-down of inventories	**–**	21,239
Interest income from available-for-sale financial assets	**(20,793)**	(31,443)
Interest income from held-to-maturity financial assets	**(12,220)**	(15,558)
Unrealised fair value gain on financial assets at fair value through profit or loss	**(551)**	(22)
Interest income from financial assets at fair value through profit or loss	**(4,095)**	–
Share of profits of associates	**(58,113)**	(85,896)
Dividend from unlisted equity investments	**(12,377)**	(377)
Income from unlisted equity investments	**(18,569)**	–
Gain on disposal of an associate	**(7,403)**	(8,963)
Allowance (reversal of allowance) for doubtful debts	**1,537**	(3,836)
Interest income	**(410,718)**	(420,821)
Interest expense	**143**	144
Operating profit before movements in working capital	**281,779**	351,345
Decrease (increase) in inventories	**728,030**	(370,046)
(Increase) decrease in trade and other receivables	**(55,222)**	75,134
(Increase) decrease in prepaid rental	**(355)**	24,881
(Increase) decrease in amounts due from associates	**(35)**	110
Increase in amounts due from fellow subsidiaries	**(1,771)**	(196)
Increase in amounts due to fellow subsidiaries	**4,024**	8,367
Increase (decrease) in deferred income	**7,170**	(1,627)
Decrease in restricted term deposits	**1,005,365**	1,899,635
(Decrease) increase in trade and other payables	**(913,362)**	225,050
Decrease in coupon liabilities	**(1,204,144)**	(328,629)
(Decrease) increase in amounts due to associates	**(11,056)**	7,667
Cash (used in) from generated from operations	**(159,577)**	1,891,691
Income taxes paid	**(173,660)**	(211,802)
Interest received	**445,044**	261,257
Interest paid	**(143)**	(144)
Net cash from operating activities	**111,664**	1,941,002

Consolidated Statement of Cash Flows

For the year ended 31 December 2014

(Continued)

	2014 RMB'000	2013 RMB'000
Investing activities		
Purchase of property, plant and equipment and construction in progress	(504,178)	(508,736)
Refund of deposit paid for acquisition of properties	–	240,000
Purchase of land use right	–	(45,177)
Proceeds from disposal of property, plant and equipment	6,405	6,747
Purchase of intangible assets	(3,851)	(11,327)
Purchase of available-for-sale financial assets	(32,000)	(450,000)
Purchase of financial assets at fair value through profit or loss	(400,000)	(140,000)
Dividend from unlisted equity investments	612	377
Capital investments in associates	–	(26,824)
Proceeds on disposal of an associate	6,912	16,400
Proceeds on deregistraiton of an associate	–	201
Dividends received from associates	80,855	93,646
Income received from unlisted equity investments	16,919	–
Proceeds on redemption of available-for-sale financial assets	279,267	649,593
Interest income from held-to-maturity financial assets	20,700	14,200
Interest income from of financial assets at fair value through profit or loss	4,095	–
Proceeds on redemption of held-to-maturity financial assets	232,500	–
Proceeds on disposal of financial assets at fair value through profit or loss	540,000	–
Withdrawal of unrestricted term deposits	2,890,400	3,601,000
Placement of unrestricted term deposits	(2,873,400)	(2,890,400)
Penalty income from deposit paid for acquisition of properties	–	39,000
Net cash from investing activities	265,236	588,700
Financing activities		
New bank borrowings raised	2,000	–
Repayment of bank borrowings	(2,000)	–
Dividends paid to owners of the Company	–	(78,372)
Dividends paid to non-controlling shareholders	(109,123)	(155,564)
Acquisition of additional equity interests in subsidiaries	–	(7,427)
Net cash used in financing activities	(109,123)	(241,363)
Net increase in cash and cash equivalents	267,777	2,288,339
Cash and cash equivalents at 1 January	4,877,493	2,589,154
Cash and cash equivalents at 31 December	5,145,270	4,877,493
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	5,145,270	4,877,493

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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 Bailian Group Co., Ltd. ("Shanghai Bailian", previously known as 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 ("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 HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK (IFRIC)-Int 21	Levies

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.

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

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities

The Group has applied the amendments to HKAS 32 *Offsetting Financial Assets and Financial Liabilities* for the first time in the current year. The amendments to HKAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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

New and revised HKFRSs applied in the current year (Continued)

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities (Continued)

The amendments have been applied retrospectively.The Group has assessed whether certain of its financial assets and financial liabilities qualify for offset based on the criteria set out in the amendments and concluded that the application of the amendments has had no material impact on the amounts recognised in the Group's consolidated financial statements.

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

The Group has applied the amendments to HKAS 36 *Recoverable Amount Disclosures for Non-Financial Assets* for the first time in the current year. 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 applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by HKFRS 13 *Fair Value Measurements*.

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

HKFRS 9	Financial Instruments[1]
HKFRS 14	Regulatory Deferral Accounts[2]
HKFRS 15	Revenue from Contracts with Customers[3]
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations[5]
Amendments to HKAS 1	Disclosure Initiative[5]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[5]
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle[6]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle[5]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants[5]
Amendments to HKAS 27	Equity Method in Separate Financial Statements[5]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception[5]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016
3 Effective for annual periods beginning on or after 1 January 2017
4 Effective for annual periods beginning on or after 1 July 2014
5 Effective for annual periods beginning on or after 1 January 2016
6 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' ("FVTOCI") measurement category for certain simple debt instruments.

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. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting 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.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

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)

The directors of the Company anticipate that the application of HKFRS 9 in the future may have a material impact on amounts reported in respect of the Group's financial assets and financial liabilities (e.g. the Group's investments in unlisted equity securities currently classified as available-for-sale investments may have to be measured at fair value at the end of subsequent reporting periods, with changes in the fair value being recognised in profit or loss). Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

HKFRS 15 Revenue from Contracts with Customers

In July 2014, HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The directors of the Company anticipate that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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 16 and HKAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to HKAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

a) when the intangible asset is expressed as a measure of revenue; or

b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Group uses the straight-line method for depreciation and amortisation for its property, plant and equipment, land use rights and intangible asset other than goodwill respectively. The directors of the Company believe that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly, the directors of the Company do not anticipate that the application of these amendments to HKAS 16 and HKAS 38 will have a material impact on the Group's consolidated financial statements.

Amendments to HKAS 27 Equity Method in Separate Financial Statements

The amendments allow an entity to account for investments in subsidiaries, joint ventures and associates in its separate financial statements:

- At cost;
- In accordance with HKFRS 9 *Financial Instruments* (or HKAS 39 *Financial Instruments: Recognition and Measurement* for entities that have not yet adopted HKFRS 9); or
- Using the equity method as described in HKAS 28 *Investments in Associates and Joint Ventures*.

The accounting option must be applied by category of investments.

The amendments also clarify that when a parent ceases to be an investment entity, or becomes an investment entity, it shall account for the change from the date when the change in status occurred.

