

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

1. Principal activities

The principal activities of the Group and its associates are the operation of a chain of supermarkets, hypermarkets and convenience stores in East Region of the People's Republic of China (the "PRC"). All the operating assets of the Group and its associates are located in the PRC.

2. Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, investments in trading securities are stated at fair value.

In the current year, the Group adopted Statement of Standard Accounting Practice ("SSAP") Number 35 "Government Grants and Disclosure of Government Assistance" ("SSAP 35") and SSAP Number 12 (revised) "Income Taxes" ("revised SSAP 12") issued by the HKSA which are effective for accounting periods commencing on or after 1 July 2002 and 1 January 2003, respectively.

The adoption of SSAP35 did not have a material financial effect on the Group. The changes to the Group's accounting policies on deferred taxation pursuant to the revised SSAP12 and the effect of adopting these new policies are set out in Note 3(m) below.

3. Principal accounting policies

(a) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the Board of Directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

3. Principal accounting policies (continued)

(a) Group accounting (continued)

(i) Consolidation (continued)

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) Associates

An associate is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the post-acquisition results of associates for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associates and goodwill/ negative goodwill (net of accumulated amortisation) on acquisition, if any.

Equity accounting is discontinued when the carrying amount of the investment in an associate reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Company's balance sheet the investments in associates are stated at cost less provision for impairment losses. The results of associates are accounted for by the Company on the basis of dividends received and receivable.

(b) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary or associate at the date of acquisition.

Goodwill on acquisitions is included in intangible assets and is amortised using the straight-line method over its estimated useful life. Goodwill arising on major strategic acquisitions of the Group to expand its product or geographical market coverage is amortised over a period of 10 years.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

3. Principal accounting policies (continued)

(b) Intangible assets (continued)

(ii) Software

Expenditure on acquired software is capitalised and amortised using the straight-line method over a period of 3 to 5 years which represents the expected useful life of the software.

(iii) Impairment

Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and written down immediately to its recoverable amount.

(c) Fixed assets

Fixed assets, comprising leasehold land and buildings, leasehold improvements, transportation vehicles and operating and office equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses to their estimated residual values over their estimated useful lives on a straight-line basis. The estimated useful lives and residual values, as a percentage of the cost, are as follows:

	Estimated useful lives	Estimated residual values
Leasehold land	Unexpired period of the lease	—
Buildings	25 to 40 years	5 to 10%
Leasehold improvements	5 to 8 years or the remaining term of any non-renewable lease, whichever is shorter	—
Transportation vehicles	5 to 8 years	5 to 10%
Operating and office equipment	5 to 8 years	5 to 10%

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

3. Principal accounting policies (continued)

(d) Construction in progress

Construction in progress represents stores and storage facilities under construction, computer networks and equipment being installed or renovation works in progress and is stated at cost. Cost comprises development and construction expenditure incurred and interest and other direct costs attributable to the development less any accumulated impairment losses. No depreciation is provided on construction in progress. On completion, the relevant assets are transferred to fixed assets at cost less accumulated impairment losses.

(e) Investments

(i) Long-term investments

Long-term investments are equity investments held for strategic purposes and are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed by the Directors at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to the profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(ii) Investments in trading securities

Investments in trading securities are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of investments in trading securities are recognised in the profit and loss account. Profits or losses on disposal of investments in trading securities, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(f) Inventories

Inventories comprise merchandise purchased for resale and are stated at the lower of cost and net realisable value. Cost of merchandise, representing its purchase cost, is calculated either on the first-in, first-out basis for hypermarkets or on the weighted average basis for supermarkets and convenience stores. Net realisable value of merchandise is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(g) Receivables

Provision is made against receivables to the extent they are considered to be doubtful. Receivables in the balance sheet are stated net of such provision.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

3. Principal accounting policies (continued)

(h) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

(i) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(j) Coupon liabilities

Coupon liabilities are recorded as liabilities when coupons are sold. Coupons surrendered in exchange for products during the year are recognised as sales and transferred to the profit and loss account using the coupon sales value. Coupons liabilities are classified as current liabilities at the end of the year.

(k) Employee retirement benefits

The Group contributes on a monthly basis to various retirement benefit plans organised by relevant municipal and provincial governments in the PRC. The municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

(l) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

3. Principal accounting policies (continued)

(m) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior years, deferred taxation was accounted for at the current taxation rates in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the revised SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

The adjustments made by the Group on adoption of the revised SSAP 12 are summarised as follows:

	As at 1 January 2002 RMB'000	As at 31 December 2002 RMB'000	For the year ended 31 December 2002 RMB'000
		Increase/(Decrease)	
Retained earnings	3,885	2,346	—
Deferred tax assets	3,885	3,215	(670)
Deferred tax liabilities	—	45,736	579
Goodwill	—	21,999	(1,158)
Minority interests	—	(22,868)	—
Minority interests' share of profit	—	—	290
Profit attributable to shareholders	—	—	(1,539)

The adjustments on deferred taxation mainly relate to the acquisition of a major subsidiary in July 2002. Pursuant to the revised SSAP 12, when the carrying amount of an asset is increased to its fair value upon acquisition of a subsidiary but the tax base of the asset remains at cost to the previous owner, a taxable temporary difference arises which results in a deferred tax liability. The resulting deferred tax liability arising from the acquisition in July 2002, amounting to RMB46,315,000 (Note 31), has the effect of increasing the Group's goodwill upon acquisition by RMB23,157,000 (Note 13), after excluding the minority interests' share of RMB23,158,000.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

3. Principal accounting policies (continued)

(n) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made or received under operating leases are charged or credited to the profit and loss account on a straight-line basis over the lease periods.

(o) Pre-opening costs

The cost of start-up activities, including organisational costs and new store openings, are expensed as incurred.

(p) Government subsidy

A government subsidy is recognised when there is a reasonable assurance that the Group will comply with the conditions attaching with it and that the grant will be received.

Grants relating to income are deferred and recognised in the profit and loss account over the period necessary to match them with the costs they are intended to compensate.

(q) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(r) Revenue recognition

Provided it is probable that the economic benefits associated with a transaction will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised on the following bases:

- (i) Revenue from the sale of merchandise is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the merchandise are delivered to customers and title has passed.
- (ii) Promotion and store display income, income from leasing of merchandise storage space and delivery income from suppliers are recognised according to contract terms and as services are provided.
- (iii) Income from leasing of shop premises is recognised on a straight-line basis over the lease periods.
- (iv) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.
- (v) Royalty income from franchise stores is recognised on an accrual basis.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

3. Principal accounting policies (continued)

(s) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format.

