



# Consolidate

## Domestic Leads

With an in-depth understanding of the PRC's consumption pattern, the Group endeavoured to stay abreast of market demand by managing professionally its retail outlets in different business categories, while enhancing its product and service portfolio for each retail zone.





# Report of the Directors

The Board is pleased to present to the shareholders of the Company the working report of the Company for the year ended 31 December 2004.

## Principal activities

The principal activities of the Company are operating hypermarkets, supermarkets and convenience stores in the PRC, a majority of which are operated under three major brands of "Century Mart", "Lianhua Supermarkets" and "Lianhua Quik" respectively.

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

	2004 %	2003 %
<b>Purchases</b>		
Largest supplier	8.28	3.66
Five largest suppliers	17.92	7.70
<b>Sales</b>		
The largest customer	9.57	8.51
Five largest customers	10.52	12.68

To the best of the Directors' knowledge, apart from Century Lianhua and Lianhua e-Business, neither the Directors, the supervisors of the Company (the "Supervisors"), their respective associates, nor any shareholders owning 5% or more of the Company's share capital owned any direct or indirect interest on the Company's suppliers and customers mentioned above during the year ended 31 December 2004.

## Accounts

The audited results of the Company for the year ended 31 December 2004 are set out in the profit and loss accounts on page 65 of this annual report.

The financial conditions of the Company as at 31 December 2004 are set out in the balance sheets on page 66 of this annual report.

The cash flows of the Company for the year ended 31 December 2004 are set out in the cash flow statements on page 69 of this annual report.

## Subsidiaries and associates

As at 31 December 2004, the Company's principal subsidiaries are Lianhua Quik Convenience Stores, Hangzhou Lianhua Huashang, Lianhua Supermarket Jiangsu Co., Ltd, Lianhua Distribution and Shanghai Lianhua Life.

As at 31 December 2004, the Company's principal associated companies are Shanghai Carhua, Shanghai Dia, Lianhua E-Business and Century Lianhua.

Please refer to note 37 to the financial statements in this annual report for the particulars of certain major subsidiaries and associates of the Company.

## Dividend

Pursuant to the accounting statements of the Company for 2004 prepared by PricewaterhouseCoopers in accordance with Hong Kong Financial Reporting Standard, the profit distributable to shareholders of the Company were RMB216,928,000. Pursuant to the accounting statements of the Company for 2004 prepared by Shanghai Certified Public Accountants in accordance with Chinese Accounting Standards, the profit distributable to shareholders of the Company were RMB205,196,000.

After the listing of the Company's H shares on the Stock Exchange, the Company shall distribute dividends determined at the lower of profit attributable to shareholders of the Company either in accordance with Hong Kong Financial Reporting Standard or Chinese Accounting Standards. Accordingly, the profit distributable to shareholders of the Company was RMB205,196,000.

The Board recommends to distribute a final dividend of RMB0.07 per ordinary share in cash for the year ended 31 December 2004. The distribution proposal will be implemented subject to consideration and approval in the Company's annual general meeting of 2004. The General meeting held on 30 September 2004 passed a resolution to distribute an interim dividend of RMB0.05 per ordinary share for the six months ended 30 June 2004. The payment of all those interim dividends to shareholders of the Company has been completed.

The final dividend will be distributed to the shareholders of the Company whose names appear on the Company's Register of Members on Friday, 6 May 2005. The H shares register of the Company will be closed from Monday, 9 May 2005 to Wednesday, 8 June 2005 (both days inclusive), during which no transfer of H shares will be effected. In

order to vote at the Company's annual general meeting and to qualify for the final dividend, persons holding the H shares shall lodge share transfer documents and the relevant share certificates with Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:00 p.m. on Friday, 6 May 2005.

The dividends to be distributed will be denominated and declared in RMB. It will be distributed to the domestic shareholders in RMB, to the holders of non-listed foreign shares in relevant foreign currencies and to the holders of H shares in Hong Kong dollars. The dividends to be distributed in Hong Kong dollars will be converted into Hong Kong dollars at the average exchange rate of Renminbi to Hong Kong dollars announced by the People's Bank of China a week prior to the dividend distribution date.

## Reserves

During the year under review, the interests of shareholders of the Company in the Group increased from approximately RMB1,279,190,000 to approximately RMB1,728,349,000.