In addition to the amendments to HKAS 27, there are consequential amendments to HKAS 28 to avoid a potential conflict with HKFRS 10 *Consolidated Financial Statements* and to HKFRS 1 *First time Adoption of Hong Kong Financial Reporting Standards*.

The directors of the Company do not anticipate that the application of these amendments to HKAS 27 will have a material impact on the Group's consolidated financial statements.

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 HKFRS 10 and HKAS 28 Sale or Contribution of Assets between An Investor and its Associate or Joint Venture

Amendments to HKAS 28

The requirements on gains and losses resulting from transactions between an entity and its associate or joint venture have been amended to relate only to assets that do not constitute a business.

A new requirement has been introduced that gains or losses from downstream transactions involving assets that constitute a business between an entity and its associate or joint venture must be recognised in full in the investor's financial statements.

A requirement has been added that an entity needs to consider whether assets that are sold or contributed in separate transactions constitute a business and should be accounted for as a single transaction.

Amendments to HKFRS 10

An exception from the general requirement of full gain or loss recognition has been introduced into HKFRS 10 for the loss control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method.

New guidance has been introduced requiring that gains or losses resulting from those transactions are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement at fair value of investments retained in any former subsidiary that has become an associate or a joint venture that is accounted for using the equity method are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The directors of the Company do not anticipate that the application of these amendments to HKFRS 10 and HKAS 28 will have a material impact on the Group's consolidated financial statements.

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 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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 (Continued)

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. As the amendments do not contain any effective date, they are considered to be immediately effective.

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 HKAS 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 of the Company do not anticipate that the application of these amendments will have a material effect on the Group's consolidated financial statements.

Annual Improvements to HKFRSs 2011-2013 Cycle

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 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 of the Company do not anticipate that the application of these amendments will have a material effect on the Group's consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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 2012-2014 Cycle

The *Annual Improvements to HKFRSs 2012-2014 Cycle* include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 5 introduce specific guidance in HKFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa), or when held-for-distribution accounting is discontinued. The amendments apply prospectively.

The amendments to HKFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets and clarify that the offsetting disclosures (introduced in the amendments to HKFRS 7 *Disclosure – Offsetting Financial Assets and Financial Liabilities* issued in December 2011 and effective for periods beginning on or after 1 January 2013) are not explicitly required for all interim periods. However, the disclosures may need to be included in condensed interim financial statements to comply with HKAS 34 *Interim Financial Reporting*.

The amendments to HKAS 34 clarify the requirements relating to information required by HKAS 34 that is presented elsewhere within the interim financial report but outside the interim financial statements. The amendments require that such information be incorporated by way of a cross-reference from the interim financial statements to the other part of the interim financial report that is available to users on the same terms and at the same time as the interim financial statements.

The directors of the Company do not anticipate that the application of these will have a material effect on the Group's consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards 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 of Hong Kong Limited and by the Hong Kong Companies Ordinance, which for the year continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangement for Part 9 of the Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of preparation

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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

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.

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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interests in associates (Continued)

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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

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

Service income is recognised when services are provided.

Income from suppliers includes promotion and store display income, 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 by contract 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 contract over the term of the relevant lease.

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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment losses on non-current assets other than financial assets and goodwill (see the accounting policy in respect of financial 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

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.

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 financial assets

Held-to-maturity financial assets 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).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Available-for-sale financial assets

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

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

For loans and receivables and held-to-maturity financial assets objective evidence of impairment could include:

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

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

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

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

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

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derecognition (Continued)

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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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

Key sources of estimation uncertainty (Continued)

Estimated impairment of non-financial assets other than goodwill

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

Useful lives and residual values of property, plant and equipment

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

Net realisable value of inventories

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

Estimated store closure provision

The Group follows HKAS 37 to recognise store closure provision. Provisions are recognised when the Group has a constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Store closure provision comprises mainly lease termination penalties and employee compensations 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 every quarter to explain the cause of fluctuations in the fair value of the assets and liabilities.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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

Key sources of estimation uncertainty (Continued)

Fair value measurements and valuation processes (Continued)

The Group was 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.

As at 31 December 2014, the fair value of the financial assets at fair value through profit or loss was RMB2,223,000 (2013: RMB140,022,000).

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:

	2014 RMB'000	2013 RMB'000
Turnover		
Sales of merchandise	**29,152,454**	30,383,420
Other revenue		
Income from suppliers	**1,539,466**	1,614,687
Gross rental income from leasing of shop premises	**611,281**	585,075
Royalty income from franchised stores	**55,542**	58,681
Commission income from coupon redemption in other retailers	**11,236**	13,780
	2,217,525	2,272,223
Total revenue	**31,369,979**	32,655,643

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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.

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**	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Hypermarkets	**18,898,085**	19,665,632	**98,030**	98,557
Supermarkets	**10,248,720**	10,854,975	**227,277**	294,820
Convenience stores	**2,132,093**	2,052,961	**(84,189)**	(86,439)
Other operations	**91,081**	82,075	**34,269**	689
	31,369,979	32,655,643	**275,387**	307,627

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

6. SEGMENT INFORMATION (Continued)

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

	2014 RMB'000	2013 RMB'000
Segment results	**275,387**	307,627
Interest income	**64,354**	57,848
Unallocated income	**44,593**	68,696
Unallocated expenses	**(142,518)**	(168,366)
Share of profits of associates	**58,113**	85,896
Consolidated profit before taxation	**299,929**	351,701

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.

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

	31/12/2014 RMB'000	31/12/2013 RMB'000
Segment assets		
– Hypermarkets	**9,528,574**	11,592,647
– Supermarkets	**5,301,178**	5,748,074
– Convenience Stores	**575,406**	710,582
– Other operations	**78,912**	151,823
Total segment assets	**15,484,070**	18,203,126
Investments in associates	**557,084**	579,335
Other unallocated assets (Note)	**2,387,205**	1,738,298
Total assets	**18,428,359**	20,520,759

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

6. SEGMENT INFORMATION (Continued)

Other segment information

2014

	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)	259,405	197,551	50,077	360	507,393
Depreciation	311,285	128,565	39,522	13,832	493,204
Amortisation	5,220	8,121	797	5,883	20,021
Impairment losses on property, plant and equipment	6,700	3,300	455	–	10,455
(Gain) loss on disposal of property, plant and equipment and intangible assets	(1,543)	1,585	829	458	1,329
Interest income	260,249	77,717	6,016	66,736	410,718
Finance costs	–	–	–	143	143

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

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

6. SEGMENT INFORMATION (Continued)

Geographical information

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

Information about major customers

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

7. OTHER INCOME AND GAINS

	2014 RMB'000	2013 RMB'000
Interest income on bank balances and term deposits	**410,718**	420,821
Government subsidies (Note)	**66,331**	49,559
Fair value change on financial assets at fair value through profit or loss	**4,646**	12,673
Interest income from available-for-sale financial assets	**20,793**	31,443
Interest income from held-to-maturity financial assets	**12,220**	15,558
Gain on disposal of an associate	**7,403**	8,963
Dividend from unlisted equity investments	**12,377**	377
Salvage sales	**29,154**	28,224
Others	**107,444**	95,152
Total	**671,086**	662,770

