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(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 00980)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2014

FINANCIAL HIGHLIGHTS

As at 30 June 2014, the Group recorded the following:

- Turnover amounted to approximately RMB15,023 million, representing a decrease of approximately 3.7% year over year. The same store sales of the Group decreased by approximately 5.37% year over year, in which hypermarket segment decreased by approximately 7.03%, supermarket segment decreased by approximately 5.04% and convenience store segment grew by approximately 17.1%.
- Gross profit amounted to approximately RMB2,170 million, representing a decrease of 1.9% year over year. Gross profit margin was approximately 14.44%, representing a year-over-year increase of 0.26 percentage point. Consolidated income margin was approximately 24.32%.
- Operating profit amounted to approximately RMB235 million and operating profit margin was 1.56%. Total comprehensive income and profit attributable to shareholders of the Company for the period amounted to approximately RMB98 million. Basic earnings per share amounted to RMB0.09.
- The total number of outlets reached 4,412. During the period under review, the Group opened 117 new outlets, including 3 newly-opened hypermarkets, 63 newly-opened supermarkets (including 15 directly-operated stores and 48 franchised stores), and 51 newly-opened convenience stores (including 20 directly-operated stores and 31 franchised stores). The Group remained the largest supermarket chain in terms of number of outlets and further strengthened the quality of its outlets.

Note 1: Consolidated income margin = (Gross profit + Other revenues + Other income)/Turnover

Note 2: Operating profit = Profit before tax – Share of profits of associates

Note 3: Operating profit margin = (Profit before tax – Share of profits of associates)/Turnover

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2014

		Six months ended 30 June	
		2014	2013
		(Unaudited)	(Unaudited)
		RMB'000	RMB'000
	<i>NOTES</i>		
Turnover	4	15,022,556	15,605,096
Cost of sales		(12,852,731)	(13,393,014)
Gross profit		2,169,825	2,212,082
Other revenue	4	1,192,371	1,199,695
Other income and gains	5	291,802	329,586
Selling and distribution expenses		(3,033,733)	(3,033,056)
Administrative expenses		(354,572)	(328,972)
Other operating expenses		(30,589)	(59,131)
Share of profits of associates		29,011	42,688
Finance costs		(73)	(72)
Profit before taxation	6	264,042	362,820
Income tax expense	7	(112,488)	(128,786)
Total comprehensive income for the period		151,554	234,034
Total comprehensive income for the period attributable to:			
Owners of the Company		97,654	190,932
Non-controlling interests		53,900	43,102
		151,554	234,034
Earnings per share – basic and diluted	9	RMB0.09	RMB0.17

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2014

		30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
	<i>NOTES</i>		
Non-current assets			
Property, plant and equipment	10	2,950,821	3,080,898
Construction in progress	10	384,147	319,073
Land use rights	10	344,928	344,654
Intangible assets	10	185,694	190,263
Interests in associates		608,799	579,335
Available-for-sale financial assets	11	40,858	250,986
Term deposits	14		
– restricted		13,000	1,210,000
– unrestricted		2,530,400	2,000,400
Prepaid lease payments		108,364	120,983
Deferred tax assets		202,368	203,369
Other non-current assets	15	19,397	20,126
		<u>7,388,776</u>	<u>8,320,087</u>
Current assets			
Inventories		2,597,472	3,404,430
Trade receivables	16	63,226	76,682
Deposits, prepayments and other receivables		809,707	1,030,083
Amounts due from fellow subsidiaries	17	12,657	11,117
Amounts due from associates	18	60	26
Available-for-sale financial assets	11	204,789	258,474
Held-to-maturity financial assets	12	209,301	240,980
Financial assets at fair value through profit or loss	13	–	140,022
Term deposits	14		
– restricted		1,583,000	1,271,365
– unrestricted		4,347,000	890,000
Cash and cash equivalents		1,187,509	4,877,493
		<u>11,014,721</u>	<u>12,200,672</u>
Total assets		<u><u>18,403,497</u></u>	<u><u>20,520,759</u></u>

(Continued)

		30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
	<i>NOTES</i>		
Capital and reserves			
Share capital	19	1,119,600	1,119,600
Reserves		2,349,382	2,251,728
Equity attributable to owners of the Company		3,468,982	3,371,328
Non-controlling interests		255,293	277,292
Total equity		3,724,275	3,648,620
Non-current liability			
Deferred tax liabilities		83,190	88,398
Current liabilities			
Trade payables	20	3,643,454	4,542,397
Other payables and accruals	21	1,938,961	2,110,854
Coupon liabilities	22	8,818,236	9,930,631
Deferred income		20,510	16,114
Amounts due to fellow subsidiaries	17	43,627	44,169
Amounts due to associates	18	8,193	16,571
Bank borrowing		2,000	2,000
Taxation payable		121,051	121,005
		14,596,032	16,783,741
Total liabilities		14,679,222	16,872,139
Total equity and liabilities		18,403,497	20,520,759
Net current liabilities		(3,581,311)	(4,583,069)
Total assets less current liabilities		3,807,465	3,737,018

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Attributable to owners of the Company					Total attributable to owners of the Company	Non- controlling interests	Total
	Share capital RMB'000	Capital reserve RMB'000 (note a)	Other reserve RMB'000 (note b)	Statutory common reserve fund RMB'000 (note c)	Retained profits RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2013 (audited)	1,119,600	258,353	(227,809)	436,020	1,817,616	3,403,780	364,900	3,768,680
Profit for the period	–	–	–	–	190,932	190,932	43,102	234,034
2012 final dividend declared	–	–	–	–	(78,372)	(78,372)	–	(78,372)
Dividends paid to non-controlling interests	–	–	–	–	–	–	(12,299)	(12,299)
At 30 June 2013 (unaudited)	<u>1,119,600</u>	<u>258,353</u>	<u>(227,809)</u>	<u>436,020</u>	<u>1,930,176</u>	<u>3,516,340</u>	<u>395,703</u>	<u>3,912,043</u>
At 1 January 2014 (audited)	1,119,600	258,353	(234,842)	492,911	1,735,306	3,371,328	277,292	3,648,620
Profit for the period	–	–	–	–	97,654	97,654	53,900	151,554
Dividends paid to non-controlling interests	–	–	–	–	–	–	(75,899)	(75,899)
At 30 June 2014 (unaudited)	<u>1,119,600</u>	<u>258,353</u>	<u>(234,842)</u>	<u>492,911</u>	<u>1,832,960</u>	<u>3,468,982</u>	<u>255,293</u>	<u>3,724,275</u>

Notes:

- (a) Capital reserve of the Company represents share premium arising from issue of H shares net of share issuance expenses.
- (b) Other reserve of the Group mainly represents:
- the fair value difference of a subsidiary's net assets, arising from a business combination in 2005, and the Group's original equity interest in that subsidiary;
 - the financial impact of adopting merger accounting to account for the acquisition of subsidiaries during the year ended in 2009 and 2011; and
 - acquisition of additional equity interests in subsidiaries.
- (c) Pursuant to the relevant regulations of the People's Republic of China (the "PRC") 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 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 operations, or to increase its capital. The statutory common reserve fund may be converted into the capital, provided the balance of the reserve fund after such conversion is not less than 25% of the registered capital.

