



# Optimize

## Nationwide Network

Through development, restructuring and consolidation, the Group strengthened the nationwide network of its retail outlets to improve customer flow, increase the average transaction amount per customer, and enhance profitability.

# Management Discussion and Analysis

## I. Operating environment

During the year under review, the PRC experienced rapid economic development with a GDP growth of 9.5% as compared to 2003. For the year ended 31 December 2004, total retail sales of consumer products in the PRC reached RMB5,395 billion, representing an increase of 13.3% from 2003 (after deducting price factors, actual growth was 10.2%). Among which total retail sales of consumer products in Shanghai amounted to RMB245,461 billion, representing an increase of 10.5% from last year. Consumer price index (CPI) level of the PRC increased by 3.9% in 2004 from that in the previous year.

Development of the national economy remains steady. The prosperous retail industry continues to provide a favourable operating environment for retail chain industries in the PRC. Currently, chain supermarkets have become the most frequently visited shopping sites by consumers. As food safety has become the key concern, chain supermarkets have become an ideal shopping place for consumers.

Meanwhile, competition of the domestic retail market has become intense, particularly upon the opening up of the retail industry since 11 December 2004 when foreign retail enterprises were allowed to invest in the PRC without restrictions on geographical regions, equity interests and amount. Prior to this, foreign retail enterprises have already entered into the major regions and cities of the PRC. But it is expected that the lifting of legal restrictions will accelerate the expansion of regional coverage and operation scale of foreign players.

In 2004, the market share of foreign retail enterprises further increased and it is expected that their pace of expansion will increase in 2005.

In 2004, industry players and the government have been preparing for the impact brought about by the complete opening up of the market. The promulgation of "Administration on the Commercial Sector of Foreign Investments" by the government of the PRC caused significant impact on the industry. At the same time, the local governments of the PRC also put more attention on the reasonable deployment of urban planning and management on market discipline.