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

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For the year ended 31 December 2014

8. PROFIT BEFORE TAXATION

	2014 RMB'000	2013 RMB'000
Profit before taxation has been arrived at after charging (crediting):		
Amortisation and depreciation		
Amortisation of other non-current assets (Note 25)	1,458	1,482
Amortisation of intangible assets (Note 16)	11,168	9,793
Amortisation of land use rights (Note 15)	7,395	5,557
Depreciation of property, plant and equipment (Note 13)	493,204	516,830
Total amortisation and depreciation	513,225	533,662
Share of profits of associates		
Share of profit before taxation	(82,376)	(114,607)
Share of taxation	24,263	28,711
	(58,113)	(85,896)
Auditors' remuneration	5,649	7,218
Loss on disposal of property, plant and equipment and intangible assets	1,329	7,289
Impairment loss on property, plant and equipment recognised (included in other operating expenses)	10,455	43,226
Director's remuneration (Note 10)	6,091	10,082
Salaries, wages and other employee benefits of other staff	2,645,635	2,623,918
Retirement benefit scheme contribution of other staff	281,708	276,084
Total staff costs	2,933,434	2,910,084
Allowance for doubtful debts	3,083	–
Reversal of allowance for doubtful debts	(1,546)	(3,836)
Allowance for write-down of inventories	–	21,239
Cost of inventories recognised as expenses	24,911,309	26,020,830

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For the year ended 31 December 2014

9. SEGMENT INFORMATION

	2014 RMB'000	2013 RMB'000
Current tax on PRC Enterprise Income Tax ("EIT")	181,161	215,037
Deferred (credit) charge (Note 24)	(2,121)	1,361
	179,040	216,398

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 2013, 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.

	2014 RMB'000	2013 RMB'000
Profit before tax	299,929	351,701
Tax at PRC EIT tax rate of 25% (2013: 25%)	74,982	87,925
Tax effect of share of profit of associates	(14,528)	(21,474)
Tax effect of expenses not deductible for tax purpose	16,780	14,690
Tax effect of income not taxable for tax purpose	(5,510)	(2,560)
Tax effect of tax losses not recognised	129,106	154,586
Utilisation of tax losses previously not recognised	(19,375)	(14,934)
Effect of preferential tax rates granted to certain PRC subsidiaries	(2,415)	(1,835)
Tax charge for the year	179,040	216,398

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

10. DIRECTORS', SUPERVISORS' AND EMPLOYEES' REMUNERATION

(1) Directors' emoluments

The remuneration of each director for the year ended 31 December 2014 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	2014 RMB'000	2013 RMB'000
Executive/Non-executive Directors:							
Mr. Hua Guo-ping	–	277	310	56	21	664	728
Mr. Chen Jian-jun	–	277	317	56	21	671	731
Mr. Zhou Zhong-qi	–	276	232	56	21	585	29
Ms. Qi Yue-hong	–	276	232	56	21	585	705
Mr. Shi Hao-gang (Note b)	–	132	116	28	10	286	–
Mr. Li Guo-ding (Note c)	–	–	–	–	–	–	–
Ms.Wu Jie-qin (Note c)	–	–	–	–	–	–	–
Mr. Wong Tak Hung	–	–	–	–	–	–	–
Ms. Cai Lan-ying (Note d)	–	144	2,509	39	8	2,700	6,687
Mr. Tang Qi	–	–	–	–	–	–	231
Ms. Xu Ling-ling	–	–	–	–	–	–	371
Mr. Kazuyasu Misu (Note e)	–	–	–	–	–	–	–
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	150	–	–	–	–	150	50
Mr. Lin Yi-bin	–	–	–	–	–	–	100
2014	**600**	**1,382**	**3,716**	**291**	**102**	**6,091**	
2013	600	1,491	7,595	299	97		10,082

Notes:

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

(b) Mr. Shi Hao-gang was elected as an executive director of the Company on 27 June 2014.

(c) Mr. Li Guo-ding and Ms. Wu Jie-qin were elected as non-executive director of the Company on 27 June 2014.

(d) Ms. Cai Lan-ying resigned from the office of executive director of the Company on 27 June 2014 and then became one of the senior managements since then.

(e) Mr. Kazuyasu Misu resigned as an non-executive director of the Company on 27 June 2014.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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

(1) Directors' emoluments (Continued)

Mr. Hua Guo-ping is also the general manager of the Company and his emolument disclosed above inculdes those services rendered by him as the general manager.

None of the directors waived any emoluments during the years ended 31 December 2014 and 2013.

(2) Supervisory committee members' emoluments

The remuneration of each supervisor for the year ended 31 December 2014 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	2014 RMB'000	2013 RMB'000
Mr. Wang Zhi-gang	–	–	–	–	–	–	–
Ms. Tao Qing (Note b)	–	–	–	–	–	–	–
Ms. Qian Li-ping	–	276	232	56	21	585	29
Mr. Wang Long-sheng (Note c)	–	–	–	–	–	–	–
Mr. Dao Shu-rong	–	–	–	–	–	–	371
2014	–	276	232	56	21	585	
2013	–	300	23	56	21		400

Notes:

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

(b) Ms. Tao Qing was elected as a supervisor of the Company on 27 June 2014.

(c) Mr. Wang Long-sheng resigned as a supervisor of the Company on 27 June 2014.

None of the supervisors waived any emoluments during the years ended 31 December 2014 and 2013.

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

(3) Senior management emoluments

The remuneration of each senior management for the year ended 31 December 2014 is set out below:

Name	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	2014 RMB'000	2013 RMB'000
Ms. Cai Lan-ying (Note)	–	144	2,509	39	8	2,700	–
Mr. Liang Bao-long	–	258	232	56	21	567	681
Mr. Zhang Guo-hong	–	84	77	19	7	187	681
Ms. Hu Li-ping	–	63	58	14	5	140	–
Mr. Shi Hao-gang	–	63	58	14	5	140	–
2014	**–**	**612**	**2,934**	**142**	**46**	**3,734**	
2013	–	504	716	104	38		1,362

Note: Ms. Cai Lan-ying resigned from the office of executive director of the Company on 27 June 2014 and then became one of the senior managements since then

(4) Five highest paid individuals

Except for Ms. Cai Lan-ying, who was a director of the Company in 2013 while resigned on 27 June 2014 and remained as the senior management of the Group during 2014, of the five highest paid individuals in both years, none of them was a director or supervisor of the Company. The aggregate emoluments of these five highest paid individuals are as follows:

	2014 RMB'000	2013 RMB'000
Basic salaries, allowances and benefits-in-kind	1,152	1,141
Discretionary bonuses	20,575	25,248
Retirement benefit costs	388	376
Medical benefits	77	69
	22,192	26,834

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For the year ended 31 December 2014

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

(4) Five highest paid individuals (Continued)

Their emoluments fall within the following bands:

	Number 2014	2013
HK$5,000,001 – HK$5,500,000	**2**	–
HK$5,500,001 – HK$6,000,000	**–**	3
HK$6,000,001 – HK$6,500,000	**1**	–
HK$6,500,001 – HK$7,000,000	**1**	–
HK$7,500,001 – HK$8,000,000	**1**	1
HK$8,000,001 – HK$8,500,000	**–**	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.