No transfer has been made to the statutory common reserve fund in respect of the net profit for the six months ended 30 June 2014 (six months ended 30 June 2013: nil) as such transfer will be made, upon directors' approval, at the year end based on the annual profit.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Net cash from operating activities	<u>59,359</u>	<u>1,886,469</u>
Investing activities		
Placement of unrestricted term deposits	(4,877,000)	(3,905,900)
Withdrawal of unrestricted term deposits	890,000	401,000
Purchase of available-for-sale financial assets	–	(400,000)
Purchase of financial assets at fair value through profit or loss	(400,000)	–
Addition of property, plant and equipment and construction in progress	(209,100)	(257,980)
Refund of deposit paid for acquisition of properties	–	240,000
Additional investment in an associate	–	(8,600)
Proceeds on redemption of available-for-sale financial assets	279,268	649,501
Proceeds on redemption of held-to-maturity financial assets	39,000	–
Proceeds on disposal of financial assets at fair value through profit or loss	540,000	–
Dividends received from associates	38	248
Other investing cash inflows	<u>10,479</u>	<u>38,759</u>
Net cash used in investing activities	<u>(3,727,315)</u>	<u>(3,242,972)</u>
Cash used in a financing activity		
Dividends paid to non-controlling interests	<u>(22,028)</u>	<u>(4,877)</u>
Net decrease in cash and cash equivalents	(3,689,984)	(1,361,380)
Cash and cash equivalents at 1 January	<u>4,877,493</u>	<u>2,589,154</u>
Cash and cash equivalents at 30 June	<u><u>1,187,509</u></u>	<u><u>1,227,774</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (HKAS 34) *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2014 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2013.

In the current interim period, the Group has applied, for the first time, the following new or revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) that are relevant for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC)-Int 21	Levies

The application of the above new or revised HKFRSs in the current interim period has had no material effect on the amounts reported and disclosures set out in these condensed consolidated financial statements.

3. SEGMENT INFORMATION

The following is an analysis of the Group’s revenue (include turnover and other revenue) and results by reportable and operating segments, which the Group’s General Manager, being the Group’s chief operating decision maker, reviews when making decisions about allocating resources and assessing performance:

	Segment revenue		Segment results	
	Six months ended 30 June 2014 (Unaudited) RMB’000	2013 (Unaudited) RMB’000	Six months ended 30 June 2014 (Unaudited) RMB’000	2013 (Unaudited) RMB’000
Hypermarkets	9,842,161	10,243,213	123,360	187,951
Supermarkets	5,287,882	5,549,198	170,117	195,467
Convenience stores	1,042,783	981,421	(42,512)	(35,622)
Other operations	42,101	30,959	(2,680)	(597)
	16,214,927	16,804,791	248,285	347,199

A reconciliation of total segment results to consolidated profit before taxation is provided as follows:

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Segment results	248,285	347,199
Unallocated interest income	27,333	27,047
Unallocated income	29,774	25,853
Unallocated expenses	(70,361)	(79,967)
Share of profits of associates	29,011	42,688
Profit before taxation	264,042	362,820

All of the segment revenue reported above is from external customers.

All of the Group's revenue and segment results are attributable to customers in the PRC.

Segment results did not include share of profits of associates, allocation of corporate income and expenses (including certain interest income relating to funds managed centrally). This is the measure reported to the Group's general manager for the purposes of resource allocation and assessment of segment performance.

4. TURNOVER AND OTHER REVENUE

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

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Turnover		
Sales of merchandises	15,022,556	15,605,096
Other revenue		
Incomes from suppliers	857,982	850,291
Gross rental income from leasing of shop premises	301,675	314,315
Royalty income from franchised stores	26,567	27,484
Commission income from coupon redemption at other retailers	6,147	7,605
	1,192,371	1,199,695
Total revenue	16,214,927	16,804,791

5. OTHER INCOME AND GAINS

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Interest income on cash and term deposits	199,397	211,717
Government subsidies (<i>note</i>)	25,329	14,571
Fair value change on financial assets at fair value through profit or loss	4,073	5,949
Interest income from available-for-sale financial assets	10,955	16,693
Interest income from held-to-maturity financial assets	7,320	7,750
Dividend from unlisted equity investments	4,500	275
Gain on disposal of an associate	7,403	–
Salvage sales	15,007	14,267
Others	17,818	58,364
Total	<u>291,802</u>	<u>329,586</u>

Note: The Group received unconditional subsidies from PRC local government as an encouragement for the operation of certain subsidiaries in certain areas.

6. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging (crediting):

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Amortisation and depreciation		
Amortisation of other non-current assets	729	752
Amortisation of intangible assets – software (included in selling and distribution expenses/administrative expense) (<i>Note 10</i>)	4,352	4,912
Amortisation of land use rights (<i>Note 10</i>)	3,116	2,633
Depreciation of property, plant and equipment (<i>Note 10</i>)	250,934	260,597
	<u>259,131</u>	<u>268,894</u>
Cost of inventories recognised as an expense	12,852,731	13,393,014
Share of profits of associates		
Share of profit before taxation	(43,013)	(59,826)
Share of taxation	14,002	17,138
	<u>(29,011)</u>	<u>(42,688)</u>
Operating lease rental in respect of rented premises	877,982	849,067
Staff costs	<u>1,460,401</u>	<u>1,411,061</u>

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current tax on PRC Enterprise Income Tax ("EIT")	116,695	131,568
Deferred tax credit	(4,207)	(2,782)
	<u>112,488</u>	<u>128,786</u>

No provision for Hong Kong profits tax has been made as the Group has no estimated assessable profits subject to Hong Kong profits tax in both periods.

Under the Law of the PRC on EIT and Implementation Regulation of the EIT Law, the EIT tax rate of the PRC subsidiaries is 25%. Certain subsidiaries are taxed at preferential rate of 15% as those entities which are located in specific provinces of western China and engaged in specific encouraged industries which enjoy a preferential tax rate of 15% under EIT Law. Since 2013, a group entity is qualified as "High Tech Enterprise" and enjoys a preferential tax rate of 15% under EIT Law and subject to renewal for every three years.

