

# Notes to the Accounts

For the year ended 31 December 2004

## 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 Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). 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.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1st January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31st December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

## 3. Principal accounting policies

### (a) Group accounting

#### (i) Consolidation

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

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

# Notes to the Accounts

For the year ended 31 December 2004

## 3. Principal accounting policies (continued)

### (a) Group accounting (continued)

#### (i) Consolidation (continued)

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 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.

#### (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 of intangible assets

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

# Notes to the Accounts

For the year ended 31 December 2004

## 3. Principal accounting policies (continued)

### (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.

### (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.

# Notes to the Accounts

For the year ended 31 December 2004

## 3. Principal accounting policies (continued)

### (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 investments 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.

### (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 and deposits held at call with banks.

# Notes to the Accounts

For the year ended 31 December 2004

## 3. Principal accounting policies (continued)

### (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, it 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 2004

## 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 and associates, 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.

### (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-operating expenses

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

### (p) Government grants

A government grant 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 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.

# Notes to the Accounts

For the year ended 31 December 2004

## 3. Principal accounting policies (continued)

### (r) Revenue recognition

- (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, delivery income from suppliers and information system service income 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.

### (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, intangible assets and other non-current 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 and capital expenditure are located or incurred in the PRC. No analysis of turnover by location is presented as the Group sells merchandise to customers in the PRC.

# Notes to the Accounts

For the year ended 31 December 2004

## 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:

	2004 RMB'000	2003 RMB'000
<b>Turnover</b>		
Sales of merchandise	10,854,967	9,282,248
<b>Other revenues</b>		
Income from suppliers		
- Promotion and store display income	516,609	390,930
- Merchandise storage and delivery income	87,164	76,921
- Information system service income	6,901	4,643
Gross rental income from leasing of shop premises	119,319	84,119
Interest income	5,598	3,879
Royalty income from franchised stores	29,733	26,381
Others	30,172	28,073
	795,496	614,946
Total revenues	11,650,463	9,897,194

### Segment information

No geographical segment analysis is presented as all assets, capital expenditure and operations of the Group are located or incurred 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.



# Notes to the Accounts

For the year ended 31 December 2004

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

Other operations of the Group mainly comprise sales of merchandise to wholesalers; and logistic services for wholesale business.

	Supermarkets RMB'000	Hypermarkets RMB'000	Convenience stores RMB'000	Other operations RMB'000	Group RMB'000
<b>2004</b>					
Segment revenue	5,290,682	5,039,819	1,247,543	66,821	11,644,865
Including sales of merchandise to					
- an associate at cost	—	1,039,249	—	—	1,039,249
- an associate at retail price less 2%	120,778	171,427	—	—	292,205
- franchised stores at cost	320,430	—	118,727	—	439,157
Interest income					5,598
Total revenues					11,650,463
Segment results	134,824	67,149	24,178	416	226,567
Interest income					5,598
Other income					50,828
Unallocated costs					(27,670)
Operating profit					255,323
Finance costs					(6,251)
Share of results of associates					99,737
Profit before taxation					348,809
Taxation					(108,374)
Profit after taxation					240,435
Minority interests					(24,895)
Profit attributable to shareholders					215,540
Segment assets	1,366,547	2,018,970	329,562	22,682	3,737,761
Investments in associates					293,842
Unallocated assets					779,108
Total assets					4,810,711
Segment liabilities	1,014,067	1,579,004	195,505	15,745	2,804,321
Unallocated liabilities					57,273
Total liabilities					2,861,594
Capital expenditure	50,990	601,925	35,751	44,270	732,936
Depreciation	118,328	85,180	33,325	15,251	252,084
Amortisation charges	3,153	2,450	537	801	6,941

# Notes to the Accounts

For the year ended 31 December 2004

## 4. Turnover, other revenues and 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%	256,743	90,060	—	—	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	2,423	1,750	537	185	4,895

# Notes to the Accounts

For the year ended 31 December 2004

## 5. Operating profit

Operating profit is stated after crediting and charging the following:

	2004 RMB'000	2003 RMB'000
<b>Crediting:</b>		
Income from leasing of shop premises		
- Gross rental income	119,319	84,119
- Outgoings	(39,707)	(26,449)
Government subsidies	30,564	13,953
Gain on disposal of fixed assets	18,960	—
Net income from investments		
- Net gain on disposal of trading securities	733	1,604
- Net income from designated deposits	571	1,625
Unrealised gains on trading securities	—	535
<b>Charging:</b>		
Amortisation of goodwill	9,996	8,943
Amortisation of non-current assets	1,394	1,397
Amortisation of software	5,547	3,498
Auditors' remuneration	3,304	2,663
Depreciation of fixed assets	252,084	223,482
Loss on disposal of fixed assets	—	418
Loss on disposal of intangible assets	59	3,579
Operating lease rental in respect of land and buildings	448,124	354,774
Staff costs excluding directors' emoluments (Note 7)	613,118	507,742
Pre-operating expenses	12,529	12,853
Provision for doubtful debts	1,559	2,421
Provision for obsolescence of inventories	127	333
Unrealised losses on trading securities	252	—

# Notes to the Accounts

For the year ended 31 December 2004

## 6. Finance costs

Financial costs represent interest expense on bank loans.