Unallocated revenue of the Group comprises interest income.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash, and mainly exclude certain corporate bank balances and cash, investments in associates, deferred tax assets, amounts due from other related parties and investments in trading securities. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to fixed assets and construction in progress and intangible assets, including additions resulting from acquisitions through purchases of subsidiaries.

No geographical segment information by location of assets is presented as all of the Group's assets are located in the PRC. No analysis of turnover by location of customers is presented as the Group sells merchandise to customers in the PRC.

4. Turnover, other revenues and segment information

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

	2003 RMB'000	2002 RMB'000
Turnover		
Sales of merchandise	9,282,248	5,821,231
Other revenues		
Income from suppliers		
— Promotion and store display income	390,930	237,436
— Merchandise storage and delivery income	76,921	58,531
Gross rental income from leasing of shop premises	84,119	19,966
Interest income	3,879	2,341
Royalty income from franchised stores	26,381	10,766
Others	32,716	12,922
	614,946	341,962
Total revenues	9,897,194	6,163,193

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

4. Turnover, other revenues and segment information (continued)

Segment information

No geographical segment analysis is presented as all assets and operations of the Group during the year are located in the PRC.

The principal operation of the Group is organised into three main business segments:

- Supermarkets chain operation
- Hypermarkets chain operation
- Convenience stores chain operation

There are no significant sales or other transactions between the business segments.

Other operations of the Group mainly comprise logistic services for wholesale business.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

4. Turnover, other revenues and segment information (continued)

Segment information (continued)

	Supermarkets RMB'000	Hypermarkets RMB'000	Convenience stores RMB'000	Other operations RMB'000	Group RMB'000
2003					
Segment revenue	5,205,418	3,578,311	1,019,385	90,201	9,893,315
Including sales of merchandise to					
— an associate at cost	—	790,076	—	—	790,076
— an associate at retail price less 2%	346,803	—	—	—	346,803
— franchised stores at cost	253,958	—	98,100	—	352,058
Interest income					3,879
Total revenues					9,897,194
Segment results	151,083	49,414	17,901	974	219,372
Interest income					3,879
Other income					17,182
Unallocated costs					(29,577)
Operating profit					210,856
Finance costs					(11,024)
Share of results of associates					94,265
Profit before taxation					294,097
Taxation					(91,335)
Profit after taxation					202,762
Minority interests					(39,139)
Profit attributable to shareholders					163,623
Segment assets	1,419,893	1,265,200	288,081	33,563	3,006,737
Investments in associates					279,507
Unallocated assets					775,660
Total assets					4,061,904
Segment liabilities	1,156,547	1,173,550	157,779	26,904	2,514,780
Unallocated liabilities					48,198
Total liabilities					2,562,978
Capital expenditure	133,291	273,563	64,788	1,647	473,289
Depreciation	126,025	52,614	28,608	16,235	223,482
Amortisation charges	1,026	1,750	537	185	3,498

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

4. Turnover, other revenues and segment information (continued)

Segment information (continued)

	Supermarkets RMB'000	Hypermarkets RMB'000	Convenience stores RMB'000	Other operations RMB'000	Group RMB'000
2002					
Segment revenue	4,327,618	1,019,040	725,764	88,430	6,160,852
Including sales of merchandise to					
— an associate at cost	82,506	—	—	—	82,506
— an associate at retail price less 2%	185,832	—	—	—	185,832
— franchised stores at cost	192,239	—	89,907	—	282,146
Interest income					2,341
Total revenues					6,163,193
Segment results	96,777	15,197	11,730	1,719	125,423
Interest income					2,341
Other income					8,833
Unallocated costs					(14,987)
Operating profit					121,610
Finance costs					(8,454)
Share of results of associates					85,189
Profit before taxation					198,345
Taxation					(54,659)
Profit after taxation					143,686
Minority interests					(17,088)
Profit attributable to shareholders					126,598
Segment assets	1,630,951	520,717	256,677	32,222	2,440,567
Investments in associates					252,924
Unallocated assets					179,993
Total assets					2,873,484
Segment liabilities	1,238,869	383,606	290,539	21,190	1,934,204
Unallocated liabilities					83,732
Total liabilities					2,017,936
Capital expenditure	697,697	236,035	118,068	3,154	1,054,954
Depreciation	97,392	20,669	19,005	11,981	149,047
Amortisation charge	4,061	726	770	1,465	7,022

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

5. Operating profit

Operating profit is stated after crediting and charging the following:

	2003 RMB'000	2002 RMB'000
<i>Crediting:</i>		
Government subsidies	13,953	4,088
Gross income from leasing of shop premises	84,119	19,966
Net income from investments		
— Net gain on disposal of trading securities	1,604	2,885
— Net income from designated deposits	1,625	1,860
Reversal of provision for doubtful debts	—	2,709
Unrealised gains on trading securities	535	—
<i>Charging:</i>		
Amortisation of goodwill	8,943	2,623
Amortisation of non-current assets	1,397	1,131
Amortisation of software	3,498	4,426
Auditors' remuneration	2,663	464
Depreciation of fixed assets	223,482	149,047
Loss on disposal of fixed assets	418	7,801
Operating lease rental in respect of land and buildings	354,774	196,138
Outgoings related to leasing of shop premises	26,449	3,502
Provision for obsolescence of inventories	333	1,104
Staff costs excluding directors' emoluments (Note 7)	507,742	331,351
Provision for doubtful debts	2,421	—
Loss on disposal of intangible assets	3,579	—
Loss on disposal of equity interests in subsidiaries	—	535
Unrealised losses on trading securities	—	195

6. Finance costs

Financial costs represent interest expense on bank loans.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

7. Staff costs excluding directors' emoluments

	2003 RMB'000	2002 RMB'000
Salaries and wages	363,355	235,186
Retirement benefit costs - defined contribution plans (Note)	42,527	26,283
Medical benefits	20,401	13,205
Other welfare expenses	81,459	56,677
	507,742	331,351

Note

In accordance with the rules and regulations in the PRC, the employees of the Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries during the year.

The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired employees payable under the plans described above. Contributions to these plans are expensed as incurred and other than these monthly contributions, the Group has no further obligation for the payment of retirement and other post retirement benefits of its employees. The assets of these plans are held separately from those of the Group in independently administered funds managed by the PRC government.