11. DIVIDEND

	2014 RMB'000	2013 RMB'000
Dividend recognised as distribution during the year:		
2012 final dividend RMB0.07 per share	**–**	78,372
	–	78,372

No dividend was proposed for the year ended 31 December 2014. (2013: a final dividend for the year ended 31 December 2012 of RMB0.07 per share totalling RMB78,372,000 was proposed and approved by the shareholders of the Company in the annual general meeting on 18 June 2013.)

12. EARNINGS PER SHARE

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

	2014 RMB'000	2013 RMB'000
Earnings		
Profit for the year attributable to owners of the Company	**31,033**	52,953
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 2013	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
Additions	–	205,277	18,336	132,042	355,655
Transfer from construction in progress	–	4,192	–	–	4,192
Disposals	(4,779)	(120,663)	(16,991)	(143,931)	(286,364)
At 31 December 2014	**2,063,438**	**2,356,695**	**294,000**	**1,774,873**	**6,489,006**
DEPRECIATION					
At 1 January 2013	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
Provided for the year	65,268	221,948	24,996	180,992	493,204
Eliminated on disposals	(1,163)	(119,100)	(13,028)	(122,550)	(255,841)
At 31 December 2014	**566,581**	**1,622,580**	**183,619**	**1,136,982**	**3,509,762**
IMPAIRMENT					
At 1 January 2013	–	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
Provided for the year	–	3,095	–	7,360	10,455
Eliminated on disposals	–	(6,703)	–	(11,010)	(17,713)
At 31 December 2014	**–**	**22,965**	**1,512**	**30,491**	**54,968**
CARRYING VALUES					
At 31 December 2014	**1,496,857**	**711,150**	**108,869**	**607,400**	**2,924,276**
At 31 December 2013	1,565,741	721,584	119,492	674,081	3,080,898

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

Notes:

(a) An impairment loss of RMB10,455,000 (2013: RMB43,226,000) 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 RMB493,204,000 (2013: RMB516,830,000), RMB436,534,000 (2013: RMB474,226,000) and RMB56,670,000 (2013: RMB42,604,000) were included in selling and distribution expenses and administrative expenses respectively.

(c) As of 31 December 2014, the carrying amount of certain buildings without building ownership certificates is RMB15,097,000 (2013: RMB38,393,000) 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 2013	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
Additions	1,339	–	203	1,060	2,602
Disposals	–	–	(1,277)	(1,597)	(2,874)
At 31 December 2014	**291,861**	**1,203**	**3,700**	**40,873**	**337,637**
DEPRECIATION					
At 1 January 2013	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
Provided for the year	6,922	241	461	5,055	12,679
Eliminated on disposals	–	–	(707)	(1,371)	(2,078)
At 31 December 2014	**78,889**	**1,045**	**1,444**	**31,316**	**112,694**
CARRYING VALUES					
At 31 December 2014	**212,972**	**158**	**2,256**	**9,557**	**224,943**
At 31 December 2013	218,555	399	3,084	13,778	235,816

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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 2013	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
Additions	143,240
Transfer to property, plant and equipment (Note 13)	(4,192)
Transfer to intangible assets (Note 16)	(14,454)
At 31 December 2014	**443,667**

The Company	**RMB'000**
At 1 January 2013	5,418
Additions	1,621
Transfer to property, plant and equipment (Note 13)	(334)
At 31 December 2013	6,705
Additions	2,716
Transfer to intangible assets (Note 16)	(734)
At 31 December 2014	**8,687**

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15. LAND USE RIGHTS

The Group	**Land use rights RMB'000**
COST	
At 1 January 2013	365,309
Additions	45,177
At 31 December 2013	410,486
Additions	4,646
At 31 December 2014	**415,132**
AMORTISATION	
At 1 January 2013	54,136
Charge for the year	5,557
At 31 December 2013	59,693
Charge for the year	7,395
At 31 December 2014	**67,088**
CARRYING VALUES	
At 31 December 2014	**348,044**
At 31 December 2013	350,793

	31/12/2014 RMB'000	31/12/2013 RMB'000
Analysed for reporting purposes as:		
Non-current portion	**341,812**	344,654
Current portion to be charged to the profit or loss next year included in deposits, prepayments and other receivables (Note 28)	**6,232**	6,139
Total	**348,044**	350,793

Notes: Amongst the amortisation charge for the year of RMB7,395,000 (2013: RMB5,557,000), RMB3,517,000 (2013: RMB2,935,000) and RMB3,878,000 (2013 RMB2,622,000) were included in selling and distribution expenses and administrative expenses respectively.

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15. LAND USE RIGHTS (Continued)

The Company	Land use rights RMB'000
COST	
At 1 January 2013, 31 December 2013 and 31 December 2014	43,035
AMORTISATION	
At 1 January 2013	12,075
Charge for the year	929
At 31 December 2013	13,004
Charge for the year	929
At 31 December 2014	**13,933**
CARRYING VALUES	
At 31 December 2014	**29,102**
At 31 December 2013	30,031

	31/12/2014 RMB'000	31/12/2013 RMB'000
Analysed for reporting purposes as:		
Non-current portion	28,173	29,102
Current portion to be charged to the profit or loss next year included in deposits, prepayments and other receivables (Note 28)	929	929
	29,102	30,031

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 2013	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
Additions	3,852	–	3,852
Transfer from construction in progress (Note 14)	14,454	–	14,454
Disposals	(2,122)	–	(2,122)
At 31 December 2014	**177,574**	**151,941**	**329,515**
AMORTISATION AND IMPAIRMENT			
At 1 January 2013	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
Charge for the year	11,168	–	11,168
Eliminated on disposals	(1,190)	–	(1,190)
At 31 December 2014	**133,046**	**–**	**133,046**
CARRYING VALUES			
At 31 December 2014	**44,528**	**151,941**	**196,469**
At 31 December 2013	38,322	151,941	190,263

Notes:

(a) Amongst the amortisation charge for the year of RMB11,168,000 (2013: RMB9,793,000), RMB1,654,000 (2013: RMB1,489,000) and RMB9,514,000 (2013: RMB8,304,000) were included in selling and distribution expenses and administrative expenses respectively.

(b) 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:

	31/12/2014 RMB'000	31/12/2013 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% (2013: 0% to 10%), as appropriate, and a discount rate of 9% (2013: 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.