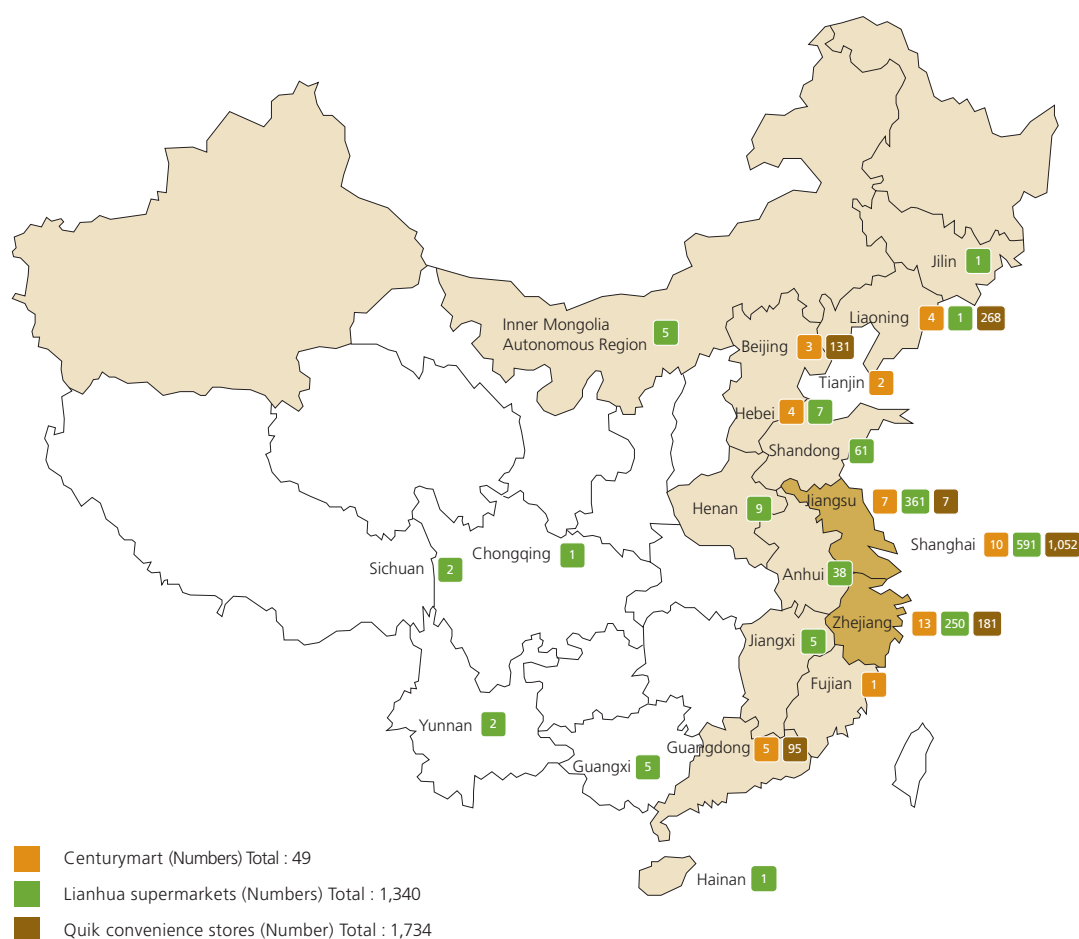
## II. Operating review

During the year under review, the Group's turnover and net profit recorded remarkable growth as a result of the sustained rapid growth of the consumption power in the PRC, as well as the the Group's persistence in executing its regional concentration strategy during its development, by optimizing the overall network deployment and closing down loss-making stores. During the year under review, all newly opened 620 outlets were strategically set up in established regions, thereby further benefiting from the increasing economies of scale in the regions.



As at 31 December 2004, the analysis of the Group's outlets were as follows:

As at 31 December	Hypermarkets		Supermarkets		Convenience Stores		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
The Group	49	24	1,340	1,089	1,734	1,390	3,123	2,503
Direct operations	49	24	584	536	1,192	978	1,825	1,538
Franchise operations	0	0	756	553	542	412	1,298	965



Note: The above map does not include 26 hypermarkets of Century Lianhua, an associated company, which mainly located in the Jiangsu province, Anhui province and Henan province.

The above map does not include 8 hypermarkets of Shanghai Carhua, an associated company, which are all located in the Shanghai district.

The above map does not include 103 discount stores of Shanghai Dia, an associated company, which are all located in the Shanghai district.

# Management Discussion and Analysis

## Emphasis on brand management

During the year under review, Hangzhou Lianhua Huashang Group, which the Group completed the acquisition in 2003, has completed the unification of brand name, and adopted the brand names of "Lianhua Supermarket" and "Century Mart" according to business segments. At the same time, the Group further capitalized on the successful experiences derived from the integration upon the merger, and further expanded its coverage in the Zhejiang region. Turnover from the Zhejiang region increased by 17.01% over the previous year, whilst profit attributable to shareholders from the region increased by 61.46% over last year.

The flagship stores and sample store were established for different business segments to enhance service quality. The experiences derived from the operation of the flagship stores and sample stores were further disseminated to other stores of the same business segment, which in turn improved the operating efficiency of other stores. The establishment of the flagship stores and sample stores was one of the eight management innovation projects of the Group. As the progress for such projects had been satisfactory, it was granted the project management award for the year organized by the Group internally. Sales revenue of the flagship stores and sample stores increased by 24.10% over the previous year. Overall operating efficiency was

enhanced as a whole and provided successful experiences for the development plan of the "next-generation stores".

The Group's efforts in brand management were also reflected in the establishment of its franchise stores. The Group's franchising department named 2004 as the "Year of Brand Management". On-site visits were increased to strengthen the management of the franchisees. Additional efforts were devoted to supervise the operating activities of the franchised stores, where the Group's experiences derived from its supermarket operations were fully shared among the franchised stores. The Group recorded franchise fees of about RMB 29,733,000, which increased by 12.71% from the previous year.

Although the development of private brand products was still in its early stage for the retail market in the PRC, the Group was fully aware of the opportunities arising from the increasing awareness of private brand products by the consumers in the PRC as the retail market in the PRC continued to develop. The Group strengthened the development of its private brand products during the year under review. At present, the Group has developed its private brand products for more than 2,000 types of goods, including edible oil, biscuits, snacks, and apparel goods, etc.