8. Taxation

The amount of taxation charged/(credited) to the consolidated profit and loss account represents:

	2003 RMB'000	2002 RMB'000
PRC income tax		
Company and subsidiaries		
— Current taxation	60,931	26,285
— Deferred taxation	(5,056)	91
Share of taxation of associates	35,460	28,283
	91,335	54,659

PRC income tax is calculated based on the statutory income tax rate of 33% (2002: 33%) of the assessable income of the Group, as determined in accordance with the relevant PRC income tax rules and regulations except for certain subsidiaries and associates which are taxed at preferential rates ranging from 0% to 15% (2002: 0% to 15%) based on the relevant PRC tax laws and regulations.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

8. Taxation (continued)

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the statutory taxation rate as follows:

	2003 RMB'000	2002 RMB'000
Profit before taxation	294,097	198,345
Calculated at a taxation rate of 33%	97,052	65,454
Effect of preferential tax rates on the income of certain subsidiaries and associates	(16,063)	(14,269)
Expenses not deductible for taxation purpose	4,517	760
Utilisation of previously unrecognised tax losses	(403)	(103)
Tax effect of losses from certain subsidiaries and associates not deductible	6,232	2,817
Taxation charges	91,335	54,659

As at 31 December 2003, an associate of the Group which is subject to PRC income tax at a rate of 15% had tax losses carried forward of approximately RMB21,861,000. These tax losses can only be carried forward for 5 years. No deferred tax asset has been recognised for these tax losses which would have amounted to approximately RMB1,476,000 as it is uncertain that the associate will have sufficient future taxable profits to utilise these tax losses before they expire.

9. Profit attributable to shareholders

The profit attributable to shareholders for the year ended 31 December 2003 is dealt with in the Company's accounts to the extent of RMB187,637,000 (2002: RMB75,751,000).

10. Dividends

	2003 RMB'000	2002 RMB'000
Interim, paid, of Nil (2002: RMB0.01) per share	—	4,151
Final, proposed, of RMB0.08 (2002: RMB0.31) per share	47,000	124,500
	47,000	128,651

At a meeting held on 1 April 2004, the Directors proposed a final dividend of RMB0.08 (2002: RMB0.31) per share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2004.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

11. Earnings per share

The calculation of basic earnings per share for the year ended 31 December 2003 is based on the profit attributable to shareholders of RMB163,623,000 (2002: RMB126,598,000) and the weighted average number of 503,200,000 (2002: 415,000,000) shares in issue during the year.

Diluted earnings per share has not been calculated as there were no dilutive options and other dilutive potential shares in issue during both years presented.

12. Directors' and senior management's emoluments

(a) Directors' emoluments

The aggregate amount of emoluments paid and payable to the Directors of the Company during the year are as follows:

	2003 RMB'000	2002 RMB'000 Note
Executive/non-executive Directors:		
Fees	—	—
Basic salaries, allowances and benefits in kind	491	—
Discretionary bonuses	114	—
Retirement benefit costs	10	—
Medical benefits	3	—
Independent non-executive Directors:		
Fees	150	—
	768	—

The emoluments fell within the following bands:

	Number of Directors	
	2003	2002
Emolument bands		
Nil – HK\$1,000,000	10	—

None of the Directors waived any emoluments during the year.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

12. Directors' and senior management's emoluments (continued)

(a) Directors' emoluments (continued)

Note:

Certain Directors of the Company received an aggregate emolument of RMB165,000 for the year ended 31 December 2002 from the Company's controlling shareholder and the ultimate holding company, part of which was in respect of their services to the Company and its subsidiaries. No apportionment had been made as the Directors considered that it was impracticable to apportion this amount between their services to the Group and their services to the Company's controlling shareholder and ultimate holding company. In return, the Company paid management fees of RMB700,000 to the controlling shareholder and the ultimate holding company for the year ended 31 December 2002.

(b) Supervisory committee members' emoluments

The aggregate amounts of emoluments paid and payable to the Supervisors of the Company during the year are as follows:

	2003 RMB'000	2002 RMB'000
Fees	—	—
Basic salaries, allowances and benefits in kind	220	—
Discretionary bonuses	54	—
Retirement benefit costs	5	—
Medical benefits	2	—
	281	—

The emoluments fell within the following bands:

	Number of Supervisors	
	2003	2002
Emolument bands		
Nil – HK\$1,000,000	3	—

None of the Supervisors waived any emoluments during the year.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

12. Directors' and senior management's emoluments (continued)

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the year were executives of the Group and none of them was a Director or Supervisor of the Company. The emoluments of these five highest paid individuals are as follows:

	2003 RMB'000	2002 RMB'000
Basic salaries, allowances and benefits-in-kind	2,407	1,720
Discretionary bonuses	388	300
Retirement benefit costs	23	79
Medical benefits	6	37
	2,824	2,136

During the year, the emoluments of each of the five highest paid individuals were less than HK\$1,000,000.

During the year, 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.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

13. Intangible assets

Group	Software RMB'000	Goodwill RMB'000	Total RMB'000
Opening net book value at 1 January 2002	426	9,978	10,404
Acquisition of a subsidiary- Hangzhou Lianhua Huashang Group Co., Ltd.			
— as previously stated	3,077	8,108	11,185
— adjustment arising from adoption of the revised SSAP12 (Note 3(m))	—	23,157	23,157
— as restated	3,077	31,265	34,342
Amortisation charges			
— as previously reported	(4,426)	(1,465)	(5,891)
— adjustment arising from adoption of the revised SSAP12 (Note 3(m))	—	(1,158)	(1,158)
— as restated	(4,426)	(2,623)	(7,049)
Other additions	11,884	—	11,884
Closing net book value at 31 December 2002, as restated	10,961	38,620	49,581
Opening net book value at 1 January 2003			
— as previously reported	10,961	16,621	27,582
— adjustment arising from adoption of the revised SSAP12 (Note 3(m))	—	21,999	21,999
— as restated	10,961	38,620	49,581
Additions	15,402	46,009	61,411
Amortisation charges	(3,498)	(8,943)	(12,441)
Disposals	(3,579)	—	(3,579)
Closing net book value at 31 December 2003	19,286	75,686	94,972
At 31 December 2002			
Cost	15,542	41,861	57,403
Accumulated amortisation	(4,581)	(3,241)	(7,822)
Net book value	10,961	38,620	49,581
At 31 December 2003			
Cost	24,273	87,871	112,144
Accumulated amortisation	(4,987)	(12,185)	(17,172)
Net book value	19,286	75,686	94,972

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

13. Intangible assets (continued)

The adoption of the revised SSAP12 did not have a material effect on the Group's intangible assets as at 1 January 2002.

