

Management Discussion And Analysis

Operating Environment

During the year under review, the PRC's economy maintained its robust growth momentum with a year-on-year GDP growth of approximately 10.7%. The PRC government implemented various measures to safeguard the ongoing and healthy development of the economy. For the year ended 31 December 2006, total retail sales of consumer products in the PRC reached approximately RMB7,641 billion, representing an increase of approximately 13.7% from 2005. In 2006, consumer price index (CPI) level of the PRC increased by approximately 1.5% when compared with 2005. Daily consumer products price index was relatively stable, continuing to benefit the ongoing development of the retail industry. Income and spending power of urban and rural residents increased along with further



economic development whereas income of urban and rural residents continued to grow faster, with a national disposable income per capita of urban citizens of RMB11,759. Excluding price factor, this represented an effective growth of approximately 10.4%, about 0.8 per cent higher when compared with the previous year. National disposable net income per capita of rural residents reached RMB3,587. Excluding price factor, this represented an effective growth of 7.4%, 1.2 per cent higher when compared with the previous year.



Different trends emerged in the spending patterns of urban and rural areas. The shift towards middle to high end spending trend was apparent in urban spending power, while spending in rural markets grew steadily, with the difference between the rates of growth in urban and rural markets continuing to narrow. During the year under review, spending in rural markets grew in remarkable speed. Total retail sales of consumer products of residents at county level or below reached approximately RMB2,486.74 billion, accounting for approximately 32.54% of the total retail sales of consumer products in aggregate, and represented a growth rate of approximately 12.6%, an increase of approximately 1.1 percent from the corresponding period of last year. Given this trend of further growth of rural markets, and coupled with the support of state policies, the rural market provides significant room for development.

Spending power in the retail market of the Yangtze Delta region continued to grow as the unification of the economy of the region accelerates. In 2005, the total retail sales of consumer products in the Yangtze Delta region recognised exceeded a trillion RMB for the first time, and reached approximately RMB1.2 trillion in 2006, representing over 16% of the proportion of total retail sales of the country. The growth rate of spending in the Yangtze Delta region has far exceeded the rest of the country and leads the nationwide growth rate.



During the year under review, relevant state authority further introduced various measures to encourage the development of the retail industry, while continued to regulate the development of the industry by implementing various laws and regulations. Such laws and regulations covered various aspects of the retail industry, such as enhancing industry standards, reasonable planning of networks, regulating industrial and commercial relations and supporting development of logistics in rural areas, so as to promote fair competition and maintain the healthy development of the retail industry. Such laws and regulations will have a significant impact on the future development of the retail industry while this trend is expected to continue and the retail industry will continue to benefit from such favourable operating environment.

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During the year under review, the expansion of retail chain enterprises in the PRC retail market continued to accelerate, while hypermarkets further penetrated all cities in the country. Retail chains accelerated the pace of opening new stores and at the same time expanded their operating scale and cross-region developments through mergers, acquisitions and restructuring. In particular, international retailers relied more on the use of rich resources for mergers, acquisitions and expansions. The industry is increasingly becoming concentrated.

The rapid development of retail chains has led to an increasingly fierce competition in human resources in the entire industry. As such, enterprises are placing more emphasis on their staff reward mechanism and building up of corporate culture, so as to strengthen their abilities to attract talented staff, and to enhance training and retaining of talented individuals.

Business Review

Further optimising of network development structure

The Group continued to persist in its centralised development strategy and maintained relatively stable growth of network structure. As at 31 December 2006, the Group had a net increase of 107 outlets, 78 of which are located in Eastern China.

