THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action you should take, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **China Resources Enterprise, Limited** (the "Company"), you should at once hand this circular to the purchaser or the transferee, or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

華潤創業有限公司
China Resources Enterprise, Limited

(Incorporated in Hong Kong with limited liability)
(Stock Code: 291)

FORMATION OF JOINT VENTURE WITH TESCO PLC
(1) MAJOR TRANSACTION – INJECTION OF CONTRIBUTED BUSINESS OPERATIONS
(2) MAJOR TRANSACTION – SUBSCRIPTION OF 20% OF RETAIL BUSINESS
(3) MAJOR TRANSACTION – THE STEP-UP OPTION
(4) MAJOR TRANSACTION – THE DEFAULT PUT RIGHT
(5) MAJOR TRANSACTION – THE DEFAULT CALL RIGHT
(6) POTENTIAL NOTIFIABLE AND CONNECTED TRANSACTION – THE IPO CALL RIGHT
(7) POTENTIAL NON-EXEMPT CONTINUING CONNECTED TRANSACTION – IP AGREEMENT

Financial Advisers to China Resources Enterprise, Limited
(in alphabetical order)

Morgan Stanley

UBS

A letter from the Board is set out on pages 11 to 32 of this circular.

25 February 2014

CONTENTS

In this circular, unless the context indicates or specifies otherwise, the following specific terms and expressions have the following meanings:

"Affiliate(s)"	in relation to any person, a subsidiary of that person, or a holding company of that person or any other subsidiary of that holding company, or a company which is controlled by such person, provided that: (a) no group company within the Joint Venture shall be an Affiliate of the Company or Tesco; and (b) in the case of the Company and its subsidiaries, Affiliate shall include only their respective subsidiaries or any company which is controlled by the Company or its subsidiaries (as applicable)
"Aiming"	Aiming Investments Limited (致力投資有限公司), a company incorporated in the BVI with limited liability and a direct wholly-owned subsidiary of Gain Land as at the Latest Practicable Date
"AML Approvals"	has the meaning ascribed to it under the section headed "The Joint Venture Formation – (I) Investment Agreement – Conditions Precedent"
"associate(s)"	bears the meaning ascribed to it under the Listing Rules
"Auditor"	PricewaterhouseCoopers, Hong Kong, Certified Public Accountants
"Board"	the board of Directors
"BVI"	the British Virgin Islands
"chief executive"	bears the meaning ascribed to it under the Listing Rules
"Company"	China Resources Enterprise, Limited, a company incorporated in Hong Kong with limited liability and the issued shares of which are listed on the Main Board of The Stock Exchange

"Completion"	the completion of the Injection and of the Subscription contemplated under the Investment Agreement
"Completion Date"	the later of (i) 28 February 2014 and (ii) the fifth business day after all of the Conditions Precedent under the Investment Agreement are fulfilled, or such other date as the parties may agree
"Conditions Precedent"	has the meaning ascribed to it under the section headed "The Joint Venture Formation – (I) Investment Agreement – Conditions Precedent"
"connected person"	bears the meaning ascribed to it under the Listing Rules
"Contributed Business Operations"	the retail business and the real estate properties business to be operated by the Target Group in the PRC at Completion, and to the extent that any of the Tesco RE JV Interests are not owned by the Target Group at Completion, the economic interests in the Tesco RE JV Interests
"control"	(including the term "controlled by") means, in relation to any person (the "subject"), means the power of any other person or group of persons, directly or indirectly, to secure that the affairs of the subject are conducted in accordance with the wishes of such other person or group of persons: (a) by means of the holding of more than 50% of its entire issued shares, or the possession of more than 50% of all the voting rights exercisable at any general meeting of the shareholders in or in relation to the subject; (b) by means of having the right to appoint or remove a majority of the members of the governing body of the subject; or by virtue of any powers conferred by the constitutional or corporate documents, or any other document, regulating the subject
"controlling shareholder(s)"	bears the meaning ascribed to it under the Listing Rules

"CPHL"	China Property Holdings (HK) Limited, a limited liability company incorporated in Hong Kong and an indirect wholly owned subsidiary of Tesco as at the Latest Practicable Date
"CR Supermarket"	China Resources Supermarket (BVI) Company Limited (華潤超級市場(BVI)有限公司), a limited liability company incorporated in BVI and a direct wholly owned subsidiary of Gain Land as at the Latest Practicable Date
"CR Vanguard (HK)"	China Resources Vanguard (Hong Kong) Company Limited (華潤萬家(香港)有限公司), a limited liability company incorporated in Hong Kong and a direct wholly owned subsidiary of CR Supermarket as at the Latest Practicable Date
"CRV (PRC)"	華潤萬家有限公司 (China Resources Vanguard Co., Ltd.), a limited liability company incorporated in the PRC and which is indirectly and wholly owned as to 100% by Gain Land as at the Latest Practicable Date
"Default Call Right"	has the meaning ascribed to it under the section headed "The Joint Venture Formation – (II) Gain Land Shareholders' Agreement – Default Put Right/Default Call Right"
"Default Put Right"	has the meaning ascribed to it under the section headed "The Joint Venture Formation – (II) Gain Land Shareholders' Agreement – Default Put Right/Default Call Right"
"Deferred Cash Payment"	has the meaning ascribed to it under the section headed "The Joint Venture Formation – (I) Investment Agreement – Total Consideration"
"Director(s)"	the directors of the Company
"Easeshine"	Easeshine Investments Limited (宜亮投資有限公司), a limited liability company incorporated in BVI and a direct wholly owned subsidiary of Gain Land as at the Latest Practicable Date
"Enlarged Group"	the Company and its subsidiaries upon Completion, including the Target Group

"Existing IP"	IP or Know-How owned by Tesco or a member of Tesco group as at 31 December 2013, with certain exceptions
"Further Completion Cash Payment"	has the meaning ascribed to it under the section headed "The Joint Venture Formation – (I) Investment Agreement – Total Consideration"
"Gain Land"	Gain Land Limited, a company incorporated in the BVI with limited liability and a direct wholly-owned subsidiary of Ondereel as at the Latest Practicable Date
"Gain Land Group"	Gain Land and its subsidiaries, which are principally engaged in the Retail Business as at the Latest Practicable Date
"Gain Land Share(s)"	the ordinary share(s) of US$1.00 of Gain Land
"Gain Land Shareholders' Agreement"	the shareholders' agreement in relation to Gain Land to be entered into upon Completion by the Company, Tesco, Ondereel, the Subscriber and Gain Land
"Gain Land Subscription Shares"	such number of Gain Land Shares to be issued by Gain Land and subscribed by the Subscriber at Completion, in order to ensure that the Subscriber will be interested in 20% of the Joint Venture immediately after Completion
"Greater China"	collectively, the PRC, Hong Kong and the Macau Special Administrative Region
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the People's Republic of China
"Independent Third Party(ies)"	an individual(s) or a company(ies) who or which is(are) independent of and not connected with (within the meaning of the Listing Rules) any directors, chief executive or substantial shareholders, of the Group, or any of their respective associate(s)

"Initial Cash Payment"	has the meaning ascribed to it under the section headed "The Joint Venture Formation – (I) Investment Agreement – Total Consideration"
"Initial Completion Cash Payment"	has the meaning ascribed to it under the section headed "The Joint Venture Formation – (I) Investment Agreement – Total Consideration"
"Injection"	has the meaning ascribed to it under the section headed "The Joint Venture Formation – (I) Investment Agreement – Transfer of the entire issued share capital of the Target (as owner of the Contributed Business Operations), and the economic interests of Tesco RE JV Interests, from Tesco to Gain Land"
"Investment Agreement"	the investment agreement dated 1 October 2013 (London time) and entered into between the Company, Ondereel, Gain Land, Tesco and the Subscriber for the Joint Venture Formation, as amended and restated by the Parties thereto on 22 February 2014
"IP"	all copyright, rights in databases, rights in designs, internet domain names and all other intellectual property rights (in each case, whether or not registered) together with applications and rights to apply for any of those rights, with certain exceptions
"IP Agreement"	the intellectual property and Know-How agreement in relation to sharing of IP and Know-How with the Joint Venture, to be entered into upon Completion by Tesco and Gain Land
"IPO Call Right"	has the meaning ascribed to it under the section headed "The Joint Venture Formation – (II) Gain Land Shareholders' Agreement – Right to instigate Listing and Grant of IPO Call Right"
"Joint Task Force"	the consulting and advisory body to the board of directors of the JV, to be made up of representatives of Tesco and the Company
"Joint Venture"	the joint venture to be formed between the Company and Tesco through their shareholdings in Gain Land

"Joint Venture Formation"	the formation of Joint Venture, by way of the transactions contemplated by the Transaction Documents, including, but not limited to: (1) the Subscription, (2) the Injection, (3) the Option Grants and (4) the IP Agreement
"Know-How"	knowledge, know-how, experience, technology, techniques, processes, trade secrets, confidential information, technical information and data, formulas, formulations, methods, discoveries etc.
"Latest Practicable Date"	19 February 2014, being the latest practicable date for the purpose of ascertaining certain information contained in this circular prior to its publication
"Lifespace Marks"	certain trade marks registered in the PRC for the LIFESPACE brand
"Listing"	the listing of all or any of the shares of Gain Land, or all or any of the shares of such other entity which owns substantially all of the assets of the Gain Land Group at that time, or securities representing such shares (including depositary receipts, depositary shares and/or other instruments) on the Stock Exchange or any recognized exchange company (as defined in Part 1 of Schedule 1 to the SFO)
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Long Stop Date"	1 October 2014
"New IP"	any IP or Know-How owned by Tesco or a member of Tesco group which is created on or after 1 January 2014 and which would be beneficial to the Gain Land Group's business in Greater China, with certain exceptions
"Ondereel"	Ondereel Ltd, a company incorporated in the BVI with limited liability and a direct wholly-owned subsidiary of the Company as at the Latest Practicable Date
"Ondereel Default"	has the meaning ascribed to it under the section headed "The Joint Venture Formation – (II) Gain Land Shareholders' Agreement – Default Put Right/Default Call Right"

"Option Grants"	collectively, the grant of the Step-up Option, the Default Call Right, the Default Put Right and the IPO Call Right
"Parties"	Gain Land, Ondereel, the Company, the Subscriber and Tesco
"percentage ratios"	has the same meaning ascribed to it under the Listing Rules
"PRC"	the People's Republic of China excluding, for the purpose of this circular, Taiwan, Hong Kong and Macau Special Administrative Region
"Qualifying Larger Shareholding"	the Subscriber and/or its Affiliates holding in aggregate 15% or more of the entire issued shares of Gain Land, provided that the Subscriber and/or its Affiliates shall not be deemed to be holding in aggregate less than 15% of the entire issued shares of Gain Land to the extent that the reason for the Subscriber and/or its Affiliates holding less than 15% of the entire issued shares of Gain Land was caused by an issue of securities by Gain Land which had not been approved in accordance with the Gain Land Shareholders' Agreement
"Qualifying Shareholding"	the Subscriber and/or its Affiliates holding in aggregate 10% or more of the entire issued shares of Gain Land, provided that the Subscriber and/or its Affiliates shall not be deemed to be holding in aggregate less than 10% of the entire issued shares of Gain Land to the extent that the reason for the Subscriber and/or its Affiliates holding less than 10% of the entire issued shares of Gain Land was caused by an issue of securities by Gain Land which had not been approved in accordance with the Gain Land Shareholders' Agreement
"Real Estate JVs"	eight joint ventures which are principally engaged in holding real estate properties in the PRC in which Tesco or its Affiliates has 50% equity interest , namely Anshan (BVI) Limited, Fushun (BVI) Limited, Qinhuangdao (BVI) Limited, Pushang (BVI) Co, Limited, Qixing (BVI) Co., Limited and Shenyang (BVI) Co., Limited, Tesco (Fujian) Industry Limited and Tesco Nanjing Zhongshan (HK) Co., Limited

"Real Estate Partners"	other than Tesco and its Affiliates, the registered holders of the remaining equity interests in the Real Estate JVs
"Real Estate Properties Business Target Group"	such part of the Target Group which is engaged in the real properties business in the PRC
"Real Estate Related Companies"	Tesco Property Limited, Tesco FICE Holder (HK) Co. Limited, Fushun Ledu Commercial Co. Limited, Qinhuangdao Ledu Commercial Co. Limited, Anshan Ledu Commercial Co. Limited, Qingdao Sifang Ledu Commercial Co. Limited, Fuzhou Ledu Property Management Co. Limited and Xiamen Qixing Ledu Property Management Co. Limited
"Retail Business"	the business currently operated by the Gain Land Group, which is primarily engaged in the business of multi-category retailing through hypermarkets, supermarkets, convenience stores, cash and carry business or liquor stores or any future equivalent multi-category retail format (as well as the online/internet equivalent of any of the foregoing business)
"Retail Business Target Group"	such part of the Target Group which is engaged in the retail business in the PRC
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)
"Share(s)"	the ordinary share(s) of HK$1.0 each of the Company
"Shareholder(s)"	holders of the issued Shares
"Shenzhen CR Vanguard"	深圳華潤萬佳超級市場有限公司 (Shenzhen China Resources Vanguard Supermarket Co., Ltd), a limited liability company incorporated in the PRC and which is legally owned as to 65% by CR Vanguard (HK) and 35% by Wealth Choice as at the Latest Practicable Date

"Step-up Option"	the right granted to the Subscriber to acquire a further 5% interest in the Joint Venture, which is exercisable upon the earlier of the Listing and the 5th anniversary of Completion, in respect of all and not part of the 5% interest in the Joint Venture
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscriber"	Cheshunt Holdings Guernsey Limited, a company incorporated in Guernsey with limited liability and an indirectly wholly-owned subsidiary of Tesco as at the Latest Practicable Date
"Subscription"	has the meaning ascribed to it in the section headed "The Joint Venture Formation – (I) Investment Agreement – Subscription for the Gain Land Subscription Shares by the Subscriber"
"Suguo"	蘇果超市有限公司 (Suguo Supermarket Co. Ltd.), a limited liability company incorporated in the PRC which is legally owned as to 73.5% by CR Supermarket, 11.5% by Surefaith and 15% by a third party independent of the Company and its Affiliates as at the Latest Practicable Date
"Surefaith"	Surefaith Investments Limited (穩信投資有限公司), a limited liability company incorporated in BVI and a directly wholly owned subsidiary of Gain Land as at the Latest Practicable Date
"Target"	Ting Cao (C.I.) Holdings Corporation, a limited liability company incorporated in the Cayman Islands and an indirect wholly owned subsidiary of Tesco as at the Latest Practicable Date, and which will at Completion own the Contributed Business Operations
"Target Group"	the Target and its subsidiaries at the time of Completion, which are principally engaged in the retail business and the real estate properties business of the Contributed Business Operations
"Tesco"	Tesco PLC, a public limited company incorporated in England and Wales and the shares of which are listed on the Main Market of the London Stock Exchange

"Tesco Brand"	the Tesco brand as used in the business of the Target Group in the 18 months prior to Completion, with the corresponding trade dress, product packaging and branding
"Tesco Intellectual Property"	the intellectual property used in the business of the Target Group in the 18 months prior to Completion which is owned by Tesco group (other than those intellectual property owned by the Target Group)
"Tesco RE JV Interests"	means the 50% equity interests in the Real Estate JVs currently held by Tesco or its Affiliates
"Total Consideration"	has the meaning ascribed to it under the section headed "The Joint Venture Formation – (I) Investment Agreement – Total Consideration"
"Transaction Documents"	collectively, the definitive and legally-binding documents for the Joint Venture Formation, including but not limited to the Investment Agreement, the Gain Land Shareholders' Agreement, the IP Agreement
"Wealth Choice"	Wealth Choice Investments Limited (彩裕投資有限公司), a limited liability company incorporated in BVI and a directly wholly owned subsidiary of Gain Land as at the Latest Practicable Date
"%"	per cent

華潤創業有限公司
China Resources Enterprise, Limited

(Incorporated in Hong Kong with limited liability)
(Stock Code: 291)

Executive Directors:
Mr. CHEN Lang *(Chairman)*
Mr. HONG Jie *(Chief Executive Officer)*
Mr. LIU Hongji *(Vice Chairman)*
Mr. LAI Ni Hium, Frank *(Chief Financial Officer)*

Non-executive Directors
Mr. DU Wenmin
Mr. WEI Bin
Mr. YAN Biao
Mr. HUANG Daoguo
Mr. CHEN Ying

Independent non-executive Directors:
Mr. HOUANG Tai Ninh
Dr. LI Ka Cheung, Eric
Dr. CHENG Mo Chi
Mr. Bernard Charnwut CHAN
Mr. SIU Kwing Chue, Gordon

Registered office, head office and principal place of business in Hong Kong:
39th Floor,
China Resources Building,
26 Harbour Road,
Wanchai,
Hong Kong

25 February 2014

To the Shareholders,

Dear Sirs or Madam,

FORMATION OF JOINT VENTURE WITH TESCO PLC
(1) MAJOR TRANSACTION – INJECTION OF CONTRIBUTED BUSINESS OPERATIONS
(2) MAJOR TRANSACTION – SUBSCRIPTION OF 20% OF RETAIL BUSINESS
(3) MAJOR TRANSACTION – THE STEP-UP OPTION
(4) MAJOR TRANSACTION – THE DEFAULT PUT RIGHT
(5) MAJOR TRANSACTION – THE DEFAULT CALL RIGHT
(6) POTENTIAL NOTIFIABLE AND CONNECTED TRANSACTION – THE IPO CALL RIGHT
(7) POTENTIAL NON-EXEMPT CONTINUING CONNECTED TRANSACTION – IP AGREEMENT

INTRODUCTION

Reference is made to (i) the voluntary announcement of the Company dated 9 August 2013 in relation to the Company entering into a non legally-binding term sheet with Tesco in relation to the possible formation of a joint venture; and (ii) the announcement of the Company dated 2 October 2013 where the Company announced that on 1 October 2013 (London time), Gain Land and Ondereel (each a wholly-owned subsidiary of the Company), the Company (as guarantor for the performance by Gain Land and Ondereel of their respective obligations therein), the Subscriber (a wholly-owned subsidiary of Tesco) and Tesco (as guarantor for the performance by the Subscriber of its obligations therein) entered into the Investment Agreement, pursuant to which the parties have conditionally agreed to establish the Joint Venture.