Company

	Software RMB'000
Opening net book value at 1 January 2003	—
Additions	1,668
Amortisation charges	(186)
Closing net book value at 31 December 2003	1,482
At 31 December 2003	
Cost	1,668
Accumulated amortisation	(186)
Net book value	1,482

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

14. Fixed assets

Group	Leasehold land and buildings RMB'000	Leasehold improvements RMB'000	Operating Transportation vehicles RMB'000	and office equipment RMB'000	Total RMB'000
Cost					
At 1 January 2003	727,155	387,724	68,982	687,343	1,871,204
Additions	283	164,833	19,579	194,517	379,212
Transfer from construction in progress (Note 15)	1,298	34,498	4,992	18,860	59,648
Disposals	(4,774)	(11,160)	(2,210)	(11,207)	(29,351)
At 31 December 2003	723,962	575,895	91,343	889,513	2,280,713
Accumulated depreciation					
At 1 January 2003	31,898	139,265	16,423	222,492	410,078
Charge for the year	20,362	85,190	11,044	106,886	223,482
Disposals	(895)	(5,782)	(1,528)	(7,197)	(15,402)
At 31 December 2003	51,365	218,673	25,939	322,181	618,158
Net book value					
At 31 December 2003	672,597	357,222	65,404	567,332	1,662,555
At 31 December 2002	695,257	248,459	52,559	464,851	1,461,126

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

14. Fixed assets (continued)

Company	Leasehold land and buildings RMB'000	Leasehold improvements RMB'000	Transportation vehicles RMB'000	Operating and office equipment RMB'000	Total RMB'000
Cost					
At 1 January 2003	149,236	126,709	7,615	206,572	490,132
Additions	—	—	775	6,387	7,162
Transfer from construction in progress (Note 15)	—	3,100	300	3,933	7,333
Disposals	—	(3,859)	(343)	(5,773)	(9,975)
At 31 December 2003	149,236	125,950	8,347	211,119	494,652
Accumulated depreciation					
At 1 January 2003	17,896	64,901	2,826	102,335	187,958
Charge for the year	3,993	17,489	904	25,080	47,466
Disposals	—	(2,033)	(248)	(3,734)	(6,015)
At 31 December 2003	21,889	80,357	3,482	123,681	229,409
Net book value					
At 31 December 2003	127,347	45,593	4,865	87,438	265,243
At 31 December 2002	131,340	61,808	4,789	104,237	302,174

Note:

- (a) All the land of the Group are held in the PRC on leases with remaining lease periods of between 10 to 50 years.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

15. Construction in progress

Group	RMB'000
At 1 January 2002	56,318
Additions	90,316
Transfer to fixed assets	(140,809)
At 31 December 2002	5,825
Additions	78,675
Transfer to fixed assets (Note 14)	(59,648)
At 31 December 2003	24,852
Company	RMB'000
At 1 January 2002	2,581
Additions	18,493
Transfer to fixed assets	(17,553)
At 31 December 2002	3,521
Additions	11,006
Transfer to fixed assets (Note 14)	(7,333)
At 31 December 2003	7,194

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

16. Investments in subsidiaries

Company	2003 RMB'000	2002 RMB'000
Unlisted equity investments, at cost	552,040	380,590
Less: Provision for impairment losses	(1,895)	(3,845)
	550,145	376,745

Particulars of the major subsidiaries held by the Group are set out in Note 39.

Balances with subsidiaries are unsecured, interest free and repayable on demand.

17. Investments in associates

Group	2003 RMB'000	2002 RMB'000
Share of net assets	279,507	252,924
Unlisted equity investments, at cost	130,487	110,542

Company	2003 RMB'000	2002 RMB'000
Unlisted equity investments, at cost	128,907	105,827

The Group's share of net assets of associates mainly represents the Group's share of the net assets of Shanghai Carhua Supermarket Company Limited ("Carhua"). The assets and liabilities of Carhua as at 31 December 2002 and 2003 together with the turnover and profit attributable to shareholders of Carhua during the year ended 31 December 2002 and 2003, as extracted from the accounts of Carhua are as follows:

	2003 RMB'000	2002 RMB'000
Non-current assets	730,166	641,432
Current assets	486,212	450,398
Current liabilities	(747,554)	(671,190)
Turnover	2,794,184	2,624,487
Profit attributable to shareholders	158,108	119,482

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

18. Long-term investments

Group	2003 RMB'000	2002 RMB'000
At cost		
Legal person shares (i)	1,112	1,112
Unlisted equity investments (ii)	9,285	10,664
	10,397	11,776

Company	2003 RMB'000	2002 RMB'000
At cost		
Legal person shares (i)	1,112	1,112
Unlisted equity investments (ii)	1,000	2,380
	2,112	3,492

(i) These represent investments in legal person shares of certain PRC listed companies which are not freely transferable in the market.

(ii) These represent investments in certain unlisted companies in the PRC.

19. Other non-current assets

Other non-current assets mainly represent payments for obtaining the rights to use certain buildings, which may or may not have a specified period of time limit, and are being amortised over the shorter of the contract period or the estimated useful lives of the buildings.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

20. Inventories

Group	2003 RMB'000	2002 RMB'000
Merchandise for resale	885,838	651,398
Provision for obsolescence	(3,450)	(3,117)
	882,388	648,281
Low value consumables	24,143	14,660
	906,531	662,941
Company	2003 RMB'000	2002 RMB'000
Merchandise for resale	153,428	145,658
Provision for obsolescence	(825)	(825)
	152,603	144,833
Low value consumables	2,812	1,017
	155,415	145,850

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

21. Trade receivables

The ageing analyses of the trade receivables, arising mainly from sales of merchandise to franchised stores and with credit terms ranging from 30 to 45 days, are as follows:

Group	2003 RMB'000	2002 RMB'000
Within 30 days	16,705	10,639
30-60 days	3,582	514
61-90 days	1,309	10
91 days-one year	224	587
	21,820	11,750

Company	2003 RMB'000	2002 RMB'000
Within 30 days	3,194	2,385
30-60 days	394	283
61-90 days	8	8
91 days-one year	192	207
	3,788	2,883

22. Deposits, prepayments and other receivables

Group	2003 RMB'000	2002 RMB'000
Deposits and prepayments	104,236	72,754
Other receivables	29,115	10,675
	133,351	83,429

Company	2003 RMB'000	2002 RMB'000
Deposits and prepayments	7,413	15,117
Other receivables	11,184	3,777
	18,597	18,894

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

23. Amounts due from/to associates

Amounts due from/to associates represent balances arising from sales of merchandise and advanced payments for merchandise received from associates respectively. Balances are all aged within 60 days and the credit terms range from 30 to 90 days. Such balances with associates are unsecured and interest free.