As at 31 December 2006, the Group had a total of 3,716 directly operated and franchised outlets (not including outlets operated by associated companies), 81.08% of which are concentrated in Eastern China region. The Group continued to maintain its market leading position, details of which are as follows:

	Hypermarkets		Supermarkets		Convenience stores		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
The Group	104	97	1,652	1,553	1,960	1,959	3,716	3,609
Of which: Direct operation	104	97	625	653	1,114	1,245	1,843	1,995
Franchise operation	–	–	1,027	900	846	714	1,873	1,614

Franchise has increasingly become an important and effective means of expanding supermarket and convenience store networks for the Group. As at 31 December 2006, the Group had a total of 1,873 franchised outlets, of which there were 1,027 franchised supermarkets, representing 62% of total supermarket outlets; while the Group had 846 franchised convenience stores, representing 43% of total convenience stores. During the year under review, the Group increased a net total of 259 franchised outlets, including 127 franchised supermarkets and 132 franchised convenience stores.

During the year under review, the Group continued to maintain its pace of opening new stores, although the net increase of stores slightly decreased, which was mainly due to the closure of certain stores. Most of the closed stores were due to the non-renewal of lease, expiry of franchise contracts and relocation due to city planning, and a minority were closed according to active realignment in response to changes in the operating environment. Nevertheless, the overall scale of network still maintained steady growth. The above factors may continue to exist, but the Group will maintain a reasonable development pace, with market scale continuing to grow and the quality of outlets and network distribution to be further enhanced and optimised.

Ongoing optimisation of the supply chain system

During the year under review, the efficiency of the Group's supply chain system was further enhanced. Leveraging on the ongoing marketing of the supply chain management platform, store order satisfactory rate increased by about 10%. The rise in order satisfaction rate was mainly because suppliers were able to actively participate in retail sales and inventory management of outlets through the supply chain platform which facilitated the formulation of appropriate production plans and timely provision of goods. Meanwhile, the Group and the retail stores could monitor the conditions of orders, arrivals and shortages of stocks in a more timely manner, which benefited the Group in controlling inventory structure and amounts, and making adjustments to product portfolio accordingly. For instance, through applying the platform, sales of Unilever China, a major supplier of the Group, rose by 24.96% as compared with the corresponding period of last year.



During the year under review, the Group applied various logistic models, further strengthening its centralised logistic capabilities, increasing the proportion of centralised distribution and the centralised distribution to supermarkets in Shanghai was gradually on the rise. The Group has realized the centralized logistic distribution of the three major businesses through the Hangzhou logistic centre in Zhejiang province. Its centralized transport capacity has been continually increasing that, for instance, 6,000 originally direct-distributed suppliers orders were re-assigned to central distribution. The order satisfactory rate of all retail stores, especially supermarkets, was improved. The integrated delivery operation has effectively facilitated the overall growth of the Group's sales income in high-potential regions.



Actively promote the transformation of outlets to facilitate new growth

During the year under review, the Group continued to proceed with the transformation of its supermarkets stores. A total of 85 supermarkets had been successfully transformed by the Group during the year. As at 31 December 2006, the Group had transformed 95 supermarkets in total, with a year-on-year increase of 23.26% in daily sales, while purchase per transaction of customers rose by 11.00% from last year and profits also increased. Customers are increasingly satisfied with the Group's transformed supermarkets. The Group is the market leader in the transformation of supermarket operating models, which manifests an upgrade in the PRC's consumer market. The Group will persist in promoting and consolidating the results of transformation. The trial transformation for franchised supermarkets was also put in action.

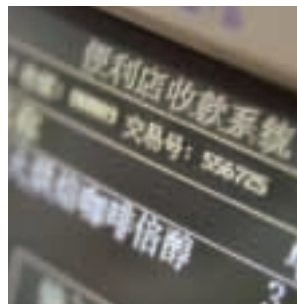
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The Group is confident that transformation will promote segmentation of the market and generate profit growth. The Group also commenced the transformation of hypermarkets and convenience stores. For instance, the Group implemented a new design in its Qingchun hypermarket in Hangzhou, Zhejiang Province for the store, as well as introduced a variety of middle to high fresh product and goods to its product mix. Through transformation, daily sales of the Qingchun store rose by 12.27% from the corresponding period last year and the average purchase per transaction of customers increased by 9.97% from last year. Consumers have been enjoying the new shopping experience, turning the Qingchun store into a new attraction offering a wide variety of products and promoting strong recognition from consumers in Hangzhou.