The Company	**Software RMB'000**
COST	
At 1 January 2013	41,961
Additions	283
At 31 December 2013	42,244
Additions	118
Transfer from construction in progress (Note 14)	734
At 31 December 2014	**43,096**
AMORTISATION	
At 1 January 2013	23,291
Charge for the year	3,994
At 31 December 2013	27,285
Charge for the year	4,422
At 31 December 2014	**31,707**
CARRYING VALUES	
At 31 December 2014	**11,389**
At 31 December 2013	14,959

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17. INVESTMENTS IN SUBSIDIARIES

The Company	**31/12/2014 RMB'000**	31/12/2013 RMB'000
Unlisted equity investments, at cost	**1,949,145**	1,949,145
Less: Impairment losses (Note)	**(153,000)**	(153,000)
	1,796,145	1,796,145

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

Particulars of the Company's principal subsidiaries at 31 December 2014 and 2013 are set out in note 44.

18. INTERESTS IN ASSOCIATES

The Group	**31/12/2014 RMB'000**	31/12/2013 RMB'000
Unlisted equity investments, at cost	**255,061**	257,561
Share of post – acquisition profits, net of dividends received	**302,023**	321,774
	557,084	579,335

The Company	**31/12/2014 RMB'000**	31/12/2013 RMB'000
Unlisted equity investments, at cost	**254,232**	256,732

Interests in associates as at 31 December 2014 include goodwill of RMB6,787,000 (2013: RMB6,787,000).

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18. INTERESTS IN ASSOCIATES (Continued)

At December 31, 2014 and 2013, 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
			2014	2013	
			%	%	
Shanghai Lianhua Fuxing Pharmacy chain Co., Ltd. (Lianhua Fuxing Pharmacy)	Corporate	The PRC	**– (Note)**	50.00	Drugstore
Shanghai Carhua Supermarket Co., Ltd.(Carhua)	Corporate	The PRC	**45.00**	45.00	Hypermarket
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
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.

Note: The Company disposed of its 50% equity interest in Lianhua Fuxing Pharmacy on 7 February 2014 and resulted in a gain of RMB7,403,000 during the year ended 31 December 2014.

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

	31/12/2014	31/12/2013
	RMB'000	RMB'000
Current assets	**1,344,752**	1,535,327
Non-current assets	**1,178,434**	1,128,199
Current liabilities	**1,663,686**	1,763,291

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18. INTERESTS IN ASSOCIATES (Continued)

Carhua (Continued)

	2014 RMB'000	2013 RMB'000
Revenue	5,901,997	5,765,570
Profit for the year	138,236	200,942
Dividends received from the associate during the year	80,537	88,328
Capital contribution received during the year	–	40,498

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	31/12/2014 RMB'000	31/12/2013 RMB'000
Net assets of Carhua	859,500	900,235
Proportion of the Group's ownership interest in Carhua	45%	45%
Carrying amount of the Group's interest in Carhua	386,775	405,106

Tianjin Yishang

	31/12/2014 RMB'000	31/12/2013 RMB'000
Current assets	319,712	456,442
Non-current assets	3,084,685	2,974,381
Current liabilities	1,467,148	1,387,350
Non-current liabilities	1,200,583	1,306,940

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18. INTERESTS IN ASSOCIATES (Continued)

Tianjin Yishang (Continued)

	2014 RMB'000	2013 RMB'000
Revenue	3,300,232	3,658,517
Profit (loss) for the year	134	(8,900)
Dividends received from the associate during the year	–	–

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	31/12/2014 RMB'000	31/12/2013 RMB'000
Net assets of Tianjin Yishang	736,666	736,533
Proportion of the Group's ownership interest in Tianjin Yishang	20%	20%
The Group's interest in Tianjin Yishang	147,333	147,307
Goodwill	6,787	6,787
Carrying amount of the Group's interest in Tianjin Yishang	154,120	154,094

Aggregate information of associates that are not individually material:

	2014 RMB'000	2013 RMB'000
The Group's share of loss	(4,120)	(2,748)
Aggregate carrying amount of the Group's interests in these associates	16,189	20,315

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19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

The Group	**31/12/2014 RMB'000**	31/12/2013 RMB'000
Non-current		
Legal person shares, at fair value (Note a)	**312**	312
Unlisted equity investments, at cost (Note b)	**36,258**	36,046
Unlisted managed investment funds, at cost (Note c)	**–**	214,628
	36,570	250,986
Current		
Unlisted debt investments, at cost (Note d)	**32,000**	258,474
Unlisted managed investment funds, at cost (Note c)	**214,628**	–
	246,628	258,474
Total	**283,198**	509,460

The Company	**31/12/2014 RMB'000**	31/12/2013 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
	3,735	218,363
Current		
Unlisted debt investments, at cost (Note d)	**–**	258,474
Unlisted managed investment funds, at cost (Note c)	**214,628**	–
Total	**218,363**	476,837

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 (2013: (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 of 9.5% (2013: 9.5%) 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.

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

Notes: (Continued)

(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% per annum upon maturity on 31 December 2013.

20 HELD-TO-MATURITY FINANCIAL ASSETS

The Group and the Company	**31/12/2014 RMB'000**	31/12/2013 RMB'000
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

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group	**31/12/2014 RMB'000**	31/12/2013 RMB'000
Equity securities listed in Shanghai Stock Exchange	**2,223**	–
Trust product (Note)	**–**	140,022
Total	**2,223**	140,022

The Company	**31/12/2014 RMB'000**	31/12/2013 RMB'000
Trust product (Note)	**–**	140,022

Note: The amount in last year represented a product offered by a trust company in the PRC were funds are mainly invested in low risk and unlisted debt products. The carrying amounts of the Group's and Company's trust product approximated its fair value.

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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 2014, restricted term deposits amounting to RMB1,476,000,000 (2013: RMB2,481,365,000) and RMB13,000,000 (2013: RMB328,365,000) 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 3.30%to 6.80% (2013: 3.25% to 5.00%) per annum for the group and for the company range from 4.13% to 4.60% (2013: 3.30% to 4.13%) 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 RMB365,277,000 (2013: RMB326,834,000), 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).