24. Amounts due from/to other related parties

Group	As at 31 December,	
	2003 RMB'000	2002 RMB'000
Amount due from a fellow subsidiary	—	55
Amount due to the controlling shareholder	—	9,500
Amounts due to other related parties	—	1,555
	—	11,055

Company	As at 31 December,	
	2003 RMB'000	2002 RMB'000
Amount due from a fellow subsidiary	—	55

The balances with other related parties were unsecured, interest free and had been fully repaid during the year.

25. Investments in trading securities

Group	As at 31 December,	
	2003 RMB'000	2002 RMB'000
Equity securities listed in the PRC, at market value	3,406	1,729

Company	As at 31 December,	
	2003 RMB'000	2002 RMB'000
Equity securities listed in the PRC, at market value	3,344	1,667

26. Bank balances and cash

All bank balances, which are denominated in Renminbi and other currencies, are placed with banks in the PRC. The remittance of these funds out of the PRC is subject to the exchange control restrictions imposed by the PRC government.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

27. Trade payables

The ageing analyses of the trade payables are as follows:

Group	2003 RMB'000	2002 RMB'000
Within 30 days	968,260	608,926
30-60 days	708,284	294,559
61-90 days	162,957	196,491
91 days-one year	18,631	43,874
	1,858,132	1,143,850

Company	2003 RMB'000	2002 RMB'000
Within 30 days	250,794	89,023
30-60 days	208,204	59,450
61-90 days	59,451	73,443
91 days-one year	4,772	500
	523,221	222,416

28. Other payables, accruals and coupon liabilities

Group	2003 RMB'000	2002 RMB'000
Other payables	319,594	264,266
Coupon liabilities	35,496	299,536
Customers' advances	26,692	24,756
Accruals	15,425	4,776
	397,207	593,334

Company	2003 RMB'000	2002 RMB'000
Other payables	20,737	46,544
Coupon liabilities	16,292	292,890
Customers' advances	3,812	6,770
Accruals	14	173
	40,855	346,377

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

29. Taxes payable

Group	2003 RMB'000	2002 RMB'000
PRC business tax payable	5,314	4,244
PRC income tax payable	25,187	11,987
PRC value-added tax payable	8,788	21,699
	39,289	37,930

Company	2003 RMB'000	2002 RMB'000
PRC business tax payable	1,111	673
PRC income tax payable	6,632	4,658
PRC value-added tax payable	8,494	5,816
	16,237	11,147

30. Unsecured short-term borrowings

Group and Company	2003 RMB'000	2002 RMB'000
Short-term bank loans	70,000	170,000
Notes payable (Note)	138,000	—
	208,000	170,000

Note:

During the year, the Company issued certain notes payable to a subsidiary for settlement of trade balances which were subsequently discounted by the subsidiary to bank for cash. These notes payable are repayable within a period of 3 to 6 months.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

31. Deferred taxation

Deferred taxation are calculated in full on temporary differences under the liability method using the tax rates which are expected to be applied at the time of reversal of the temporary differences.

The following are the major deferred tax liabilities/(assets) recognised and movements thereon during the current and prior year:

Group

	Deferred tax liabilities Fair value adjustments on acquisition of subsidiary RMB'000	Deferred tax assets		
		Pre-operating expenses RMB'000	Bad debt and inventory provisions RMB'000	Sub-total RMB'000
Balance at 1 January 2002, as previously reported	—	—	—	—
Adjustments arising from adoption of the revised SSAP 12 (Note 3(m))	—	(1,656)	(2,229)	(3,885)
Balance at 1 January 2002, as restated	—	(1,656)	(2,229)	(3,885)
Adjustments for 2002 arising from adoption of the revised SSAP 12 (Note 3(m))				
– Acquisition of a subsidiary	46,315	—	—	—
– (Credited)/charged to consolidated profit and loss account	(579)	249	421	670
Balance at 31 December 2002, as restated	45,736	(1,407)	(1,808)	(3,215)
Credited to consolidated profit and loss account	(1,157)	(3,030)	(869)	(3,899)
At 31 December 2003	44,579	(4,437)	(2,677)	(7,114)

Company

	Deferred tax assets in respect of bad debt and inventory provisions RMB'000
Balance at 1 January 2003	—
Charged to profit and loss account	1,738
At 31 December 2003	1,738

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

32. Share capital

	Number of shares at RMB1.00 each	Nominal value RMB'000
At 1 January 2002 and 2003	415,000,000	415,000
Issue of H shares (Note)	172,500,000	172,500
At 31 December 2003	587,500,000	587,500

Note:

Pursuant to a resolution passed at the shareholders' meeting on 26 January 2003 and approvals from the relevant government authorities, the Company was authorised to increase its registered share capital from RMB415,000,000 to an amount not less than RMB565,000,000 but not exceeding RMB587,500,000.

On 25 June 2003, the Company completed a placing and public offer of 150,000,000 H shares with a par value of RMB1.00 each at a price of HK\$3.875 per share in cash for an aggregate consideration of HK\$581,250,000 (equivalent to approximately RMB616,730,000). These H shares commenced trading on the Main Board on 27 June 2003. On 7 July 2003, pursuant to the terms of the over-allotment option, the Company issued an additional 22,500,000 H shares with a par value of RMB1.00 each at a price of HK\$3.875 per share in cash for an aggregate consideration of HK\$87,187,500 (equivalent to approximately RMB92,532,094).