8. DIVIDEND

The directors do not recommend the payment of an interim dividend for both periods.

9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings attributable to owners of the Company is based on the following data:

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
<i>Earnings</i>		
Profit for the period attributable to owners of the Company	<u>97,654</u>	<u>190,932</u>
	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
<i>Number of shares</i>		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	<u>1,119,600,000</u>	<u>1,119,600,000</u>

Diluted earnings per share are the same as basic earnings per share as no potential ordinary shares were outstanding during the two periods.

10. MAJOR CAPITAL EXPENDITURE

	Property, plant and equipment <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Land use rights <i>RMB'000</i> <i>(note)</i>	Intangible assets		
				Goodwill <i>RMB'000</i>	Software <i>RMB'000</i>	subtotal <i>RMB'000</i>
Opening carrying amount						
as at 1 January 2013 (audited)	3,309,928	254,650	311,173	151,941	35,189	187,130
Additions	119,648	51,348	–	–	388	388
Transfers	23,343	(23,343)	–	–	–	–
Disposals	(6,394)	–	–	–	(889)	(889)
Depreciation/amortisation charge (<i>Note 6</i>)	(260,597)	–	(2,633)	–	(4,912)	(4,912)
Impairment	(27,439)	–	–	–	–	–
Closing carrying amount						
as at 30 June 2013 (unaudited)	<u>3,158,489</u>	<u>282,655</u>	<u>308,540</u>	<u>151,941</u>	<u>29,776</u>	<u>181,717</u>
Opening carrying amount						
as at 1 January 2014 (audited)	3,309,928	319,073	350,793	151,941	38,322	190,263
Additions	137,554	66,080	–	–	351	351
Transfers	(2,811)	(1,006)	3,483	–	334	334
Disposals	(3,892)	–	–	–	(902)	(902)
Depreciation/amortisation charge (<i>Note 6</i>)	(250,934)	–	(3,116)	–	(4,352)	(4,352)
Impairment	(9,994)	–	–	–	–	–
Closing carrying amount						
as at 30 June 2014 (unaudited)	<u>2,950,821</u>	<u>384,147</u>	<u>351,160</u>	<u>151,941</u>	<u>33,753</u>	<u>185,694</u>

Note: Land use rights analysed for reporting purposes as:

	30 June 2014 (Unaudited) <i>RMB'000</i>	31 December 2013 (Audited) <i>RMB'000</i>
Non-current assets	344,928	344,654
Current assets (included in deposits, prepayments and other receivables)	<u>6,232</u>	<u>6,139</u>
	<u>351,160</u>	<u>350,793</u>

11. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
<i>Non-current</i>		
Legal person shares (<i>note a</i>)	312	312
Unlisted equity investments (<i>note b</i>)	40,546	36,046
Unlisted managed investment funds (<i>note c</i>)	–	214,628
	40,858	250,986
<i>Current</i>		
Unlisted investments (<i>note d</i>)	–	258,474
Unlisted managed investment funds (<i>note c</i>)	204,789	–
	204,789	258,474
Total	245,647	509,460

Notes:

- (a) These represent investments in legal person shares of certain PRC listed companies. The legal person shares are measured at fair value at the end of the reporting period.
- (b) These represent investments in certain unlisted companies in the PRC.
- (c) These investments represent funds placed into a licensed trust company in the PRC, which in turn placed the funds in certain corporations in the PRC (the “PRC Corporations”). The principal and interests derived from the placing of the funds into the PRC Corporations by the licensed trust companies are (i) secured by listed or unlisted securities held by the PRC Corporations; (ii) guaranteed by related companies of the PRC Corporations; and (iii) guaranteed by land use rights of the PRC Corporations. The investments carry interest rate of 9.5% (31 December 2013: 9.5%) per annum. The investments will mature within 1 year from the end of the reporting period and therefore, are presented as current assets as at June 2014, accordingly.
- (d) These investments are managed by licensed financial institutions in the PRC to invest principally in certain financial assets including notes or bonds issued and circulated in the PRC in accordance with the entrusted agreements entered into between the parties involved. At 31 December 2013 the entrusted institutions undertake return of principal and a yield rate ranging from 4.9% to 5.5% per annum upon maturity. These investments have been fully redeemed during the current interim period.

12. HELD-TO-MATURITY FINANCIAL ASSETS

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
<i>Current</i>		
Unlisted PRC government certificate bonds with fixed interest of 4.0% (2013: 4.0%) per annum	–	38,523
Listed corporate bond with fixed interest of 7.1% (2013: 7.1%) per annum	<u>209,301</u>	<u>202,457</u>
Total	<u><u>209,301</u></u>	<u><u>240,980</u></u>

The carrying amounts of the Group's unlisted held-to-maturity financial assets approximate their fair value. The carrying amounts of the listed held-to-maturity financial assets of the Group approximate their fair value with referenced to quoted prices in active markets. These held-to-maturity investments will be matured in year 2014, and were all classified as current assets as at 31 December 2013 and 30 June 2014, accordingly.

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Trust product	<u>–</u>	<u>140,022</u>

The product as at 31 December 2013 was offered by a trust company in the PRC where funds were mainly invested in low risk and unlisted debt products. The carrying amounts of the Group's and Company's trust product approximate their fair value. The trust product has been disposed of in full during the current interim period.

14. TERM DEPOSITS

All term deposits denominated in Renminbi are placed with banks in the PRC. The deposits presented as current assets are the deposits with maturity over 3 months but less than 1 year. The deposits presented as non-current assets are those with maturity over 1 year but not exceeding 5 years.

As at 30 June 2014, included in the term deposits is RMB1,596,000,000 (31 December 2013: RMB2,481,365,000) in aggregate restricted for other use by the Group as they were placed by the Group to various banks as security for coupons issued to customers.

The effective interest rate on these term deposits ranged from 3.25% to 6.80% (31 December 2013: from 3.25% to 5.00%) per annum. The carrying amounts of the term deposits approximate their fair value.

15. OTHER NON-CURRENT ASSETS

Other non-current assets of the Group represent prepayment for the leasing of certain buildings from government and are amortised over the shorter of the contract periods and the estimated useful lives of the buildings.