### Stringent operation model and scientific management

- ❀ As the Group expanded its operation scale, it also aimed at strengthening the competitiveness of individual stores. We endeavoured to improve customer traffic for newly opened stores and increase transaction amount and number of transactions for existing stores. This will improve the operating capabilities of the stores and obtain satisfactory same store sale growth. In particular, the new hypermarkets opened in 2003 achieved satisfactory growth in 2004.
- ❀ The Group has always believed in the effectiveness of a stringent operation model and scientific management for cost reduction. The Group has strengthened its internal costs control and budgeting, adopted a strict approval system and authorization system to ensure planned expenditure. Budget analysis meeting will be held on a monthly basis for each business segment while quarterly budget analysis meetings will be organised at the headquarters to ensure close monitoring on the execution of budgets.
- ❀ During the year under review, the Group actively promoted the development of its membership system through three kinds of activities including lucky draw by bonus points, year-end cash rebate and regular discount sales exclusive for members. As such, our membership has exceeded 3.5 million. The Group utilized the customer relationship management system to enhance the analysis of membership data and improved the product mix. Sales and administration of products were targeted to meet the demands of the members, which further enhanced the loyalty of our members.
- ❀ The Group has a strong emphasis on resource sharing. For example, the Group continued to implement the central settlement system to centralize the workflow of settlement so that the Group could deploy the cash receipts from store sales more safely and efficiently. The Group also centralised its purchase of fixed assets and equipment which enhanced its bargaining power and reduced investment costs for stores.

### Optimizing the supply chain

- ❀ A critical factor for improving the core competitiveness of a retail enterprise is to optimize the supply chain system. The Group placed a strong emphasis on the optimization of its supply chain apart from its expansion. In 2004, Lianhua Supermarket entered into several business strategic alliances with certain brand name suppliers and achieved significant results. In 2004, the VMI (Vendor Managed Inventory), established by the Group and Guangming Milk Products Company was awarded the "Best case selected for the award" at the Seventh Asian ECR Convention held in October 2004. The Group is now in cooperation with certain suppliers for the implementation of ECR to optimize the efficiency of its supply chain. New strategic partnerships with suppliers have enhanced both product refilling rate and customer satisfaction.

# Management Discussion and Analysis

❖ The Group acknowledged that an efficient logistics and distribution formed the unique core competitiveness in the retail industry. The rapid development of the Group during the past few years resulted in the need for modification of the two room temperature distribution centres in Shanghai with respect to their mechanical operation and logistics work flow. During the year under review, the Group commenced modernization and modification for the Caoyang Road Distribution Centre which is its room temperature distribution centre in Shanghai. As a result, operating efficiency of its distribution centre was enhanced, product inventory turnover was accelerated and errors on distribution were reduced. The convenience store distribution centre in the Shanghai region was able to handle distribution for more than 1,000 convenience stores within Shanghai region. The distribution centre in the Zhejiang region fully supported the distribution for the hypermarkets, supermarkets and convenience stores in the Zhejiang region. Apart from centrally administering its distribution activities, the Group selectively outsourced to third party operators to support the Group's national network. The Group's hypermarkets and convenience stores in Beijing and Guangzhou mainly relied on third party operators for the provision of distribution services to suppliers.

## Improve integrated information system

- ❖ Administration functions of the Group's headquarters were centralised. The capabilities of data collection and analysis by the Group's headquarters were also strengthened.
- ❖ By leveraging on the modification and integration of the aforementioned distribution centres, the support and control functions of the information systems in the supply chain system were seamlessly integrated with the operation and management of stores.
- ❖ The store systems for different business segments were upgraded and modified to further fulfill the functional requirement for store operations and strengthen the Group's control over important sections of the workflow.
- ❖ The organization and management of information system was further enhanced in accordance with the Group's multi-regional operations of business segments, in particular the administration and control of contracts with the Company's key information system.

### III. Segment Results

#### Sales income of business segments

For the year ended 31 December					
	2004		2003		Change
	RMB million	%	RMB million	%	%
Hypermarkets	4,717.02	43.45	3,375.41	36.36	39.75
Supermarkets	4,952.97	45.63	4,929.51	53.11	0.48
Convenience stores	1,192.82	10.32	899.85	9.69	24.45
Other businesses	65.16	0.60	77.48	0.84	-15.90

#### Hypermarkets

Directly operated stores	49
Operated through Century Lianhua (with operating rights)	26

#### Segment results

- Hypermarkets have gradually become one of the Group's principal businesses. With the change in consumption patterns in the PRC, potential for growth and development of hypermarkets in the PRC has continued to increase. As at 31 December 2004, there were 49 hypermarkets under direct operation of the Group, an increase of 25 stores from the corresponding period in the previous year.
- Segment turnover of the Group's hypermarket business was approximately RMB4,717,019,300, an increase of approximately 39.75% over RMB3,375,412,100 in the previous year, representing approximately 43.45% of the Group's turnover.