## 7. Staff costs excluding directors' emoluments

	2004 RMB'000	2003 RMB'000
Salaries and wages	440,231	363,355
Retirement benefit costs — defined contribution plans (Note)	52,099	42,527
Medical benefits	32,950	20,401
Other welfare expenses	87,838	81,459
	613,118	507,742

### 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.

# Notes to the Accounts

For the year ended 31 December 2004

## 8. Taxation

Hong Kong profits tax has not been provided for as the Group has no estimated assessable profits subject to Hong Kong profits tax.

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

	2004 RMB'000	2003 RMB'000
PRC income tax		
Company and subsidiaries		
- Current taxation	68,984	60,931
- Deferred taxation	(3,048)	(5,056)
Share of taxation of associates	42,438	35,460
	108,374	91,335

PRC income tax is calculated based on the statutory income tax rate of 33% (2003: 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% (2003: 0% to 15%) based on the relevant PRC tax laws and regulations.

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

	2004 RMB'000	2003 RMB'000
Profit before taxation	348,809	294,097
Calculated at a taxation rate of 33%	115,107	97,052
Effect of preferential tax rates on the income of certain subsidiaries and associates	(23,836)	(16,063)
Expenses not deductible for taxation purpose	3,479	4,517
Utilisation of previously unrecognised tax losses	(587)	(403)
Tax losses for which no deferred income tax asset was recognised	14,211	6,232
Taxation charge	108,374	91,335

# Notes to the Accounts

For the year ended 31 December 2004

## 9. Profit attributable to shareholders

The profit attributable to shareholders for the year ended 31st December 2004 is dealt with in the Company's accounts to the extent of RMB177,922,000 (2003: RMB187,637,000).

## 10.Dividends

	2004 RMB'000	2003 RMB'000
Interim, paid, of RMB 0.05 (2003:Nil) per share	29,375	—
Final, proposed, of RMB 0.07 (2003: RMB 0.08) per share	43,540	47,000
	72,915	47,000

At a meeting held on 19th April 2005, the Directors proposed a final dividend of RMB 0.07 (2003:RMB0.08) 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 31st December 2005 (Note 31).

## 11.Earnings per share

The calculation of basic earnings per share for the year ended 31st December 2004 is based on the profit attributable to shareholders of RMB215,540,000 (2003: RMB163,623,000) and the weighted average number of 595,041,000 (2003: 503,200,000) 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.

# Notes to the Accounts

For the year ended 31 December 2004

## 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:

	2004 RMB'000	2003 RMB'000 Note
Executive/non-executive Directors:		
Fees	—	—
Basic salaries, allowances and benefits in kind	738	491
Discretionary bonuses	800	114
Retirement benefit costs	60	10
Medical benefits	24	3
Independent non-executive Directors:		
Fees	175	150
	1,797	768

The emoluments fell within the following band:

	Number of Directors	
	2004	2003
Nil — HK\$1,000,000	12	10

None of the Directors waived any emoluments during the year.

# Notes to the Accounts

For the year ended 31 December 2004

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

### (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:

	2004 RMB'000	2003 RMB'000
Basic salaries, allowances and benefits in kind	237	220
Discretionary bonuses	240	54
Retirement benefit costs	20	5
Medical benefits	8	2
	505	281

The emoluments fell within the following band:

	Number of Supervisors	
	2004	2003
Nil — HK\$1,000,000	3	3

None of the Supervisors waived any emoluments during the year.

### (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:

	2004 RMB'000	2003 RMB'000
Basic salaries, allowances and benefits-in-kind	2,453	2,407
Discretionary bonuses	705	388
Retirement benefit costs	100	23
Medical benefits	40	6
	3,298	2,824