The Joint Venture Formation will involve (1) Tesco disposing of, and Gain Land acquiring, the entire issued share capital of the Target; (2) Gain Land issuing new shares to the Subscriber so that Ondereel and the Subscriber will be interested in the Joint Venture as to 80% and 20% respectively and the Subscriber paying an additional cash sum to Gain Land as described below; (3) the Option Grants; and (4) entering into the IP Agreement. Moreover, upon exercise of the Step-up Option and assuming the Subscriber has not disposed of any of its interest in the Joint Venture after Completion, Ondereel and the Subscriber will be interested in the Joint Venture as to 75% and 25% respectively.

CRH (Enterprise) Limited, the controlling Shareholder which held 1,232,764,380 Shares, representing approximately 51.31% of the issued share capital of the Company as at the date of the Investment Agreement, had approved each of the Subscription, the Injection, the Step-up Option, the Default Put Right and the Default Call Right in accordance with Rules 14.44.

The purpose of this circular is to provide you with, among other things, (i) further information on the Joint Venture Formation; (ii) certain relevant financial information of the Group; and (iii) certain relevant financial information of the Target Group.

THE JOINT VENTURE FORMATION

(I) The Investment Agreement

The major terms of the Investment Agreement are as follow:

Date

1 October 2013 (London time), as amended and restated by the Parties on 22 February 2014

Parties

(1) Gain Land

(2) Ondereel

(3) the Company, as guarantor for the performance by Gain Land and Ondereel of their respective obligations therein

(4) the Subscriber

(5) Tesco, as guarantor for the performance by the Subscriber of its obligations therein

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Subscriber and Tesco are Independent Third Parties, and Tesco does not have any controlling or substantial shareholder.

The Subscriber is an investment holding company, which is indirectly wholly owned by Tesco.

Transfer of the entire issued share capital of the Target (as owner of the Contributed Business Operations), and the economic interests of Tesco RE JV Interests, from Tesco to Gain Land (the "Injection")

Under the Injection, the Subscriber will, as part of the consideration for the issue of the Gain Land Subscription Shares pursuant to the Subscription, transfer the entire issued share capital of the Target to Gain Land at Completion. The Target owns (or will at Completion own) the Contributed Business Operations. Thus, at Completion, the Retail Business will be combined with the Contributed Business Operations under the Joint Venture. Details of the Target and the Contributed Business Operations are disclosed below.

The Contributed Business Operations can be divided into the Retail Business Target Group and the Real Estate Properties Business Target Group. The Target has been holding the Retail Business Target Group while CPHL has been holding the Real Estate Properties Business Target Group. All the property holding companies held by CPHL will be transferred to the Target prior to the Injection, so that the Target will then own the Retail Business Target Group and the Real Estate Properties Business Target Group. However, CPHL itself will not be part of the Target Group to be transferred to the Company upon the Injection.

In addition, with effect from Completion and pending the consent from Tesco's relevant Real Estate Partners to the transfer of the Tesco RE JV Interests to the Joint Venture, Tesco or its Affiliates, through CPHL, will hold the economics of the Tesco RE JV Interests for the benefit and cost of the Joint Venture. Following Completion, management of the Real Estate JVs will continue as before, with CPHL and the Real Estate Related Companies being responsible for the day to day operations of the Real Estate JVs (although material decisions will be made following discussions with the board of Gain Land). To the extent that any of the Tesco RE JV Interests have not been legally contributed or transferred to the Joint Venture by the fifth anniversary of Completion (because the relevant Real Estate Partners' consents have not been forthcoming), these economic arrangements will terminate in consideration of a cash payment by the Subscriber equal to the then fair market value of such Tesco RE JV Interests. As the Company or the Joint Venture is only regarded as holding 50% of the equity interest of the Real Estate JVs, these Real Estate JVs will not be regarded as subsidiaries of the Joint Venture or the Company. Such accounting treatment may change if there is any change of Tesco RE JV

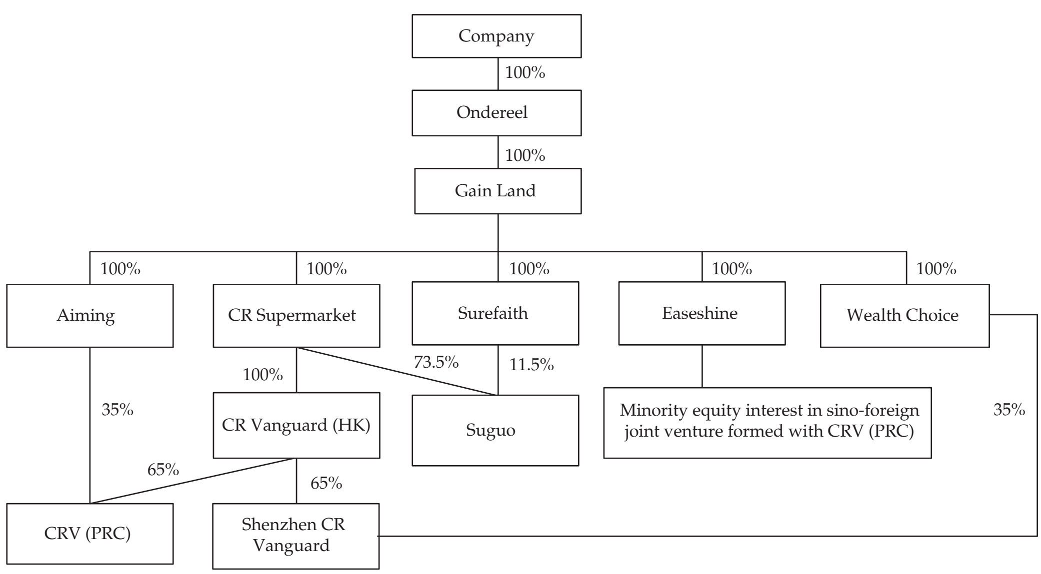
Interests regarded to be held by the Company. The Company will timely and regularly update the Shareholders of the status of the transfer of the Tesco RE JV Interests to the Joint Venture, as and when the Board considers appropriate.

Subscription for the Gain Land Subscription Shares by the Subscriber (the "Subscription")

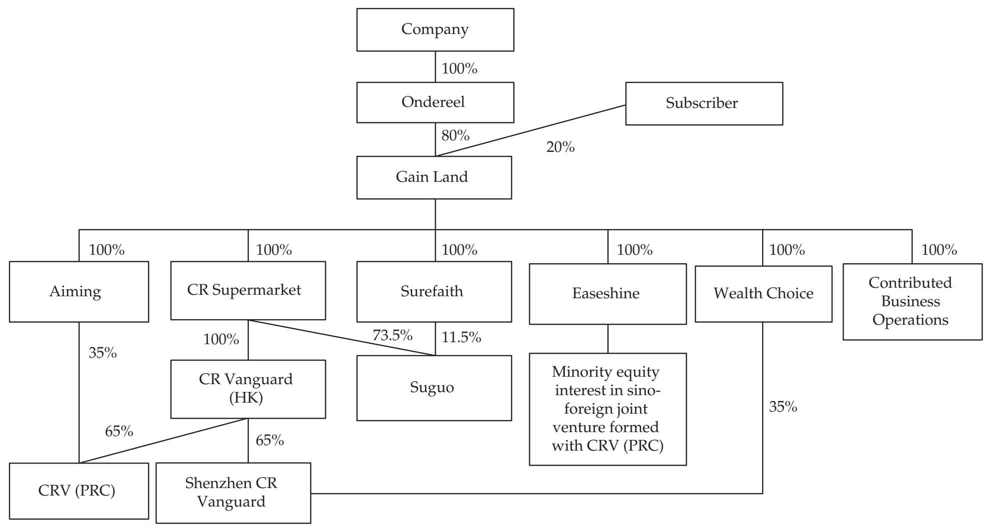
Subject to the satisfaction of the Conditions Precedent, the Subscriber will, at Completion, subscribe for the Gain Land Subscription Shares in accordance with the terms of the Investment Agreement. The Gain Land Subscription Shares will rank pari passu respectively with all existing Gain Land Shares.

The overall effect of the Injection and the Subscription is to ensure that the Subscriber will be interested in 20% of the Joint Venture (which will comprise the Retail Business originally held and operated by the Company and the Contributed Business Operation to be held by the Target at Completion).

A simplified corporate structure chart of the Retail Business immediately before the Joint Venture Formation is as follows:



A simplified corporate chart of the Joint Venture immediately after Completion and without taking into account the effect of the Step-up Option is set out below:



Total Consideration

The total consideration (the "**Total Consideration**") for the subscription of Gain Land Subscription Shares shall be payable by the Subscriber to Gain Land in the following manner:

(i) completing the Injection at Completion;

(ii) HK$500 million being paid to an escrow agent appointed by Ondereel and the Subscriber on 2 October 2013 (the "**Initial Cash Payment**"), which will be released to Gain Land on the Completion Date if Completion takes place or which will be returned to the Subscriber if Completion does not take place;

(iii) HK$500 million being paid to Gain Land on the Completion Date (the "**Initial Completion Cash Payment**");

(iv) HK$2,325 million being paid to Gain Land on the Completion Date (the "**Further Completion Cash Payment**"); and

(v) HK$1,000 million being paid to Gain Land on the first anniversary from the Completion Date (the "**Deferred Cash Payment**").

The Total Consideration was arrived at after arm's length negotiations between the Company and Tesco after taking into account the estimated relative business values of the Retail Business and the Contributed Business Operations and on the basis that both businesses have been and will continue to be operated in a manner consistent with its normal practice and in normal and ordinary course. The relative business values of the Retail Business and the Contributed Business Operations were based on their relative contribution with respect to revenues, attributable asset values and future synergies, as well as their overall scale and market positions.

In order to confirm that there has been no material decrease in value of the real estate properties of the Target Group and Gain Land Group since the commencement of negotiations of this deal, the Subscriber and Ondereel were required to appoint an independent valuer to value certain of their properties as at the relevant dates stipulated under the Investment Agreement (with such dates being more recent and close to Completion when compared with the original valuation provided during the negotiations of this transaction). If the amount of such valuation(s) was determined to be below 90% of the book valuation(s) of the aforementioned properties, the Subscriber and/or Ondereel (as the case may be) shall pay to Gain Land an amount equal to the difference between the value so determined and 90% of the book valuations (provided that the amount payable by each of the Subscriber and Ondereel shall not exceed RMB994 million).

Application of the Total Consideration

Gain Land will apply part of the subscription money paid by the Subscriber for the Gain Land Subscription Shares to pay (immediately after Completion) a special dividend of HK$1,000 million to be declared and payable to Ondereel, Gain Land's sole registered shareholder before Completion.

In addition, Gain Land will apply part of the subscription money paid by the Subscriber for the Gain Land Subscription Shares to pay (immediately after receipt of the Deferred Cash Payment on the first anniversary of the Completion Date) a further special dividend of HK$1,000 million to be declared and payable to Ondereel, Gain Land's sole registered shareholder before Completion.

The special dividends which Gain Land may declare and pay out as provided in the foregoing paragraphs shall be in such amounts so as to allow Gain Land to pay out to Ondereel special dividends in the total amount of HK$2,000 million. For the avoidance of doubt, only Ondereel will be entitled to these special dividends and Ondereel intends to use such special dividends for general business purposes of the Enlarged Group.

The remaining sum of cash payments of the Total Consideration received by Gain Land after payment of these special dividends mentioned above will be applied for general business purposes within the Joint Venture.

Conditions Precedent

Completion is subject to the fulfillment of the following conditions precedent (the"**Conditions Precedent**"):

(i) obtaining the approval pursuant to PRC Anti-Monopoly Laws (without which Completion would be unlawful or otherwise prohibited or restricted) of, or confirmation of no objection to, the transactions contemplated under the Transaction Documents issued or deemed to be issued or agreed to, by the Anti- Monopoly Bureau of the Ministry of Commerce of the PRC (中華人民共和國商務部反壟斷局) (the "**AML Approval**") on an unconditional basis, or where any conditions and restrictions are comprised in the AML Approval, such conditions and restrictions being acceptable to the Company and Tesco acting reasonably and such AML Approval remaining valid and not being withdrawn, revoked or varied prior to Completion; and

(ii) to the extent required under the Listing Rules, obtaining the approval(s) of the Shareholders in respect of:

(a) Gain Land's obligations under the Transaction Documents;

(b) the execution of the Transaction Documents (if applicable); and

(c) the Injection, the Subscription, the Step-up Option, the Default Put Right, the Default Call Right and the IP Agreement, in accordance with the Listing Rules.

None of the Conditions Precedent may be waived in any event. The parties shall use their reasonable endeavours to procure satisfaction of the Conditions Precedent by the Long Stop Date. If the Conditions Precedent are not satisfied by the Long Stop Date, the Investment Agreement shall automatically terminate.

As at the Latest Practicable Date, the Condition Precedent as set out in paragraph (ii) above has been fulfilled.

Completion

Completion shall take place on the later of (i) 28 February 2014 and (ii) the fifth business day after all of the Conditions Precedent are fulfilled, or such other date as the parties may agree (the "**Completion Date**").

On or before 28 February 2014, a sum of not less than RMB470 million will be provided to the Target Group and/or the Real Estate JVs by Tesco or its Affiliates in cash by way of shareholders' loan or equity funding for business development purposes of the Target Group and/or the Real Estate JVs.

According to the principles as agreed under Investment Agreement, at Completion, all the existing non-trading loans (i) due from the Gain Land Group to the Group or the controlling shareholder of the Company of HK$11,609 million, and (ii) due from the Target Group to Tesco group of RMB1,209 million, will either be capitalized, settled or waived (as appropriate). There is no debt due from the Tesco group to the Target Group after Completion, except for trading debts. All the existing trading debts will be settled by the Gain Land Group or the Target Group (as the case may be), and the loans to the Real Estate JVs will be settled, in accordance with their respective terms or customary practice. If there are any existing trading debts existing after Completion, it is not expected that settlement of such trading debts (or the transactions represented by trading debts) after Completion will give rise to any connected or continuing connected transactions which require the Company to comply with any of the reporting, annual review, announcement and independent shareholders' approval requirements.

Grant of the Step-up Option

Under the Investment Agreement, the Subscriber shall have the right to subscribe for additional shares in Gain Land, so that the total interest in the Joint Venture held by the Subscriber will increase by 5% (on a fully diluted basis) upon the earlier of a Listing or the fifth anniversary of Completion. The Step-up Option shall be exercisable in respect of all and not part of the 5% additional interest (on a fully diluted basis), and at an exercise price which is equal to the issue price per share at Listing or the fair market value of the Joint Venture as at the fifth anniversary of Completion to be determined by an independent expert. The independent expert shall be agreed between Ondereel and the Subscriber. If they cannot agree on this issue within a prescribed period, the independent expert shall be designated by the ICC International Centre for Expertise or such other qualified body as is reasonably acceptable to Ondereel and the Subscriber.

The Step-up Option is granted to the Subscriber at no cost to the Subscriber. The proceeds received by the Joint Venture upon exercise will be used for general working capital and business expansion purposes of the Joint Venture.

Upon exercise of the Step-up Option and assuming the Subscriber has not disposed of any of its interest in the Joint Venture since Completion, Ondereel and the Subscriber will be interested in the Joint Venture as to 75% and 25% respectively.

Assignment of Lifespace Marks

At Completion, Tesco has agreed to assign, or procure its relevant group to assign, at nil consideration, the Lifespace Marks to Gain Land (or its nominee) solely for the purposes of branding retail outlets and shopping malls.