24. DEFERRED TAXATION

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

The Group	**31/12/2014 RMB'000**	31/12/2013 RMB'000
Deferred tax assets	**215,749**	203,369
Deferred tax liabilities	**(98,657)**	(88,398)
	117,092	114,971

The Company	**31/12/2014 RMB'000**	31/12/2013 RMB'000
Deferred tax assets	**2,206**	3,430
Deferred tax liabilities	**–**	(6)
	2,206	3,424

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24. DEFERRED TAXATION (Continued)

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 2013	(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
Credit (charge) to profit or loss	1,919	–	478	(3,942)	(12,178)	15,844	2,121
At 31 December 2014	**(41,234)**	**–**	**3,367**	**47,296**	**(57,423)**	**165,086**	**117,092**

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 2013	–	6,084	6,084
Credit to profit or loss	(6)	(2,654)	(2,660)
At 31 December 2013	(6)	3,430	3,424
Charge (credit) to profit or loss	6	(1,224)	(1,218)
At 31 December 2014	**–**	**2,206**	**2,206**

The Group has unutilised tax losses of approximately RMB2,451,548,000 (2013: RMB2,037,137,000) 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 unused tax losses will expire as follows:

Group	**31/12/2014 RMB'000**	31/12/2013 RMB'000
Year of expiry		
2014	**–**	289,402
2015	**416,219**	430,306
2016	**561,842**	561,856
2017 to 2019 (2013: 2016 to 2018)	**1,473,487**	755,573
	2,451,548	2,037,137

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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 RMB1,458,000 (2013: RMB1,482,000), RMB1,335,000 (2013: RMB1,335,000) and RMB123,000 (2013: RMB147,000) were included in selling and distribution expenses and administrative expenses respectively.

26. INVENTORIES

The Group	**31/12/2014 RMB'000**	31/12/2013 RMB'000
Merchandise for resale	**2,676,555**	3,422,392
Write-down for obsolescence	**(14,510)**	(28,149)
	2,662,045	3,394,243
Low value consumables	**14,355**	10,187
	2,676,400	3,404,430

The Company	**31/12/2014 RMB'000**	31/12/2013 RMB'000
Merchandise for resale	**364,001**	467,581

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 (2013: 30 to 60 days), is as follows:

The Group	**31/12/2014 RMB'000**	31/12/2013 RMB'000
Within 30 days	**94,930**	74,857
31-60 days	**5,649**	860
61-90 days	**39**	238
91 days – one year	**754**	727
	101,372	76,682

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27. TRADE RECEIVABLES (Continued)

Movement in allowance for doubtful debts is as follows:

	2014 RMB'000	2013 RMB'000
1 January	1,691	10,193
Impairment losses recognised	3,083	–
Amounts reversed during the year	–	(2,653)
Amounts written-off during the year	–	(5,849)
31 December	4,774	1,691

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

28. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

The Group	31/12/2014 RMB'000	31/12/2013 RMB'000
Land use right-current portion (Note 15)	6,232	6,139
Prepaid rental (Note 23)	365,277	326,834
Deposits and prepayments	203,894	156,349
Other receivables net of allowance for doubtful debts (Note)	501,524	540,761
	1,076,927	1,030,083

Notes: Other receivables included mainly interest recoverable from bank deposits in both years.

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

	2014 RMB'000	2013 RMB'000
1 January	4,417	5,611
Amount recovered during the year	(1,546)	(1,183)
Amounts written-off during the year	(23)	(11)
31 December	2,848	4,417

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28. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (Continued)

The Company	**31/12/2014 RMB'000**	31/12/2013 RMB'000
Land use right – current portion (Note 15)	**929**	929
Deposits and prepayments	**962**	6,403
Other receivables net of allowance for doubtful debts	**56,738**	97,678
	58,629	105,010

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 (2013: 30 to 60 days). As at 31 December 2014, balances of both amounts due from/to fellow subsidiaries are all aged within 60 days (2013: 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 (2013: 90 days) and the credit terms of the trade balances range from 30 to 90 days (2013: 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 5.45% per annum for the year ended 31 December 2014 (2013: ranging from 0.35% to 4.40% 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 (2013:30 to 60 days), is as follows:

The Group	**31/12/2014 RMB'000**	31/12/2013 RMB'000
Within 30 days	**1,963,490**	2,423,941
31-60 days	**809,341**	866,503
61-90 days	**231,245**	431,071
91 days – one year	**709,364**	820,882
	3,713,440	4,542,397

The Company	**31/12/2014 RMB'000**	31/12/2013 RMB'000
Within 30 days	**1,073,559**	1,216,921
31-60 days	**571,795**	599,916
61-90 days	**151,279**	297,188
91 days – one year	**464,865**	565,789
	2,261,498	2,679,814

33. OTHER PAYABLES AND ACCRUALS

The Group	**31/12/2014 RMB'000**	31/12/2013 RMB'000
Payroll, staff welfare and other staff cost payable	**306,673**	331,532
Value added tax and other payables	**116,732**	130,136
Rental payable	**766,120**	693,863
Deposits from lessees, franchisees and other third parties	**183,868**	176,321
Dividend payable to non-controlling interest	**–**	14,000
Amount payable to other retailers upon customers' redemption of coupon issued by the Group	**9,140**	7,032
Prepayments received from franchisees and other third parties	**284,740**	352,875
Payables for acquisition of property, plant and equipment and low value consumables	**82,719**	85,820
Store closure provision	**22,010**	57,356
Accruals	**102,898**	76,062
Advance from customers	**94,402**	118,566
Other miscellaneous payables	**38,589**	67,291
	2,007,891	2,110,854

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33. OTHER PAYABLES AND ACCRUALS (Continued)

The Company	31/12/2014 RMB'000	31/12/2013 RMB'000
Payables for acquisition of property, plant and equipment	1,689	1,661
Accruals	4,933	6,542
Other miscellaneous payables	12,909	21,083
	19,531	29,286

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.

35. BANK BORROWINGS

The Group	31/12/2014 RMB'000	31/12/2013 RMB'000
Bank loans, repayable within one year, unsecured, with interest rate of 7.28% (2013: 7.20%) 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. For the year ended 31 December 2013, the Group's bank borrowings were rolled over for another one year with maturity period ending on 26 August 2014. The Group during the year repaid the borrowings of RMB2,000,000 upon maturity and had obtained a new bank borrowings in the same amount, and which would be matured on 31 August 2015.

36. SHARE CAPITAL

	Number of shares of RMB1.00 each		Nominal value	
	31/12/2014	31/12/2013	31/12/2014 RMB'000	31/12/2013 RMB'000
Registered, issued and fully paid:				
At 1 January 2013, 31 December 2013 and 31 December 2014	1,119,600,000	1,119,600,000	1,119,600	1,119,600

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36. SHARE CAPITAL (Continued)

The share capital of the Company as at 31 December 2014 and 2013 comprises:

	Number of shares of RMB1.00 each		Nominal value	
	31/12/2014	31/12/2013	**31/12/2014**	31/12/2013
			RMB'000	RMB'000
Domestic shares (Note)	**715,397,400**	639,977,400	**715,397**	639,977
Unlisted foreign shares (Note)	**31,602,600**	107,022,600	**31,603**	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.

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 foreignshares of the Company to Bailian Group at the considerationof HK$231,313,140. The equity transfer is completed during 2014.