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 2004

## 13. Intangible assets

Group	Software RMB'000	Goodwill RMB'000	Total RMB'000
Opening net book amount at 1st January 2003	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 amount at 31st December 2003	19,286	75,686	94,972
Opening net book amount at 1st January 2004	19,286	75,686	94,972
Additions	9,101	—	9,101
Acquisition of business	193	20,000	20,193
Acquisition of a subsidiary	1,060	1,960	3,020
Acquisition of additional equity interests in subsidiaries	—	360	360
Amortisation charges	(5,547)	(9,996)	(15,543)
Disposals	(59)	—	(59)
Closing net book amount at 31st December 2004	24,034	88,010	112,044
At 31st December 2003			
Cost	24,273	87,871	112,144
Accumulated amortisation	(4,987)	(12,185)	(17,172)
Net book amount	19,286	75,686	94,972
At 31st December 2004			
Cost	34,568	110,191	144,759
Accumulated amortisation	(10,534)	(22,181)	(32,715)
Net book amount	24,034	88,010	112,044

# Notes to the Accounts

For the year ended 31 December 2004

## 13.Intangible assets

Company	Software RMB'000
Opening net book value at 1st January 2003	—
Additions	1,668
Amortisation charges	(186)
Closing net book value at 31st December 2003	1,482
Opening net book amount at 1st January 2004	1,482
Additions	2,753
Amortisation charges	(801)
Closing net book value at 31st December 2004	3,434
At 31st December 2003	
Cost	1,668
Accumulated amortisation	(186)
Net book value	1,482
At 31st December 2004	
Cost	4,421
Accumulated amortisation	(987)
Net book value	3,434

# Notes to the Accounts

For the year ended 31 December 2004

## 14. Fixed assets

Group	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 1st January 2004	723,962	575,895	91,343	889,513	2,280,713
Additions	10,602	150,148	10,751	137,897	309,398
Transfer from construction in progress (Note 15)	17,889	30,823	3,176	11,266	63,154
Acquisition of business	28,556	38,112	537	58,903	126,108
Acquisition of a subsidiary	—	24	73	10,310	10,407
Disposals	(10,273)	(9,295)	(5,906)	(29,356)	(54,830)
At 31st December 2004	770,736	785,707	99,974	1,078,533	2,734,950
Accumulated depreciation					
At 1st January 2004	51,365	218,673	25,939	322,181	618,158
Charge for the year	19,915	101,402	13,235	117,532	252,084
Disposals	(2,493)	(8,936)	(5,272)	(20,054)	(36,755)
At 31st December 2004	68,787	311,139	33,902	419,659	833,487
Net book value					
At 31st December 2004	701,949	474,568	66,072	658,874	1,901,463
At 31st December 2003	672,597	357,222	65,404	567,332	1,662,555

# Notes to the Accounts

For the year ended 31 December 2004

## 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 1st January 2004	149,236	125,950	8,347	211,119	494,652
Additions	—	—	384	7,749	8,133
Transfer from construction in progress (Note 15)	—	2,236	2,111	649	4,996
Disposals	(3,147)	—	(2,136)	(6,783)	(12,066)
At 31st December 2004	146,089	128,186	8,706	212,734	495,715
Accumulated depreciation					
At 1st January 2004	21,889	80,357	3,482	123,681	229,409
Charge for the year	3,936	15,753	809	21,961	42,459
Disposals	(927)	—	(1,045)	(4,736)	(6,708)
At 31st December 2004	24,898	96,110	3,246	140,906	265,160
Net book value					
At 31st December 2004	121,191	32,076	5,460	71,828	230,555
At 31st December 2003	127,347	45,593	4,865	87,438	265,243

All leasehold land and buildings 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 2004

## 15. Construction in progress

Group	RMB'000
At 1st January 2003	5,825
Additions	78,675
Transfer to fixed assets	(59,648)
At 31st December 2003	24,852
Additions	256,669
Transfer to fixed assets (Note 14)	(63,154)
At 31st December 2004	218,367

Company	RMB'000
At 1st January 2003	3,521
Additions	11,006
Transfer to fixed assets	(7,333)
At 31st December 2003	7,194
Additions	23,048
Transfer to fixed assets (Note 14)	(4,996)
At 31st December 2004	25,246

## 16. Investments in subsidiaries

	2004 RMB'000	2003 RMB'000
Company		
Unlisted equity investments, at cost	626,140	552,040
Less: Provision for impairment losses	(1,650)	(1,895)
	624,490	550,145

Particulars of the major subsidiaries held by the Group are set out in Note 37.