#### Business development

- During the year under review, the Group focused on strategic development for network expansion. In addition to increasing the number of directly operated stores, the Group further expedited the pace of mergers and acquisitions and completed the acquisition of hypermarkets in the Zhejiang, Shenyang and Shijiazhuang regions. The Group also further enhanced its concentration in established regions, thereby securing its scale advantage in the region.
- Product mix was optimized on a nationwide, regional and local basis in accordance with regional consumption power and purchase pattern. Localised merchandise mix increased the attractiveness of our retail stores.
- Efforts were placed to explore characteristics of Chinese style hypermarkets to highlight the brand-name of "Century Mart". By leveraging on the feature of "one-stop shopping" for hypermarkets, the speed of shelving various new types of goods was accelerated and development of non-food merchandises was strengthened to enhance the purchase frequency of consumers.



# Management Discussion and Analysis

- ❖ In view of the above factors, gross profit margin, consolidated income margin and operating profit margin during the year under review for the Group's hypermarkets business were approximately 8.69%, 15.70% and 1.59% respectively, representing a growth of 0.28 percentage point, 1.20 percentage point and 0.05 percentage point compared with 8.41%, 14.50% and 1.54% of last year respectively. Excluding the turnover for the sale of merchandise to Century Lianhua at cost, the gross profit margin, consolidated income margin and operating profit margin were approximately 11.14%, 20.13% and 2.04% respectively, representing growth when compared to 10.98%, 18.93% and 2.01% respectively for last year.

## Supermarkets

Directly operated stores	584
Stores operated under franchise arrangements	756

## Segment results

- ❖ Supermarkets remained the most mature business segment amongst the Group's retail chain business and a major profit contributor for the Group. As at 31 December 2004, the number of the Group's supermarkets amounted to 1,340, of which 584 supermarkets were directly operated by the Group and 756 supermarkets were franchised stores. During the year under review, there were 48 directly operated supermarkets and 203 new additions of franchise stores.
- ❖ Turnover from the Group's supermarket segment was approximately RMB4,952,964,100, representing an increased of about 0.48% from about RMB4,929,513,500 in last year, and accounted for 45.63% of the Group's turnover.

## Business development

- ❖ In the first half of 2004, sales income of the Group's supermarket business declined. This was because the Group's supermarkets were mainly operated in the eastern PRC region, particularly in Shanghai, whose business was greatly affected by the hypermarkets which were located adjacent to them. The reason was that the retail format of supermarkets was not differentiated from that of hypermarkets. "Transformation and Upgrade" will become the mission of the Group's supermarket business in the future. The Group has conducted a detailed segmentation on its supermarket business during the year and identified three operating business models for the transformation, namely live and fresh stores, community stores and standard stores. Different types of goods and different product mixes were assigned to each model to accommodate the demands for diversification and differentiation. With the initial success of the "transformation", the decline of the Group's supermarket business was relieved in the second half of the year.

- ❖ During the year under review, the Group commenced its trial work for the classification of commodities. Sample stores were selected from each business segment for pilot tests. Professional design companies created an overall image design for the stores. They designed live and fresh topic areas with outstanding images and used orange as the basic colour of the stores to give a warm feeling to customers. It also introduced internationally popular display models and changed the merchandise mix. Over the next year, transformation of the supermarkets will be in full swing. The Directors believe that there will be new development and enhancement in the supermarket business.

During the year under review, there was an additional 203 stores operated under franchise arrangement, representing 80.88% of the total newly added stores of the supermarket format in 2004. The franchise management department further enhanced on-site supervision and strengthened guidance to the franchise stores, thus enabling the Group to share its management experience in the supermarket business with the franchise store, and enhance their operating capability. The headquarters for franchise management performed an active role in coordinating the Group's various resources to support the operation of the franchise stores and further strengthen the brand effect of the supermarket on consumers.