Building up consumer loyalty

The building up of corporate brand image and consumer loyalty is an important part of the Group's strategies to expand its competitive edge.

During the year under review, great effort was put to the development and management of the Group's membership system. As at 31 December 2006, the total number of members exceeded 6 million. Total member spending as a percentage to the Group's total turnover increased approximately 2.96 percent when compared with the corresponding period last year, while the members' average purchase per transaction also increased approximately 2.90% from last year. Lianhua OK membership (聯華OK會員卡) has become the major brand among membership systems in the fast moving consumer goods sector in Shanghai and Zhejiang. The satisfactory development of the membership system benefited from the high emphasis of the Group on member resources, leveraging on established network system to commence in various promotions catering for the needs of our members, including a members' lottery, point conversion programme, etc. The Group also further implemented point conversion programme throughout the country as well as further enhanced the services of the Group to members.



During the year under review, "Lianhua Supermarket" and "Quik" have gradually been ranked in the most influential brands of supermarket and convenience store franchise business. "Lianhua Supermarket" was granted "Outstanding Franchise Brand of China (中國優秀特許品牌)" awarded by the China Chainstore & Franchise Association for the second consecutive year and the "Most Influential Franchise Brand (最具影響力特許品牌)" awarded by Shanghai Retail Chain Association (上海連鎖經營協會) for the third consecutive year. "Quik" was also granted the "Most Influential Franchise Brand (最具影響力特許品牌)" awarded by Shanghai Retail Chain Association (上海連鎖經營協會).

During the year under review, a qualified store manager team developed along with the growth of the Company. Jin Guoping (金國平), store manager of Grand Gateway (港匯) store in Shanghai, and Pan Suyue (潘蘇月), store manager of Yiwu store (義烏店) in Zhejiang have been awarded the "Best Store Manager of Chain Retailers in China 2006 (二零零六年中國連鎖零售業金牌店長)".

Strengthening costs control to face market challenges

The ever-changing market environment has led to the increasing rise in operating costs, which rental costs, staff costs and energy costs have been showing continuous rising trends. The Group understands that costs control is extremely difficult in light of the increases in all costs. However, costs control is crucial to the success of retail chain business and the Group will continue to take costs control as one of its key focuses. The Group has stepped up its strict objectives towards cost controls, and implemented a number of measures, such as strengthening its budget costs management and costs control on substantial investments and improving operating flow, through enhancing its costs structure analysis, and thus achieved its costs control objectives.

Segment results – Hypermarkets operations

Results Overview

Directly operated stores 104 stores

Hypermarkets are not only the most important part of the Group's business, but also the focus for nationwide development and the biggest turnover generator to the Company. During the review year, the Group had a net increase of 7 hypermarkets, 10 of which are located in Eastern China. The Group currently has a total of 63 hypermarkets in different parts of Eastern China, with further concentration of hypermarkets network, and more effective sharing of resources, as well as enhanced brand awareness.

During the year under review, segment turnover of the Group's hypermarket business was approximately RMB8,568.58 million, accounting for approximately 52.10% of the turnover of the Group and representing an increase of approximately 19.78% over RMB7,153.55 million of the previous year. The segment operating profit for the Group's hypermarkets operation were approximately RMB-45.95 million.

	2006	2005
Gross profit margin (%)	9.25	7.96
Consolidated income margin (%)	23.23	16.52
Operating profit margin (%)	(0.54)	0.75

Business development

During the year under review, the Group opened 16 hypermarkets and closed 9 hypermarkets, with a net increase of 7 hypermarkets, which was less than the expectation of the Group. This was mainly due to changes in city planning, where two stores located in prime business district of Shanghai were closed, and the Group began to implement proactive and prudent streamlining on certain hypermarkets in areas beyond Eastern China, in which changes had occurred in its operating environment and that required a longer period of development. Although these short-term adjustments would inevitably incur a one-off significant non-operation loss, but in the long run, it will be favourable to the sustained healthy development of the Group and will realize the maximum shareholders' value.