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

# Notes to the Accounts

For the year ended 31 December 2004

## 17. Investments in associates

Group	2004 RMB'000	2003 RMB'000
Share of net assets	293,842	279,507
Unlisted equity investments, at cost	230,401	130,487

Company	2004 RMB'000	2003 RMB'000
Unlisted equity investments, at cost	228,581	128,907
Less: Provision for impairment losses	(43,139)	—
	185,442	128,907

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 31st December 2004 and 2003 together with the turnover and profit attributable to shareholders of Carhua during the year ended 31st December 2004 and 2003, as extracted from the accounts of Carhua are as follows:

	2004 RMB'000	2003 RMB'000
Non-current assets	734,964	730,166
Current assets	551,450	486,212
Current liabilities	(771,601)	(747,554)
Turnover	3,094,239	2,794,184
Profit attributable to shareholders	191,450	158,108

# Notes to the Accounts

For the year ended 31 December 2004

## 18. Long-term investments

Group	2004 RMB'000	2003 RMB'000
At cost		
Legal person shares (i)	1,112	1,112
Unlisted equity investments (ii)	9,081	9,285
	10,193	10,397

Company	2004 RMB'000	2003 RMB'000
At cost		
Legal person shares (i)	1,112	1,112
Unlisted equity investments (ii)	1,000	1,000
	2,112	2,112

(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 of the Group and the Company include 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 2004

## 20. Inventories

Group	2004 RMB'000	2003 RMB'000
Merchandise for resale	945,207	885,838
Provision for obsolescence	(3,577)	(3,450)
	941,630	882,388
Low value consumables	26,835	24,143
	968,465	906,531

Company	2004 RMB'000	2003 RMB'000
Merchandise for resale	151,975	153,428
Provision for obsolescence	(825)	(825)
	151,150	152,603
Low value consumables	2,688	2,812
	153,838	155,415

## 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	2004 RMB'000	2003 RMB'000
Within 30 days	26,507	16,705
30–60 days	287	3,582
61–90 days	89	1,309
91 days–one year	359	224
	27,242	21,820

Company	2004 RMB'000	2003 RMB'000
Within 30 days	4,189	3,194
30–60 days	216	394
61–90 days	114	8
91 days–one year	217	192
	4,736	3,788



# Notes to the Accounts

For the year ended 31 December 2004

## 22. Deposits, prepayments and other receivables

Group	2004 RMB'000	2003 RMB'000
Deposits and prepayments	234,612	104,236
Other receivables	19,332	29,115
	253,944	133,351

Company	2004 RMB'000	2003 RMB'000
Deposits and prepayments	45,285	7,413
Other receivables	3,065	11,184
	48,350	18,597

## 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 90 days and the credit terms range from 30 to 90 days. Such balances with associates are unsecured and interest free.

## 24. Investments in trading securities

Group	2004 RMB'000	2003 RMB'000
Equity securities listed in the PRC, at market value	4,973	3,406

Company	2004 RMB'000	2003 RMB'000
Equity securities listed in the PRC, at market value	4,903	3,344

## 25. 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 2004

## 26. Trade payables

The ageing analyses of the trade payables are as follows:

Group	2004 RMB'000	2003 RMB'000
Within 30 days	1,428,912	968,260
30–60 days	363,978	708,284
61–90 days	29,499	162,957
91 days–one year	24,614	18,631
	1,847,003	1,858,132

Company	2004 RMB'000	2003 RMB'000
Within 30 days	396,365	250,794
30–60 days	5,037	208,204
61–90 days	9,346	59,451
91 days–one year	9,090	4,772
	419,838	523,221

## 27. Other payables, accruals and coupon liabilities

Group	2004 RMB'000	2003 RMB'000
Other payables	502,208	333,696
Coupon liabilities	318,874	35,496
Customers' advances	25,379	26,692
Accruals	22,692	15,425
	869,153	411,309

Company	2004 RMB'000	2003 RMB'000
Other payables	80,689	30,342
Coupon liabilities	152,023	16,292
Customers' advances	966	3,812
Accruals	5,434	14
	239,112	50,460

# Notes to the Accounts

For the year ended 31 December 2004

## 28.Unsecured short-term borrowings

Group and Company	2004 RMB'000	2003 RMB'000
Short-term bank loans	—	70,000
Notes payable (Note)	—	138,000
	—	208,000

Note:

During 2003, 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. All these notes payable were settled during 2004.

## 29.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 movement on the major deferred tax liabilities/(assets) accounts are as follows:

Group	Deferred tax liabilities	Deferred tax assets		
	Fair value adjustments on acquisition of subsidiary RMB'000	Pre-operating expenses RMB'000	Bad debt and inventory provisions RMB'000	Sub-total RMB'000
Balance at 1st January 2003,	45,736	(1,407)	(1,808)	(3,215)
Credited to consolidated profit and loss account	(1,157)	(3,030)	(869)	(3,899)
At 31st December 2003	44,579	(4,437)	(2,677)	(7,114)
Credited to consolidated profit and loss account	(1,157)	(1,403)	(488)	(1,891)
At 31st December 2004	43,422	(5,840)	(3,165)	(9,005)

# Notes to the Accounts

For the year ended 31 December 2004

## 29.Deferred taxation (continued)

Company	Deferred tax assets in respect of bad debt and inventory provisions RMB'000
Balance at 1st January 2003	—
Credited to profit and loss account	1,738
At 31st December 2003	1,738
Charged to profit and loss account	(903)
At 31st December 2004	835

At 31 December 2004, deferred tax assets mainly in respect of certain temporary differences arising from tax losses carried forward amounting to RMB 88,082,000 (2003: RMB 28,122,000) have not been recognised in the financial statements as, in the opinion of the directors, it is uncertain that there will be sufficient future taxable profit to utilise these tax losses, which are expiring in the next five years, before their expiry.