In view of the above, gross profit margin, consolidated income margin and operating profit margin during the year under review for the Group's supermarket business were approximately 14.96%, 22.24% and 3.18% respectively, compared to 15.12%, 20.81% and 3.15% in year 2003, representing a growth in consolidated income margin and operating profit margin.

#### Convenience stores

Directly operated stores	1,192
Stores operated under franchise arrangements	542

#### Segment results

Turnover from convenience stores has recorded remarkable growth during the year under review. As at 31 December 2004, the number of the Group's convenience stores reached 1,734, of which 1,192 were directly operated by the Group and 542 were operated under franchise arrangement. The Group's convenience

store business was still concentrated in economically well-developed regions spanning across six cities including Shanghai, Beijing, Guangzhou, Dalian, Hangzhou and Ningbo. Shanghai district and Dalian district continued to maintain their rapid growth in profitability.

The Group's segment turnover for convenience stores was approximately RMB1,119,819,600, an increase of approximately 24.45% from approximately RMB899,846,900 of last year, and representing approximately 10.32% of the Group's turnover.

#### Business development

Substantial increase in turnover from convenience stores was mainly due to the Group's emphasis on the development of resources for new convenience store outlet. Convenience stores have gradually transformed from the conventional community outlets in the past into a diversified development model, such as high-end residential district convenience stores, commercial building convenience stores and appliance city convenience stores to target the consumption habits in different urban districts. With the change in site selection strategy, outlet distribution was thus further optimized.

Product mix for the convenience store business format was further enhanced. The Group gradually determined different product compositions according to the needs of different cities, communities and consumption levels, and significantly enhanced the sales capabilities of individual stores. For example, in the Shanghai district, the Group jointly developed with Kabushiki Kaisha of Japan to introduce delivery of instant food. The introduction of convenience goods successfully formed a differentiated product composition.

# Management Discussion and Analysis

❖ The year under review was the seventh year since the establishment of "Lianhua Quik", during which it has developed from a regional company into a nation-wide company. The "Lianhua Quik" convenience store has been well received by consumers and the "Lianhua Quik" brand-name has become one of the most reputable convenience chain retail brands in the PRC in only 7 years of operation. In 2005, "Lianhua Quik" convenience store will adopt a new corporate identity design to further enhance its brand awareness among consumers.

❖ In view of the above, the gross profit margin, consolidated income margin and operating profit margin during the year under review for the Group's convenience stores business were approximately 17.87%, 29.34% and 2.23% respectively, compared to 16.91%, 30.22% and 2.01% in 2003, representing a growth in gross profit margin and operating profit margin.

## Business of associated company

During the year under review, Shanghai Carhua opened 2 new hypermarkets. Currently, Shanghai Carhua operates 8 hypermarkets in Shanghai. The Group believes the development of Shanghai Carhua in Shanghai will accelerate under the concerted efforts of the shareholders of Shanghai Carhua.

The Group actively introduced a more extensive and comprehensive retail format. Since the launch of Shanghai Dia, a brand-new retail format in Shanghai in mid 2003, 103 DIA discount stores have been set up in Shanghai. The discount stores have been penetrating into the Shanghai market featuring low prices and private brand products.

However, as their initial fixed costs were high, the gross profit margins were relatively low. Currently, Shanghai Dia has not reached its break-even point. As this new retail format has yet to obtain consumer recognition and yet to achieve an economies of scale, it might need a longer period of time to turnaround. Based on the experience of operating discount stores in Europe, it is considered as a retail format with strong vitality. The Group believes that, following the expansion in the scale of discount stores and increasing recognition by consumers, this retail format will become an important part of the retail chain format in the PRC. As a probing business, the Group will fully analyse the operating advantages of discount stores while controlling the development and the risks of this retail format during the initial stages together with business partners.

As at 31 December 2004, net profit from associated company was approximately RMB57,299,000, representing approximately 26.58% of the Group's profit attributable to shareholders of the Company.

## IV. Financial Review

### Working capital and financial resources

In 2004, the Group's sources of funds were mainly operating income in cash and proceeds from its placing (the "Placing"). As at 31 December 2004, the Group had non-current assets of approximately RMB2,585,320,000, which mainly comprised projects under construction and fixed assets of approximately RMB2,119,830,000, intangible assets of approximately RMB112,044,000, investments in associated companies of approximately RMB293,842,000, long-term investment and other non-current assets of approximately RMB50,599,000. Proceeds obtained by the Group from its H shares placing was about HK\$300 million.