During the year under review, while central management was strengthened, the Group improved the management framework of its hypermarkets, enhancing regional focus as well as further increasing its capabilities in procurement, sales-soliciting and operation. Product mix continued to improve and stayed closer to the demands of local market, therefore becoming faster adaptable to the consumers' demands in the local markets.

Hypermarket business is the business with the most growth potential of the Group, and the most intensely competitive segment in the retail chain industry. The Group will continue to maintain its pace of opening new stores, and enhance the sales and profitability of such business. The Group has put emphasis on developing GMS according to the demands of its market segmentation. For these stores, due to the high utilization rate of properties with less unused space, reasonable product mix,

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relative low investment and management costs, it makes a comparatively more reasonable cost-effectiveness. Profitability of the business will gradually increase and market value will also further increase.

Segment results – Supermarkets operation

Results overview

Directly operated stores	625 stores
Franchised stores	1,027 stores

Supermarkets remained the most mature business segment amongst the Group's retail chain businesses and a major profit contributor for the Group. As at 31 December 2006, the number of the Group's supermarkets amounted to 1,652. During the year under review, the number of directly operated supermarkets decreased by 28, while the number of franchised supermarkets increased by 127.

Segment turnover of the Group's supermarket business for the year under review was approximately RMB6,238,960,000, accounting for approximately 37.93% of the Group's turnover and representing an increase of approximately 10.57% from approximately RMB5,642,600,000 in the previous year. The segment operating profit for the Group's supermarkets operation was approximately RMB213,720,000.

	2006	2005
Gross profit margin (%)	14.81	14.13
Consolidated income margin (%)	22.66	22.66
Operating profit margin (%)	3.43	3.38

Business development

During the year under review, the "transformation" of market segmentation continued to be the focus of development for the supermarket business. The directors believe that through transformation, the market positioning for the supermarket business will gradually complement and differentiate with the "one-stop" spending of hypermarkets and the

"convenience" of convenience stores. The Group is a pioneer in the market in the transformation of its supermarket business, which manifests the upgrading trend of the PRC's consumer market.

During the year under review, the Group completed the transformation of 85 supermarkets. As at 31 December 2006, the Group had transformed 95 supermarkets in total, with a year-on-year increase of approximately 23.26% in sales for the transformed outlets, and a year-on-year increase of approximately 11.00% in the average purchase per transaction of customers. Transformation is an optimization of the business model, which focuses on the characteristics of a specific business segment and the adjustment to its product structure in order to improve new business operations, creating a product mix more suitable for the characteristics of the business segment. Transformation also means the transformation of an operation system followed by the optimized workflow of the retail stores and much improvement in the store layout, product selection, service level, etc. Based on the successful transformation experience of directly operated stores, the Group started the implementation the transformation of its franchised stores and conducted trial-runs on three franchised stores. The trial transformation of franchised stores has a significant guidance effect on the future development of the Group's franchised supermarkets.

In the course of development of the supermarket business segment, the Group adhered to the dual strategic focuses of direct operation and franchise operation. During the year under review, the Group's franchised supermarket operations continued to develop healthily. While maintaining the number of increased stores, the Group also focused on the enhancement of the standardised management of stores and further strengthened the synergies with franchised stores. In order to step up its management of franchised stores, the Group conducted management evaluation and risk assessment according to performance indicators in every aspect of franchised stores, so as to better manage and maintain its brand. The enhanced

operating framework of the Group's franchised stores, its win-win business model and collaboration objectives continued to improve in the franchise operation, which enabled the Group fully promoting its edges in resources.

The market potential of retail chain franchise business is rapidly blooming. The supporting system to franchised stores are becoming more and more imminent, which will continue to be the main focus of development for the Group's franchise operations in the coming few years.