(II) The Gain Land Shareholders' Agreement

Simultaneously with Completion, Gain Land, Ondereel, the Subscriber, the Company and Tesco will enter into the Gain Land Shareholders' Agreement in order to govern their relationships and matters in relation to Gain Land, the major terms of which are as follows:

Board of directors and management of Gain Land

The board of directors of Gain Land will consist of a maximum of 10 directors. The Subscriber will be entitled to appoint 1 director for so long as it has a Qualifying Shareholding in Gain Land and to appoint 2 directors so long as it has a Qualifying Larger Shareholding in Gain Land. Ondereel is entitled to appoint the remaining number of directors to the board of Gain Land.

The board of directors of Gain Land is responsible for the overall management of its business. The quorum at a meeting of the board of Gain Land is three (3) Directors, which shall include two directors nominated by Ondereel and one director nominated by the Subscriber.

General meetings

The quorum for a general meeting is any shareholder(s) who hold(s) more than 50% of the issued shares of Gain Land (individually or in aggregate), or their duly authorised representatives, provided always that such shareholders include both Ondereel and the Subscriber (or their respective duly authorised representatives).

Joint Task Force

The Joint Task Force will be established for the Joint Venture, which will serve as a consulting and advisory body to the board of directors of Gain Land and as a bridge of communication between Gain Land's board, Ondereel and the Subscriber. The Joint Task Force will not have any decision-making powers or be delegated any powers by the Gain Land's board (and, for the avoidance of doubt, will not have any veto rights over the decisions of Gain Land's board) and any advice, recommendations or output of the Joint Task Force will be non-binding on the Gain Land's board.

The Joint Task Force shall consist of influential senior executives or managers of CRE and Tesco, with equal representation from CRE and Tesco.

Reserved matters

For so long as the Subscriber and/or its Affiliates hold a Qualifying Shareholding, none of the following matters (among others) shall be transacted or undertaken by any member of the Joint Venture unless the relevant matter has been approved by at least one director nominated by the Subscriber or there is a specific exception applicable:

(a) the provision of any loan, advance, guarantee, indemnity or other security interest or creation of any encumbrance on any of any assets of any member of the Joint Venture;

(b) the disposal of or the transfer of assets of any member of the Joint Venture;

(c) making any investments or capital expenditure that will exceed a prescribed threshold, or conducting any mergers and acquisitions which are not contemplated under the relevant annual budget and whose value exceeds a prescribed threshold;

(d) any material change in the scope, nature and/or activities of the business of the Joint Venture as a whole;

(e) incurrence of any debt in an amount exceeding a prescribed threshold;

(f) any amendment to the related party transaction policy of the Joint Venture or, save in accordance with such policy, entering into any transaction or series of transactions with related party; and

(g) any change of the auditors to a firm which is not one of the "Big Four" accounting firms, any material change to the accounting policies for the consolidated accounts outside of the Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards, or any change to the financial year which is not required by applicable laws.

For so long as the Subscriber and/or its Affiliates hold a Qualifying Shareholding, none of the following matters shall be transacted or undertaken by any member of the Joint Venture unless the relevant matter has been approved by the Subscriber or there is a specific exception applicable:

(h) any amendments to the memorandum and articles of association or constitutional documents of any member of the Joint Venture;

(i) any issue of new shares or equity fund raising activities (including shareholder loans or other debt instruments) or changing or varying the share capital of any member of the Joint Venture; and

(j) initiating any proceedings, consenting to, filing any petition, or entering into any arrangement in connection with the winding-up, bankruptcy filing or liquidation (except where any such action has ceased), or cessation of business or de-registration or analogous proceedings of any major member of the Joint Venture.

Non-compete

Each of the Company and Tesco undertakes that it will not and will procure that none of its Affiliates primarily engage in the operations of hypermarkets, supermarkets, convenience stores, cash and carry business and liquor stores (as well as the online/internet equivalent of any of the foregoing businesses) in Greater China other than through the Joint Venture, but each of the Company and Tesco is permitted to own purely for financial investment purposes securities in any undertaking that do not exceed 5% in the nominal value of its total securities in issue (provided that prior to the making of such investment the other party is informed of such investment).

Such non-compete undertaking is valid during the period in which the Company and Tesco (or any of their respective Affiliates) having any interest in the Joint Venture, and within one year after it (or any of its Affiliates) ceases to have any interest in the Joint Venture.

Dividend policy

It is proposed that, with effect from the financial year 2017, certain amount of the consolidated net profit of the Joint Venture will be distributed to its shareholders as dividends.

Financing

The Joint Venture shall be self-financing. In the event that its financial resources are insufficient to satisfy the working capital requirements, the shareholders shall, save as otherwise agreed, firstly endeavour to procure loans and overdraft facilities from third party banks or financial institutions. If such loans and overdraft facilities are not readily available, the board of Gain Land shall discuss in good faith a proposal to obtain financing from the shareholders.

Default Put Right/Default Call Right

Ondereel has the right to acquire for all the Subscriber's shares in Gain Land (the "**Default Call Right**") if: (a) there is a material breach of certain key terms (as referred to below) by the Subscriber or Tesco; or (b) there is a wilful, malicious and material failure by Tesco or its Affiliates to share Know-How under the IP Agreement; or (c) there is an insolvency event of Tesco or the Subscriber.

The Subscriber has the right to sell all of its shares in Gain Land to Ondereel (the "**Default Put Right**") if: (a) there is a material breach of certain key terms by the Company, Ondereel or Gain Land; or (b) the Company ceases to be listed on the Stock Exchange; or (c) there is an insolvency event of the Company or Ondereel; or (d) a competitor of Tesco acquires control (meaning the power, directly or indirectly, to exercise over 50% of all of voting rights, in or in relation to the Company; or to appoint and remove a majority of the members of the governing body of the Company) of the Company ("**Ondereel Default**").

For the purpose of both the Default Call Right and the Default Put Right, the 'key terms' of the Gain Land Shareholders' Agreement are the provisions therein in respect of (i) share transfers; and (ii) the non-compete provisions outlined above. For the purpose of the Default Put Right only, additional key terms of the Gain Land Shareholders' Agreement are the provisions relating to the appointment and removal of directors nominated by the Subscriber, issue of new securities and certain reserved matters.

The Default Put Right is granted to the Subscriber at no cost to the Subscriber and the Default Call Right is granted to Ondereel at no cost to Ondereel. The consideration for any of the Subscriber's shares acquired pursuant to the Default Put Right or the Default Call Right shall be equal to the fair market value at the relevant time of exercise, which is to be determined by an independent expert. The independent expert shall be agreed between Ondereel and the Subscriber. If they cannot agree on this issue within a prescribed period, the independent expert shall be designated by the Hong Kong Institute of Certified Public Accountants or such other qualified body as is reasonably acceptable to Ondereel and the Subscriber.

Right to instigate Listing and Grant of IPO Call Right

The Subscriber shall have a one-time right to instigate a Listing of the Joint Venture at any time after the seventh anniversary of Completion.

If the Subscriber exercises this right, the Company has a right to acquire all of the Subscribers' shares in Gain Land, at the then fair market value which is to be determined by an independent expert, such right being exercisable within three months of the notice of instigation of the Listing (the "**IPO Call Right**"). The independent expert shall be agreed between Ondereel and the Subscriber. If they cannot agree on this issue within a prescribed period, the independent expert shall be designated by the Hong Kong Institute of Certified Public Accountants or such other qualified body as is reasonably acceptable to Ondereel and the Subscriber. If the Company does not exercise the IPO Call Right, then the Joint Venture will proceed with the Listing process, which needs to be completed within 18 months of the lapse of the IPO Call Right. The IPO Call Right is granted to the Company at no cost to the Company.

Lapse of rights

In the event that the Subscriber's shareholder drops below the Qualifying Shareholding, the reserved matters as set out in the paragraph headed "Reserved Matters" above will no longer be applicable, except for items (h) and (i) (to the extent that the issue of shares is on a non-preemptive basis and is detrimental to the Subscriber and/or its Affiliates), and the Subscriber will only be provided with annual and interim financial information relating to the Joint Venture.

(III) The IP Agreement

Grant of IP rights

Simultaneously with Completion, Tesco and Gain Land will enter into the IP Agreement, pursuant to which Tesco, as licensor agrees to license and make available certain of its intellectual property assets, to Gain Land for the operation of the combined business of the Joint Venture in Greater China. The IP and Know-How owned by Tesco and to be granted to the Gain Land Group under the IP Agreement shall be beneficial to the combined business operations of the Joint Venture after Completion.

Under and subject to the terms of the IP Agreement, Tesco shall grant, or shall procure the grant by its group companies, to Gain Land with effect from Completion:

(a) a non-exclusive royalty-free perpetual licence to use Tesco Intellectual Property within the Gain Land Group;

(b) a non-exclusive royalty-free licence to continue to use the Tesco Brand, for a period of 24 months from Completion, within the Gain Land Group; and

(c) a non-exclusive royalty-free licence to use the Tesco Brand for private label products within the Gain Land Group as approved by Tesco on a product-by-product basis,

in each case for the operation of the retail business of Gain Land in Greater China and in the same manner as used by the Target Group in the 18 months prior to Completion.

Licensing of further IP

Tesco shall, from time to time, provide the Joint Task Force with details of certain Tesco-owned IP assets not within the scope of the licences granted to Gain Land, if such IP would be beneficial to the combined business of the Joint Venture. Gain Land shall have the option to acquire a licence of that IP. For New IP, Gain Land will need to contribute towards the development costs (based upon an apportionment of the Gain Land Group turnover relative to the sum of the same plus the consolidated turnover of the members of the Tesco group also using the New IP). For Existing IP, Gain Land will not be required to contribute towards the development costs. For both New IP and Existing IP, Gain Land will also be required to pay all reasonable costs associated with the localisation and deployment of those IP assets.

For the purpose of identifying of any Existing IP and/or New IP that could be beneficial to the Joint Venture, the Joint Venture is dependent upon the knowledge and experience of Tesco. Upon reasonable written notice, Tesco shall disclose to the Joint Venture all relevant information regarding Existing IP and New IP on a "open book" basis.

As soon as practicable after Completion, the Joint Task Force shall meet for initial high level discussions in respect of (a) IT and systems, (b) online retailing, (c) sourcing, distribution, purchase and supply chain, (d) private label, (e) logistics, (f) loyalty card, personalization and clubcard, (g) digital entertainment and (h) green energy-saving technology.

Moreover, Tesco may provide the Joint Venture's personnel with access to the Tesco's personnel at Tesco's premises for the purpose of facilitating the sharing of Know-how and IP.

As at the Latest Practicable Date, Tesco and the Joint Venture have not agreed upon on what IP is to be provided to the Joint Venture. It is expected that the parties could only determine what would be appropriate in this regard during or after the integration process of the two businesses (which is expected to take place soon after Completion).

Termination

The IP Agreement shall, remain in force until terminated by either party thereto. Gain Land may terminate the IP agreement on six months' written notice. Tesco may terminate the IP Agreement, with immediate effect, by written notice to Gain Land if (i) the Subscriber ceases to hold a Qualifying Shareholding (ii) the Gain Land Shareholders' Agreement is terminated in accordance with its terms; or (iii) an Ondereel Default has occurred under the terms of the Gain Land Shareholders' Agreement. Either party may terminate for material unremedied breach.

FINANCIAL EFFECT OF THE INJECTION AND THE SUBSCRIPTION

Based on the latest financial information available to the Company, it is estimated that no gain or loss will be recognised in the consolidated profit and loss account of the Company as a result of the Subscription (as a deemed disposal for the Company under Rules 14.29 of the Listing Rules).

The unaudited pro forma financial information of the Enlarged Group illustrating the financial impact of the Injection and the Subscription on the assets and liabilities of the Group is set out in Appendix III to this circular. As shown in the appendix, assuming that completion of the Injection and the Subscription had taken place on 30 June 2013, the total assets of the Group would have been increased from HK$137,270 million to approximately HK$166,244 million, the total liabilities of the Group would have been increased from approximately HK$82,486 million to approximately HK$95,867 million.

Notwithstanding that the Target Group suffered net losses in recent years, the management expects the operating performance of the Target Group will benefit from the synergies effected through the integration with the Group's existing business, and the scale of the business of the Enlarged Group. In addition, the strong financial position of the Group is sufficient to support the Target Group's operation.

INFORMATION ON GAIN LAND AND THE RETAIL BUSINESS

The Company is principally engaged in retail, food, beer and beverages businesses.

Gain Land was incorporated in the BVI with limited liability on 30 August 2012. As at the Latest Practicable Date, the entire issued share capital of Gain Land is legally and beneficially held by Ondereel. The Gain Land Group (inclusive of CRV (PRC)) is principally engaged in the Retail Business.

The unaudited consolidated turnover and net profit before and after tax of the Gain Land Group for the full year of the financial year ended 31 December 2012 are shown below:

	HK$ million (unaudited)
Total Turnover	79,691
Net Profit Before Tax	976
Net Profit After Tax	286

As at 30 June 2013, the unaudited consolidated total assets of the Gain Land Group is HK$54,769 million, and the unaudited consolidated net assets attributable to owners of the Gain Land Group is HK$4,770 million. After Completion, each of Gain Land and its subsidiaries will remain a subsidiary of the Company and their results will continue to be consolidated into the Group's consolidated financial statements.

Brief description of the Retail Business

The Retail Business is mainly operated under the brand names of "CR Vanguard" and "Suguo". It is a grocery retail business in the entire Greater China region. As at 31 December 2013, Gain Land had 3,173 stores in operation across the PRC and Hong Kong.

INFORMATION ON THE CONTRIBUTED BUSINESS OPERATIONS AND THE TARGET GROUP

The Contributed Business Operations comprise a retail business and a real properties business in the PRC.

The Target Group comprises 134 stores in 11 provinces, with particular emphasis in the fast growing Shanghai, Tianjin and Liaoning provinces. It owns 11 Lifespace shopping malls, and eight malls through 50:50 joint ventures (i.e. Real Estate JVs). 11 Lifespace malls are currently operational (of which four are wholly owned) with the remaining eight malls under development. Once the malls are completed, a portion of the malls held by the Real Estate JVs or the Target Group are leased to the members of the Target Group which are engaged in retail operations, with a view to creating synergies between the property business and the retail business of the Target Group.

Each of the Tesco RE JV Interests are held solely for the purposes of holding, directly or indirectly, the real estate developments listed below, each of which is situated in the PRC. The Real Estate JVs do not hold any other assets of material value. The Real Estate JVs are subject to the governance of the relevant board of directors (each of which has 50% of its directors elected by Tesco and 50% of its directors elected by the relevant joint venture partner). Day-to-day commercial management of the projects is delegated as outlined below.

Name of Real Estate JV	Development	Current Status
Anshan (BVI) Ltd	The Lifespace shopping mall and mixed use apartment complex situated at the junction of Nanjianguo Road and Dongminsheng Road, Anshan City, Liaoning Province	Project construction complete. Shopping mall open and operational since October 2010 (managed by Tesco Affiliate).
Fushun (BVI) Ltd	The Lifespace shopping mall and mixed use apartment complex situated at the junction of Xinhua Street and Linjiang Road, Shuncheng District, Fushun City, Liaoning Province	Project construction complete. Shopping mall open and operational since January 2010 (managed by Tesco Affiliate).
Qinhuangdao (BVI) Ltd	The Lifespace shopping mall situated at the junction of Hebei Avenue and Wenhua Road, Haigang District, Qinhuangdao City, Hebei Province	Project construction complete. Shopping mall open and operational since January 2010 (managed by Tesco Affiliate).
Qixing (BVI) Co. Limited	The Lifespace shopping mall situated at Qixing Road, Siming District, Xiamen City, Fujian Province	Project construction complete. Shopping mall open and operational since December 2011 (managed by Tesco Affiliate).
Pushang (BVI) Co. Ltd	The Lifespace shopping mall situated on Pushang Avenue, Cangshan District, Fuzhou City, Fujian Province	Project construction complete. Shopping mall open and operational since April 2011 (managed by Tesco Affiliate).
Shenyang (BVI) Co. Ltd	The Lifespace shopping mall situated on the west of Beihai Street, Dadong District, Shenyang City, Liaoning Province	Project construction complete. Shopping mall open and operational since August 2013 (managed by Tesco Affiliate).

Name of Real Estate JV	Development	Current Status
Tesco Nanjing Zhongshan (HK) Co. Ltd	The property situated at Yanliaofang, Zhongshan NanLu, Qinhuai District, Nanjing, Jiangsu Province	Project to plan, design and construct a shopping mall currently under construction and development (managed by Affiliate of Good First International Holding Limited, the Real Estate Partner). Construction is expected to be completed and the mall open and operational between 2017 and 2018.
Tesco (Fujian) Industry Ltd	The Lifespace shopping mall and residential apartment complex situated on lot 4 and lot 5 of the Wuyuanwan development at the junction of the Northern side of Jinhu Road and the eastern side of Yunding Bei Lu, Wuyuanwan Sub-District, Huli District, Xiamen City, Fujian Province	Shopping mall construction complete, open and operational since December 2012 (managed by Tesco Affiliate). The residential apartment complex is under development (managed by Affiliate of Good First International Holding Limited, the Real Estate Partner). Construction is expected to be completed between 2015 and 2016.