As at 31 December 2003, the share capital of the Company composed of:

	Number of shares at RMB1.00 each	Nominal value RMB'000
Domestic shares	355,543,000	355,543
Unlisted foreign shares	59,457,000	59,457
H shares	172,500,000	172,500
At 31 December 2003	587,500,000	587,500

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 country 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.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

33. Reserves

Group

	Capital reserve RMB'000	Statutory common reserve fund RMB'000 (note (a))	Statutory common welfare fund RMB'000 (note (b))	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2002, as previously reported	—	13,782	6,443	25,551	45,776
Adjustments arising from adoption of the revised SSAP 12 (Note 3(m))					
— provision for net deferred tax assets	—	—	—	3,885	3,885
Balance at 1 January 2002, as restated	—	13,782	6,443	29,436	49,661
Profit for 2002, as previously reported	—	—	—	128,137	128,137
Adjustments arising from adoption of the revised SSAP 12 (Note 3(m))					
— provision for net deferred tax liabilities	—	—	—	(91)	(91)
— additional goodwill amortisation	—	—	—	(1,158)	(1,158)
— increase in minority interests' share of profit for 2002	—	—	—	(290)	(290)
Profit for 2002, as restated	—	—	—	126,598	126,598
Profit appropriations	—	12,966	6,482	(19,448)	—
Dividends declared and paid	—	—	—	(4,151)	(4,151)
Balance at 31 December 2002, as restated	—	26,748	12,925	132,435	172,108
Representing:					
Final dividend proposed				124,500	124,500
Others (as restated)				7,935	47,608
				132,435	172,108
Balance at 1 January 2003, as restated	—	26,748	12,925	132,435	172,108
Issue of H shares	536,762	—	—	—	536,762
Share issuance expenses	(56,303)	—	—	—	(56,303)
Profit for the year	—	—	—	163,623	163,623
Profit appropriations	—	23,537	12,334	(35,871)	—
2002 final dividend	—	—	—	(124,500)	(124,500)
Balance at 31 December 2003	480,459	50,285	25,259	135,687	691,690
Representing:					
Final dividend proposed				47,000	47,000
Others				88,687	644,690
				135,687	691,690

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

33. Reserves (continued)

Company

	Capital reserve RMB'000	Statutory common reserve fund RMB'000 (note (a))	Statutory common welfare fund RMB'000 (note (b))	(Accumulated losses)/ retained earnings RMB'000	Total RMB'000
Balance at 1 January 2002	—	4,838	2,419	(63,108)	(55,851)
Profit for the year	—	—	—	75,751	75,751
Profit appropriations	—	12,965	6,483	(19,448)	—
Dividends declared and paid	—	—	—	(4,151)	(4,151)
Balance at 31 December 2002	—	17,803	8,902	(10,956)	15,749
Representing:					
Final dividend proposed				124,500	124,500
Others				(135,456)	(108,751)
				(10,956)	15,749
Balance at 1 January 2003	—	17,803	8,902	(10,956)	15,749
Issue of H shares	536,762	—	—	—	536,762
Share issuance expenses	(56,303)	—	—	—	(56,303)
Profit for the year	—	—	—	187,637	187,637
Profit appropriations	—	16,411	8,205	(24,616)	—
2002 final dividend	—	—	—	(124,500)	(124,500)
Balance at 31 December 2003	480,459	34,214	17,107	27,565	559,345
Representing:					
Final dividend proposed				47,000	47,000
Others				(19,435)	512,345
				27,565	559,345

Note:

- (a) Pursuant to the relevant PRC regulations 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 net 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 production operations, or to increase its capital. Upon approval by a resolution of shareholders at a general meeting, each of the companies within the Group may convert its statutory common reserve fund into share capital and issue bonus shares to existing shareholders in proportion to their original shareholdings or to increase the nominal value of each share currently held by them, provided the balance of the reserve fund after such issue is not less than 25% of the registered capital.

- (b) Pursuant to the relevant PRC regulations and the Articles of Association of the companies within the Group, each of the companies within the Group is required to transfer 5% to 10% of its net profit, as determined under the PRC accounting regulations, to the statutory common welfare fund. This fund can only be used to provide staff facilities and other collective benefits to its employees. This fund is non-distributable other than upon liquidation of the company.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

34. Notes to consolidated cash flow statement

(a) *Reconciliation of profit before taxation to cash generated from operations:*

	2003 RMB'000	As restated 2002 RMB'000
Profit before taxation	294,097	198,345
Adjustments for:		
Amortisation of intangible assets	12,441	7,049
Amortisation of other non-current assets	1,397	1,131
Depreciation of fixed assets	223,482	149,047
Loss on disposal of fixed assets	418	7,801
Loss on disposal of intangible assets	3,579	—
Loss on disposal of equity interests in subsidiaries	—	535
Net income from investment in trading securities and designated deposits	(3,229)	(4,745)
Unrealised (gains)/losses on trading securities	(535)	195
Share of results of associates	(94,265)	(85,189)
Interest income	(3,879)	(2,341)
Interest expense	11,024	8,454
Operating profit before working capital changes	444,530	280,282
Changes in working capital:		
Inventories	(243,590)	(132,998)
Trade and other receivables	(59,343)	4,430
Amounts due from associates	(137,244)	78,234
Amounts due from other related parties	55	600
Trading securities	2,087	4,372
Trade and other payables	518,155	404,394
Amounts due to associates	(260)	6,039
Amounts due to other related parties	(1,555)	7,689
Business tax and value-added tax payable	(11,841)	3,970
Cash generated from operations	510,994	657,012

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

34. Notes to consolidated cash flow statement (continued)

(b) Analysis of changes in financing during the year

	Share capital RMB'000	Capital reserve RMB'000	Amounts due to shareholders RMB'000	Dividend payable RMB'000	Minority interests RMB'000	Bank borrowings RMB'000	Total RMB'000
At 1 January 2002	415,000	—	40,442	6,250	46,855	140,000	648,547
Minority interests' share of profit	—	—	—	—	17,088	—	17,088
Acquisition of additional equity interests in subsidiaries	—	—	—	—	(4,292)	—	(4,292)
Disposal of equity interests in subsidiaries	—	—	—	—	6,161	—	6,161
Acquisition of subsidiaries	—	—	9,500	—	192,112	152,310	353,922
Dividend declared and paid	—	—	—	4,151	—	—	4,151
Cash (outflow)/inflow from financing	—	—	(40,442)	(10,401)	10,516	(122,310)	(162,637)
At 31 December 2002	415,000	—	9,500	—	268,440	170,000	862,940
Minority interests' share of profit	—	—	—	—	39,139	—	39,139
Acquisition of additional equity interests in subsidiaries	—	—	—	—	(92,615)	—	(92,615)
Dividend declared and paid	—	—	—	124,500	—	—	124,500
Cash (outflow)/inflow from financing	172,500	480,459	(9,500)	(124,500)	4,772	38,000	561,731
At 31 December 2003	587,500	480,459	—	—	219,736	208,000	1,495,695

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

35. Acquisition and disposal of subsidiaries

(a) Acquisition of Hangzhou Lianhua Huashang Group Co., Ltd.