The details of the movements in the reserves during the year are set out in note 31 to the financial statements of this annual report.

## Fixed assets

The movements in fixed assets during the year are set out in note 14 to the financial statements of this annual report.

## Bank loans, overdrafts and other borrowings

The Company and its subsidiaries have not borrowed other loans as at 31 December 2004.

# Report of the Directors

## Capitalized interests

During the year under review, there was no capitalized interests of construction in progress.

## Material acquisitions and disposals

The Board on 24 June 2004 announced that the Company entered into the agreement with Shanghai Everbright City Co., Ltd. ("Shanghai Everbright") and COSMO Investments Limited ("COSMO Investments") on 23 June 2004. Pursuant to the agreement, the contribution of the registered capital of Shanghai Lianhua Life will be increased to RMB197,393,196.62. The Company agreed to subscribe to the capital contribution of the registered capital of Shanghai Lianhua Life of RMB33,454,707.36 at a consideration equal to the amount of capital contribution. COSMO Investments agreed to subscribe to the capital contribution of the registered capital of Shanghai Lianhua Life of RMB163,938,489.26 at a consideration of RMB172,451,328.61 which is at a premium to the amount of capital contribution and Shanghai Everbright undertook not to subscribe to such capital contribution. The original registered capital of Shanghai Lianhua Life was RMB5,000,000 and it is not a non-wholly owned subsidiary of the Company. After the completion of the capital contribution, the registered capital of Shanghai Lianhua Life will increase to RMB202,393,196.62, while the Company, Shanghai Everbright and COSMO Investments hold 18.753%, 0.247% and 81% of the Shanghai Lianhua Life respectively.

Subject to the requirements of the relevant laws and regulations in the PRC, parties to the agreement must submit to the relevant supervisory authorities of the PRC

the agreement and any other documents required for approval, including co-operation feasibility reports, joint venture contracts and articles of association of the joint venture, and such agreements shall be in force only with approval duly obtained from the government departments. As such, all parties must agree on the terms of the approval documents through negotiation. As at the date of the announcement, the Company and Cosco Investments had not made any contribution to Shanghai Lianhua Life since the negotiation was still pending. If the capital contribution of Shanghai Lianhua Life is not taken place or otherwise there is any material change to its terms, an announcement will be issued by the Company. Shanghai Lianhua Life is currently in the course of normal operation and it is still a non-wholly owned subsidiary of the Company.

## Listing of shares and changes

The Company listed its H shares on the main board of the Stock Exchange on 27 June 2003.

The Company offered 34,500,000 new H shares on 4 October 2004 at an placing price of HK\$8.80 to investors raising approximately HK\$300 million. After the completion of this issue, the total number of shares of the Company in issue was increased from the initial 587,500,000 shares to 622,000,000 shares. The H shares in issue were increased from 172,500,000 shares to 207,000,000 shares, representing 33.28% of the Company's total issued share capital. The shareholding structure of the Company is set out on page 4 of this annual report. The Company confirms that, during the year under review, the Company has complied with the requirements of public float under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The performance of H shares of the Group in 2004:

Highest trading price per H share during the year	HK\$11.35
Lowest trading price per H share during the year	HK\$6.8
Total turnover volume of H shares during the year	174,888,000 shares
Closing price per H share as at 31 December 2004	HK\$9.5

### Share capital

Classes of shares	Number of issued shares (‘000)	Percentage %
Domestic shares	355,543	57.16%
Unlisted foreign shares	59,457	9.56%
H shares	207,000	33.28%
Total	622,000	100%

### Number of shareholders

As at 31 December 2004, the details of shareholders recorded in the register of the Company are as follows:

Total number of shareholders	36
Holders of Domestic Shares	3
Holders of Unlisted Foreign Shares	2
Holders of H Shares	31

### The legal status of Unlisted Foreign Shares

The summary on legal opinion given by the Company's PRC Legal counsel, Grandall Legal Group, on the rights attached to unlisted foreign shares of the company (the "Unlisted Foreign Shares") is set out as follows. Although the mandatory provisions for articles of association of Companies to be Listed Overseas (the "Mandatory Provisions") provide for the definitions of "domestic shares", "foreign shares" and "overseas listed foreign shares" (which definitions have been adopted in the articles of association of the Company (the "Articles of Association")), the rights attached to the Unlisted Foreign Shares (which are subject to certain restrictions on transfer as referred to in the prospectus and may become H shares upon obtaining the requisite approvals from, among other bodies, the China Securities Regulatory Commission (the "CSRC") and the Stock Exchange are not expressly provided for under the existing PRC laws or regulations. However, the creation by the Company and the subsistence of the Unlisted Foreign Shares do not contravene any PRC laws or regulations.