Segment results – Convenience Stores

Segment results

Directly operated stores	1,114 stores
Franchised stores	846 stores

During the year under review, the Group's convenience stores were concentrated in areas which are more economically developed with stronger consuming power as the income of their residents is relatively higher. As at 31 December 2006, the Group had a total of 1,960 convenience stores, representing a net increase of 1 convenience store comparing with last year. Due to reasons such as relocation as a result of city planning, expiry of leases and expiry of franchise, certain convenience stores of the Group were streamlined.

Segment turnover of the Group's convenience store business was approximately RMB1,545,060,000, accounting for approximately 9.39% of the Group's turnover and represents an increase of approximately 5.07% from approximately RMB1,470,480,000 of the previous year. The segment operating profit for the Group's convenience stores operation was approximately RMB29,740,000.

	2006	2005
Gross profit margin (%)	16.32	16.07
Consolidated income margin (%)	25.06	25.29
Operating profit margin (%)	1.92	2.16

Business development

The convenience store business of the Group reaches the ninth anniversary of operation. In these nine years, "Lianhua Quik Convenience Store" has won wide recognition from consumers and became one of the most famous brands in the convenience chain store sector in the PRC.

The Group has established a relatively mature model of operation in its convenience store business and improved management systems, so that a professional team of management is formed. As such, the Group is well prepared to push ahead with the development of franchised convenience stores in full force. During the year under review, leveraging on its advantages in terms of brand name and resources, the Group speeded up its development through franchised operations, which reached a net increase of 132 franchised convenience stores during the year, and set up a store acceptance group to enhance the quality of new stores. At the same time, the management of franchise operations was improved by capitalizing



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on the Group's strong data base to give advice to franchised stores in ordering products, recommending marketable products, selecting good store managers to act as their supervisors, and nurturing their capability of operation.

During the year under review, the rapid development of urbanised standards and the increased income of the living standard of consumers created a better environment for convenience stores. In 2007, the Group will further improve the planning for the development of convenience stores, so as to accelerate centralized development in areas which the Group have entered.

Associated Companies

During the year under review, Shanghai Carhua Supermarket Company Limited ("Shanghai Carhua") opened 3 new hypermarkets. As at 31 December 2006, Shanghai Carhua operated a total of 11 hypermarkets in Shanghai.

By an agreement with business partner DISTRIBUIDORA INTERNACIONAL DE ALIMENTACION S.A., the Group disposed of 45% equity interests

in Shanghai Dia-Lianhua Retail Co., Ltd. ("Shanghai Dia") held by it to its business partner at a consideration of approximately RMB41,889,000, which had been approved by the Ministry of Commerce. The Group received the consideration of this transaction in January 2007.

For the year ended 31 December 2006, the Group's share of results of associates was approximately RMB113,597,000, accounting for approximately 47% of the Group's profit attributable to Company's shareholders.

Financial Review

Liquidity and financial resources

For 2006, the capital resources of the Group were mainly cash inflow generated from operations. As at 31 December 2006, the Group had non-current assets of approximately RMB3,894,462,000. Non-current assets mainly comprised construction in progress, property, plant and equipment and land use right of approximately RMB3,276,039,000, intangible assets of approximately RMB198,622,000, investments in associates of approximately RMB328,622,000, and available-for-sale financial assets and other non-current assets of approximately RMB91,179,000.

As at 31 December 2006, the Group had net current liabilities of approximately RMB1,492,039,000. Current assets mainly comprised bank balances and cash of approximately RMB2,472,519,000, inventories of approximately RMB1,616,371,000, accounts receivable, deposits, prepayments and other receivables of approximately RMB780,471,000, and amounts due from associates of approximately RMB945,000. Current liabilities mainly comprised accounts payable, other payables, accruals and coupon liabilities of approximately RMB6,391,792,000 and tax payables of approximately RMB40,507,000.

For the year ended 31 December 2006, the Group's accounts payable turnover was 62 days. Inventory turnover was approximately 36 days.

For the year under review, the Group did not use any financial instrument for hedging purposes and the Group did not have any hedging instrument outstanding as at 31 December 2006.