16. TRADE RECEIVABLES

The aging analysis of the trade receivables net of allowance for doubtful debts at the end of the reporting period, arising principally from sales of merchandise to franchised stores and wholesalers with credit terms ranging from 30 to 60 days, is as follows:

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Within 30 days	59,379	74,857
31 – 60 days	2,410	860
61 – 90 days	222	238
91 days – one year	1,215	727
	63,226	76,682

17. AMOUNTS DUE FROM (TO) FELLOW SUBSIDIARIES

Amounts due from (to) fellow subsidiaries are trade in nature, unsecured, interest free, with credit terms ranging from 30 to 60 days (31 December 2013: 30 to 60 days). As at 30 June 2014, balances of both amounts due from (to) fellow subsidiaries are all aged within 60 days (31 December 2013: 60 days).

18. AMOUNTS DUE FROM (TO) ASSOCIATES

Amounts due from (to) associates, arising from expenses paid on behalf and purchase of merchandises respectively, are unsecured, interest free and aged within 90 days. (31 December 2013: 90 days)

19. SHARE CAPITAL

	Number of share	Nominal value RMB'000
RMB1.00 each		
Registered:		
As at 1 January 2014 and 30 June 2014	1,119,600,000	1,119,600
Issued and fully paid:		
As at 1 January 2014 and 30 June 2014	1,119,600,000	1,119,600

20. TRADE PAYABLES

The aging analysis of trade payables at the end of the reporting period, arising mainly from purchase of merchandise with credit terms ranging from 30 to 60 days, is as follows:

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Within 30 days	1,376,186	2,423,941
31 – 60 days	754,518	866,503
61 – 90 days	499,291	431,071
91 days – one year	1,013,459	820,882
	3,643,454	4,542,397

21. OTHER PAYABLES AND ACCRUALS

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Payroll, staff welfare and other staff cost payable	219,192	331,532
Value added tax and other payable	55,238	130,136
Rental payable	713,477	693,863
Deposits from lessees, franchisees and other third parties	179,177	176,321
Dividend payable to non-controlling interest	67,871	14,000
Amount payable to other retailers upon customers' redemption of coupon issued by the Group	7,964	7,032
Prepayments received from franchisees and other third parties	258,640	352,875
Payables for acquisition of property, plant and equipment and low value consumables	75,884	85,820
Store closure provision	59,735	57,356
Accruals	202,119	76,062
Advance from customers	23,391	118,566
Other miscellaneous payables	76,273	67,291
	1,938,961	2,110,854

22. COUPON LIABILITIES

The Group incurred coupon liabilities when coupons were sold and the coupon liabilities decreased upon redemption as a result of sales of the Group's merchandises, the value of which is recognised as revenue in the profit or loss for the period the transactions taken place. Coupon liabilities redeemed in exchange for products or services of other retailers are settled after deducting the Group's commission based on the agreements entered into between the Group and the retailers.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Environment

During the first half of 2014, the global economic recovery remained sluggish due to the challenges from geopolitics and weak growth of demand. China's retail market weakened. An increasing number of retailers in China returned to the basics of the retailing business and looked at the ongoing restructure of the industry rationally following the fear over the rise of "e-commerce theory" in China since the second half of 2013.

In light of the complicated circumstances and a slowing-down global economy, the Chinese government has implemented a series of micro and cyclical stimulus packages aimed at maintaining, stabilizing and fine-tuning the economy. In order to maintain economic growth, China focus on 'targeted adjustments' through a series of policies aimed at stabilizing growth, promoting economic reforms and restructuring as well as boosting the overall welfare of its people. According to the National Bureau of Statistics, in the first half of 2014, China's gross domestic product (GDP) increased by 7.4% year over year. GDP growth of the second quarter was 7.5%, which was 0.1 percentage point higher than that of the first quarter. The overall economic situation remains stable despite uncertainties.

During the first half of 2014, urban and rural residents disposable income continued to grow at a relatively fast pace. Urban disposable income per capita was RMB14,959, representing a 9.6% nominal growth rate and a 7.1% real growth rate (excluding inflation) year over year. Rural cash income per capita was RMB5,396, which represented a 12.0% nominal growth rate and 9.8% real growth rate (excluding inflation) year over year. According to a household survey conducted in both urban and rural areas, the disposable income per capita national wide was RMB10,025 during the first half of 2014, which represented a 10.8% nominal growth rate and a 8.3% real growth rate (excluding inflation) year over year. In the first half of 2014, consumption accounted for 54.4% of GDP, equivalent to 4 percentage points contribution of China's GDP growth.

During the first half of 2014, the consumer price index (CPI) increased 2.3% year over year as a result of the effective economic adjustments made by the government. The CPI remained relatively low between 1.8% and 2.5% from January to June 2014. The producer price index (PPI), a leading indicator of CPI, has been negative since March 2012, indicating sluggish domestic demand and weak growth.

Traditional industries are expected to continue to suffer during the restructuring of economy. While the Chinese government introduced a number of structural 'micro stimulus' packages in April and May 2014 to cope with employment and social welfare challenges, signs of an economic turnaround remain to be seen. The sales and customer traffic of department stores and supermarkets indicated downward trend which negatively affected the Group.

Total retail sales of social consumer goods during the first half of 2014 were RMB12,419.9 billion, representing a nominal growth rate of 12.1% (10.8% real growth after excluding inflation) year over year. This is 0.1 percentage point higher when compared with the first quarter and 0.6 percentage point lower than that of the same period last year. According to statistics from the China National Commercial Information Center, retail sales of the 100 largest retail enterprises in China decreased by 0.2% during the first half of 2014 while sales growth rate decreased by 10.9 percentage points year over year, among which, sales growth rate of food and food ingredients decreased by 5.2 percentage points year over year while sales growth rate of groceries decreased by 2.6 percentage points year over year.

During the first half of 2014, the Group and the supermarket chain industry as a whole faced unprecedented challenges and tremendous pressure, resulting in a slowdown in sales growth while profit margins remained under pressure from continuous cost increases.

Financial Review

Growth in turnover and consolidated income

During the period under review, the Group's revenue was approximately RMB15,023 million, which represented a decrease of 3.7% year over year. Growth was affected by the macro-economic slowdown, a decrease of bulk purchasing and the rapid development of online retail. Same store sales decreased by 5.37%. The expansion of new outlets continued to be slow as the Group focused on the enhancement of existing operations by implementing reforms and working through operational bottlenecks to maintain its market share in the face of intense market competition.