## 30.Share capital

Registered, issued and fully paid

	Number of shares at RMB 1.00 each	Nominal value RMB'000
At 1st January 2003	415,000,000	415,000
Issue of H shares (Note (a))	172,500,000	172,500
At 31st December 2003	587,500,000	587,500
Issue of H shares (Note(b))	34,500,000	34,500
At 31st December 2004	622,000,000	622,000

# Notes to the Accounts

For the year ended 31 December 2004

## 30. Share capital (continued)

### Registered, issued and fully paid (continued)

Note:

- (a) 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).

- (b) Pursuant to a resolution passed at the shareholders' meeting on 18th May 2004 and approvals from the relevant government authorities, the Company was authorised to increase its registered share capital from RMB587,500,000 to an amount not exceeding RMB705,000,000.

On 12th October 2004, the Company completed a placing of 34,500,000 H shares with a par value of RMB1.00 each at a price of HK\$8.8 per share in cash for an aggregate consideration of HK\$303,000,000 (equivalent to approximately RMB322,393,000). These shares rank pari passu in all respect with the then existing H shares.

The share capital of the Company composed of:

	2004		2003	
	Number of shares at RMB 1.00 each	Nominal value RMB'000	Number of shares at RMB 1.00 each	Nominal value RMB'000
Domestic shares	355,543,000	355,543	355,543,000	355,543
Unlisted foreign shares	59,457,000	59,457	59,457,000	59,457
H shares	207,000,000	207,000	172,500,000	172,500
	622,000,000	622,000	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 2004

## 31. Reserves

Group	Capital reserve RMB'000 (note (a))	Statutory common reserve fund RMB'000 (note (b))	Statutory common welfare fund RMB'000 (note (c))	Retained earnings RMB'000	Total RMB'000
Balance at 1st January 2003	—	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 31st 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
Balance at 1st January 2004	480,459	50,285	25,259	135,687	691,690
Issue of H shares	287,893	—	—	—	287,893
Share issuance expenses	(12,399)	—	—	—	(12,399)
Profit for the year	—	—	—	215,540	215,540
Profit appropriations	—	38,150	19,774	(57,924)	—
2003 final dividend	—	—	—	(47,000)	(47,000)
2004 interim dividend	—	—	—	(29,375)	(29,375)
Balance at 31st December 2004	755,953	88,435	45,033	216,928	1,106,349
Representing:					
Final dividend proposed				43,540	43,540
Others				173,388	1,062,809
				216,928	1,106,349

# Notes to the Accounts

For the year ended 31 December 2004

## 31. Reserves (continued)

Company	Capital reserve RMB'000 (note (a))	Statutory common reserve fund RMB'000 (note (b))	Statutory common welfare fund RMB'000 (note (c))	(Accumulated losses)/ retained earnings RMB'000	Total RMB'000
Balance at 1st 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 31st 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
Balance at 1st January 2004	480,459	34,214	17,107	27,565	559,345
Issue of H shares	287,893	—	—	—	287,893
Share issuance expenses	(12,399)	—	—	—	(12,399)
Profit for the year	—	—	—	177,922	177,922
Profit appropriations	—	20,202	10,101	(30,303)	—
2003 final dividend	—	—	—	(47,000)	(47,000)
2004 interim dividend	—	—	—	(29,375)	(29,375)
Balance at 31st December 2004	755,953	54,416	27,208	98,809	936,386
Representing:					
Final dividend proposed				43,540	43,540
Others				55,269	892,846
				98,809	936,386

# Notes to the Accounts

For the year ended 31 December 2004

## 31. Reserves (continued)

Note:

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

- (c) 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 2004

## 32. Notes to consolidated cash flow statement

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

	2004 RMB'000	2003 RMB'000
Profit before taxation	348,809	294,097
Adjustments for:		
Amortisation of intangible assets	15,543	12,441
Amortisation of other non-current assets	1,394	1,397
Depreciation of fixed assets	252,084	223,482
(Gain)/loss on disposal of fixed assets	(18,960)	418
Loss on disposal of intangible assets	59	3,579
Net income from investment in trading securities and designated deposits	(1,304)	(3,229)
Unrealised losses/(gain) on trading securities	253	(535)
Share of results of associates	(99,737)	(94,265)
Interest income	(5,598)	(3,879)
Interest expense	6,251	11,024
Operating profit before working capital changes	498,794	444,530
Changes in working capital:		
Inventories	(44,209)	(243,590)
Trade and other receivables	(122,279)	(59,343)
Amounts due from associates	3,855	(137,244)
Amounts due from other related parties	—	55
Trading securities	(516)	2,087
Trade and other payables	305,159	506,314
Amounts due to associates	57,620	(260)
Amounts due to other related parties	—	(1,555)
Cash generated from operations	698,424	510,994

# Notes to the Accounts

For the year ended 31 December 2004

## 32. Notes to consolidated cash flow statement (continued)

### (b) Analysis of changes in financing during the year

	Share capital RMB'000	Capital reserve RMB'000	Bank borrowings RMB'000	Dividend payable RMB'000	Minority interests RMB'000	Amounts due to shareholders RMB'000	Total RMB'000
At 1st January 2003	415,000	—	170,000	—	268,440	9,500	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 inflow/(outflow) from financing	172,500	480,459	38,000	(124,500)	4,772	(9,500)	561,731
At 31st December 2003	587,500	480,459	208,000	—	219,736	—	1,495,695
Minority interests' share of profit	—	—	—	—	24,895	—	24,895
Acquisition of additional equity interests in subsidiaries	—	—	—	—	(9,186)	—	(9,186)
Acquisition of a subsidiary	—	—	—	—	5,537	—	5,537
Dividend declared and paid	—	—	—	76,375	—	—	76,375
Cash inflow/(outflow) from financing	34,500	275,494	(208,000)	(76,375)	(20,214)	—	5,405
At 31st December 2004	622,000	755,953	—	—	220,768	—	1,598,721

# Notes to the Accounts

For the year ended 31 December 2004

## 33. Acquisition and disposal of business and subsidiaries

### (a) Acquisition of business

During the year, the Company entered into agreements with certain third parties to acquire the business of certain hypermarket stores in Shenyang and Shijiazhuang. The fair value of assets acquired and liabilities assumed were as follows:

	RMB'000
Fixed assets	126,108
Intangible assets	193
Other non-current assets	20,000
Inventories	10,305
Bank balances and cash	364
Payables and accruals	(1,405)
Coupon liabilities	(13,403)
Net assets acquired	142,162
Add: Goodwill	20,000
Total cash consideration	162,162
Less: Cash consideration payable	(50,426)
Bank balances and cash acquired	(364)
Net cash outflow upon acquisition of business	111,372

The principle activities of the aforementioned business acquired in Shenyang and Shijiazhuang are mainly the operations of hypermarkets. Turnover of the business for the period from the date on which the business was acquired to 31 December 2004 was Rmb 63,207,035 and net gain for the same period was Rmb 243,558.

The business acquired during the year contributed Rmb 12,938,000 to the Group's net operating cash flows and utilised Rmb 5,392,000 for investing activities.

# Notes to the Accounts

For the year ended 31 December 2004

## 33. Acquisition and disposal of business and subsidiaries (continued)

### (b) Acquisition of a subsidiary

In September 2004, the Company entered into an agreement with a third party to acquire the latter's 53.3% equity interest in Hangzhou Jiebai Fresh Food Supermarket Co., Ltd ("Hangzhou Jiebai"). The fair value of assets acquired and liabilities assumed by the Group were as follows:

	RMB'000
Fixed assets	10,407
Intangible assets	1,060
Inventories	7,420
Trade receivables	23
Deposits, prepayments and other receivables	2,673
Bank balances and cash	10,763
Payables and accruals	(20,549)
Minority interests	(5,537)
Share of net assets acquired	6,260
Add: Goodwill	1,960
Total cash consideration	8,220
Less: Bank balances and cash acquired	(10,763)
Net cash inflow upon acquisition of a subsidiary	(2,543)

Hangzhou Jiebai is a limited liability company registered in the PRC. The principle activities of Hangzhou Jiebai are mainly the operation of supermarkets, processing, packaging and distribution of the related merchandises.

Turnover of Hangzhou Jiebai for the period from 1 September 2004, the date on which the company became consolidated, to 31 December 2004 was Rmb 34,313,900 and net gain for the same period was Rmb 1,352,000.

The subsidiary acquired during the year utilised Rmb 4,052,000 of the Group's net operating cash flows and Rmb 4,107,000 for investing activities.

### (c) Acquisition of additional equity interests in subsidiaries

During 2004, the Company acquired additional equity interests in certain subsidiaries from the respective minority shareholders at an aggregate cash consideration of Rmb 9,546,000. The fair value of net assets acquired amounted to Rmb 9,186,000, resulting in goodwill arising from acquisition of Rmb 360,000.