In July 2002, the Company entered into an agreement with Hangzhou Lianhua Huashang Group Co., Ltd. ("Lianhua Huashang") to invest RMB210,000,000 in Lianhua Huashang. The capital injection was effective from 4 July 2002 after the approval of the Board of the Company. As a result, the Company effectively held 50% of the equity interest in Lianhua Huashang. In addition, certain owners holding an aggregate interest of 0.74% of Lianhua Huashang have designated their voting power to the Company (see Note 39(iv)). Lianhua Huashang was therefore considered as a subsidiary and consolidated into these accounts.

At the date of acquisition of the 50% equity interest in Lianhua Huashang, the fair value of assets acquired and liabilities assumed by the Group and the resultant goodwill and net cash flow generated were as follows:

	RMB'000
Fixed assets and construction in progress	375,088
Intangible assets	3,077
Long-term investments	12,138
Inventories	84,912
Trade receivables, deposits and prepayments	37,364
Cash and bank balances	68,636
Payables and accruals	(228,204)
Bank loans	(152,310)
Deferred tax liabilities — as restated (note 3(m))	(46,315)
Minority interests	(6,917)
Capital injection	210,000
Total net assets	357,469
Share of net assets by the Group	178,735
Add: Goodwill — as restated (note 3(m))	31,265
Capital injection by cash	210,000
Net cash inflow upon acquisition of Lianhua Huashang	68,636

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

35. Acquisition and disposal of subsidiaries (continued)

(b) Acquisition of other subsidiaries

During the year ended 31 December 2002, the Company entered into an agreement with an associate and a related party to acquire certain subsidiaries. The total consideration for these acquisitions was RMB22,648,000.

The fair value of assets acquired and liabilities assumed by the Group were as follows:

	RMB'000
Fixed assets and construction in progress	166,538
Long-term investment	100
Inventories	65,696
Trade receivables, deposits and prepayments	18,606
Bank balances and cash	15,331
Payables and accruals	(227,452)
Amount due to controlling shareholder	(9,500)
Minority interests	(6,531)
Share of net assets acquired	22,788
Less: Negative goodwill	(140)
Consideration	22,648
Satisfied by:	
Decrease in advance to associate	22,403
Cash consideration paid	245
	22,648
Net cash inflow upon acquisition	
Bank balances and cash acquired	15,331
Cash consideration paid	(245)
	15,086

(c) Acquisition of additional equity interests in subsidiaries

On 2 January 2003, the Group acquired an additional equity interest of 24.5% in Lianhua Huashang from the then existing shareholders at a consideration of RMB135,240,000, resulting in goodwill of approximately RMB46,009,000 on acquisition. After this acquisition, the Group holds 74.5% equity interest in Lianhua Huashang. Subsequently a new investor was brought into Lianhua Huashang which diluted the Group's interest to 74.19%.

On 30 April 2003, the Company entered into agreements with third parties to acquire additional equity interests in certain subsidiaries. The total fair value of net assets acquired was RMB3,384,000 and the total consideration paid was RMB3,384,000.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

36. Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Apart from those disclosed under Note 23, the Group entered into significant related party transactions during the year, which were carried out in the normal course of the Group's business, as follows:

	Note	2003 RMB'000	2002 RMB'000
Sales to associates			
— Shanghai Lianhua E-business Co., Ltd.	(a)	346,803	185,832
— Subsidiaries of Shanghai Century Lianhua Supermarket Development Co., Ltd.	(b)	790,076	82,056
Purchases from associates			
— Shanghai Lianhua Supermarket Food Co., Ltd. and Shanghai Gude Commercial Trading Co., Ltd.	(c)	24,191	39,891
Decoration cost paid to an associate	(d)	9,497	8,684

Note:

- (a) Sales to Shanghai Lianhua E-business Co., Ltd. were recognised when customers presented coupons issued by Shanghai Lianhua E-business Co., Ltd. at the Group's stores in exchange for the Group's merchandises. These sales were set at retail prices less a discount of 2%.
- (b) Sales were made at cost and were in accordance with the terms of the underlying agreements.
- (c) The purchase price was determined with reference to the then prevailing market prices and the prices charged by those associates to third parties.
- (d) The decoration cost paid to an associate was determined with reference to the then prevailing market prices.

37. Commitments

- (a) *Capital commitments for fixed assets*

	2003 RMB'000	2002 RMB'000
Contracted but not provided for	32,090	60,822

The capital commitments of RMB32,090,000 as at 31 December 2003 represented commitments for leasehold improvements and purchase of machinery and equipment.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

37. Commitments (continued)

(b) Commitments under operating leases

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

	2003 RMB'000	2002 RMB'000
Not later than one year	369,089	327,515
Later than one year and not later than five years	1,335,328	1,243,710
Later than five years	2,203,490	1,575,820
	3,907,907	3,147,045

(c) Commitments for equity investments

- (1) As at 31 December 2003, pursuant to an agreement entered into with a third party shareholder of Hangzhou Lianhua Huashang Group Co., Ltd. ("Lianhua Huashang"), the Group had a commitment to acquire the remaining equity interest of 25.39% in Lianhua Huashang at a consideration of not less than RMB140,760,000, upon the third party shareholder's request.
- (2) As at 31 December 2003, The Group had a commitment to contribute capital of approximately RMB19,389,150 in cash to Shanghai Dia-Lianhua Retail Co., Ltd., a joint venture in which the Company holds 45% of the equity interest.