The Target was established in the Cayman Islands with limited liability on 3 March 1998. As at the Latest Practicable Date, the entire issued share capital of the Target is legally and beneficially held by the Subscriber.

The consolidated audited net loss before and after tax of the Target Group for each of the financial years ended 28 February 2013 and 29 February 2012 and the six months ended 25 August 2013 is shown below:

	For the six months ended 25 August 2013	**For the financial year ended 28 February 2013**	**For the financial year ended 29 February 2012**
	RMB million (audited)	*RMB million* (audited)	*RMB million* (audited)
Net Profit Before Tax	(737)	(2,229)	(1,191)
Net Profit After Tax	(778)	(2,397)	(1,424)

As at 25 August 2013, the audited consolidated total assets of the Target Group is RMB19,988 million, and the audited consolidated net assets of the Target Group is RMB7,523 million.

Detail financial information of the Target Group is disclosed in Appendix II-A and Appendix II-B.

Upon Completion, each of the Target and its subsidiaries will become an indirect wholly-owned subsidiary of the Company and its results will be consolidated into the Group's consolidated financial statements. As the Target is holding (or after Completion, the Joint Venture is regarded as holding) only 50% of the equity interest of the Real Estate JVs, these Real Estate JVs will not be regarded as subsidiaries of the Target (or after Completion, the Joint Venture). Such accounting treatment may change if there is any change in the percentage equity interests in the Real Estate JVs regarded to be held by the Joint Venture.

INFORMATION ON TESCO

Tesco is a public limited company whose shares are listed on the Main Market of the London Stock Exchange. Tesco is the UK's largest retailer and one of the world's leading international retailers. The Tesco Group had sales of £72.4 billion generating pre-tax trading profit of £3.5 billion in the year to February 2013. As at February 2013, Tesco had 6,784 stores, employing over 530,000 people in 12 countries. This includes 3,146 stores in the UK, 1,507 stores in other European markets (Czech Republic, Hungary, Ireland, Poland, Slovakia and Turkey) and 2,131 stores in Asia (China, Malaysia, South Korea and Thailand). Tesco is a multiformat, multichannel business operating hypermarkets, superstores, supermarkets, convenience stores and online home delivery services.

REASONS AND BENEFITS FOR THE JOINT VENTURE FORMATION

The Joint Venture will be the exclusive platform for the Company (and its subsidiaries) and Tesco (and its Affiliates) primarily to engage in the business of multi-category retailing through hypermarkets, supermarkets, convenience stores, cash and carry business and liquor stores (as well as the online/internet equivalent of any of the foregoing businesses) in Greater China.

The Company has strong market knowledge, supplier connections, established infrastructure, scale and brand as well as an excellent track record of successful joint ventures with respected international businesses in Greater China. Tesco is an experienced, international, multi- channel retailer with unique expertise and operational excellence in areas such as private label, loyalty programmes, IT, and e-commerce and other value added services, amongst others.

The Board considers that the Joint Venture is a value-creating opportunity to form a strong partnership with Tesco which: (a) will be the leading multi-format retailer in Greater China; (b) creates a sustainable, long-term platform in Greater China for faster growth and enhanced profitability; (c) is a compelling combination of local expertise and international best practices; (d) is ideally placed to lead the development of the retail sector in Greater China and to improve retail services for consumers in Greater China; and (e) is able to secure significant cost and operation synergies from combining two operations.

The Board (including the independent non-executive Directors), considers the Transaction Documents to have been negotiated and arrived at an arm's length basis and on terms that are fair and reasonable and in the interests of the Shareholders as a whole. None of the Directors has any material interest in the Joint Venture Formation.

LISTING RULES IMPLICATIONS

The Injection

As one or more of the relevant percentage ratios for the Injection (i.e. acquisition of the Contributed Business Operations by the Gain Land Group) under Rule 14.07 of the Listing Rules exceeds 25% but is below 100%, the Injection constitutes a major transaction (acquisition) of the Company subject to the notification, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

The Subscription

As one or more of the relevant percentage ratios for the Subscription (i.e. deemed disposal of 20% interest in the Retail Business by the Gain Land Group) under Rule 14.07 of the Listing Rules exceeds 25% but is below 75%, the Subscription constitutes a major transaction (disposal) of the Company subject to the notification, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

The Step-up Option

Under Rule 14.74(1) of the Listing Rules, as the discretion to exercise belongs solely to the Subscriber, the Step-up Option is being classified as if it had been fully exercised at the time of grant. Although the actual exercise price is not determinable at the time of grant, pursuant to Rule 14.76(1) of the Listing Rules, the Step-up Option (grant and exercise) is being treated as a major transaction (disposal) of the Company subject to the notification, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

Moreover, when aggregated with the Subscription under Rule 14.22, the grant and exercise of the Step-up Option could be regarded as the Company disposing of a 25% interest in the Retail Business. As one or more of the relevant percentage ratios applicable to the Step-up Option (as aggregated with the Subscription) under Rule 14.07 of the Listing Rules exceeds 25% but is below 75%, the grant of the Step-up Option (as aggregated with the Subscription) constitutes a major transaction (disposal) of the Company subject to the notification, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

The Default Put Right

Under Rule 14.74(1) of the Listing Rules, as the discretion to exercise belongs solely to the Subscriber, the Default Put Right is also being classified as if it had been fully exercised at the time of the grant. Although the actual exercise price is not determinable at the time of grant, pursuant to Rule 14.76(1) of the Listing Rules, the Default Put Right (grant and exercise) is being treated as a major transaction (acquisition) of the Company subject to the notification, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

The Default Call Right

Under Rule 14.75(1) of the Listing Rules, as the discretion to exercise belongs solely to the Company and the Default Call Right is granted to the Company at no cost to the Company, the grant of the Default Call Right is exempt from the announcement and shareholders' approval requirements of Chapter 14 of the Listing Rules.

Ordinarily, exercise of such a call right would be subject to the relevant provisions of Chapter 14 and Chapter 14A of the Listing Rules at that time, based upon relevant percentage ratios determined at that time. However, the Company had applied to and received a waiver from the Stock Exchange that would enable the Company to seek prior shareholders' approval for the exercise of the Default Call Right simultaneously with other transactions relating to the Joint Venture Formation, on the basis of treating it as a major transaction (acquisition) of the Company and on the grounds that:

(a) the Default Call Right should enable the Company to exit from the Joint Venture immediately (i.e. without allowing any further time to go through the compliance procedures under the Listing Rules before formally terminating the Joint Venture) in case (i) Tesco willfully and maliciously fails to fulfil its obligations under the IP Agreement, or (ii) Tesco or the Subscriber becomes insolvent; and

(b) the Company's position with respect to the Default Call Right is only on equal footing with Tesco's position with respect to the Default Put Right if such waiver is granted.

The Company would issue an announcement in order to update the Shareholders of the exercise or non-exercise of the Default Call Right in case that the relevant triggering events of the Default Call Right arise.

Potential Notifiable and Connected Transaction – The IPO Call Right

Under Rule 14.75(1) of the Listing Rules, as the discretion to exercise belongs solely to the Group and the IPO Call Right is granted to the Company at no cost to the Company, the grant of IPO Call Right is exempt from the notification, announcement and shareholders' approval requirements of Chapter 14 of the Listing Rules.

At the time of the exercise of the IPO Call Right, the exercise price (to be further determined at the time of the exercise) and the value, profits and revenue of the Joint Venture at that time will be applied for calculation of the relevant percentage ratios. Moreover, as the Subscriber will be interested in 20% (or 25%, if the Subscriber exercises the Step-up Option has not disposed of any of its interest in the Joint Venture prior to such exercise) of the issued share capital of Gain Land, each of the Subscriber and Tesco will become a connected person of the Company under Chapter 14A of the Listing Rules.

Exercise of the IPO Call Right may be regarded as a non-exempt connected transaction of the Company governed by Chapter 14A of the Listing Rules. The Company will comply with the requirements under Chapters 14 and/or 14A of the Listing Rules on the exercise of the IPO Call Right, as and when appropriate.

Potential Non-exempt Continuing Connected Transaction – The IP Agreement

As Tesco will become a substantial shareholder of Gain Land (thus being a connected person of the Company) after Completion, the IP Agreement may constitute a non-exempt continuing connected transaction and may be subject to the reporting, announcement and/or independent Shareholders' approval requirements under Chapter 14A of the Listing Rules if any applicable percentage ratio (other than the profits ratio) calculated based on the annual transaction amount under the IP Agreement exceeds 1%, and if this is the case, the de minimis exception under Rule 14A.33(3) will no longer be applicable. To the best knowledge and information of the Directors, the size test for the transaction amounts under the IP Agreement is expected to be, for the time being, under the de minimis threshold of 1%, and the de minimis exception under Rule 14A.33(3) is applicable to the IP Agreement. The Company will closely monitor the actual and estimated annual transaction amounts under the IP Agreement, and if necessary will comply with the relevant requirements as set out in Chapter 14A of the Listing Rules.

Written Shareholders' Approval

Under Rule 14.44 of the Listing Rules, Shareholders' approval for each of the Injection, the Subscription, the Step-up Option, the Default Put Right and the Default Call Right may be obtained by way of written Shareholders' approval in lieu of holding a general meeting if (a) no Shareholder is required to abstain from voting if the Company were to convene a general meeting to obtain such Shareholders' approval; and (b) written Shareholders' approval has been obtained from a Shareholder or a closely allied group of Shareholders who together hold more than 50% in nominal value of the issued share capital of the Company giving the right to attend and vote at that general meeting to approve such transactions.

The Directors confirm that, to the best of their knowledge, information and belief after having made all reasonable enquiries, the counterparties to the Transaction Documents (namely the Subscriber and/or Tesco and their respective Affiliates) are Independent Third Parties and therefore no Shareholder would be required to abstain from voting were the Company to convene a general meeting. CRH (Enterprise) Limited, the controlling Shareholder which held 1,232,764,380 Shares, representing approximately 51.31% of the issued share capital of the Company, had approved each of the Subscription, the Injection, the Step-up Option, the Default Put Right and the Default Call Right in accordance with Rule 14.44.

Accordingly, the written Shareholders' approval from CRH (Enterprise) Limited will therefore be relied on in lieu of holding a general meeting for approving the Subscription, the Injection, the Step-up Option, the Default Put Right and the Default Call Right.

FURTHER INFORMATION

Your attention to also drawn to the additional information set out in the appendices to this circular.

By Order of the Board
China Resources Enterprise, Limited
Lai Ni Hium, Frank
Chief Financial Officer,
Executive Director and Company Secretary

1. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for each of the three years ended 31 December 2010, 2011 and 2012 are disclosed in the following documents which have been published on the websites of the Hong Kong Stock Exchange (www.hkexnews.hk) and the Company (www.cre.com.hk):

- the Company's annual report for the year ended 31 December 2010 published on 20 April 2011 (pages 107 to 186);
- the Company's annual report for the year ended 31 December 2011 published on 20 April 2012 (pages 99 to 174); and
- the Company's annual report for the year ended 31 December 2012 published on 22 April 2013 (pages 113 to 187).

2. INDEBTEDNESS STATEMENT

Borrowings

As at the close of business on 31 December 2013, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group had outstanding total borrowings of approximately HK$28,382 million comprising bank loans of approximately HK$26,876 million, outstanding borrowings due from the Target Group to Tesco group of approximately HK$1,452 million, and outstanding borrowings due to a third party of approximately HK$54 million.

Included in the Enlarged Group's total bank loans of approximately HK$26,876 million, an amount of approximately HK$748 million in aggregate is secured by certain properties (including investment properties, construction in progress, land and buildings and related properties), an amount of approximately HK$127 million in aggregate is guaranteed by third parties, and an amount of approximately HK$38 million is secured by properties and guaranteed by a third party.

Contingent liabilities

There are a number of contingent liabilities that arise in the normal course of business which if realized are not expected to result in a material liability to the Enlarged Group. The Enlarged Group recognizes provisions for liabilities when it is more likely than not that a settlement will be required and the value of such a payment can be reliably estimated.

Disclaimer

Save as aforesaid and apart from intra-group liabilities, the Enlarged Group did not have any debt securities, any other outstanding loan capital, any other borrowings or indebtedness in the nature of borrowings including bank overdrafts and liabilities under acceptance (other than normal trade bills and payables) or other similar indebtedness, debentures, mortgages, charges, loans, acceptance credits, hire purchase commitments, guarantees or other material contingent liabilities at the close of business on 31 December 2013.

For the purpose of the above statement of indebtedness, foreign currency amounts have been translated into Hong Kong dollars at the rates of exchange prevailing at the close of business on 31 December 2013.

3. WORKING CAPITAL

The Directors are of the opinion that, taking into account of the Enlarged Group's available financial resources including internally generated cash flows, credit facilities and cash on hand, the Enlarged Group has sufficient working capital for its present requirements, that is for at least 12 months from the date of this circular.

4. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The Company is committed to developing its core businesses – retail, beer, food and beverage – with the mission of becoming the largest consumer goods company in the PRC.

Through the fluctuation of the PRC economy in past several years, the Company sustained steady expansion of its businesses, through both mergers and acquisitions and organic expansion, and focused on strengthening the Company's core competitiveness, which enables the Company to maintain its leading position and deliver long-term sustainable profitability.

In 2013, the Company announced that it will form the Joint Venture to accelerate expansion of the retail business in Greater China. The Joint Venture will combine the strength of both Tesco and the Company to capture the opportunities that exist in this fast growing industry. Other than that, a subsidiary of the Company also successfully acquired the brewery business and assets (for production, distribution and sales of beer principally located in the PRC) from Kingway Brewery Holdings Limited in the beer business at a cash consideration of RMB5,384.2 million. The acquired business and assets are being integrated with the beer operations of the Company, which will place the Company in a better position to capture any further growth in the PRC beer market. The transaction was completed on 17 September 2013, and there is no material variation to the aggregate remuneration payable to and benefits in kind receivable by the directors of the acquiring company in consequence of the acquisition from Kingway Brewery Holdings Limited. These acquisitions can assist the Company's business in a better position to solidify the Company's leading position and accelerate the growth engine in the relevant industries. On top of these expansions, more importantly, the Company is ready to seize the tremendous market opportunities when the economy rebounds.

In 2014, the Company will adhere to its commitment to market share development for each of its consumer goods businesses while leveraging its economies of scale to enhance operational efficiency and generate higher value over the longer term. The Company will continue to observe the economic environment as it pursues sustainable growth with disciplined management of costs and risks, and will keep a firm grip on liquidity and financial efficiency.

5. MATERIAL ADVERSE CHANGE

The Directors confirmed that, as at the Latest Practicable Date, they are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2012, being the date to which the latest published audited consolidated financial statements of the Company were made up.

The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

羅兵咸永道

25 February 2014

The Directors
China Resources Enterprise, Limited

Dear Sirs,

We report on the financial information of Ting Cao (C.I.) Holding Corp. and its subsidiaries, principally engaged in the retail business in Chinese Mainland as set out in Note 29 of section II below (together, the "**Retail Business Target Group**"), which comprises the consolidated balance sheets of the Retail Business Target Group as at 28 February 2011, 29 February 2012 and 28 February 2013 and 25 August 2013, and the consolidated profit and loss accounts, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements of the Retail Business Target Group for each of the years ended 28 February 2011, 29 February 2012 and 28 February 2013 and the six months ended 25 August 2013 (the "**Relevant Periods**") and a summary of significant accounting policies and other explanatory information (the "**Financial Information**").

This Financial Information set out in Sections I to III below has been prepared for inclusion in Appendix II-A to the circular of China Resources Enterprise, Limited (the "**Company**") dated 25 February 2014 (the "**Circular**") in connection with the proposed formation of joint venture with Tesco PLC.

The Retail Business Target Group have adopted 28 or 29 February as their financial year end date.

The audited financial statements of the companies comprising the Retail Business Target Group, for which there are statutory audit requirements have been prepared in accordance with the relevant accounting principles generally accepted in their place of incorporation. The details of the statutory auditors of these companies are set out in Note 29 of section II.

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

The directors of the Ting Cao (C.I.) Holding Corp. are responsible for the preparation of the consolidated financial statements of the Retail Business Target and its subsidiaries for the Relevant Periods that are fairly presented in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board (the "**Underlying Financial Statements**"), and for such internal control as the directors determine is necessary to enable the preparation of the Underlying Financial Statements that are free from material misstatement, whether due to fraud or error. PricewaterhouseCoopers Zhong Tian LLP, a certified public accountant registered in People's Republic of China has audited the Underlying Financial Statements in accordance with International Standards on Auditing (the "**ISAs**") issued by the International Auditing and Assurance Standards Board ("**IAASB**") pursuant to separate terms of engagement.

The Financial Information has been prepared based on the Underlying Financial Statements, after making such adjustments as are appropriate.