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

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

## Report of the Directors

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

No provision is made for the settlement of disputes between the holders of the Unlisted Foreign Shares and the holders of the Domestic Shares in the Mandatory Provisions nor in the Articles of Association. According to the PRC laws, in the case of disputes between the holders of the Unlisted Foreign Shares and the holders of the Domestic Shares, if there is no settlement after negotiation or mediation, either party could choose an arbitration commission in the PRC or any other arbitration commission to conduct arbitration for dispute resolution pursuant to a written arbitration agreement; if there is no prior arbitration agreement and the parties are not able to reach an agreement to arbitrate their disputes, either party could bring suit in the PRC courts with competent jurisdiction.

According to the requirements under clause 163 of the Mandatory Provisions and clause 194 of the Articles of Association, in general, disputes between the holders of the H shares and the holders of the Domestic Shares are required to be settled through arbitration. Such dispute resolution requirements are equally applicable to disputes between the holders of the H shares and the holders of the Unlisted Foreign Shares.

As advised by Grandall Legal Group, the following conditions must be satisfied before the Unlisted Foreign Shares can be converted into new H shares:

(a) the expiry of a period of three years from the date on which the Company was converted from a limited company into a joint stock limited company;

(b) the approvals from the original approval authority or authorities in the PRC for the establishment of the Company being obtained by the holders of the Unlisted Foreign Shares for the conversion of the Unlisted Foreign Shares into H shares after the expiry of the three-year restriction period for any transfer of the Unlisted Foreign Shares (in the case of the Company, the three-year restriction period ended on 18 December, 2004 as prescribed by Article 147 of the Company Law of the PRC);

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

(d) approval being granted by the Stock Exchange for the listing of, and permission to deal in, the new H shares converted from the Unlisted Foreign Shares;

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

(f) full compliance with relevant PRC laws, rules, regulations and policies governing companies incorporated in the PRC which seek permission to list their shares outside the PRC and with the Articles of Association and any agreement among the shareholders of the Company.

When all of the conditions mentioned above and other conditions as may be imposed from time to time by the Stock Exchange have been satisfied, the Unlisted Foreign Shares may be converted into new H shares.

## Disclosure of interests

So far as the Directors and chief executive of the Company are aware, as at 31 December 2004, the following persons had an interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance ("SFO") or the relevant persons directly or indirectly held 10% or more of the nominal value of any class of share capital carrying rights to vote under any circumstances on the general meetings of any other members of the Group.

## Domestic Shares/Unlisted Foreign Shares

Name of Shareholders	Number of Domestic Shares/ Unlisted Foreign Shares ('000)	Approximate percentage of rights to vote in the entire company (%) (note4)	Approximate percentage of rights to vote in Domestic Shares/ Unlisted Foreign Share (%)
Shanghai Friendship Group Incorporated Company	211,640	34.03%	51.00%
Shanghai Industrial United (Group) Commercial Network Development Company Limited	131,683	21.17%	31.73%
Mitsubishi Corporation	41,900	6.74%	10.10%
Shanghai Industrial United (Group) Joint Stock Company Limited	131,683	21.17% (Note 1)	31.73%
Shanghai Industrial YKB Limited	131,683	21.17% (Note 1)	31.73%
Shanghai Industrial Holdings Limited	131,683	21.17% (Note 1)	31.73%
Shanghai Investment Holdings Limited	131,683	21.17% (Note 2)	31.73%
Shanghai Industrial Investment (Holdings) Company Limited	131,683	21.17% (Note 2)	31.73%
Shanghai Industrial Investment Treasury Company Limited	131,683	21.17% (Note 2)	31.73%
SIIC Capital (BVI) Limited	131,683	21.17% (Note 2)	31.73%

Notes:

1. Shanghai Industrial Holdings Limited ("SIHL") owns 100% interests of Shanghai Industrial YKB Limited ("YKB") whilst YKB owns 56.63% interests of Shanghai Industrial United (Group) Joint Stock Company Limited ("Shanghai United"). Shanghai United owns 90% interests of Shanghai Industrial United (Group) Commercial Network Development Company Limited. Accordingly, SIHL and Shanghai United are deemed to have the interests in shares of the Company above that are required to be disclosed.
2. Shanghai Industrial Investment (Holdings) Company Limited owns 100% interests in Shanghai Industrial Investment Treasury Company Limited ("STC") and STC owns 100% interests in Shanghai Investment Holdings Limited ("SIH"). SIH directly owns an aggregate of 57.16% interests in SIH through SIIC Capital (BVI) Limited. Accordingly, Shanghai Industrial Investment (Holdings) Company Limited, STC, SIIC Capital (BVI) Limited and SIH are deemed have the interests in shares of the Company above that are required to be disclosed.

Holders of H Shares	Number of H Shares	Approximate percentage of rights to vote in the entire company (%) (Note 4)	Approximate percentage of rights to vote in H Shares (%) (Note 3)
J.P. Morgan Chase & Co.	41,400,438(L)	6.66%	24.00(L)
	18,721,361(P)	3.10%	10.85(P)
Morgan Stanley	19,290,000(L)	3.10%	11.18(L)
	1,080,000(S)	0.17%	0.63(P)
The Capital Group Companies, Inc.	18,016,000(L)	2.90%	10.44(L)
CDC IXIS Asset Management Asia Ltd	12,259,000(L)	1.97%	7.10(L)
Invesco Asia Limited in its capacity as manager / adviser of various accounts	10,755,000(L)	1.73%	6.23(L)

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



# Report of the Directors

Notes:

3. The Company issued by way of placing up to 34,500,000 new H shares in October 2004, and by which the aggregate of H shares were increased from 172,500,000 shares to 207,000,000 shares. However, the interests and/or short position held by the holders of H shares above which would fall to be disclosed to the Company and the Stock Exchange pursuant to SFO was reported with reference to an aggregate of 172,500,000 H shares in issue. As at the last practicable date, the Company had not received any notice from the Holders of H shares above in respect of change in interests/short position after the increase in the aggregate of H shares in issue by way of placing of H shares.
4. The related percentage is calculated on the basis of 622,000,000 shares in aggregate of the Company.

Save as disclosed above, as at 31 December 2004, the Directors were not aware of any persons holding any interests or short position in any shares or underlying shares of the Company which were required to be disclosed pursuant to SFO.

## Ultimate Controlling Shareholders

On 11 August 2004, Shanghai Friendship Group Incorporated Company, the controlling shareholder of the Company, announced that pursuant to the approval document Guo Zi Chan Quan [2004] No.556 of the State Council, the Shanghai Friendship (Group) Company Limited, a State-owned enterprise as being the ultimate controlling shareholder, had transferred the State-owned equity it held in that company, representing 6.08% of the total capital,

to Bailian (Group) Company Limited; pursuant to document Lu Guo Zi Wei [2003] No. 300, the Shanghai Friendship (Group) Company Limited, the State-owned enterprise as being the ultimate controlling shareholder, had transferred 52% of the equity it held in Shanghai Friendship Fuxing (Holdings) Company Limited, being the major shareholder, to Bailian (Group) Company Limited. The administrative procedures for the approval stated above had been completed. Bailian (Group) Company Limited becomes the ultimate controlling shareholder of the Shanghai Friendship Group Incorporated Company. Accordingly, Bailian (Group) Company Limited becomes the ultimate controlling shareholder of the Company. The directors consider that this change will not constitute material impact on daily operations of the Company.

## Pre-emptive Rights

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

## Purchase, sale or redemption of shares

Since the listing of the H shares on 27 June 2003 till the date of this report, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the shares of the Company.

### Share capital interests attributable to the Directors and Supervisors

As at 31 December 2004, none of the Directors, the Supervisors, senior management of the Company or their respective associates have any interest or short position in the shares, underlying shares or debt securities of the Company or any associated corporation (within the meaning of Part XV of SFO) which are required to be notified to the Company and the Stock Exchange pursuant to divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of Part XV of SFO) or are required, pursuant to section 352 of the SFO (Chapter 571 of the Laws of Hong Kong) to be recorded in the register as stated, or are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies under the Listing Rules to be notified to the Company and the Stock Exchange (for such purpose, the relevant provisions under SFO shall be construed as applicable to all Supervisors).