During the period under review, the Group recorded a gross profit of approximately RMB2,170 million, representing a decrease of 1.9% year over year due to the decrease of the turnover. Gross profit margin increased by 0.26 percentage point to 14.44%, which partially offsetted the decline in gross profit. Gross profit margin continued to increase as a result of decreasing purchasing costs. Faced with depressed market demand, fierce competition with nearby competitors and low-price marketing strategies from e-commerce, the Group adjusted its marketing strategy and carried out a series of promotional activities to improve price perception. Meanwhile, the Group managed to lower its purchasing costs through improvement in negotiations and by leveraging the consolidation of merchant purchases.

During the period under review, consolidated income reached approximately RMB3,654 million, representing a decrease of 2.3% year over year. The decrease was mainly attributable to a decline in sales which led to a decrease in gross profit and other income year over year.

During the period under review, the Group managed its cash prudently and maintained sufficient cash flow. The Group's net cash inflow decreased as a result of the adjustment in demand structure and the decrease of bulk purchasing.

Note: Consolidated income = Gross profit + Other revenues + Other income

Operating cost and net profit

During the period under review, total distribution expenses and total administrative expenses of the Group amounted to approximately RMB3,033,733 thousand and RMB354,572 thousand respectively, representing an increase of approximately 1.01 percentage points in total cost ratio year over year. Major cost items such as labour and utilities amounted to RMB1,460,401 thousand and RMB249,966 thousand, respectively. Labour costs increased as a result of the increase in minimum wage levels and social welfare, accounting for 187.8% of the Group's total incremental costs. In addition, an increase in the non-resident electricity charge for Beijing, Tianjin and Shanghai also led to an increase in utility expenses. The Group worked to minimize the impact of cost increases by implementing further cost control initiatives which included restructure and reform of the staff structure, improvement of the reward and punishment system of wages, targeted cost control measures, and reducing administration costs by consolidating management resources.

During the period under review, the Group recorded an operating profit of approximately RMB235,031 thousand, representing a decrease of 26.6% year over year. Operating profit margin decreased by 0.49 percentage points to 1.56% year over year. The decrease was mainly attributable to the decline in gross profit. In response to the low-cost strategy taken by online retailers, the Group launched promotions in order to increase market share with low pricing strategies. In addition, the Group took the following measures to cope with cost increases: (1) efficient sourcing of fresh produce – optimize sourcing and management for fresh produce to lower selling price and increase quality; (2) in addition to its overall pricing strategy, the Group also enhanced its price monitoring system with its well-defined monitoring scope and requirements that provide timely feedback; (3) enhancing employment system, establishing targeted cost control systems, installing and upgrading energy-efficient equipments, and actively seeking government support.

During the period under review, the Group's share of revenue from associated companies was RMB29,011 thousand, representing a decrease of 32.0% year over year, affected by the sluggish market condition and tightening up policy environment same for the Group. In addition, new outlets opened in recent years remain in their incubation periods. At the same time, due to the increase in labour, rental and advertisement expenses, increasing operating costs also dragged down the profit of the Group's associated companies. Shanghai Carhua Supermarket Company Limited ("Shanghai Carhua") did not open any new outlets during the period under review. As at 30 June 2014, Shanghai Carhua had a total of 28 outlets.

During the period under review, the tax charge of the Group was RMB112 million, representing a decrease of 12.7% year over year. The Group closely monitored the implementation of favorable fiscal policies by the Chinese government and took measures that lowered the overall effective tax rate at the Group level by striving for local government funding. However, maintaining the current effective tax rate at the Group level remained difficult along with the expiration of the tax holiday enjoyed by mature outlets. The requirement of individual outlets to pay taxes separately also made it impossible for the Group to lower its overall tax tariff by re-balancing profit and loss at the Group level.

During the period under review, the Group recorded net profit attributable to shareholders of the Company of RMB97,654 thousand. Net profit margin attributable to shareholders of the Company was 0.65%. The basic earnings per share were RMB0.09 based on the issued share capital of the Company of 1,119.6 million shares.

Cash flow

During the period under review, the Group's net cash outflow was RMB3,689,984 thousand, mainly due to the increase of term deposits. Cash and term deposits as at the end of the period was RMB9,660,909 thousand.

For the six months ended 30 June 2014, account payable turnover days were 59 days, and inventory turnover days was approximately 42 days.

During the period under review, the Group did not use any financial instruments for hedging purposes and did not issue any hedging instruments as at 30 June 2014.

Growth in retail businesses

Hypermarkets

During the period under review, the turnover of the Group's hypermarket segment decreased by approximately 4.1% year over year to RMB9,076,018 thousand, accounting for approximately 60.4% of the Group's turnover. Gross profit margin increased by 0.55 percentage point to 14.52%. Same store sales decreased by approximately 7.03%. Consolidated income margin was 24.68%, representing an increase of 0.39 percentage point year over year. The segment operating profit was RMB123,360 thousand, representing a decrease of approximately 34.4% year over year. Operating profit margin decreased by 0.63 percentage point year over year to 1.36%. With no regulations concerning the density of commercial outlets in certain regions, the Group's older stores are facing fierce competition. In recent years, the Group has accelerated the transformation of those stores. The overall transformation and transition process is still moving at a somewhat slower pace than the development of new competitors entering the market. To cope with the challenging competitive landscape while maintaining high standards for newly-opened outlets, the Group added support to its semi-matured outlets and continued to accelerate the transformation of mature outlets. The Group believes that its 'key outlets' strategy was consolidating and expanding market share. In addition, the market publication of daily grocery and retail market price information has increased price comparison for consumers, creating new opportunities for promotion. To seize these opportunities, the Group promoted its "Beneficial Life" (惠生活) marketing and promotional campaign which targets mostly daily groceries and creates a lower price perception which helps increase customer traffic and drive sales of none price-sensitive products. The Group will increase the effectiveness of its marketing campaigns using targeted marketing, better pricing strategies, and margin analysis.

	As of 30 June	
	2014	2013
Gross Profit Margin (%)	14.52	13.97
Consolidated Income Margin (%)	24.68	24.29
Operating Profit Margin (%)	1.36	1.99

Supermarkets

During the period under review, the turnover of the Group's supermarket segment decreased by approximately 5.4% year over year to RMB4,921,605 thousand, which accounted for approximately 32.8% of the Group's turnover. Same store sales decreased by 5.04%. Gross profit decreased by approximately 7.0% year over year to RMB694,165 thousand, and gross profit margin decreased by 0.24 percentage point to 14.10%. Consolidated income margin of the supermarket segment was 22.85%, representing an increase of 0.78 percentage point year over year. The segment's operating profit was RMB170,117 thousand, and operating profit margin was 3.46%. The competitiveness of the Group's supermarket segment was constrained by the effects of intense competition from hypermarket and convenience store segments, escalating costs, gradual adjustment or withdrawal of the operation models and the sharp increase in rental costs for mature outlets with expiring leases. To improve performance, the Group increased the pace of outlet transformation. As such, the supermarket segment focused primarily on fresh produce operations, accelerated outlet transformation, carried forward its key outlet strategy, optimized product categories by enhancing the performance of core merchandise, established a price monitoring mechanism, and enhanced the effects of joint promotional campaigns so as to maintain its market share.