37. NON-CONTROLLING INTERESTS

	31/12/2014	31/12/2013
	RMB'000	RMB'000
Balance at beginning of year	**277,292**	364,900
Share of profit for the year	**89,856**	82,350
Dividend paid to non-controlling interest during the year	**(95,123)**	(169,564)
Acquisition of additional equity interests in subsidiaries	**–**	(394)
	272,025	277,292

37. NON-CONTROLLING INTERESTS (Continued)

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

	31/12/2014 RMB'000	31/12/2013 RMB'000
Current assets	**6,710,318**	7,529,935
Non-current assets	**1,741,699**	1,772,946
Current liabilities	**7,616,491**	8,373,439
Non-current liabilities	**103,088**	91,786
Equity attributable to owners of the Company	**541,258**	640,866
Non-controlling interests	**191,180**	196,790

	2014 RMB'000	2013 RMB'000
Revenue	**13,141,919**	13,518,385
Total cost of sales, expenese and other income	**(12,827,994)**	(13,085,494)
Profit for the year	**313,925**	432,891
Profit attributable to owner of the Company	**240,098**	361,422
Profit attributable to non-controlling interests	**73,827**	71,469
Dividends paid to non-controlling shareholders	**79,435**	85,424

	2014 RMB'000	2013 RMB'000
Net cash inflow from operating activities	**553,229**	2,576,833
Net cash outflow from investing activities	**(715,599)**	(470,914)
Net cash outflow from financing activities	**(450,581)**	(541,067)
Net cash (outflow) inflow	**(612,951)**	1,564,852

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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 issue of new debts or the redemption of existing debts.

39. FINANCIAL INSTRUMENTS

(1) Categories of financial instruments

Financial assets

The Group	**31/12/2014 RMB'000**	31/12/2013 RMB'000
Financial assets at fair value through profit or loss	**2,223**	140,022
Held-to-maturity investments	**–**	240,980
Available-for-sale financial assets	**283,198**	509,460
Loans and receivables (including cash and cash equivalents)	**10,110,515**	10,877,844
	10,395,936	11,768,306

The Company	**31/12/2014 RMB'000**	31/12/2013 RMB'000
Financial assets at fair value through profit or loss	**–**	140,022
Held-to-maturity investments	**–**	240,980
Available-for-sale financial assets	**218,363**	476,837
Loans and receivables (including cash and cash equivalents)	**7,851,796**	8,439,525
	8,070,159	9,297,364

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

39. FINANCIAL INSTRUMENTS (Continued)

(1) Categories of financial instruments (Continued)

Financial liabilities

The Group	**31/12/2014** **RMB'000**	31/12/2013 RMB'000
Bank borrowings	**2,000**	2,000
Other financial liabilities, at amortised cost	**5,073,287**	5,878,737
	5,075,287	5,880,737

The Company	**31/12/2014** **RMB'000**	31/12/2013 RMB'000
Other financial liabilities, at amortised cost	**3,148,560**	4,447,543

(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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

39. FINANCIAL INSTRUMENTS (Continued)

(2) Financial risk management objectives and policies (Continued)

Interest rate risk (Continued)

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 (2013: 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 (2013: 10-basis point) higher/lower and all other variables were held constant, the Group's post-tax profit for the years ended 31 December 2014 and 2013 would have been increased/decreased by approximately RMB7,333,568 and RMB8,172,555 whilst the Company's post-tax profit for the years ended 31 December 2014 and 2013 would have been increased/decreased by approximately RMB1,609,383 and RMB1,697,204.

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 2014 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% (2013: 5%) higher/lower, post-tax profit for the year ended December 31, 2014 would have increased/decreased by RMB83,000 (2013: RMB5,251,000) 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 2014, 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.

39. FINANCIAL INSTRUMENTS (Continued)

(2) Financial risk management objectives and policies (Continued)

Credit risk (Continued)

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

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

The credit risk on liquid funds, 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 2014, the group's balances deposited in the five banks accounted for 67.7% of total term deposits and cash and cash equivalents of the Group (2013: 78.5%). As at 31 December 2014, balances with the five largest bank accounted for 90.1% of total term deposits and cash and cash equivalents of the Company (2013: 90.9%).

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 2014, the Group has net current liabilities of RMB3,405,147,000 (2013: RMB4,583,069,000). 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 2014

39. FINANCIAL INSTRUMENTS (Continued)

(2) Financial risk management objectives and policies (Continued)

Credit 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 2014						
Trade payables	–	3,713,440	–	–	3,713,440	3,713,440
Other payables and accruals	–	1,306,139	–	–	1,306,139	1,306,139
Amounts due to fellow subsidiaries	–	48,193	–	–	48,193	48,193
Amounts due to associates	–	5,515	–	–	5,515	5,515
Bank borrowings	7.28	–	2,146	–	2,146	2,000
		5,075,287	2,146	–	5,075,287	5,075,287
As at 31 December 2013						
Trade payables	–	4,542,397	–	–	4,542,397	4,542,397
Other payables and accruals	–	1,275,600	–	–	1,275,600	1,275,600
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
		5,880,737	2,144	–	5,880,737	5,880,737

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 2014						
Trade payables	–	2,261,498	–	–	2,261,498	2,261,498
Other payables and accruals	–	19,531	–	–	19,531	19,531
Amounts due to subsidiaries	–	813,849	–	–	813,849	813,849
Amounts due to fellow subsidiaries	–	48,167	–	–	48,167	48,167
Amounts due to associates	–	5,515	–	–	5,515	5,515
		3,148,560	–	–	3,148,560	3,148,560
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

(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).

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For the year ended 31 December 2014

39. FINANCIAL INSTRUMENTS (Continued)

(3) Fair value measurements of financial instruments (Continued)

Fair value measurements recognised in the statement of financial position that are measured at fair value on a recurring basis (Continued)

The Group and the Company

Financial assets	Classified as	Fair value as at 31/12/2014 RMB'000	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 lost	**N/A**	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
2) Investment in equity shares listed in Shanghai Stock Exchange	Financial assets at fair value through profit or loss	**Assets – 2,223** **Equity securities:** **– Real estates (2,199)** **– Agricultural (24)**	N/A	Level 1	Quoted bid prices in an active market	N/A	N/A

The following table represents the changes in Level 3 available-for-sale investments during the year ended December 31, 2014 and 2013.

	31/12/2014 RMB'000	31/12/2013 RMB'000
At beginning of the year	**140,022**	–
Addition	**400,000**	140,000
Disposal	**(544,095)**	–
Total gain recognised in profit or loss	**4,073**	22
At end of the year	**–**	140,022

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40. CAPITAL COMMITMENTS

The Group	**31/12/2014 RMB'000**	31/12/2013 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	**173,053**	249,743
– authorised but not contracted for	**781,588**	831,433

The Company	**31/12/2014 RMB'000**	31/12/2013 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	**8,331**	4,406

41. OPERATING LEASE

(1) The Group as lessee

	31/12/2014 RMB'000	31/12/2013 RMB'000
Minimum lease paid and recognised as an expense under operating leases during the year:		
– Land and buildings	**1,762,288**	1,684,412

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:

	31/12/2014 RMB'000	31/12/2013 RMB'000
Within one year	**1,583,451**	1,576,656
In the second to fifth years inclusive	**5,316,261**	5,407,565
Over five years	**7,728,220**	8,713,930
	14,627,932	15,698,151

The minimum lease payments related to leasing of shop premises were negotiated for a lease period ranging from short to medium terms.