As at 31 December 2004, the Group had net current liabilities of approximately RMB592,781,000, which mainly comprised cash and bank deposits of approximately RMB837,169,000, inventory of approximately RMB968,465,000, receivables and prepayments of approximately RMB281,186,000, and accounts receivable from associated companies of approximately RMB133,598,000. Current liabilities mainly comprised account payable and accruals of approximately RMB2,716,156,000 and tax payable of approximately RMB28,625,000.

Turnover of the Group's accounts payable for the year ended 31 December 2004 was 62 days, which was a marginal increase as compared to last year. Inventory turnover during the year decreased from 30 days to 29 days.

During the year under review, the Group did not use any financial instrument to hedge risks. As at 31 December 2004, there was no financial instrument issued by the Group which was outstanding for value arbitraging.

### Capital structure

As at 31 December 2004, the Group's cash equivalents were mainly held in Renminbi.

It is the Group's plan to maintain a ratio of equity and debt as appropriate to ensure that it has an effective capital structure from time to time. As at 31 December 2004, the Group and its subsidiaries had no borrowings outstanding, and was in a net cash position. The Group is engaged in retail chain business, and year end is the sales peak season for the Group, cash flow situation is relatively adequate and the Group considers that reasonable management on the cash flow is helpful for reducing capital costs and has therefore repaid all the borrowings.



# Management Discussion and Analysis

## Details on the pledge of the Group's assets

As at 31 December 2004, no assets were pledged by the Group.

## Foreign exchange exposure

The Group's revenue and expenditure were mostly denominated in Renminbi. During the year under review, the Group did not suffer from any major difficulty as a result of foreign exchange exposure or its operation or working capital and became affected as a consequence. The Group had not entered into any agreement or purchased financial instruments in order to hedge the Group's foreign exchange exposure.

## Contingent liabilities

As at 31 December 2004, the Group did not have any significant contingent liability.

## V. Use of Proceeds

The proceeds from the Company's listing on the main board of the Stock Exchange on 27 June 2003 have been utilized as set forth in the prospectus.

On 4 October 2004, the Company successfully placed to investors 34.5 million new H shares at HK\$8.8 each on the Stock Exchange and raised net proceeds of HK\$293million.

The Company's net proceeds raised from the Placing are planned to be applied as follows:

- (1) approximately RMB100 million to be used for the exploration of hypermarkets and supermarkets in major cities of the PRC;
- (2) approximately RMB30 million to be used for the exploration of convenience store network in the PRC and the enhancement of the Group's information management and logistics system; and

- (3) the balance of the proceeds to be used as general working capital.

The above net proceeds have been applied as set out in the placing announcement, and included in the Group's 2005 development plan.

## VI. Employment, Training and Development

As at 31 December 2004, the Group had 31,318 employees, representing an increase of 4,972 employees from that of 31 December 2003 and incurred expenses of approximately RMB613,118,000 in total.

Employee remuneration is determined on the bases of performance, qualification of the employees and industry practice at the time. The compensation policy and remuneration package will be reviewed regularly. Apart from basic salaries, welfare, allowance and performance bonus, a full-time employees are also entitled to housing allowance, medical subsidies and other subsidies.

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

The Group will continue to provide training for employees to improve their skills and product knowledge, as well as enhance their retailing techniques and commodity knowledge and increase their understanding in the quality standards of the retail industry. During the period under review, the Group issued the "Administration on the education and training of employees", requiring its employees to participate in the training every year. In order to strengthen the training and education in the standardized



management and operation of the outlets, the Group has prepared the “Management training materials (video version) of Lianhua Supermarket” based on the existing teaching materials of the training department. The Group also organised a training in public management and public skills so as to enhance the management skills of the management. Middle and senior management staff also participated in a special training course of “How to establish organising capability in promoting strategic implements” organised by the Sino-Euro International Commercial College.

## VII. Establishment of Corporate Culture

The Group places great importance in the establishment of corporate culture because the Group believes that a rapid growing corporate result is created by employees sharing the same corporate value.

The “General Outline of the Development of Lianhua Culture” prepared by the Group, upheld the theme of “Innovation, constant perfection, teamwork cooperation, tolerance”, and took result-oriented culture as the core culture, promoting the team spirit of the staff through the corporate culture, and further relayed the Group’s general value : Development of the Company is My Development, in order to further reinforce the sense of belonging of the staff to the Group.