	As of 30 June	
	2014	2013
Gross Profit Margin (%)	14.10	14.34
Consolidated Income Margin (%)	22.85	22.07
Operating Profit Margin (%)	3.46	3.76

Convenience Stores

During the period under review, restructuring of the Group's convenience store segment resulted in a turnover of RMB986,364 thousand, representing an increase of approximately 7.5% year over year, which accounted for approximately 6.6% of the Group's turnover. Pressure increased during the period under review due to challenges faced from foreign competitors. To strengthen competitiveness, the Group upgraded mature outlets, increased investment in convenience store service facilities and enhanced sales of core merchandise. Meanwhile, the Group segregated the market by establishing a niche in the high-end market, deepened the optimization of its product mix, implemented a marketing campaign for core merchandise and services, and explored opportunities to provide outlets with more value-added services. Same store sales increased by approximately 17.1%. Gross profit margin was 15.89%, representing an increase of 0.29 percentage point year over year. Consolidated income margin was 22.33%, representing a decrease of 1.68 percentage points year over year. Despite a solid performance from same store sales, operating loss for the segment was RMB42,512 thousand and operating profit margin dropped to -4.31% due to the large amortization expense from the up-front investment in store transformation as well as high labour and rental costs. The Group sped up the pace of transformation, furthered cost control and explored ways of increasing the proportion of franchising for the convenience store segment to reverse declining profit trends as soon as possible.

	As of 30 June	
	2014	2013
Gross Profit Margin (%)	15.89	15.60
Consolidated Income Margin (%)	22.33	24.01
Operating Profit Margin (%)	-4.31	-3.88

Financial results analysis

	Six months ended 30 June		
	<i>RMB million</i>		
	2014	2013	YOY change (%)
Turnover	15,023	15,605	-3.7
Gross profit	2,170	2,212	-1.9
Consolidated income	3,654	3,741	-2.3
Operating profit	235	320	-26.6
Taxation	112	129	-12.7
Profit attributable to shareholders of the Company for the period, total comprehensive income	98	191	-48.9
Basic earnings per share (RMB)	0.09	0.17	-47.1
Interim dividend per share (RMB)	–	–	N/A

Capital structure

As at 30 June 2014, the Group's cash equivalents were mainly held in Renminbi with no new bank borrowings, except for the existing borrowings of RMB2,000,000 from a non-wholly-owned subsidiary of the Group.

During the period under review, equity attributable to shareholders of the Group increased from approximately RMB3,648,620 thousand to approximately RMB3,724,275 thousand, which was mainly due to the profit for the period amounting to approximately RMB151,554 thousand, and dividend payment to non-controlling interests amounting to RMB75,899 thousand.

Details of the Group's pledged assets

As at 30 June 2014, the Group did not pledge any assets.

Exposure to foreign exchange risk

Most of the income and expenditures of the Group are denominated in Renminbi. During the period under review, the Group did not experience any material difficulties or negative effects on its operations or liquidity as a result of fluctuation in currency exchange rates. The Group did not enter into any agreements or purchase any financial instruments to hedge its foreign exchange risk. The directors believe that the Group is able to meet its foreign exchange requirements.

Share capital

As at 30 June 2014, the issued share capital of the Company was as follows:

Class of shares	Number of shares in issue	Percentage
Domestic shares	715,397,400	63.90
Unlisted foreign shares	31,602,600	2.82
H shares	372,600,000	33.28
Total	<u>1,119,600,000</u>	<u>100.00</u>

Contingent liabilities

As at 30 June 2014, the Group did not have any material contingent liabilities.

Operating Review

Outlet development

According to recent trends, and in line with the strategic goal of 'Becoming a Regional Leader and a National Strong Player', the Group steadily promoted its strategy of focused development and paid close attention to the quality of its outlets. According to the market development in the first half of 2014, in order to enhance the competitiveness of its outlets across all segments, the Group adjusted its outlet development model, carefully planned for new outlet expansion, improved the success rate of new outlets and streamlined underperforming outlets.

During the period under review, three new hypermarkets were opened, of which two are located in Hangzhou, Zhejiang Province and one in Zhengzhou, Henan Province. These openings helped consolidate the Group's market share in the region where it is already in a dominant position. While ensuring the quality of new outlets, the Group focused on upgrading existing outlets and streamlining underperforming ones. These measures have helped increase profits, reduce losses and strengthen the Group's financial position.

During the period under review, the Group maintained a steady pace of development with 63 new supermarkets opened, including 15 directly-operated stores and 48 franchised stores. The development of directly-operated outlets steadily pushed forward with the expansion of new outlets and the transformation of existing outlets. In franchising business, its development in Shanghai is still considered a top priority as the Group works to improve outlet quality and standardize store operations. These measures have helped ensure the sustainable development of the supermarket segment while maintaining reasonable scale.

During the period under review, 51 new convenience stores were opened, including 20 directly-operated stores and 31 franchised stores, showing a rational slowdown trend in growth pace. The Group's convenience store segment has been broadening its sources of income, reducing expenditures and focused on improving individual performance of existing and new stores. The Group continued to promote the transformation of its existing outlets, with a total of 58 stores successfully transformed. Due to intense competition, growth of franchised outlets was lower than expected. The structure and quality of directly-operated stores were improved by effective adjustment to the structure and close-down of certain outlets that the management believed had limited potential.

As at 30 June 2014, the Group had a total of 4,412 outlets, representing a decrease of 118 outlets since the end of 2013 mainly due to the adjustments of franchised outlets. Approximately 84% of the Group's outlets are located in Eastern China.

	Hypermarkets	Supermarkets	Convenience Stores	Total
Direct operation	157	643	887	1,687
Franchised operation	—	1,790	935	2,725
Total	157	2,433	1,822	4,412

Note: The above figures are as at 30 June 2014.

Deepening Reform

During the period under review, the Group implemented reforms to change its purchasing model, explore commodity channels, and shift business models, and pushed forward operation structural reform, regional business pilot and incentives mechanism reform.

The Group further optimized various business processes and focused on pilot contract operation. The Group promoted contract operation for fresh produce by combining its fresh produce business model (from the previous model of joint operation to self-producing and self-marketing model) with hypermarkets, which not only effectively motivated employees and the management of stores, but also increased both sales and gross profit of fresh produce.