38. Future operating lease arrangements

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

	2003 RMB'000	2002 RMB'000
Not later than one year	84,165	49,871
Later than one year and not later than five years	50,924	74,861
Later than five years	45,932	51,822
	181,021	176,554

The minimum lease receipts as set out above mainly relate to leasing of shop premises located at the Group's hypermarkets which are entered primarily on a short-term or medium-term basis.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

39. Particulars of major subsidiaries and associates

As at 31 December 2003, the Company held interest in the following major subsidiaries and associates, all of which are private limited liability companies established and operated in the PRC:

Company name		Date of establishment	Registered and fully paid capital RMB'000	Attributable equitable interest held		Principal activities
				directly	indirectly	
(a) Subsidiaries						
Fuzhou Century Lianhua Supermarket Co., Ltd.		1 July 2002	10,000	80.00%	4.00%	Hypermarket
Guangzhou Century Lianhua Supermarket Co., Ltd.		1 August 2002	16,000	80.00%	4.00%	Hypermarket
Shanghai Century Lianhua Supermarket Baoshan Co., Ltd.		28 June 2001	5,000	15.00%	34.85% (i)	Hypermarket
Shanghai Century Lianhua Supermarket Hongkou Co., Ltd.		19 August 2003	1,000	51.00%	—	Hypermarket
Shanghai Century Lianhua Supermarket Minhang Co., Ltd.		5 September 2002	5,000	80.00% (ii)	4.00%	Hypermarket
Shanghai Century Lianhua Supermarket Qingpu Co., Ltd.		7 August 2003	500	90.00%	—	Hypermarket
Shanghai Lujiazui Lianhua Hypermarket Co., Ltd.		16 August 2000	10,000	55.00%	7.00%	Hypermarket
Shanghai U-Mart Shopping Mall Co., Ltd.		1 June 2001	500	100.00% (iii)	—	Hypermarket

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

39. Particulars of major subsidiaries and associates (continued)

Company name		Date of establishment	Registered and fully paid capital RMB'000	Attributable equitable interest held directly indirectly		Principal activities
(a)	Subsidiaries (continued)					
	Tianjin Yishang Lianhua Supermarket Co., Ltd.	1 September 2002	30,000	80.00%	—	Hypermarket
	Hangzhou Lianhua Huashang Group Co., Ltd.	1 June 2001	120,500	74.19% (iv)	—	Supermarket and hypermarket
	Shanghai Century Lianhua Western Commercial Co., Ltd.	7 November 2001	5,000	15.00%	51.00%	Supermarket and hypermarket
	Lianhua Supermarket Jiangsu Co., Ltd.	21 March 2003	50,000	85.00%	7.20%	Supermarket
	Nanjing Lianhua Changjiang Supermarket Co., Ltd.	15 December 1999	5,000	—	52.80%	Supermarket
	Shanghai Lianhua Supermarket Fengxian Co., Ltd.	4 March 1997	3,000	55.00%	—	Supermarket
	Shanghai Lianhua Supermarket Jiading Co., Ltd.	9 October 1996	3,290	81.76%	3.65%	Supermarket
	Shanghai Lianhua Supermarket Jinshan Co., Ltd.	21 October 1996	10,410	80.79%	—	Supermarket
	Shanghai Lianhua Supermarket Nanhui Co., Ltd.	28 November 1996	5,000	60.00%	—	Supermarket

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

39. Particulars of major subsidiaries and associates (continued)

Company name	Date of establishment	Registered and fully paid capital RMB'000	Attributable equitable interest held		Principal activities
			directly	indirectly	
(a) Subsidiaries (continued)					
Shanghai Lianhua Supermarket Qingpu Co., Ltd.	13 January 1997	3,000	60.00%	—	Supermarket
Shanghai Lianhua Xinxin Supermarket Co., Ltd.	22 April 1997	13,300	55.00%	—	Supermarket
Shanghai Lianhua Yongchang Supermarket Co., Ltd.	5 July 1999	35,000	60.00%	—	Supermarket
Shanghai Pudong Lianhua Supermarket Co., Ltd.	29 September 1997	5,000	60.00%	—	Supermarket
Shanghai Songjiang Lianhua Supermarket Co., Ltd.	1 September 1998	5,350	63.00%	—	Supermarket
Suzhou Lianhua Supermarket Co., Ltd.	11 May 2000	10,000	75.00%	5.00%	Supermarket
Yangzhou Lianhua Supermarket Commercial Co., Ltd.	29 August 1996	3,000	65.00%	7.00%	Supermarket
Lianhua Quik Stores Co., Ltd.	25 November 1997	63,000	70.00%	—	Convenience store
Shanghai Lianhua Commercial Trading Co., Ltd.	27 June 2001	3,000	30.00%	53.60%	Wholesaling

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

39. Particulars of major subsidiaries and associates (continued)

Company name	Date of establishment	Registered and fully paid capital RMB'000	Attributable equitable interest held		Principal activities
			directly	indirectly	
(a) Subsidiaries (continued)					
Shanghai Lianhua Supermarket Distribution Co., Ltd.	29 October 1998	1,000	70.00%	2.00%	Purchase and distribution
Shanghai Lianhua Supermarket Jilin Purchase and Distribution Co., Ltd.	9 August 2000	1,000	51.00%	—	Purchase and distribution
Shanghai Lianhua Live and Fresh Food Processing and Distribution Co., Ltd.	29 December 1999	5,000	90.00%	—	Fresh food processing and distribution
(b) Associates					
Shanghai Carhua Supermarket Co., Ltd.	8 February 1995	US\$14,542,190	45.00%	—	Hypermarket
Shanghai Century Lianhua Supermarket Development Co., Ltd.	24 November 1997	100,000	20.00%	—	Hypermarket
Shanghai Lianhua E-business Co., Ltd.	4 October 1995	5,000	43.00%	—	Trading
Shanghai Dia-Lianhua Retail Co., Ltd.	20 June 2003	22,500	45.00%	—	Discount store

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003

39. Particulars of major subsidiaries and associates (continued)

- (i) This is a subsidiary as the Group's interest in the company is held through a subsidiary which in turn holds more than 50% of its registered capital and has control over the company.
- (ii) The Group directly holds 29% of equity interest in the company while another owner holding an interest of 51% in this company has given up its rights and obligations to govern the financial and operating policies of the company and its share of profit and loss of the company to the Group with effect from 24 December 2002.
- (iii) The Group directly holds 49% of equity interest in the company while the other owner holding the remaining 51% equity interest in this company has given up its rights and obligations to govern the financial and operating policies of the company and its share of profit and loss of the company to the Group with effect from 28 June 2002.
- (iv) The Group directly holds 74.19% of equity interest in the company (note 35(c)) while certain owners holding an aggregate interest of 0.74% in the company have designated their voting power to the Group with effect from 4 July 2002.

40. Controlling shareholder and ultimate holding company

The Directors regard Shanghai Friendship Group Incorporated Company (formerly known as Shanghai Friendship & Overseas Chinese Co., Ltd.), a company incorporated and listed in the PRC, as being the controlling shareholder.

The Directors regard Shanghai Friendship (Group) Co., Ltd., a State-owned enterprise established in the PRC, as being the ultimate holding company.

41. Approval of accounts

The accounts were approved by the Board of Directors on 1 April 2004.