### Directors' and Supervisors' service contracts

The terms of office of the existing Directors and Supervisors have expired. Each of the new directors and supervisors will enter into a new director or service contract in accordance with relevant laws and regulations subject to the approval in the annual general meeting for 2004.

### Directors' and Supervisors' interests in contracts

No contracts of significance to which the Company or its fellow subsidiaries were a party and in which a Director or Supervisor had a material interests which were subsisting at the settlement date or at any time during the year under review.

### Interest in shares or bonds acquired by the Directors and Supervisors

During the year, the Company or its fellow subsidiaries have not arranged for the Directors or Supervisors to acquire for the shares or bonds of the Company.

### Independence of the independent Directors

The Company had obtained a written confirmation from each of the independent non-executive Directors under Rule 3.13 of the Listing Rules concerning their independence. The Company considers that all of the independent non-executive Directors have complied with the provisions under Rule 3.13 of the Listing Rules and they are independent.

### Highest paid individuals

All the highest paid individuals of the Company during the year were the senior management of the Company. Details are set out in note 12 to the financial statements in this annual report.

# Report of the Directors

## Retirement schemes

In accordance with the rules and regulations in the PRC, all 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 relevant periods.

## Significant litigation

During the year, the Company was not engaged in any significant litigation.

## Qualified accountant

Subject to Rule 3.24 of the Listing Rules, the Company must employ a qualified accountant on a full-time basis, including a fellow or associate of the Hong Kong Institute of Certified Public Accountants ("HKICPA") or a similar body of accountants recognized by it for the purpose of granting exemptions from the examination requirement for membership of HKICPA. Xu Ling-ling ("Ms. Xu"), being the chief financial officer of the Company, is able to meet all the requirements as set out in Rule 3.24 of the Listing Rules save for being a fellow or associate of the HKICPA or a similar body of accountants recognized by it for the purpose of granting exemptions from the examination requirement for membership of HKICPA. The Company has appointed Chan Wai Leung ("Mr Chan"), who is a Certified Public Accountant of the HKICPA and an association member of the Association of Chartered Certified Accountant, to provide assistance to Ms. Xu in discharging her duties as the Qualified Accountant. The Stock Exchange has granted to the Company a conditional waiver from compliance with Rule 3.24 of the Listing Rules for a period of 3 years commencing from 7 January 2005.

## Connected transactions

### Continuing connected transactions

After the commencement of the listing of the Company's H shares, the following transactions constitute the continuing connected transactions of the Company under Chapter 14A of the Listing Rules. The aforesaid continuing connected transactions fall within the scope of business of the Group. The Company has applied to the Stock Exchange for a conditional waiver from strict compliance with the Listing rules in respect of the above transactions, and the Stock Exchange has granted to the Group a waiver from reporting, announcement and independent shareholders' approval requirements.

Transactions		Amounts (RMB million)
1.	The sales of merchandise with connected parties	2,680.95
	(1) Distribution of merchandise to Century Lianhua	1,039.25
	(2) Sales of merchandise to hypermarkets by certain subsidiaries of the Company	1,221.54
	(3) Sales of merchandise to Lianhua Quik	325.31
	(4) Sales of merchandise to supermarkets owned by certain subsidiaries of the Company	94.85
2.	Purchase of merchandise from Lianhua Distribution	1,253.07
3.	Management of Century Lianhua	1.74
4.	Lease of property to Lianhua Distribution	4.59

The Company will make an arrangement for the purpose of ensuring continual compliance with the provisions under Chapter 14A of the Listing Rules that are related to connected transactions.

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

- (1) in the ordinary and usual course of business of the Group;
- (2) on normal commercial terms (to the extent that there are comparable transactions) or if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms not less favourable to the Group than terms available to or from (as appropriate) independent third parties; and
- (3) in accordance with the arrangement on terms that are fair and reasonable and in the interests of the independent shareholders of the Company as a whole;

The auditors of the Company have reviewed the above transactions and provided a letter to the Board confirming that the above transactions:

- (1) have received the approval of the Board;
- (2) have been entered into in accordance with the relevant agreement governing the transactions;

(3) are in accordance with the pricing policies as stated in the Company's accounts;

(4) have not exceeded the respective cap (as appropriate).