Internally, the Group set up an appraisal system of “Star grade service” for its outlets, supervisors and staff in order to quantify the service quality, which is divided into five grades, with five stars as the best. Such appraisals have been conducted for four years. Its purpose is to fully motivate the innovation and aggressiveness of the staff, and to enhance awareness of the staff in maintaining the Group’s brand name.

## VIII. Strategies and Plans

Looking forward into 2005, market competition will be further intensified. The Group will encounter immense development opportunities while facing enormous challenges to summarise the consolidation of the industry. Retail enterprises of small to medium size will seek to forge strategic alliances to overcome the severe competition. With both learning and innovation in mind, the Group is committed to achieving international standards, consolidating local competitive edges and optimizing its nationwide network strategy to strengthen its core competitiveness.

The Group promptly adjusted its strategic plans to accommodate market changes:

- Based on the changing landscape of current market competition and development trends

The Broad adjusted “The Strategic Plan for Lianhua Supermarket by 2010” accordingly in a timely manner.

- The adjusted strategic plan reflected the guidance thoughts on changes in four aspects:

- (1) The operation objectives shifted from increasing market share maximization to emphasizing a balance between both market share and profitability.
- (2) The original competitor-oriented operation strategies became focusing on both customers’ demand and competitors.
- (3) The focuses of competition strategies shifted from scale expansion to sustainable development.
- (4) The mode of development shifted from leap expansion to one combining bulldozer expansion and leap expansion.

# Management Discussion and Analysis

❖ According to the adjusted “Strategic Plan for Lianhua Supermarket by 2010”, Lianhua Supermarket divided the execution of its strategies into two phases, namely strategy refinement stage and rapid sustainable development stage:

- The years between 2003 and 2005 were defined as the strategic refinement stage. During this phase, the major mission for Lianhua Supermarket would be to optimize the organization structure and business flow, as well as to transform its business model and enhance its core competitiveness, for the purpose of incubating the capabilities of sustainable development for Lianhua Supermarket.
- The years between 2006 and 2010 were defined as the rapid sustainable development stage. During this stage, Lianhua Supermarket will capitalize on the expansion capabilities acquired and incubated in the strategic refinement stage to develop in a sound and rapid manner at a rate faster than the industry average.

❖ The Group formulated strategies for internal and external simultaneous development in 2005.

- External development: The Group will place more emphasis in regional concentration. In 2005, we will accelerate our pace in opening new stores in established cities by means of direct operation, franchising and mergers and acquisitions so as to develop regional scale advantages. In 2005, we will maintain the target of opening about 600 stores.

❖ Internal development:

- We will develop the core competitiveness for each of our retail formats, so as to attain satisfactory growth in critical benchmarks such as sales growth of same store, customer traffic and transaction per customer, etc.
- Through organization restructuring and management function transformation, we endeavor to accelerate the response of our managing organizations to market changes while enhancing our control in centralizing corporate resources.
- With reasonable logistics planning and the sharing of regional resources, we will implement the integration of internal and external corporate resources, so as to effectively resolve the conflicts between rapid development and slow establishment of a nationwide supply chain. The new distribution centre in Jiangsu region is included as part of the plan.
- Through “innovation, reform, application, learning and change of business model”, we will explore and promote a successful model of transforming the supermarkets operation.
- Our innovative franchising management model enables us to establish intimate cooperating relationship with our franchises, while further accelerating the development of franchising operation for our convenience store business.

- In 3-5 years, we endeavor to strengthen our private brand products and are committed to establishing a customer-oriented system for developing, controlling and managing a series of private brands with intellectual property rights, which is capable of offering personalized and value-added services.
- We will strengthen personnel training and retain sufficient staff to resolve the bottleneck arising from the lack of human resources. We will set up an appraisal system based on staff performance and different motivation mechanisms to maintain prosperous and sustainable growth.

Looking forward, the Directors believe the PRC economy will maintain robust growth, which will facilitate the development of the PRC retail market, especially for retail chain business. The PRC retail market will enter into a new phase of competition. The Group will adopt a series of reform to enhance its network scale so as to fortify its leading market position as reflected by different operation indicators of competitiveness.