Directors' Responsibility for the Financial Information

The directors of the Company are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and accounting policies adopted by the Company and its subsidiaries (together, the "**Group**") as set out in the interim report of the Company for the period ended 30 June 2013.

Reporting Accountant's Responsibility

Our responsibility is to express an opinion on the Financial Information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

Opinion

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Retail Business Target Group as at 28 February 2011, 29 February 2012 and 28 February 2013 and 25 August 2013 and of the Retail Business Target Group's results and cash flows for the Relevant Periods then ended.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information set out in Sections I to II below included in Appendix II-A to the Circular which comprises the consolidated profit and loss account, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement of the Retail Business Target Group for the six months ended 26 August 2012 and a summary of significant accounting policies and other explanatory information (the "**Stub Period Comparative Financial Information**").

The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the accounting policies set out in Note 4 of Section II below and the accounting policies adopted by the Group as set out in the interim report of the Company for the period ended 30 June 2013.

Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review of Stub Period Comparative Financial Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purpose of this report, is not prepared, in all material respects, in accordance with the accounting policies set out in Note 4 of Section II below.

I FINANCIAL INFORMATION OF THE RETAIL BUSINESS TARGET GROUP

The following is the Financial Information of the Retail Business Target Group prepared by the directors of the Company as at 28 February 2011, 29 February 2012 and 28 February 2013 and 25 August 2013 and for each of the years ended 28 February 2011, 29 February 2012 and 28 February 2013 and the six months ended 26 August 2012 and 25 August 2013.

CONSOLIDATED PROFIT AND LOSS ACCOUNTS

		Year ended			Six months ended	
	Notes	28 February 2011 RMB'000	29 February 2012 RMB'000	28 February 2013 RMB'000	26 August 2012 RMB'000 (unaudited)	25 August 2013 RMB'000
Turnover	8	12,277,441	14,226,419	15,164,120	6,976,893	7,092,442
Cost of sales		(8,863,472)	(10,121,412)	(10,878,331)	(5,019,914)	(5,093,476)
Gross profit		3,413,969	4,105,007	4,285,789	1,956,979	1,998,966
Selling and distribution expenses		(3,277,721)	(4,140,454)	(4,939,659)	(2,395,073)	(2,274,510)
General and administrative expenses		(705,657)	(656,723)	(566,985)	(355,914)	(322,925)
Losses arising on property-related items		(12,365)	(44,382)	(285,193)	(5,952)	(32,119)
Operating loss		(581,774)	(736,552)	(1,506,048)	(799,960)	(630,588)
Finance income	9	17,361	11,741	9,766	12,174	40,176
Finance costs	9	(86,520)	(171,953)	(139,964)	(88,587)	(57,929)
Loss before taxation		(650,933)	(896,764)	(1,636,246)	(876,373)	(648,341)
Taxation	14	(69,994)	(229,533)	(157,098)	(73,016)	(40,798)
Loss attributable to owner of the Retail Business Target	10	(720,927)	(1,126,297)	(1,793,344)	(949,389)	(689,139)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended			Six months ended	
	28 February 2011	29 February 2012	28 February 2013	26 August 2012	25 August 2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Loss for the year/period	(720,927)	(1,126,297)	(1,793,344)	(949,389)	(689,139)
Other comprehensive income					
Currency translation difference	6,601	–	–	–	–
Total comprehensive loss for the year/period attributable to owner of the Retail Business Target	(714,326)	(1,126,297)	(1,793,344)	(949,389)	(689,139)

CONSOLIDATED BALANCE SHEETS

	Notes	As at 28 February 2011 RMB'000	29 February 2012 RMB'000	28 February 2013 RMB'000	25 August 2013 RMB'000
Non-current assets					
Fixed assets	15	3,837,311	4,520,175	4,872,393	4,966,822
Deferred taxation assets	16	199,523	165,792	143,804	160,399
		4,036,834	4,685,967	5,016,197	5,127,221
Current assets					
Stocks	17	1,151,611	1,408,683	1,651,830	1,574,829
Trade and other receivables	18	1,319,213	1,287,444	1,972,279	2,290,356
Cash and bank balances		988,876	871,735	981,833	657,586
		3,459,700	3,567,862	4,605,942	4,522,771
Current liabilities					
Trade and other payables	19	(6,293,571)	(6,768,560)	(7,861,879)	(6,512,653)
Short term loans	20	(745,240)	(1,655,511)	(718,482)	(1,802,909)
Taxation payable		(71,515)	(79,239)	(96,302)	(44,937)
		(7,110,326)	(8,503,310)	(8,676,663)	(8,360,499)
Net current liabilities		(3,650,626)	(4,935,448)	(4,070,721)	(3,837,728)
Total assets less current liabilities		386,208	(249,481)	945,476	1,289,493
Non-current liabilities					
Trade and other payables	19	(501,660)	(605,448)	(704,142)	(765,579)
Long term loans	20	(700,000)	(875,000)	(725,000)	(725,000)
		(1,201,660)	(1,480,448)	(1,429,142)	(1,490,579)
Net liabilities		(815,452)	(1,729,929)	(483,666)	(201,086)
Capital and reserves					
Share capital	21	410,300	410,300	410,300	410,300
Share premium	21	810,482	1,026,685	4,076,395	5,052,395
Other reserves		95,669	91,286	81,183	88,582
Accumulated losses		(2,131,903)	(3,258,200)	(5,051,544)	(5,752,363)
Total deficit in equity attributable to owner of the Retail Business Target		(815,452)	(1,729,929)	(483,666)	(201,086)

CONSOLIDATED CASH FLOW STATEMENTS

	Note	Year ended 28 February 2011 RMB'000	Year ended 29 February 2012 RMB'000	Year ended 28 February 2013 RMB'000	Six months ended 26 August 2012 RMB'000 (unaudited)	Six months ended 25 August 2013 RMB'000
Cash flows from operating activities						
Cash generated from/(used in) operations	23	671,118	(206,070)	362,835	(814,416)	(1,343,187)
Income tax paid		(98,104)	(188,078)	(118,047)	(77,155)	(120,438)
Interest paid		(92,540)	(109,640)	(179,812)	(114,591)	(46,347)
Net cash generated from/(used in) operating activities		480,474	(503,788)	64,976	(1,006,162)	(1,509,972)
Cash flows from investing activities						
Loan repayments received from related parties		173,939	495,146	350,242	43,242	457,040
Interest received from related parties		9,652	3,203	32,975	4,155	24,777
Proceeds from sales of property, plant and equipment		1,002	1,689	142	501	9,561
Purchases of property, plant and equipment		(1,118,998)	(1,097,388)	(1,222,529)	(469,870)	(542,426)
Loans granted to related parties		(300,000)	(265,010)	(1,120,500)	(263,000)	(814,000)
Net cash used in investing activities		(1,234,405)	(862,360)	(1,959,670)	(684,972)	(865,048)
Cash flows from financing activities						
Proceeds from issuance of ordinary shares		798,890	216,203	3,049,710	1,768,365	976,000
Proceeds from borrowings		2,792,532	5,158,583	2,645,984	1,485,000	2,532,500
Repayments of borrowings		(2,944,765)	(4,120,170)	(3,689,637)	(1,350,344)	(1,457,500)
Net cash generated from financing activities		646,657	1,254,616	2,006,057	1,903,021	2,051,000
Net (decrease)/increase in cash and cash equivalents		(107,274)	(111,532)	111,363	211,887	(324,020)
Exchange losses on cash and cash equivalents		(882)	(5,609)	(1,265)	(283)	(227)
Cash and cash equivalents at beginning of the year/period		1,097,032	988,876	871,735	871,735	981,833
Cash and cash equivalents at end of the year/period		988,876	871,735	981,833	1,083,339	657,586

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

		Attributable to owner of the Retail Business Target					
	Notes	**Share capital**	**Share premium**	**Translation reserve**	**Share-based payments**	**Accumulated losses**	**Total equity**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 28 February 2010 (unaudited)		410,300	11,592	23,334	23,346	(1,410,976)	(942,404)
Currency translation differences		–	–	6,601	–	–	6,601
Loss for the year		–	–	–	–	(720,927)	(720,927)
Total comprehensive loss for the year		–	–	6,601	–	(720,927)	(714,326)
Share-based payments	22	–	–	–	42,388	–	42,388
Issuance of shares	21	–	798,890	–	–	–	798,890
At 28 February 2011		410,300	810,482	29,935	65,734	(2,131,903)	(815,452)
At 28 February 2011		410,300	810,482	29,935	65,734	(2,131,903)	(815,452)
Loss for the year		–	–	–	–	(1,126,297)	(1,126,297)
Total comprehensive loss for the year		–	–	–	–	(1,126,297)	(1,126,297)
Share-based payments	22	–	–	–	(4,383)	–	(4,383)
Issuance of shares	21	–	216,203	–	–	–	216,203
At 29 February 2012		410,300	1,026,685	29,935	61,351	(3,258,200)	(1,729,929)
At 29 February 2012		410,300	1,026,685	29,935	61,351	(3,258,200)	(1,729,929)
Loss for the year		–	–	–	–	(1,793,344)	(1,793,344)
Total comprehensive loss for the year		–	–	–	–	(1,793,344)	(1,793,344)
Share-based payments	22	–	–	–	(10,103)	–	(10,103)
Issuance of shares	21	–	3,049,710	–	–	–	3,049,710
At 28 February 2013		410,300	4,076,395	29,935	51,248	(5,051,544)	(483,666)

	Notes	Share capital	Share premium	Translation reserve	Share-based payments	Accumulated losses	Total equity
		Attributable to owner of the Retail Business Target					
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 28 February 2013		410,300	4,076,395	29,935	51,248	(5,051,544)	(483,666)
Loss for the period		–	–	–	–	(689,139)	(689,139)
Total comprehensive loss for the period		–	–	–	–	(689,139)	(689,139)
Share-based payments	22	–	–	–	7,399	(11,680)	(4,281)
Issuance of shares	21	–	976,000	–	–	–	976,000
At 25 August 2013		410,300	5,052,395	29,935	58,647	(5,752,363)	(201,086)
(unaudited)							
At 29 February 2012		410,300	1,026,685	29,935	61,351	(3,258,200)	(1,729,929)
Loss for the period		–	–	–	–	(949,389)	(949,389)
Total comprehensive loss for the period		–	–	–	–	(949,389)	(949,389)
Share-based payments	22	–	–	–	27,479	–	27,479
Issuance of shares	21	–	1,768,365	–	–	–	1,768,365
At 26 August 2012		410,300	2,795,050	29,935	88,830	(4,207,589)	(883,474)

II NOTES TO THE FINANCIAL INFORMATION

1. GENERAL

Ting Cao (C.I.) Holding Corp. (the "Retail Business Target") is a wholly owned subsidiary of Cheshunt Holding Guernsey Limited, with the ultimate holding company of Tesco PLC, a company listed on the Main Market of the London Stock Exchange, through direct and indirect legal and beneficial ownership. The Retail Business Target Group is principally engaged in multi-category retail operations, and operates hypermarkets and convenience stores in Mainland China.

The Retail Business Target is a limited liability company, which is incorporated and domiciled in the Cayman Islands. The address of its registered office is 2nd Floor, Midtown Plaza, Elgin Avenue, George Town, Grand Cayman, KY1-1106, Cayman Islands.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Financial Information of the Retail Business Target Group has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). Save as specified in the principal accounting policies as set out in note 4, the Financial Information has been prepared under the historical cost convention.

The Retail Business Target Group suffered a net loss of RMB689,139,000 for the six months ended 25 August 2013, and reported accumulated losses of RMB5,752,363,000 as at 25 August 2013. At 25 August 2013, the Retail Business Target Group's current liabilities exceed its current assets by RMB3,837,728,000 and the owner's equity was in a deficit of RMB201,086,000. The continuation of the business of the Retail Business Target Group largely depends on continuing financial support from Tesco PLC and the Company, so as to enable the Retail Business Target Group to meet its liabilities as and when they fall due and to carry on its business without significant curtailment of operations in the foreseeable future. As Tesco PLC and the Company have agreed to provide continuing support to the Retail Business Target Group in the twelve months from the approval date of the consolidated financial statements, the management of the Company believes that the Retail Business Target Group will continue as a going concern and, consequently, have prepared the consolidated financial statements on a going concern basis.

3. ADOPTION OF NEW AND REVISED STANDARDS, AMENDMENTS AND INTERPRETATIONS

New standards, amendments and interpretation to the existing standards that effective during the Relevant Periods presented have been adopted by Retail Business Target Group consistently throughout the Relevant Periods presented unless prohibited by the relevant standard to apply retrospectively.

The following new and revised standards, amendments and interpretations that have been issued but are not yet effective.

HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities
HKAS 36 (Amendments)	Recoverable amount disclosures for non-financial assets
HKAS 39 (Amendments)	Novation of derivatives and continuation of hedge accounting
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures
HKFRS 9	Financial Instruments
HKFRS 10, HKFRS 12 and HKAS 27 (Amendments)	Investment entities
HKFRS Interpretation 21	Levies

The Retail Business Target Group has not early applied the new standard, amendments and interpretations that have been issued by the HKICPA but are not yet effective. The Retail Business Target Group has already commenced an assessment of the impact of these new standards, amendments and interpretations but is not yet in a position to determine whether these new standards, amendments and interpretations would have a material impact on its results of operations and financial position.

4. PRINCIPAL ACCOUNTING POLICIES

(a) Consolidation

The consolidated financial statements of the Retail Business Target Group include the financial statements of the Retail Business Target and of all its direct and indirect subsidiaries. The results of subsidiaries acquired or disposed of during the year are included from the effective date of acquisition or up to the effective date of disposal, as appropriate. All material intra-group transactions and balances have been eliminated on consolidation.

Prior to 1 January 2010, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. For decreases in interests in subsidiaries, regardless of whether the disposals would result in the Retail Business Target Group losing control over the subsidiaries, the difference between the consideration received and the carrying amount of the share of net assets disposed of was recognized in the consolidated profit and loss account. From 1 January 2010 onward, changes in the Retail Business Target Group's ownership interests in existing subsidiaries that do not involve a loss of control are accounted for as equity transactions, with no impact on goodwill or profit or loss. When control of subsidiary is lost as a result of a transaction, event or other circumstance, the Retail Business Target Group derecognises all assets, liabilities and non-controlling interests at their carrying amount. Any retained interest in the former subsidiary is recognised at its fair value at the date the control is lost, with the gain or loss arising recognised in the consolidated profit and loss account.

(b) Subsidiaries

A subsidiary is an entity (including a structured entity) over which the Retail Business Target Group has control. The Retail Business Target Group controls an entity when the Retail Business Target Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Retail Business Target Group. They are deconsolidated from the date that control ceases.

(c) Financial assets and liabilities

The Retail Business Target Group's financial assets are classified as "loans and receivables". Financial liabilities are classified as "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". Details of classifications and measurements are as follows:

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market which are initially measured at fair value. At each balance sheet date subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses.

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Objective evidence of impairment includes significant financial difficulty of the debtors, the Retail Business Target Group's past experience of collecting payments, and observable changes in national of local economic conditions that correlate with default on receivables.

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(b) ***Other financial liabilities***

Other financial liabilities are initially measured at fair value and subsequently measured at amortised cost, using the effective interest method.

(c) ***Derecognition***

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Retail Business Target Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in the profit and loss account.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the profit and loss account.

(d) Fixed assets

(a) ***Other property, plant and equipment***

Fixed assets other than construction in progress are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation of other fixed assets is provided to write off the cost of the assets over their estimated useful lives and after taking into account their estimated residual values, using the straight line method. The residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date. The estimated useful lives are as follows:

– Interests in leasehold land held for own use under operating leases are amortised on a straight-line basis over the period of the lease term

– Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being 20 to 40 years

–	Plant and machinery, furniture and equipment	5 to 25 years
–	Motor vehicles	5 to 6 years
–	Leasehold improvements	3 to 10 years or over the unexpired term of lease, whichever is shorter

(b) Impairment of fixed assets

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the assets is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

Where an impairment loss subsequently reverses, the carrying amount of the assets is increased to the revised estimate of its recoverable amount. Such reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the profit and loss account in the year in which the reversals are recognised.

The gain or loss on the disposal or retirement of an item of fixed assets is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit and loss account.

(e) Deferred taxation

Deferred taxation is provided in full on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with limited exceptions. Deferred taxation assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred taxation is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

(f) Stocks

Stocks which comprise consumables and finished goods are stated at the lower of cost and net realisable value.

Cost is calculated on the first-in first-out basis.

Net realisable value is determined as the estimated net selling price less the related costs of marketing, selling and distribution.

(g) Recognition of revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business and net of discounts.

Sales are recognised upon delivery of goods and services and interest income is recognised in the profit and loss account as it accrues.

(h) Operating lease charges

All leases which do not transfer substantially all the risks and rewards of ownership to the Retail Business Target Group are classified as operating leases.