Capital structure

As at 31 December 2006, the Group's cash equivalents were mainly held in Renminbi and the Group had no bank borrowings.

At present, the Company has a net cash status. The Group is engaged in retail chain business. Since the sales peak season for the Group is near the year end, cash flow at year end is relatively adequate. The Group considers that reasonable management of the cash flow will enable reduction in capital costs.

Details of pledged assets of the Group

As at 31 December 2006, the Group did not pledge any of its assets.

Exposure to foreign exchange risk

Most of the income and expenditures of the Group are denominated in Renminbi. During the year under review, the Group had not experienced any material difficulties or negative effects on its operations or liquidity as a result of fluctuation in currency exchange rates. The Group has not entered into any agreements or purchased any financial instruments to hedge the foreign exchange risks of the Group. The Directors believe that the Group would have sufficient foreign exchange resources to meet its foreign exchange requirements.



Contingent liabilities

As at 31 December 2006, the Group did not have any significant contingent liability.

Material acquisitions and disposals

On 21 August 2006, the Company entered into an equity transfer agreement with Shanghai Industrial United (Group) Commercial Network Development Company Limited (hereinafter "SH United Commercial"), pursuant to which the Company



acquired 22.21% interests in Shanghai Century Lianhua Supermarket Development Company Limited (hereinafter "Century Lianhua"), a non wholly-owned subsidiary of the Company, held by SH United Commercial at a consideration of RMB26,900,000. Upon completion of the aforementioned equity transfer under the equity transfer agreement, the Company and Hangzhou Lianhua Huashang Group Co., Ltd. (hereinafter "Lianhua Huashang"), a non wholly-owned subsidiary of the Company, hold approximately 77.91% and 22.09% equity interests in Century Lianhua, respectively.

On 21 August 2006, the Company entered into an equity transfer agreement with Shanghai Industrial United (Group) Joint Stock Company Limited (hereinafter "Shanghai Industrial United (上海實業聯合)"), renamed as Shanghai Industrial Pharmaceutical Investment Co., Ltd. (上海實業醫藥投資股份有限公司) (hereinafter "Shanghai Industrial Pharmaceutical") on 3 November 2006, to acquire 18.18% equity interests in Shanghai Lianhua E-Commerce Corporation Ltd. (hereinafter "Lianhua E-Commerce") held by Shanghai Industrial United at a consideration of RMB17,900,000. Upon completion of the aforementioned equity transfer

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under the equity transfer agreement, the Company holds 57.27% equity interests in Lianhua E-Commerce. As the Company's shareholdings in Lianhua E-Commerce further expanded, the Company will be able to more effectively utilise the online business to solidify customer relations and will be beneficial to the Company in capturing market share and finalise overall development strategies.

Employment and training

As at 31 December 2006, the Group had a total of 46,809 employees, representing an increase of 5,817 employees from 31 December 2005. During the year under review, total staff costs of the Group for the year was approximately RMB1,057,599,000.

Remuneration to the Group's employees was determined based on individual performance, qualifications and experience and prevailing market practices. The compensation policies and remuneration packages are subject to regular review. Apart from basic salary, welfare allowances and performance bonus, the Group also provides

employees with medical allowances and other subsidies. Pursuant to applicable laws and regulations of the PRC, all employees of the Group participate in various retirement benefit schemes organised by the relevant provincial or municipal governments. During the year, monthly contributions were made to these schemes at a certain percentage of the employees' salaries by the Group and its employees under the retirement benefit schemes.

On 1 May 2004, the "Administration on the education and training of employees" was adopted to regulate the flow of training work in all aspects. During the year, a detailed management training programme was formulated to ensure all management staff would, upon request, take up professional expertise and skills relevant to their positions, coverage rate reached 100%. At the same time, training contents are standardised by means of standard teaching materials.

In respect to reward mechanism, the Group has been adopting "results culture", which links results with individual income. In relation to regional management and store operating staff, a market assessment is adopted, where a management goal assessment is applicable to intermediate to senior management. In the coming years, the Group will further strengthen such mechanism.