#### **Other connected transactions**

The Group announced on 8 June 2004 that the Company had entered into capital increase agreements with Shanghai Lujiazui Lianhua Hypermarket Company Limited ("Lujiazui Lianhua"), Shanghai Century Lianhua Supermarket Baoshan Company Limited ("Century Lianhua Baoshan") and Shanghai Century Lianhua Supermarket Hongkou Company Limited ("Century Lianhua Hongkou") to invest RMB10,000,000, RMB5,000,000 and RMB2,000,000 respectively so that the proportion of capital contribution in the respective companies will increase from 55%, 49.9% and 51% to 77.5%, 74.9% and 83.67% respectively. As Century Lianhua has invested in Lujiazui Lianhua, Century Lianhua Baoshan and Century Lianhua Hongkou, Lujiazui Lianhua, Century Lianhua Baoshan and Century Lianhua Hongkou are connected party of the Company pursuant to the Listing Rules. Accordingly, the capital contribution by the Company to these companies constituted connected transactions for the Company, and were subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules.



# Report of the Directors

## Other matters

### Amendments to the Articles of Association

"the existing clause 2 of Article 15 of the articles of association of the Company shall be replaced in its entirety by the following clause:

"The scope of operation of the Company includes: the expansion of retail outlets and selling of products in the supermarket industry (other than those with special license), electrical home appliances, regular home-use medical apparatus, food products, retailing of tobacco and alcohol, seafood products, secondary food products, purchasing of agricultural secondary products and also engaged in public convenience services such as the processing, categorizing, packaging, distribution, dining, insurance agency and consultation service for products related to supermarkets. Subsidiaries companies are set up (including for leasing and business solicitation purposes).

"the existing Articles 21-24 of the articles of association of the Company shall be replaced in its entirety by the following clause:

The Company issued an aggregate of 622,000,000 ordinary shares, of which:

- (1) 355,543,000 Domestic Shares and 59,457,000 Unlisted Foreign Shares were issued by the Company when incorporation and were acquired by the promoters of the Company entirely. Amongst which, Shanghai Friendship Stock Company owns 211,640,000 Domestic

Shares, Shanghai Industrial Commercial Network owns 131,683,000 Domestic Shares, Mitsubishi Corporation owns 41,900,000 Unlisted Foreign Shares, Wong Sun Hing owns 17,557,000 Unlisted Foreign Shares and Shanghai Liding owns 12,220,000 Domestic Shares respectively;

- (2) an aggregate of 207,000,000 Foreign Shares are listed outside the PRC.

the existing Article 25 of the articles of association of the Company shall be replaced in its entirety by the following clause:

The registered capital of the Company is RMB622,000,000.

Such resolution shall be put forward in the annual general meeting of the Company for approval as a special resolution.

### Election of the new Board and Supervisory Committee

The Company will elect the new members of the Board and supervisory committee of the Company ("Supervisory Committee") in 2005. Mr. Zhu Jia-liu will not stand for election but the remaining Directors and Mr. Hua Guo-ping will be the candidates for the member of the Board. The candidates for the Supervisors will remain the same. The brief biographical details of the Directors and Supervisors are set out in the section of Profiles of Directors, Supervisors and Senior Management of this annual report and in the Notice of AGM of this annual report. The brief biographical detail of Mr. Hua Guo-ping is set out in the section headed Notice of Annual General Meeting of this annual report. Such resolution shall be put forward in the annual general meeting of the Company for approval as an ordinary resolution.

### The Code of Best Practice

The Board is pleased to confirm that the Company has complied with the Code of Best Practice of the Listing Rules for the period under review. None of the Directors is aware of any information that would reasonably indicate that the Company is not or was not for any part of the period under review in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

### Auditors

No change has been made by the Company to the appointment of auditor for the last 3 years. The 2004 financial statements prepared in accordance with the Hong

Kong accounting standards have been audited by PricewaterhouseCoopers, the Company's auditor. A resolution will be submitted to the forthcoming annual general meeting of the Company to reappoint PricewaterhouseCoopers as the international auditor of the Company.

By order of the Board

*Chairman*

**Wang Zong-nan**

19 April 2005

Shanghai, The PRC