In accordance with incentives reform, the Group strengthened compensation management and internal allocation. The Group established an incentive mechanism to efficiently make internal assessments. The Group increased the transparency of its distribution, established remuneration packages, approved payroll, implemented appraisal management and changed assessment measures. These changes resulted in income efficiency and increased staff motivation.

Transformation and Improvement

During the period under review, the Group deepened the transformation of its business and further strengthened the management of its business. The Group's hypermarkets gradually attracted more tenants from a number of various brands, catering brands in particular, which have greatly enhanced the Group's ability to attract customers. This has also enriched the composition of catering and supporting services in stores and increased customer interaction within the stores. Hypermarkets in Shanghai were divided into small, medium and large scale equipped with their respective merchandise files and individually improved along with the surrounding business environment. In Zhejiang province, the position, coverage and competitiveness of the Group's community-based supermarkets were strengthened with the addition of convenience services that benefit the community such as postal services, laundry and Nonghua lunchboxes. The Group's commodity structure was adjusted and enhanced with community-based characteristics allowing supermarkets to increase their available fresh produce categories. This also helps turn community-based supermarkets into one-stop shopping areas of 'real-time convenience + relaxing experience + fresh specialty + retail.' High-end convenience stores were developed, and trial of compound catering outlet was conducted, promoting improved popular products such as fresh soybean milk, coffee and fresh lunch-box. Fresh foods targeted at young consumers in commercial buildings achieved an increase of sales by 30%.

For traditional retailers, it was particularly important to pay attention to detailed management and the businesses fundamentals. During the period under review, the Group strengthened management and management's efficiency. The Group also optimized its management systems and processes. The Group employed micro-management to standardize and institutionalize various operational practices, strengthen basic management of store operations, improve store operating capacity, focus on merchandise display marketing, implement operational mode management practices, organize various visits to key areas and stores, promote an excellent experience, facilitate the opening of high gross profit stores, improve overall gross profit, and implement the Group's strategy of "benefiting from the gross profit." The Group implemented store price management, established service benchmarks of store employees, and further refined management's responsibilities.

During the period under review, in order to further improve price management, and enhance gross profit levels while maintaining its price image, the Group's hypermarket segment conducted daily gross profit monitoring, including analysis of irregular gross profit, negative gross profit merchandise, high-in-low-out merchandise gross profit reminding, while also regularly analyzed gross profit of various types of goods with different marketing grades under the gross profit investment concept of grade marketing, strictly controlled the overall gross profit. With respect to commodity prices, the Group continued to carry out market researches, compared and drew on the successful experiences with commodity prices, promotional activities, number of skus and their prices. The Group applied these concepts to the commodity price system, thereby optimizing its pricing and enhancing overall image. The streamlining project of the Group's convenience store segment gradually created a solid base from which the Group can reinforce its position. The Group focused on imported products, fresh merchandise and "Little-Q" branded products to promote the project in accordance with the relevant categories confirmed early this year.

Concept Innovations

To increase customer traffic, sales and ultimately profits, the Group implemented initiatives in its merchandise procurement process. These were based on the Group's unique requirements for merchandise and included the expansion of the procurement scope for more daily groceries, introduction of more 'Popular, Special and Excellent' brands, and the procurement of high-end beef and lamb in stores to give customers a greater selection to choose from. The Group also adjusted its operation of seafood products from traditional joint operations to self procurement and self marketing. Specifically speaking, the Group procured live fishes from wholesale markets based on their characteristics while sourced directly from the seafood base in terms of other seafood products. During the period under review, the Group bought 15 types of frozen aquaculture products from Zhoushan to further diversify its range of aquatic products. With the introduction of those new seafood products, the Group held a seafood theme festival. Direct sourcing of aquatic products clears up the Group's supply chains. During the period under review, the Group has directly sourced over 160 types of fruit since March, among which 123 types have seen an increase in sales on a year-over-year basis.

During the period under review, the Group cooperated with a local vegetable union in Chongming, Shanghai, and entered into an agreement concerning vegetable cultivation to establish a vegetable cultivation supply base managed by Lianhua itself on an area of 780 mu. Process controls for the Group's product supply chains were carried out through measures of "Five aspects of monitoring", "Five assurances" and "Four steps of executions". Vegetables from self-managed farms are generally of higher quality and offer cost savings. On this basis, the Group will continue to promote the cultivation plans of Phase II and Phase III by taking advantage of the ecological agricultural bases in Chongming and develop a unique corporate brand image, striking a solid foundation for development of self-managed bases. During the period under review, the Group selected Beidahuang, Heilongjiang as the location for its pilot program to look at the production processes in farms and gain a better understanding of the characteristics and price of merchandise. The Group is seeking to cooperate on this front with the Bureau of Agriculture and Farming of Heilongjiang Province. Currently, a co-operation agreement has been signed and a Beidahuang trade show named "Green Tornado" has been scheduled for late July.

During the period under review, "Lianhua Mart", the Group's one-stop e-commerce website, was developing steadily. Testing of "order online, pickup in store" was conducted in close to 300 convenience stores and trials of "express delivery" took place in 30 supermarket outlets. In accordance with the integrated strategy of the e-commerce of Bailian Group Co., Ltd. ("Bailian Group"), the Group's parent company, the Group was to take full advantage of existing network and member resources to leverage its payment advantage and create synergies among its multi-format retailing platform. This will create a unique full-channel mode with user-oriented characteristics and seamless online and offline connections, enhancing the competitiveness of providing on-the-spot store shopping experiences.

Cost Control and Efficiency Increase

During the period under review, the Group implemented a series of cost control measures to cope with rapidly increasing labour and rental costs.

In order to boost sales, reduce costs and increase efficiency, the Group improved and strengthened internal controls. The Group strengthened budget controls through implementation inspections and laid out a detailed plan to implement a bidding process so as to regulate investment controls. The Group also consolidated the purchasing of assets and facilities, improved the management of idle assets, implemented an energy cost and amortization expenses tracking system and set up an energy-saving store model to further reduce costs. In addition, the Group also further strengthened communication between its asset engineering and operational divisions, especially with regards to renovating stores, so as to fully utilize idle assets and reduce overall investments in store transformation.

Employment, Training and Development

As of 30 June 2014, the Group had a total of 55,075 employees, a decrease of 1,112 employees during the period under review, costing RMB1,460,401 thousand in total.