Strategies and plans

In 2007, under the intense competitive environment, the Group will continue consolidate its domestic predominance, optimise nationwide network, strengthen core competitiveness, with an aim of satisfying the needs of consumers and further consolidate its leading position in the nationwide market, so as to enlarge its market share and optimize business structure. Looking forward to 2007, the Group will continue to apply the following strategies:

Upholding its strategy of nationwide development to further underpin the advantages of centralisation in its dominating regions, the Group will persistently set up quality stores in existing municipal and core markets. The Group will further pursue its diverse development strategies of acquisition and mergers, as well as franchised stores in order to expand its



market and maintain a pace of establishing about 400 new stores for 2007. About 80% of new store will be focused in Eastern China.

The Group will focus on enhancing its core capabilities in the following aspects in order to elevate its profitability:

The Group plans to enhance operation management and maintain high growth rate for individual stores with an aim to improve store profitability and boost up store sales. For the hypermarket business segment, focus will be placed on strengthening profitability, so as to form a reasonable income and profit structure for the three main business segments of the Group.

The Group will carry on the transformation, actively study the changes in consumer needs, continue to adjust product mix according to market needs, and enhance marketing efforts for better product performance. At the same time, the Group will strengthen fresh produce operation, increase procurement of the operation bases of the Group and make full use of support provided by the fresh produce processing and transport centre. In addition, the Group will upgrade the food safety monitoring system, attract more customers and provide daily convenient and quality services. As such, the Group may achieve an overall improvement in operation.

The Group will continue to enhance its product purchase capabilities by expanding the joint purchasing of its various segments and regions for the same goods and then lowering procurement costs. Further study on regional product characteristics, spending patterns and product market trends will be made for better management of needs. The Group will also accelerate the pace of product introduction, increase introduction of new products, enhance the sourcing ratio of imported products and the sale of branded products in order to enhance our ability of diversified operations.

In addition, the Group will increase the strategic collaborations with major suppliers, to closely cooperate on joint marketing, inventory management and quality control in order for the realization of cooperation business plans and a win-win situation in terms of market shares, brand influence and performance growth. While the Group may share the management experience and analytical market decisions of suppliers, and respond

to market changes in a timely manner. The Group will aim at market opportunities for potential products, and select and nurture suppliers with high potentials through investigation and analysis, so as to build up a long-term and stable collaboration between suppliers and the Group.

The Group will further the development of franchise network, and implement the demand-orientation approach in franchised store management. Based on our in-depth research on the needs of franchise operators, the Group will proactively improve its franchise service system and resource conservation system to be more adaptable to the market and more professional, and seek practicable methods to enlarge the revenues of franchised operations.

The Group will put more efforts at the formulation of nationwide logistic planning and integration of existing logistics resources to strengthen its distribution capabilities. With emphasis on central logistics management, the Group may enhance its centralized transportation capabilities and respond to store orders efficiently and quickly in order to reduce logistics costs. The Group's planning aims at building a logistics network in the Yangtze Delta region with Shanghai as its hub, thereby realizing the interflow and interchange of commodities in the Yangtze Delta region.

Besides, the Group will further the establishment of its membership system, focus on targeted marketing based on data analysis of members in order to foster loyalty of customers. Meanwhile, classified management of customers will be strengthened. The Group will adjust the product mix according to the spending patterns of different regions with a view of increasing customers' order frequency and sales volume and consolidating its market share by promoting sales.

Additional efforts will be placed to the cultivation of corporate culture to maximise the benefits of corporate culture to corporate development. The Group will form a professional management team of excellent cooperation and efficiency. As a publicly listed company in Hong Kong, it is also important for the Group to resolve the issues on retaining talents and utilisation of human resources through a motivation system. Now the Group has developed a performance-linked incentive mechanism for each staff member. Focus will be put on the development of the long-term incentive system and the incentive and regulation of senior management and key personnel of the Group.