The operating lease rental of certain shop premises with a fellow subsidiary is based on the higher of a minimum guaranteed rental or a sales level based rental.

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41. OPERATING LEASE (Continued)

(2) The Group as lessor

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

	31/12/2014 RMB'000	31/12/2013 RMB'000
Minimum lease received under operating leases in respect of shop premises during the year	611,281	585,075

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	31/12/2014 RMB'000	31/12/2013 RMB'000
Within one year	226,328	237,255
In the second to fifth years inclusive	393,961	343,704
Over five years	364,082	376,258
	984,371	957,217

The minimum lease payments related to leasing of shop premises were negotiated for a lease period ranging from short to medium terms.

42. RETIREMENT BENEFIT PLANS

Defined contribution plans

The employees of the Group are members of a state-managed retirement benefit scheme operated by the PRC government. The Group is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to profit or loss of RMB281,708,000 (2013: RMB276,084,000) represents contributions payable to these scheme by the Group in respect of the current accounting period.

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43. RELATED PARTY TRANSACTIONS

Apart from those disclosed under Notes 17, 28 and 29, the Group entered into significant related party transactions during the year, the details of which are set out below:

(1) Related party transactions

	NOTES	**2014 RMB'000**	2013 RMB'000
Sales to fellow subsidiaries	(a)	**–**	158,390
Purchases from associates – Shanghai Gude Commercial Trading Co., Ltd., Shanghai Sanming Taige Information Technology Co., Ltd. and Shantou Lianhua South Purchase and Distribution Co., Ltd.	(a)	**31,462**	25,723
Purchases from fellow subsidiaries	(a)	**168,078**	216,492
Rental expenses and property management fee paid to fellow subsidiaries	(b)	**77,380**	62,988
Rental income from fellow subsidiaries	(c)	**12,606**	12,606
Commission income received from fellow subsidiaries	(d)	**811**	1,027
Commission income arising from the redemption of coupon liabilities with a fellow subsidiary	(e)	**12,395**	16,134
Commission charges arising from the redemption of coupon liabilities with a fellow subsidiary	(e)	**12,675**	13,833
Interest income earned from a fellow subsidiary	(f)	**3,347**	–

Fellow subsidiaries above are other subsidiaries of Bailian Group.

Notes:

(a) This represents sales to and purchase from Bailian Group in respect of various kinds of merchandise, including but not limited to food products, daily products and electrical appliances, which were determined in accordance with the terms of underlying agreement at the market price.

(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 at the market price.

(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 at the market price.

(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 subsidiaries controlled by Bailian Group in retail outlets of these related companies. The commissions were charged at a rate of 0.5% to 1% (2013: at rates ranging from 0.5% to 1%) 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% (2013: 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) Related party balances

The Group entered into a financial services agreement with a fellow subsidiary controlled by Bailian Group on 28 Feberay 2013. Pursuant to the agreement, the fellow subsidiary agreed to provide the Group with the deposit services 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 for a period till 31 December 2015.

The Group	**31/12/2014 RMB'000**	31/12/2013 RMB'000
Cash and cash equivalents in a fellow subsidiary	**177,716**	–
Unrestricted term deposits in a fellow subsidiary	**335,000**	–
Restricted term deposits in a fellow subsidiary	**–**	315,365

The Company	**31/12/2014 RMB'000**	31/12/2013 RMB'000
Cash and cash equivalents in a fellow subsidiary	**151,320**	–
Unrestricted term deposits in a fellow subsidiary	**315,000**	–
Restricted term deposits in a fellow subsidiary	**–**	315,365

(3) 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.

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43. RELATED PARTY TRANSACTIONS (Continued)

(4) Key management compensation

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

	2014 RMB'000	2013 RMB'000
Salaries and other short-term employee benefits	9,154	10,628
Post-employment benefits	488	463
Other long-term benefits	166	158
	9,808	11,249

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

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES

Details of the Company's principal subsidiaries and associates at 31 December 2014 and 31 December 2013 are as follows:

Name of entities	Date of establishment	Registered and fully paid capital RMB'000	Proportion voting power and ownership interest held by the Company: Directly 2014 %	Directly 2013 %	Indirectly 2014 %	Indirectly 2013 %	Principal activities
(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.	24 November 1997	500,000	100.00	100.00	-	–	Hypermarket
Hangzhou Lianhua Huashang Group Co., Ltd.	1 June 2001	120,500	74.19	74.19	-	–	Supermarket and hypermarket
Lianhua Supermarket Jiangsu Co., Ltd.	21 March 2003	50,000	100.00	100.00	-	–	Supermarket and hypermarket
Guangxi Lianhua Supermarket Joint Stock Co., Ltd.	18 November 2001	68,670	95.00	95.00	-	–	Supermarket convenience store hypermarket and
Shanghai Lianhua Supermarket Development Co., Ltd.	8 April 2006	10,000	100.00	100.00	-	–	Supermarket
Lianhua Quik Stores Co., Ltd.	25 November 1997	63,000	100.00	100.00	-	–	Convenience store
Shanghai Lianhua Commercial Trading Co., Ltd.	27 June 2001	3,000	100.00	100.00	-	–	Wholesaling

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44. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (Continued)

Details of the Company's principal subsidiaries and associates at 31 December 2014 and 31 December 2013 are as follows: (Continued)

Name of entities	Date of establishment	Registered and fully paid capital	Proportion voting power and ownership interest held by the Company				Principal activities
		RMB'000	Indirectly		Directly		
			2014	2013	2014	2013	
			%	%	%	%	
Shanghai Lianhua Supermarket Distribution Co., Ltd.	29 October 1998	5,000	**100.00**	100.00	**-**	–	Purchase and distribution
Lianhua Logistic Co., Ltd.	17 October 2007	50,000	**100.00**	100.00	**-**	–	Purchase and distribution
Shanghai Lianhua Supermarket Jilin Purchase and Distribution Co., Ltd.	9 August 2000	1,000	**51.00**	51.00	**-**	–	Purchase and distribution
Shanghai Lianhua Live and Fresh Food Processing and Distribution Co., Ltd.	29 December 1999	5,000	**90.00**	90.00	**-**	–	Fresh food processing and distribution
Lianhua E-business Co., Ltd.	4 October 1995	55,000	**90.91**	90.91	**-**	–	Trading
Hualian Supermarket Holdings Company Limited	15 August 2006	300,000	**99.40**	99.40	**0.60**	0.60	Supermarket
Shanghai Bei Heng Investment Management Co., Ltd.	27 October 2011	30,000	**100.00**	100.00	**-**	–	Investment management
(2) Associates							
Shanghai Carhua Supermarket Co., Ltd.	8 February 1995	504,881	**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 both 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 27 March 2015.

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

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