# Notes to the Accounts

For the year ended 31 December 2004

## 34. 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	2004 RMB'000	2003 RMB'000
Sales to associates			
— Shanghai Lianhua E-business Co., Ltd.	(a)	292,205	346,803
— Subsidiaries of Shanghai Century Lianhua Supermarket Development Co., Ltd.	(b)	1,039,249	790,076
Purchases from associates			
— Shanghai Lianhua Supermarket Food Co., Ltd. and Shanghai Gude Commercial Trading Co., Ltd.	(c)	26,298	24,191
Decoration cost paid to an associate	(d)	13,841	9,497

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.

# Notes to the Accounts

For the year ended 31 December 2004

## 35. Commitments

### (a) Capital commitments for fixed assets

	2004 RMB'000	2003 RMB'000
Contracted but not provided for	59,764	32,090

The capital commitments mainly represent commitments for construction of buildings, leasehold improvements and purchase of equipment.

### (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:

	2004 RMB'000	2003 RMB'000
Not later than one year	597,352	369,089
Later than one year and not later than five years	1,943,850	1,335,328
Later than five years	3,267,741	2,203,490
	5,808,943	3,907,907

### (c) Commitments for equity investments

As at 31st December 2004, the Group had a commitment to acquire the remaining equity interests of 25.39% (2003: 25.39%) in Hangzhou Lianhua Huashang Group Co., Ltd. held by third parties at a consideration of not less than RMB140.76 million.

## 36. 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:

	2004 RMB'000	2003 RMB'000
Not later than one year	114,616	84,165
Later than one year and not later than five years	170,904	50,924
Later than five years	99,428	45,932
	384,948	181,021

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

# Notes to the Accounts

For the year ended 31 December 2004

## 37. Particulars of major subsidiaries and associates

As at 31st December 2004, the Company held interest in the following major subsidiaries and associates, all of which are private limited liability companies established and operating 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					
Beijing Century Lianhua Supermarket Co., Ltd.	29th May 2003	2,000	80.00%	4.00%	Hypermarket
Fuzhou Century Lianhua Supermarket Co., Ltd.	1st July 2002	10,000	80.00%	4.00%	Hypermarket
Guangzhou Century Lianhua Supermarket Co., Ltd.	1st August 2002	16,000	80.00%	4.00%	Hypermarket
Shanghai Century Lianhua Supermarket Baoshan Co., Ltd.	28th June 2001	10,000	57.50%	17.43%	Hypermarket
Shanghai Century Lianhua Supermarket Hongkou Co., Ltd.	19th August 2003	3,000	83.67%	—	Hypermarket
Shanghai Century Lianhua Supermarket Minhang Co., Ltd.	5th September 2002	5,000	80.00%(i)	4.00%	Hypermarket
Shanghai Century Lianhua Supermarket Nanhui Co., Ltd.	28th April 2004	10,000	49.00%	30.60%	Hypermarket

# Notes to the Accounts

For the year ended 31 December 2004

## 37. Particulars of major subsidiaries and associates (continued)

### (a) Subsidiaries (continued)

Company name	Date of establishment	Registered and fully paid capital RMB'000	Attributable equitable interest held directly	Attributable interest held indirectly	Principal activities
Shanghai Century Lianhua Supermarket Qingpu Co., Ltd.	7th August 2003	500	90.00%	—	Hypermarket
Shanghai Lujiazui Lianhua Hypermarket Co., Ltd.	16th August 2000	20,000	77.50%	3.50%	Hypermarket
Shanghai Century Lianhua supermarket Xuhui Co., Ltd.	1st June 2001	500	100.00%(ii)	—	Hypermarket
Shenyang Century Lianhua Supermarket Co., Ltd.	26th May 2004	3,000	90.00%	9.22%	Hypermarket
Tianjin Yishang Lianhua Supermarket Co., Ltd.	1st September 2002	30,000	80.00%	—	Hypermarket
Zhejiang Gongshu Century Lianhua Supermarket Co., Ltd.	29th August 2004	15,000	90.00%	9.22%	Hypermarket
Hangzhou Lianhua Huashang Group Co., Ltd.	1st June 2001	120,500	74.19%	—	Supermarket and hypermarket
Shanghai Century Lianhua Western Commercial Co., Ltd.	7th November 2001	5,000	15.00%	51.00%	Supermarket and hypermarket
Lianhua Supermarket Jiangsu Co., Ltd.	21st March 2003	50,000	85.00%	7.20%	Supermarket