Rental income or expense arising from operating leases (net of any benefits received and receivable as an incentive to enter into an operating lease) is recognised in the profit and loss account on a straight line basis over the periods of the respective leases except where an alternative basis is more representative of the time pattern of the user's benefit.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(i) Borrowing costs

Borrowing costs are accounted for on the accrual basis and charged to the profit and loss account in the year incurred, except for costs that are directly attributable to the acquisition, construction or production of qualifying assets which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of that assets, until such time as the assets are substantially ready for their intended use or sale.

Fees paid for the arrangement of syndicated loan facilities and debt securities are deferred, and are carried at amortised cost using the effective interest method.

(j) Foreign exchange

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its function currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in the profit and loss account in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Retail Business Target Group's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Retail Business Target Group's foreign operations are translated into the presentation currency of the Retail Business Target (i.e. Renminbi) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in the Retail Business Target Group's exchange reserve. Such exchange differences are recognised in the consolidated profit and loss account in the period which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation before 1 January 2005 is treated as non-monetary foreign currency items of the acquirer and reported using the historical cost prevailing at the date of acquisition.

(k) Share-based payment

The Retail Business Target's ultimate holding company, Tesco PLC, has granted share options and share bonus to certain employees of the Retail Business Target Group, for their services rendered, to subscribe for shares of Tesco PLC in accordance with the Tesco PLC's share option scheme and share bonus schemes. The fair value of services received is determined by reference to the fair value of share options and share bonus granted at the grant date and is expensed over the vesting period, with a corresponding increase in equity or liability.

5. CRITICAL ACCOUNTING ESTIMATES

(a) Depreciation

The Retail Business Target Group exercised judgement to determine useful lives and residual values of property and plant and equipment. The assets are depreciated down to their residual values over their estimated useful lives.

(b) Impairment

(i) Impairment of assets

The Retail Business Target Group has determined each store as a separate cash-generating unit for impairment testing. Where there are indicators for impairment, the Retail Business Target Group performs an impairment test.

Recoverable amounts for cash-generating units are based on the higher of value in use and fair value less costs to sell. Value in use is calculated from cash flow projections for five to twenty years using data from the Retail Business Target Group's latest internal forecasts. Fair value less costs of sell are based on either binding sale agreement, active market for an asset, or best information available to reflect the amount the Retail Business Target could obtain at the end of the reporting period, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal. These calculations require the use of estimates as set out in Note 4.

(ii) Impairment of trade and other receivables

The Retail Business Target Group's trade and other receivables impairment provisions are established to recognise incurred impairment losses in its trade and other receivables. These calculations require the use of estimates as set out in the accounting policy note for financial instruments.

(c) Deferred income tax assets

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

The Retail Business Target Group's management determines the deferred income tax assets based on the enacted or substantively enacted tax rates and laws and best knowledge of profit projections of the Retail Business Target Group for coming years during which the deferred income tax assets are expected to be recovered. Management will revise the assumptions and profit projections by each balance sheet date.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Retail Business Target Group's activities expose it to a variety of financial risks: credit risk, liquidity risk, interest rate risk and foreign exchange risk. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Credit risk

The Retail Business Target Group's maximum exposure to credit risk in respect of financial assets is the carrying amounts of cash and cash equivalents and trade and other receivables as at the balance sheet date. Management has credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

For cash and cash equivalents, the Retail Business Target Group has limited its credit exposure by restricting their selection of financial institutions on those reputable local banks or state-owned banks.

In respect of trade receivables, the Retail Business Target Group limits its exposure to credit risk through performing credit reviews and monitoring the financial strength of its major customers and asks for collateral when proper and necessary. Customers are assessed and rated based on their credit quality, taking into account its financial position, past experience and other factors. Individual risk limits are set by management and utilisation of these credit limits is regularly monitored. Generally, trade receivables are due within 30 days from the date of billing. The Retail Business Target Group has no single customer accounting for greater than 10% of the total trade receivables as at 28 February 2011, 29 February 2012, 28 February 2013 and 25 August 2013 and of the total revenue for the Relevant Periods.

Further quantitative disclosure in respect of the Retail Business Target Group's exposure to credit risk from trade and other receivables are set out in Note 18.

No other financial assets carry a significant exposure to credit risk.

(b) Liquidity risk

Cash flow forecasting is performed in the operating entities of the Retail Business Target Group. Management monitors rolling forecasts of the Retail Business Target Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Retail Business Target Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Retail Business Target Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable, external regulatory or legal requirements – for example, currency restrictions.

The Retail Business Target Group's funding requirements primarily arise from setting up new stores and repayments of borrowings. The Retail Business Target Group finances its working capital requirements through a combination of funds generated from operations and additional borrowings from banks and ultimate parent company.

The table below analyses the Retail Business Target Group's non-derivative financial liabilities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 28 February 2011					
Borrowings	806,820	587,949	150,700	–	1,545,469
Trade and other payables	4,674,822	9,189	34,592	457,879	5,176,482
	5,481,642	597,138	185,292	457,879	6,721,951
At 29 February 2012					
Borrowings	1,729,724	172,276	735,875	–	2,637,875
Trade and other payables	4,129,872	10,032	45,937	549,479	4,735,320
	5,859,596	182,308	781,812	549,479	7,373,195
At 28 February 2013					
Borrowings	743,588	735,875	–	–	1,479,463
Trade and other payables	4,477,236	9,771	69,256	625,115	5,181,378
	5,220,824	745,646	69,256	625,115	6,660,841
At 25 August 2013					
Borrowings	1,831,985	725,000	–	–	2,556,985
Trade and other payables	3,556,789	12,280	34,628	718,671	4,322,368
	5,388,774	737,280	34,628	718,671	6,879,353

(c) Interest rate risk

The Retail Business Target Group's income and operating cash flows are substantially independent of changes in market interest rates as the Retail Business Target Group has no significant interest-bearing assets (other than term deposits and cash and bank balances). The Retail Business Target Group's exposure to changes in interest rates is mainly attributable to its borrowings. Borrowings at variable rates expose the Retail Business Target Group to cash flow interest-rate risk. Borrowings at fixed rates expose the Retail Business Target Group to fair value interest-rate risk. The effective interest rates and terms of repayment of the Retail Business Target Group's borrowings are disclosed in Note 20.

The percentage of fixed interest rate borrowings is listed as below:

	28 February 2011	29 February 2012	28 February 2013	25 August 2013
Percentage of fixed interest rate borrowings	38%	92%	100%	100%

To mitigate the impact of interest rate fluctuations, management closely monitors the Retail Business Target Group's exposure to interest rate risk. Management may use forward rate agreements, interest rate swaps, caps and floors to achieve the desired mix of fixed and floating rate debt if needed.

As at 28 February 2011, 29 February 2012, 28 February 2013 and 25 August 2013 if interest rates on borrowings had been 10 basis points higher/lower with all other variables held constant, the Retail Business Target Group's interest expense for the Relevant Periods would have changed as follows:

	Year ended			Six months ended	
	28 February 2011	29 February 2012	28 February 2013	26 August 2012	25 August 2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Interest expense increase/(decrease)					
– 10 basis points higher	84	167	136	87	56
– 10 basis points lower	(84)	(167)	(136)	(87)	(56)

(d) Foreign exchange risk

The functional currency of all the Company is RMB. The Retail Business Target Group mainly operates in the PRC with most of the transactions settled in RMB. However, foreign currencies are required to settle the Retail Business Target Group's borrowings, purchases of goods and certain expenses from oversea suppliers. RMB is not freely convertible into other foreign currencies and conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government. Group's trade and other receivables, cash and bank balances, trade and other payables and borrowings as at 28 February 2011, 29 February 2012, 28 February 2013 and 25 August 2013 are mainly denominated in currencies other than RMB, primarily with respect to U.S. Dollars ("USD") and Great Britain Pound Sterling ("GBP")) (collectively the "Non-functional Currency Financial Assets/Liabilities").

The Retail Business Target Group currently does not have a foreign currency hedging policy. However, management closely monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

As at 28 February 2011, 29 February 2012, 28 February 2013 and 25 August 2013, if RMB had weakened/strengthened by 10% against the GBP/USD with all other variables held constant, the Retail Business Target Group's pre-tax loss for the Relevant Periods would have changed as follows:

	Year ended			Six months ended	
	28 February 2011	29 February 2012	28 February 2013	26 August 2012	25 August 2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
GBP					
Pre-tax loss increase/(decrease)					
– 10% higher	(24,774)	(15,175)	(25,476)	(28,446)	(21,980)
– 10% lower	24,774	15,175	25,476	28,446	21,980
USD					
Pre-tax loss increase/(decrease)					
– 10% higher	(3,361)	6,519	(338)	(1,645)	(1,428)
– 10% lower	3,361	(6,519)	338	1,645	1,428

7. CAPITAL RISK MANAGEMENT

The Retail Business Target Group manages its capital to ensure that entities in the Retail Business Target Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balances.

The Retail Business Target Group's overall strategy remains unchanged through the Relevant Period. The capital structure of the Retail Business Target Group consists of debt, which includes the borrowings disclosed in Note 20, cash and cash equivalents and equity attributable to owner of the Retail Business Target as disclosed in the consolidated statement of changes in equity.

The management of the Retail Business Target Group reviews the capital structure regularly. The Retail Business Target Group considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through the payment of dividends, new share issues as well as the raising of borrowings or the redemption of existing debts.

8. TURNOVER

Turnover of the Retail Business Target Group comprises revenues recognised as follows:

	Year ended			Six months ended	
	28 February 2011	29 February 2012	28 February 2013	26 August 2012	25 August 2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Sales of merchandise	11,590,467	13,390,225	14,198,122	6,506,282	6,604,660
Rental income and others	686,974	836,194	965,998	470,611	487,782
	12,277,441	14,226,419	15,164,120	6,976,893	7,092,442

9. FINANCE INCOME AND COSTS

	Year ended			Six months ended	
	28 February 2011	29 February 2012	28 February 2013	26 August 2012	25 August 2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Finance Income:					
Interest income	17,361	11,741	9,766	12,174	40,176
Finance costs:					
Interest expenses on borrowings	(84,090)	(167,312)	(136,436)	(87,030)	(56,104)
Other finance costs	(2,430)	(4,641)	(3,528)	(1,557)	(1,825)
	(86,520)	(171,953)	(139,964)	(88,587)	(57,929)

10. LOSS FOR THE YEAR/PERIOD

Loss for the year/period has been arrived at after charging:

	Year ended			Six months ended	
	28 February 2011	29 February 2012	28 February 2013	26 August 2012	25 August 2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Auditors' remuneration	2,974	2,050	1,784	1,025	892
Staff costs (including directors' emoluments)	1,344,842	1,462,298	1,517,848	802,024	784,635
Impairment loss recognized on					
– fixed assets	(107,381)	43,426	354,230	6	–
– stock	300,136	383,599	352,285	163,396	169,982
Depreciation	407,137	491,382	558,162	271,611	267,581
Operating lease charges on land and buildings	805,579	1,072,540	1,152,731	525,229	609,022
Cost of inventories recognised as expenses	9,603,055	10,019,162	10,765,959	4,950,830	5,021,782

11. DIRECTORS' EMOLUMENTS

The directors did not receive any fees or emoluments in respect of their service to the Retail Business Target Group during the year ended at 28 February 2011, 29 February 2012, 28 February 2013, and the six months ended at 26 August 2012 and 25 August 2013.

12. FIVE HIGHEST PAID EMPLOYEES

The details of the remunerations paid to the 5 highest paid employees are as follows:

	Year ended			Six months ended	
	28 February 2011	29 February 2012	28 February 2013	26 August 2012	25 August 2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Basic salaries and other benefits	41,312	34,069	34,367	20,183	16,282
Provident Fund contributions	2,177	1,511	1,514	863	729
Bonus	3,861	1,018	–	–	–
	47,350	36,598	35,881	21,046	17,011

The emoluments of 5 highest paid individuals were within the following band:

	Year ended			Six months ended	
	28 February 2011	29 February 2012	28 February 2013	26 August 2012 (unaudited)	25 August 2013
RMB'000					
2,000,001-2,500,000	–	–	–	–	1
2,500,001-3,000,000	–	–	–	–	1
3,000,001-3,500,000	–	–	–	–	1
3,500,001-4,000,000	–	–	–	3	–
4,000,001-4,500,000	–	–	–	1	1
4,500,001-5,000,000	–	–	–	–	1
5,000,001-5,500,000	–	–	–	1	–
5,500,001-6,000,000	–	–	2	–	–
6,000,001-6,500,000	–	2	–	–	–
6,500,001-7,000,000	–	2	–	–	–
7,000,001-7,500,000	2	–	1	–	–
7,500,001-8,000,000	–	–	1	–	–
9,000,001-9,500,000	1	–	–	–	–
9,500,001-10,000,000	1	–	1	–	–
10,000,001-10,500,000	–	1	–	–	–
13,000,001-13,500,000	1	–	–	–	–

13. STAFF PROVIDENT FUND

The employees of the Retail Business Target Group in the Chinese Mainland are members of state-managed retirement benefit schemes operated by the respective local government in the Chinese Mainland. The Retail Business Target Group is required to contribute a specified percentage of payroll costs to the schemes to fund the benefits. The only obligation of the Retail Business Target Group with respect to these schemes is to make the specific contributions.

The total cost charged to the consolidated profit and loss accounts in respect of the above-mentioned schemes in the Chinese Mainland amounted to RMB178,860,900, RMB223,569,800, RMB241,332,900, RMB119,679,900 and RMB125,796,000 for the year ended at 28 February 2011, 29 February 2012, 28 February 2013 and the six months ended at 26 August 2012 and 25 August 2013.

14. TAXATION

	Year ended			Six months ended	
	28 February 2011	29 February 2012	28 February 2013	26 August 2012	25 August 2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Current taxation:					
PRC corporate income tax	111,857	195,802	135,110	73,651	57,393
Deferred taxation:					
Origination of temporary differences	(41,863)	33,731	21,988	(635)	(16,595)
	69,994	229,533	157,098	73,016	40,798

Individual entity tax losses are not permitted for group relief against profitable entities. Therefore, the tax on the Retail Business Target Group's loss before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to losses of the consolidated entities as follows:

	Year ended			Six months ended	
	28 February 2011	**29 February 2012**	**28 February 2013**	**26 August 2012**	**25 August 2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Loss before taxation	(650,933)	(896,764)	(1,636,246)	(876,373)	(648,341)
Tax calculated at applicable tax rates of 25%	(162,733)	(224,191)	(409,062)	(219,093)	(162,085)
Expenses not deductible for taxation purposes	6,994	16,575	24,496	13,733	12,088
Tax losses not recognised	162,898	353,686	441,175	195,451	151,993
Other temporary differences for which no deferred income tax assets were recognised	62,835	33,463	90,428	82,925	19,747
Tax filing adjustment in current year/period	–	50,000	10,061	–	19,055
	69,994	229,533	157,098	73,016	40,798

The tax (charge)/credit relating to components of other comprehensive income during the Relevant Periods were nil.

The income tax (charged)/credited directly to equity during the Relevant Periods were nil.

15. FIXED ASSETS

	Land and buildings[(a)]	Other fixed assets[(b)]	Total
	RMB'000	*RMB'000*	*RMB'000*
Cost			
At 28 February 2010 (unaudited)	2,104,115	2,795,582	4,899,697
Additions	498,453	629,560	1,128,013
Reclassification	(164,306)	164,306	–
Disposals	(83)	(51,717)	(51,800)
At 28 February 2011	2,438,179	3,537,731	5,975,910
Additions	726,525	501,898	1,228,423
Reclassification	(223,851)	223,851	–
Disposals	–	(130,767)	(130,767)
At 29 February 2012	2,940,853	4,132,713	7,073,566
Additions	899,289	366,529	1,265,818
Reclassification	(363,870)	363,870	–
Disposals	–	(13,294)	(13,294)
At 28 February 2013	3,476,272	4,849,818	8,326,090
Additions	208,149	164,050	372,199
Reclassification	(238,082)	238,082	–
Disposals	(27,759)	(22,085)	(49,844)
At 25 August 2013	3,418,580	5,229,865	8,648,445
Cost (unaudited)			
At 29 February 2012	2,940,853	4,132,713	7,073,566
Additions	188,932	153,833	342,765
Reclassification	(142,741)	142,741	–
Disposals	–	(4,960)	(4,960)
At 26 August 2012	2,987,044	4,424,327	7,411,371
Accumulated depreciation and impairment losses			
At 28 February 2010 (unaudited)	564,375	1,320,854	1,885,229
Disposals	(6)	(46,380)	(46,386)
Charge for the year	82,983	324,154	407,137
Impairment losses for the year	6,648	25,346	31,994
Impairment reversal for the year	(139,375)	–	(139,375)
At 28 February 2011	514,625	1,623,974	2,138,599
Disposals	–	(120,016)	(120,016)
Charge for the year	105,874	385,508	491,382
Impairment losses for the year	43,426	–	43,426
At 29 February 2012	663,925	1,889,466	2,553,391
Disposals	–	(12,086)	(12,086)
Charge for the year	121,969	436,193	558,162
Impairment losses for the year	354,230	–	354,230
At 28 February 2013	1,140,124	2,313,573	3,453,697
Disposals	(20,704)	(18,951)	(39,655)
Charge for the period	61,881	205,700	267,581
At 25 August 2013	1,181,301	2,500,322	3,681,623

	Land and buildings[(a)] *RMB'000*	Other fixed assets[(b)] *RMB'000*	Total *RMB'000*
Accumulated depreciation and impairment losses (unaudited)			
At 29 February 2012	663,925	1,889,466	2,553,391
Disposals	–	(4,459)	(4,459)
Charge for the period	58,589	213,022	271,611
Impairment losses for the period	6	–	6
At 26 August 2012	722,520	2,098,029	2,820,549
Net book values			
At 28 February 2011	1,923,554	1,913,757	3,837,311
At 29 February 2012	2,276,928	2,243,247	4,520,175
At 28 February 2013	2,336,148	2,536,245	4,872,393
At 25 August 2013	2,237,279	2,729,543	4,966,822
At 26 August 2012 (unaudited)	2,264,524	2,326,298	4,590,822

(a) Land and buildings consist of buildings, land use rights, leasehold improvements and construction-in-progress. The net book values of construction in progress as at 28 February 2011, 29 February 2012, 28 February 2013 and 25 August 2013 are listed as below:

	28 February 2011 *RMB'000*	29 February 2012 *RMB'000*	28 February 2013 *RMB'000*	25 August 2013 *RMB'000*
Construction in progress	401,916	471,048	659,376	452,403

The Retail Business Target Group's interests in leasehold land and land use rights all represent those in PRC held on medium term lease (20-50 years).