During the period under review, the Group amended the process for its annual performance review and created incentives for the major businesses. These featured the ‘enhancement of remuneration management, standardization of internal allocation, establishment of incentive mechanism, and implementation of performance appraisal’, establishing a profit-oriented indicator appraisal system. The Group endeavored to set up the scientific and stringent appraisal system as well as the open and fair evaluation mechanism, coupled with the implementation of the performance-oriented incentive measures.

During the period under review, continuous training of staff helped solve the various types of business problems and provide training guidance and supporting training to the business department. The Group enhanced standardized supervision of training, ensuring that the Group benefits from the training work. On such basis, the Group further optimized various types of training management systems including the ‘Incentive System of Professional Technology and Vocational Skills Training’ and ‘Clinical Teaching Management Methods’ in order to solve the various new problems and issues in training work and ensure scientific, fair and reasonable trainings.

During the period under review, the Group further reinforced the training of front-line talented and skilled employees and amended its ‘Opinion on the Implementation of Reinforced Highly Skilled Talent Cultivation’ with the objective of ‘providing the Group’s talented employees with practical skills training to create a win-win situation’. Trainings in the forms of grade evaluation, special projects training and chief technician and apprenticeships shall speed up the cultivation of various talents.

Strategy and Planning

In the second half of 2014, the Chinese government is expected to release a number of favorable policies to encourage consumption along with the acceleration of urbanization, which should revitalize the retail industry in China. The improvement of management, the evolvement of retailing business and the rapid growth of e-commerce are also expected to further change the competitive landscape of the industry.

To cope with these challenges, the Group will seize opportunities and carry on reforms and initiatives started in the first half to reverse the downward trend.

The Group shall focus on opening new stores and improving overall quality of new stores. The Group will also upgrade existing stores as planned and further enhance their operations.

The Group will adopt all feasible measures to increase their selling capabilities. The Group will focus on the procurement process for fresh produce, imported commodities and other new products which will then aid in increasing the Group's competitiveness, profitability and sales of merchandise. The Group will also focus on implementation of selling strategies to increase the sell-through rates of merchandise and further strengthen the merchandisers' performance evaluation and performance-based store contractual arrangements.

The Group will push forward with innovation and transformation projects to increase its overall profitability, including a comprehensive pricing management system to sustain consolidated income, a marketing management project to ensure the effectiveness of marketing campaigns and promotions, and an inventory management project to shorten merchandise turnover period.

The Group will continue to tighten cost controls in order to effectively reduce costs and increase efficiency. The Group shall improve its performance evaluation system with a focus on profitability to ensure sustainable and stable long-term growth.

Interim Dividend

The board of directors of the Company (the "Board") does not recommend the distribution of interim dividend for the six months ended 30 June 2014.

Purchase, Sale or Redemption of Shares

From 27 June 2003, the date of listing of the Company's shares on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), to the date of this announcement, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company.

Audit Committee

The audit committee of the Company (the "Audit Committee") has considered and reviewed the accounting principles and practices adopted by the Group and has discussed the matters in relation to internal control and financial reporting with the management, including the review of the unaudited condensed interim accounts for 2014 of the Group. The Audit Committee considered that the interim accounts of the Group for the six months ended 30 June 2014 is in compliance with the relevant accounting standards, the requirements of the Stock Exchange and the Laws of Hong Kong, and the Company has made appropriate disclosures thereof.

Compliance with Model Code for Securities Transactions by Directors (the “Model Code”) in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”)

The Company has adopted the Model Code as code of conduct for securities transactions by all directors of the Company. After specific enquiries to the directors, the Board is pleased to confirm that all the directors have fully complied with the provisions under the Model Code during the period under review.

Compliance with the Corporate Governance Code in Appendix 14 of the Listing Rules

The Board is pleased to confirm that save and except for the matters as set out below, the Company has complied with all the code provisions in the “Corporate Governance Code” (the “Code”) under Appendix 14 of the Listing Rules during the period under review. Apart from the following deviation, none of the directors is aware of any information that would reasonably indicate that the Company is not or was not for any time of the period under review in compliance with the Code. Details of the deviation are set out as follows:

Provision A4.2 of the Code requires that every director (including those appointed for a specific term) of a listed issuer shall be subject to retirement by rotation at least once every three years. The articles of association of the Company provides that each director shall be appointed at the general meeting of the Company and for a term of not more than 3 years, and eligible for re-election. Having taken into account the continuity of the implementation of the Company’s operation and management policies, the articles of association contains no express provision for the mechanism of directors’ retirement by rotation, thus deviating from the aforementioned provision of the Code.

For Provision A.6.7 of the Code :

Mr. Wong Tak Hung, non-executive director, and Mr. Kazuyasu Misu, then non-executive director, were unable to attend the thirteenth meeting of the fourth session of the Board convened on 26 March 2014 by the Company due to their work duties.

Mr. Wong Tak Hung, non-executive director, was unable to attend the first meeting of the fifth session of the Board convened on 27 June 2014 by the Company due to his work duties.

Ms. Qi Yue-hong, executive director, Ms. Wu Jie-qing, non-executive director, and Mr. Wong Tak Hung, non-executive director, were unable to attend the second meeting of the fifth session of the Board convened on 28 August 2014 by the Company due to their work duties.

After receiving the relevant materials for the Board meeting, they have authorized other directors of the Company to attend the meetings and vote on their behalf. The matters considered at the Board meeting were ordinary matters and all resolutions were passed smoothly. The Company had sent the related minutes to all members of the Board after the Board meeting so any director who was unable to attend the meeting was able to understand the resolutions passed at the meeting.

For Provisions A.6.7 and E.1.2 of the Code, Mr. Wong Tak Hung, non-executive director, was unable to attend the 2013 annual general meeting of the Company convened on 27 June 2014 due to his work duties. The Company has provided the relevant materials relating to the 2013 annual general meeting to all members of the Board before the meeting. All ordinary resolutions were passed smoothly at the annual general meeting. The Company had sent the related minutes to all members of the Board after the annual general meeting so any director who was unable to attend the meeting was able to understand the resolutions passed at the meeting.

By order of the Board
Lianhua Supermarket Holdings Co., Ltd.
Chen Jianjun
Chairman

Shanghai, 28 August 2014

As at the date of this announcement, the Board comprises:

Executive directors: Chen Jian-jun, Hua Guo-ping, Qi Yue-hong, Zhou Zhong-qi and Shi Hao-gang;

Non-executive directors: Li Guo-ding, Wu Jie-qing and Wong Tak Hung;

Independent non-executive directors: Xia Da-wei, Lee Kwok Ming, Don, Zhang Hui-ming and Huo Jia-zhen.