# Notes to the Accounts

For the year ended 31 December 2004

## 37. Particulars of major subsidiaries and associates (continued)

### (a) Subsidiaries (continued)

Company name	Date of establishment	Registered and fully paid capital RMB'000	Attributable equitable interest held		Principal activities
			directly	indirectly	
Shanghai Lianhua Supermarket Fengxian Co., Ltd.	4th March 1997	3,000	55.00%	—	Supermarket
Shanghai Lianhua Supermarket Jiading Co., Ltd.	9th October 1996	3,290	81.76%	3.65%	Supermarket
Shanghai Lianhua Supermarket Jinshan Co., Ltd.	21st October 1996	10,410	80.79%	17.70%	Supermarket
Shanghai Lianhua Supermarket Nanhui Co., Ltd.	28th November 1996	11,000	60.00%	—	Supermarket
Shanghai Lianhua Supermarket Qingpu Co., Ltd.	13th January 1997	3,000	60.00%	—	Supermarket
Shanghai Lianhua Xinxin Supermarket Co., Ltd.	22nd April 1997	13,300	55.00%	—	Supermarket
Shanghai Lianhua Yongchang Supermarket Co., Ltd.	5th July 1999	35,000	60.00%	—	Supermarket
Shanghai Pudong Lianhua Supermarket Co., Ltd.	29th September 1997	5,000	60.00%	—	Supermarket
Shanghai Songjiang Lianhua Supermarket Co., Ltd.	1st September 1998	5,350	63.00%	—	Supermarket

# Notes to the Accounts

For the year ended 31 December 2004

## 37. Particulars of major subsidiaries and associates (continued)

### (a) Subsidiaries (continued)

Company name	Date of establishment	Registered and fully paid capital RMB'000	Attributable equitable interest held directly	Attributable interest held indirectly	Principal activities
Lianhua Quik Stores Co., Ltd.	25th November 1997	63,000	70.00%	—	Convenience store
Shanghai Lianhua Commercial Trading Co., Ltd.	27th June 2001	3,000	30.00%	53.60%	Wholesaling
Shanghai Lianhua Supermarket Distribution Co., Ltd.	29th October 1998	1,000	70.00%	2.00%	Purchase and distribution
Shanghai Lianhua Supermarket Jilin Purchase and Distribution Co., Ltd.	9th August 2000	1,000	51.00%	—	Purchase and distribution
Shanghai Lianhua Live and Fresh Food Processing and Distribution Co., Ltd.	29th December 1999	5,000	90.00%	—	Fresh food processing and distribution
Shanghai Lianhua Commercial and Business Consulting Co., Ltd.	20th July 2004	2,000	90.00%	9.22%	Business consulting

# Notes to the Accounts

For the year ended 31 December 2004

## 37. 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	
(b) Associates					
Shanghai Carhua Supermarket Co., Ltd.	8th February 1995	289,891	45.00%	—	Hypermarket
Shanghai Century Lianhua Supermarket Development Co., Ltd.	24th November 1997	100,000	20.00%	—	Hypermarket
Shanghai Lianhua E-business Co., Ltd.	4th October 1995	50,000	43.00%	—	Trading
Shanghai Dia-Lianhua Retail Co., Ltd.	20th June 2003	93,087	45.00%	—	Discount store

- (i) 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 24th December 2002.
- (ii) 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 28th June 2002.

## 38. Subsequent events

- (i) In February 2005, the Company entered into an agreement with certain parties to develop a supply chain management system. Management estimates that an aggregate amount of not less than approximately RMB 120 million will be invested in the project from year 2005 to 2010.
- (ii) In March 2005, the Company entered into a conditional agreement with a third party to invest approximately RMB 107,000,000 in Guangxi Jiayong Commercial and Trading Joint Stock Limited Company ("Guangxi Jiayong"), representing approximately 51% of the enlarged capital of Guanxi Jiayong. Guangxi Jiayong is principally engaged in the operation of a chain of supermarkets in Guangxi Province, the PRC, and the transaction is subject to the approval of certain local government authorities.

# Notes to the Accounts

For the year ended 31 December 2004

## 39. Controlling shareholder and ultimate holding company

The Directors regard Shanghai Friendship Group Incorporated Company, a company incorporated and listed in the PRC, as being the controlling shareholder.

The equity interests directly and indirectly held by Shanghai Friendship (Group) Co., Ltd., the former ultimate holding company of the Group, in Shanghai Friendship Group Incorporated Company have been transferred to Brilliance Group Company Limited in 2004. Accordingly, the Directors regard Brilliance Group Company Limited, a State-owned enterprise established in the PRC, as being the current ultimate holding company.

## 40. Approval of accounts

The accounts were approved by the Board of Directors on 19th April 2005.

## 41. Comparative figures

Certain comparative figures have been reclassified to conform to the current year presentation.