(b) Other consists of equipment, fixtures, fittings and motor vehicles.

16. DEFERRED TAXATION ASSETS

The movement in deferred taxation assets recognised during the Relevant Periods are as follows:

	Tax losses	Impairment provision and others	Total
	RMB'000	*RMB'000*	*RMB'000*
At 28 February 2010 (unaudited)	61,866	95,794	157,660
Credited to the consolidated profit and loss account	24,410	17,453	41,863
At 28 February 2011	86,276	113,247	199,523
(Charged)/Credited to the consolidated profit and loss account	(41,645)	7,914	(33,731)
At 29 February 2012	44,631	121,161	165,792
(Charged)/Credited to the consolidated profit and loss account	(26,344)	4,356	(21,988)
At 28 February 2013	18,287	125,517	143,804
(Charged)/Credited to the consolidated profit and loss account	(2,012)	18,607	16,595
At 25 August 2013	16,275	144,124	160,399
At 29 February 2012	44,631	121,161	165,792
(Charged)/Credited to the consolidated profit and loss account (unaudited)	(23,380)	24,015	635
At 26 August 2012 (unaudited)	21,251	145,176	166,427

The Retail Business Target Group has unused tax losses from continuing operations as follows:

	28 February 2011	29 February 2012	28 February 2013	25 August 2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deferred tax assets recognised	345,104	178,523	73,147	65,099
No deferred tax asset recognised	1,363,970	2,513,385	4,305,366	5,551,827
Unused trading tax losses from continuing operations	1,709,074	2,691,908	4,378,513	5,616,926

Unrecognised tax losses are due to the unpredictability of future profit streams, which expire as follows:

	28 February 2011	29 February 2012	28 February 2013	25 August 2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
No later than 1 year	44,831	54,996	233,419	233,419
Later than 1 year and not later than 5 years	1,319,139	2,458,389	4,071,947	5,318,408
	1,363,970	2,513,385	4,305,366	5,551,827

17. STOCKS

	28 February 2011	29 February 2012	28 February 2013	25 August 2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Merchandise for resale	1,151,611	1,408,683	1,651,830	1,574,829

18. TRADE AND OTHER RECEIVABLES

	28 February 2011	29 February 2012	28 February 2013	25 August 2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments and other accrued income	349,417	324,474	328,867	287,394
Other receivables	562,934	783,008	710,174	689,622
Loans to related parties *(Note 27 (c))*	372,601	143,344	909,364	1,282,117
Other receivables from related parties *(Note 27 (b))*	34,261	36,618	23,874	31,223
	1,319,213	1,287,444	1,972,279	2,290,356

The carrying amounts of the Retail Business Target Group's trade and other receivables at balance sheet date approximate to their corresponding fair values.

As at 28 February 2011, 29 February 2012, 28 February 2013 and 25 August 2013. there were no other receivables which were past due but not impaired.

Movements in the provision for impairment of prepayments and other accrued income are as follows:

	Year ended			Six months ended	
	28 February 2011	**29 February 2012**	**28 February 2013**	**26 August 2012**	**25 August 2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
At beginning of the year	30,471	19,570	24,125	24,125	28,263
Provision for receivables impairment	1,281	4,682	5,388	605	1,448
Receivables written off during the year/period as uncollectible	(12,182)	(127)	(1,250)	–	(385)
At ending of the year	19,570	24,125	28,263	24,730	29,326

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The Retail Business Target Group does not hold any collateral as security.

19. TRADE AND OTHER PAYABLES

	28 February 2011	**29 February 2012**	**28 February 2013**	**25 August 2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	3,481,920	3,453,974	3,697,614	2,998,640
Accruals and deferred income	1,427,260	1,799,762	2,394,907	1,914,286
Other payables	1,402,441	1,688,861	1,902,750	1,792,307
Other taxation and social security payables	191,489	209,198	253,971	255,011
Amounts due to related parties *(Note 27 (b))*	292,121	222,213	316,779	317,988
	6,795,231	7,374,008	8,566,021	7,278,232
Less non-current portion: deferred income	(501,660)	(605,448)	(704,142)	(765,579)
Current portion	6,293,571	6,768,560	7,861,879	6,512,653

The amounts due to related parties are unsecured, interest free and have no fixed terms of repayment.

The following is an aging analysis of trade payable at the balance sheet date:

	28 February 2011	29 February 2012	28 February 2013	25 August 2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0–30 days	1,923,606	2,390,505	2,163,916	2,246,062
31–60 days	1,066,965	649,155	954,513	538,666
61–90 days	254,242	296,476	192,083	156,912
>90 days	237,107	117,838	387,102	57,000
	3,481,920	3,453,974	3,697,614	2,998,640

The fair value of the Retail Business Target Group's trade and other payables at balance sheet date was approximate to the corresponding carrying amount.

20. BORROWINGS

	28 February 2011	29 February 2012	28 February 2013	25 August 2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current				
Related party borrowings	–	725,000	725,000	725,000
Bank borrowings	700,000	150,000	–	–
	700,000	875,000	725,000	725,000
Current				
Entrusted borrowings	–	51,968	–	30,000
Bank borrowings	745,240	1,603,543	718,482	1,772,909
	745,240	1,655,511	718,482	1,802,909
Total borrowings	1,445,240	2,530,511	1,443,482	2,527,909
Representing:				
– guaranteed	1,445,240	1,753,543	718,482	1,772,909
– non-guaranteed	–	776,968	725,000	755,000
	1,445,240	2,530,511	1,443,482	2,527,909
Analysed as follows:				
– wholly repayable within five years	1,445,240	2,530,511	1,443,482	2,527,909

The weighted average effective interest rates per annum as at 28 February 2011, 29 February 2012, 28 February 2013 and 25 August 2013 for bank borrowings were as follows:

	28 February 2011	29 February 2012	28 February 2013	25 August 2013
Bank borrowings	5.06%	6.39%	5.78%	5.03%

Entrusted borrowings as at 29 February 2012 represent borrowings from a third party through Standard Chartered Bank (China) Limited, which mature on 26 April 2012 and bear average coupons of 4.5% annually.

Entrusted borrowings as at 25 August 2013 represent the borrowings from Tesco Joint Buying Service (Shanghai) Co., Ltd., the Retail Business Target's fellow subsidiary, for working capital uses, which mature on 16 October 2013 and bear average coupons of 3% annually.

Related party borrowings as at 25 August 2013 represent loans from Tesco Store Limited, the Retail Business Target's fellow subsidiary, which mature on 27 August 2014 and bear average coupons of 3% annually (29 February 2012 and 28 February 2013: 3% annually).

All the Retail Business Target Group's bank borrowings are guaranteed by Tesco PLC, the Retail Business Target's ultimate holding company. Related party and entrusted borrowings are not guaranteed.

Total borrowings at respective balance sheet dates are repayable as follows:

	28 February 2011	29 February 2012	28 February 2013	25 August 2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Borrowings repayable:				
– within 1 year	745,240	1,655,511	718,482	1,802,909
– between 1 and 2 years	550,000	150,000	725,000	725,000
– between 2 and 5 years	150,000	725,000	–	–
	1,445,240	2,530,511	1,443,482	2,527,909

The exposure of the Retail Business Target Group's borrowings to interest rate changes and the contractual re-pricing dates at the end of the reporting period are as follows:

	28 February 2011	29 February 2012	28 February 2013	25 August 2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
12 months or less	1,445,240	1,805,511	718,482	1,802,909
1 to 5 years	–	725,000	725,000	725,000
	1,445,240	2,530,511	1,443,482	2,527,909

The fair value of borrowings equals their carrying amount, as the impact of discounting is not significant.

21. SHARE CAPITAL AND PREMIUM

	Authorised ordinary shares of US$1 each	Issued and fully paid			
	Number of shares	Number of shares	Ordinary shares	Share premium	Total
			RMB'000	*RMB'000*	*RMB'000*
At 29 February 2010 (unaudited)	100,000,000	50,000,000	410,300	11,592	421,892
Capital injection	–	3	–	798,890	798,890
At 28 February 2011	100,000,000	50,000,003	410,300	810,482	1,220,782
At 28 February 2011	100,000,000	50,000,003	410,300	810,482	1,220,782
Capital injection	–	3	–	216,203	216,203
At 29 February 2012	100,000,000	50,000,006	410,300	1,026,685	1,436,985
At 29 February 2012	100,000,000	50,000,006	410,300	1,026,685	1,436,985
Capital injection	–	10	–	3,049,710	3,049,710
At 28 February 2013	100,000,000	50,000,016	410,300	4,076,395	4,486,695
At 29 February 2012	100,000,000	50,000,006	410,300	1,026,685	1,436,985
Capital injection	–	5	–	1,768,365	1,768,365
At 26 August 2012 (unaudited)	100,000,000	50,000,011	410,300	2,795,050	3,205,350
At 28 February 2013	100,000,000	50,000,016	410,300	4,076,395	4,486,695
Capital injection	–	4	–	976,000	976,000
At 25 August 2013	100,000,000	50,000,020	410,300	5,052,395	5,462,695

During the year ended 28 February 2011, Cheshunt Holding Guernsey Limited, the Retail Business Target's immediate parent company, invested additional US$133 million (equivalent to RMB798,890,000) into the Retail Business Target, by issuing 3 shares at par value of US$1 per share, with US$3 (equivalent to RMB20) recorded in share capital and US$133 million (equivalent to RMB798,890,000) in share premium.

During the year ended 29 February 2012, Cheshunt Holding Guernsey Limited, the Retail Business Target's immediate parent company, invested additional US$33 million (equivalent to RMB216,203,000) into the Retail Business Target, by issuing 3 shares at par value of US$1 per share, with US$3 (equivalent to RMB19) recorded in share capital and US$33 million (equivalent to RMB216,203,000) in share premium.

During the year ended 28 February 2013, Cheshunt Holding Guernsey Limited, the Retail Business Target's immediate parent company, invested an additional US$485 million (equivalent to RMB3,049,710,000) into the Retail Business Target, by issuing 10 shares at par value of US$1 per share, with US$10 (equivalent to RMB62) recorded in share capital and US$485 million (equivalent to RMB3,049,710,000) in share premium.

During the six months ended 26 August 2012, Cheshunt Holding Guernsey Limited, the Retail Business Target's immediate parent company, invested additional US$279 million (equivalent to RMB1,768,365,000) into the Retail Business Target, by issuing 5 shares at par value of US$1 per share, with US$5 (equivalent to RMB32) recorded in share capital and US$279 million (equivalent to RMB1,768,365,000) in share premium.

During the six months ended 25 August 2013, Cheshunt Holding Guernsey Limited, the Retail Business Target's immediate parent company, invested an additional US$159 million (equivalent to RMB976,000,000) into the Retail Business Target, by issuing 4 shares at par value of US$1 per share, with US$4 (equivalent to RMB24) recorded in share capital and US$159 million (equivalent to RMB976,000,000) in share premium.

22. SHARE-BASED PAYMENTS

During the years ended 28 February 2011, 29 February 2012, 28 February 2013 and the six months ended 26 August 2012 and 25 August 2013, The Retail Business Target Group recognised or reversed the following share-based payments to be settled in equity or cash, which is made up of share option schemes and share bonus payments.

	Year ended			Six months ended	
	28 February 2011	**29 February 2012**	**28 February 2013**	**26 August 2012**	**25 August 2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Settlement in equity	42,388	(4,383)	(10,103)	27,479	7,399
Settlement in cash	11,456	17,845	9,046	12,620	10,840
Total Share-based payments expense/(reversal)	53,844	13,462	(1,057)	40,099	18,239

Share option schemes

The Retail Business Target had one share option scheme in operation during the reporting periods, which is an equity-settled scheme:

The Discretionary Share Option Plan (2004) was adopted on 5 July 2004. This scheme permits the grant of approved, unapproved and international options in respect of ordinary shares to selected executives. Options are normally exercisable between three and ten years from the date of grant at a price not less than the middle-market quotation or average middle-market quotations of an ordinary share for the dealing day or three dealing days preceding the date of grant. The exercise of options will normally be conditional upon the achievement of a specified performance target related to the annual percentage growth in earnings per share over a three-year period. There will be no discounted options granted under this scheme.

Movements in the number of share options outstanding and their related weighted average exercise prices ("WAEP") are as follows:

	Options	WAEP
		Pence
Outstanding at 28 February 2010 (unaudited)	2,015,885	352.01
Granted	1,111,617	419.80
Forfeited	(276,027)	364.52
Outstanding as at 28 February 2011	2,851,475	377.23
Exercise price range		–
Outstanding at 28 February 2011	2,851,475	377.23
Forfeited	(702,604)	371.24
Exercised	(4,912)	388.48
For the year ended 29 February 2012	2,143,959	379.21
Exercise price range		388.48
Outstanding as at 29 February 2012	2,143,959	379.21
Forfeited	(184,387)	371.42
Outstanding as at 28 February 2013	1,959,572	379.94
Exercise price range		–
Outstanding as at 29 February 2012	2,143,959	379.21
Forfeited (unaudited)	(154,130)	365.59
Outstanding as at 26 August 2012 (unaudited)	1,989,829	380.26
Exercise price range (unaudited)		–
Outstanding as at 28 February 2013	1,959,572	379.94
Forfeited	(1,035,701)	407.04
Exercised	(66,326)	357.72
Outstanding as at 25 August 2013	857,545	348.93
Exercise price range		369.35 to 384.00

Share bonus schemes

Selected executives participate in the Retail Business Target Group Bonus Plan, a performance-related bonus scheme. The amount paid to employees is based on a percentage of salary and is paid partly in cash and partly in shares. Bonuses are awarded to elected executives who have completed a required service period and depend on the achievement of corporate targets. The accrued cash element of the bonus is RMB14,596,000, RMB17,903,000, RMB3,101,000 and RMB10,577,000 as of 28 February 2011, 29 February 2012, 28 February 2013 and 25 August 2013.

Selected executives participate in the Performance Share Plan (2011). Awards made under this plan will normally vest three years after the date of the award for nil consideration. Vesting will normally be conditional on the achievement of specified performance targets related to the return on capital employed and earnings per share over a three-year performance period.

The fair value of shares awarded under these schemes is their market value on the date of award.

23. CASH GENERATED FROM/(USED IN) OPERATIONS

	Year ended			Six months ended	
	28 February 2011	29 February 2012	28 February 2013	26 August 2012	25 August 2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Loss before taxation	(650,933)	(896,764)	(1,636,246)	(876,373)	(648,341)
Adjustments for:					
Depreciation of property, plant and equipment	407,137	491,382	558,162	271,611	267,581
Loss on disposal of property, plant and equipment	4,412	9,062	1,066	–	628
(Reversal)/provision for impairment of property, plant and equipment	(107,381)	43,426	354,230	6	–
Net finance costs	84,973	172,921	137,701	87,313	56,001
Share-based payments	42,388	(4,383)	(10,103)	27,479	7,399
Operating losses before working capital changes	(219,404)	(184,356)	(595,190)	(489,964)	(316,732)
Changes in trade and other receivables	(224,763)	(201,570)	52,448	62,129	14,106
Changes in stocks	(120,919)	(257,072)	(243,147)	33,036	77,001
Changes in trade and other payables	1,236,204	436,928	1,148,724	(419,617)	(1,117,562)
Cash generated from/(used in) operations	671,118	(206,070)	362,835	(814,416)	(1,343,187)

24. CAPITAL COMMITMENTS

Capital expenditure contracted for at the end of Relevant Periods but not yet incurred is as follows:

	28 February 2011	29 February 2012	28 February 2013	25 August 2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Fixed assets	980,891	1,580,101	1,799,904	1,555,907

Committed capital expenditure as at 28 February 2011, 29 February 2012, 28 February 2013 and 25 August 2013 mainly related to store development.

25. OPERATING LEASE COMMITMENTS

The Retail Business Target Group leases various retail outlets, offices and warehouses under non-cancellable operating lease agreements. The lease terms are between 1 and 30 years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	28 February 2011	29 February 2012	28 February 2013	25 August 2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Not later than 1 year	866,336	1,050,869	1,150,114	1,167,038
Later than 1 year and not later than 5 years	3,716,617	4,553,835	4,852,160	4,949,994
Later than 5 years	10,233,577	10,382,178	9,535,473	9,135,704
	14,816,530	15,986,882	15,537,747	15,252,736

26. OTHER COMMITMENTS AND CONTINGENT LIABILITIES OF A SUBSIDIARY OF THE RETAIL BUSINESS TARGET, SHANGHAI KANGREN HYMALL HYPERMARKET AND TRADING CO., LTD. ("GUANGXIN STORE")

	28 February 2011	29 February 2012	28 February 2013	25 August 2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Not later than 1 year	–	9,033	14,333	17,733
Later than 1 year and not later than 5 years	–	91,833	113,333	123,333
Later than 5 years	–	582,765	546,931	526,931
	–	683,631	674,597	667,997

The lease contract of Guangxin store contains commitments to pay certain levels of taxation to specific government authorities. The gross value of the commitment is RMB689,000,000 over the total lease period. At the time of signing, the tax commitment was intended to be covered by tax payments made in the normal course of business. If such levels are not achieved, then additional rental is payable.

As at the end of each Relevant Period, the management assessed the gross value of the tax commitment over the remaining lease periods and recorded the shortfall for the Relevant Periods as operating lease rental expenses in the consolidated profit and loss account.

	28 February 2011	29 February 2012	28 February 2013	25 August 2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Gross value of the tax commitment over the remaining lease periods	–	683,631	674,597	667,997
Shortfall charged for each year/period	–	–	10,400	6,600

There are a number of contingent liabilities that arise in the normal course of business which if realised are not expected to result in a material liability to the Retail Business Target Group. The Retail Business Target Group recognises provisions for liabilities when it is more likely than not that a settlement will be required and the value of such a payment can be reliably estimated.

27. RELATED PARTY TRANSACTIONS

The Retail Business Target's parent company is Cheshunt Holdings Guernsey Limited (incorporated in the UK), which owns 100% of the Retail Business Target's shares. The Retail Business Target's ultimate parent company is Tesco PLC. The other related parties which have transactions with the Retail Business Target during the reporting years/periods include:

Related party name	Relationship
Tesco Plc	Parent Company
Tesco Stores Limited	Fellow subsidiary
Ek-Chai Distribution System Co. Ltd	Fellow subsidiary
Tesco Global Employment Company Limited	Fellow subsidiary
Homeplus Co. Limited	Fellow subsidiary
Tesco Stores (Malaysia) Sdn Bhd	Fellow subsidiary
Tesco Global Stores Privately Held Co. Limited	Fellow subsidiary
Tesco Stores ČR a.s.	Fellow subsidiary
Tesco Stores SR, a.s.	Fellow subsidiary
Tesco Polska Sp. z o.o.	Fellow subsidiary
Tesco Kipa Kitle	Fellow subsidiary
Tesco International Sourcing Ltd	Fellow subsidiary
Tesco Hindustan Services Centre Private Ltd	Fellow subsidiary
Tesco International Services Ltd	Fellow subsidiary
Tesco Property Limited	Fellow subsidiary
Tesco. Logistics (Zhejiang) Co. Ltd.	Fellow subsidiary
Tesco Qingdao Mingxia Property Co. Ltd	Fellow subsidiary
Huludao Tesco Real Estate Co. Limited	Fellow subsidiary
Tesco Zibo Property Co. Limited	Fellow subsidiary
Tesco Dalian Zhangqian Property Co. Ltd	Fellow subsidiary
Tesco Guangzhou Zhongshan Property Co. Ltd	Fellow subsidiary
Dunnhumby China	Fellow subsidiary
Dunnhumby International Ltd	Fellow subsidiary
China Property Holdings (HK) Limited	Fellow subsidiary
Tesco Qingdao Renmin Property Co. Ltd	Fellow subsidiary
Tesco Shenyang Property Co. Limited	Fellow subsidiary
LifeSpace	Fellow subsidiary
Tesco Nanjing Pukou Property Co. Ltd	Fellow subsidiary
Tesco Qinhuangdao Property Co. Ltd	Joint Venture

(a) Save as disclosed elsewhere, during the Relevant Periods, the Retail Business Target Group had the following transactions with related parties:

	Year ended			Six months ended	
	28 February 2011	**29 February 2012**	**28 February 2013**	**26 August 2012**	**25 August 2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Transactions with ultimate parent company					
Income					
Service fees	–	169	136	113	2
Expense					
Employee benefit expenses	9,062	7,572	8,073	–	–
Service fees	4,500	4,194	3,167	–	–
Transactions with other related parties					
Expenses charged by fellow subsidiaries					
Employee benefit expenses	119,336	123,087	119,457	54,069	45,383
Service fees	20,185	18,299	25,953	15,062	27,073
Commission fees	13,427	14,328	23,427	9,862	8,339
Interest expense	–	12,746	22,235	10,937	11,117
Purchases from fellow subsidiaries					
Purchases of goods	–	6,387	–	–	2,103
Income from fellow subsidiaries					
Service fees	21,296	24,433	40,859	12,460	14,215
Others	972	703	1,353	537	486

The transactions between the Retail Business Target Group and its related parties are based on the contractual agreements between the parties involved.

(b) The current account balances with related parties of the Retail Business Target Group at the balance sheet dates are as follows:

	28 February 2011	29 February 2012	28 February 2013	25 August 2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Balances with ultimate parent company				
Trade and other payables	19,002	29,575	40,320	54,478
Trade and other receivables	–	169	305	307
Balances with other related parties				
Trade and other payables	273,119	192,638	276,459	263,510
Trade and other receivables	34,261	36,449	23,569	30,916

As of 28 February 2011, 29 February 2012, 28 February 2013 and 25 August 2013, these balances with the parent company and other related parties are either (i) unsecured, interest free and have no fixed terms of repayment; or (ii) subject to agreed credit terms in the case of trade receivables.

(c) Loans to related parties*(Note 18)*

	Year ended			Six months ended	
	28 February 2011	29 February 2012	28 February 2013	26 August 2012	25 August 2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Loans to fellow subsidiaries					
Opening balance	242,203	372,601	143,344	143,344	909,364
Loans advanced during the period	300,000	265,010	1,120,500	263,000	814,000
Loan repayments received	(173,939)	(495,146)	(350,242)	(43,242)	(457,040)
Interest charged	13,989	4,082	28,737	7,800	40,570
Interest received	(9,652)	(3,203)	(32,975)	(4,155)	(24,777)
At year/period end	372,601	143,344	909,364	366,747	1,282,117

The loans to fellow subsidiaries are due within 6 months and carry average interest as the following for each year/period.

	28 February 2011	29 February 2012	28 February 2013	26 August 2012 (unaudited)	25 August 2013
Average interest rate	5.62%	7.93%	7.77%	7.95%	7.62%

No provision was required as at 28 February 2011, 29 February 2012, 28 February 2013 and 25 August 2013 for the loans made to fellow subsidiaries.

28. BALANCE SHEETS OF THE RETAIL BUSINESS TARGET

	As at			
	28 February 2011	29 February 2012	28 February 2013	25 August 2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current asset				
Interests in subsidiaries(Note)	1,080,067	1,296,325	4,290,690	5,246,690
Net current assets	1,648	2,086	56,149	58,050
	1,081,715	1,298,411	4,346,839	5,304,740
Capital and reserve				
Share capital and premium(Note 21)	1,220,782	1,436,985	4,486,695	5,462,695
Accumulated lossese	(161,289)	(160,693)	(161,975)	(180,074)
Other reserves	22,222	22,119	22,119	22,119
	1,081,715	1,298,411	4,346,839	5,304,740

Note: Particulars of the principal subsidiaries at the Relevant Periods are set out in Note 29.

29. PRINCIPAL SUBSIDIARIES

Principal subsidiaries now comprising The Retail Business Target Group are as follows:

Principal subsidiaries	Nominal value of issued ordinary share capital/ registered capital	Percentage of capital attributable to the Group	Statutory auditor	Principal activities
Incorporated in Hong Kong, directly held				
Tesco Holding (HK) Limited	813,848,340 ordinary shares of US$1 each	100.0	Not applicable	Investment holding
Incorporated in Chinese Mainland, indirectly held				
Jiading Hymall Life Style Shopping Co., Ltd.	RMB5,000,000	100.0	上海華申會計事務所有限公司	Supermarket operation
Shanghai Kangcheng Storage Co., Ltd.	RMB81,094,695	100.0	上海華申會計事務所有限公司	Supermarket operation
Shenyang Kangcheng Storage Co., Ltd.	RMB82,884,060	100.0	遼寧華商會計師事務所有限責任公司	Supermarket operation
Shanghai Kangren Hymall Hypermarket and Trading Co., Ltd.	RMB10,000,000	100.0	上海上諮會計師事務所有限責任公司	Supermarket operation
Shanghai Qibao Hymall Shopping Center Co., Ltd.	RMB10,000,000	100.0	上海華申會計事務所有限公司	Supermarket operation

Principal subsidiaries	Nominal value of issued ordinary share capital/ registered capital	Percentage of capital attributable to the Group	Statutory auditor	Principal activities
Shanghai Kangyu Hymall Hypermarket Co., Ltd.	RMB1,000,000	100.0	上海華申會計事務所有限公司	Supermarket operation
Shenyang Hymall Hypermarket Co., Ltd.	RMB5,000,000	100.0	遼寧華商會計師事務所有限責任公司	Supermarket operation
Shanghai Zhenbei Hymall Life Style Shopping Co., Ltd.	RMB1,000,000	100.0	上海華申會計事務所有限公司	Supermarket operation
Tianjin Tanggu Hymall Life Style Shopping Co., Ltd.	RMB6,000,000	100.0	Not available	Supermarket operation
Ningbo Hymall Life Style Shopping Center Co., Ltd.	RMB10,000,000	100.0	上海華申會計事務所有限公司	Supermarket operation
Dandong Hymall Life Style Shopping Co., Ltd.	RMB5,000,000	100.0	遼寧華商會計師事務所有限責任公司	Supermarket operation
Tianjin Jinzhong Hymall Life Style Shopping Co., Ltd.	RMB1,000,000	100.0	Not applicable	Supermarket operation
Dalian Hymall Life Style Shopping Co., Ltd.	RMB5,000,000	100.0	遼寧華商會計師事務所有限責任公司	Supermarket operation
Shanghai Xinzhuang Hymall Life Style Shopping Co., Ltd.	RMB1,000,000	100.0	上海上諮會計師事務所有限責任公司	Supermarket operation
Changzhou Wujin Hymall Life Style Shopping Center Co., Ltd.	RMB5,000,000	100.0	常州恒盛會計師事務所有限公司	Supermarket operation
Shanghai Pudong Jinxiu Hymall Life Style Shopping Center Co., Ltd.	RMB8,000,000	100.0	上海上諮會計師事務所有限責任公司	Supermarket operation
Dalian Xigang Hymall Life Style Shopping Co., Ltd.	RMB1,000,000	100.0	遼寧華商會計師事務所有限責任公司	Supermarket operation
Shanghai Zhenning Hymall Life Style Shopping Co., Ltd.	RMB5,000,000	100.0	上海上諮會計師事務所有限責任公司	Supermarket operation
Dalian Youhao Hymall Life Style Shopping Center Co., Ltd.	RMB1,000,000	100.0	遼寧華商會計師事務所有限責任公司	Supermarket operation
Changchun Hymall Life Style Shopping Co., Ltd.	RMB1,000,000	100.0	Not applicable	Supermarket operation
Hangzhou Qingchun Hymall Life Style Shopping Co., Ltd.	RMB5,000,000	100.0	上海華申會計事務所有限公司	Supermarket operation
Shenyang Tiexi Hymall Life Style Shopping Co., Ltd.	RMB1,000,000	100.0	遼寧華商會計師事務所有限責任公司	Supermarket operation

Principal subsidiaries	Nominal value of issued ordinary share capital/ registered capital	Percentage of capital attributable to the Group	Statutory auditor	Principal activities
Tianjin Development District Hymall Life Style Shopping Co., Ltd.	RMB5,000,000	100.0	天津市君天會計師事務所有限公司	Supermarket operation
Shanghai Jinshan Hymall Life Style Shopping Co., Ltd.	RMB5,000,000	100.0	上海上諮會計師事務所有限責任公司	Supermarket operation
Shenyang Yuhong Hymall Life Style Shopping Co., Ltd.	RMB3,000,000	100.0	遼寧華商會計師事務所有限責任公司	Supermarket operation
Jilin Hymall Life Style Shopping Center Co., Ltd.	RMB5,000,000	100.0	Not applicable	Supermarket operation
Hangzhou Hebin Hymall Hypermarket Co., Ltd.	RMB5,000,000	100.0	Not applicable	Supermarket operation
Shenyang Shenhe Hymall Hypermarket Co., Ltd.	RMB5,000,000	100.0	遼寧華商會計師事務所有限責任公司	Supermarket operation
Tianjin Jinyou Hymall Life Style Shopping Center Co., Ltd.	RMB5,000,000	100.0	天津市君天會計師事務所有限公司	Supermarket operation
Shanghai Baoshan Hymall Life Style Shopping Co., Ltd.	RMB5,000,000	100.0	上海上諮會計師事務所有限責任公司	Supermarket operation
Shanghai Xinsong Hymall Life Style Shopping Co., Ltd.	RMB5,000,000	100.0	上海上諮會計師事務所有限責任公司	Supermarket operation
Shanghai Hualing Hymall Life Style Shopping Co., Ltd.	RMB5,000,000	100.0	上海上諮會計師事務所有限責任公司	Supermarket operation
Shanghai Teergou Hymall Life Style Shopping Co., Ltd.	RMB5,000,000	100.0	Not applicable	Supermarket operation
Shanghai Nanhui Hymall Life Style Shopping Co., Ltd.	RMB5,000,000	100.0	上海上諮會計師事務所有限責任公司	Supermarket operation
Shanghai Fengxian Hymall Life Style Shopping Co., Ltd.	RMB5,000,000	100.0	上海華申會計事務所有限公司	Supermarket operation
Shanghai Dushi Tesco Hypermarket Co., Ltd.	RMB1,000,000	100.0	上海上諮會計師事務所有限責任公司	Supermarket operation
Tesco Commercial (Shanghai) Co Ltd	RMB344,810,600	100.0	上海華申會計事務所有限公司	Supermarket operation
Tesco Commercial (Guangdong) Co Ltd	RMB299,780,900	100.0	上海華申會計事務所有限公司	Supermarket operation
Hymall - Tesco Commercial (Beijing) Co Ltd	RMB150,941,336	100.0	上海華申會計事務所有限公司	Supermarket operation

Principal subsidiaries	Nominal value of issued ordinary share capital/ registered capital	Percentage of capital attributable to the Group	Statutory auditor	Principal activities
Tesco Commercial (Tianjin) Co Ltd	RMB164,395,000	100.0	上海華申會計事務所有限公司	Supermarket operation
Tesco Commercial (Jiangsu) Co Ltd	RMB662,678,500	100.0	上海華申會計事務所有限公司	Supermarket operation
Tesco Commercial (Zhejiang) Co Ltd	RMB341,002,900	100.0	上海華申會計事務所有限公司	Supermarket operation
Tesco Commercial (Liaoning) Co Ltd	RMB309,376,700	100.0	遼寧華商會計師事務所有限責任公司	Supermarket operation
Tesco Commercial (Shandong) Co Ltd	RMB130,773,350	100.0	上海華申會計事務所有限公司	Supermarket operation
Tesco Commercial (Anhui) Co Ltd	RMB179,338,950	100.0	上海華申會計事務所有限公司	Supermarket operation
Tesco Commercial (Hebei) Co Ltd	RMB244,147,960	100.0	河北康龍德會計師事務所有限公司	Supermarket operation
Tesco Commercial (Xiamen) Co Ltd	RMB53,327,264	100.0	上海華申會計事務所有限公司	Supermarket operation
Tesco Holdings (China) Co Ltd	RMB205,655,600	100.0	上海華申會計事務所有限公司	Supermarket operation
Tesco Commercial (Qingdao) Co Ltd	RMB159,791,820	100.0	上海華申會計事務所有限公司	Supermarket operation
Tesco Commercial (Fujian) Co Ltd	RMB83,706,100	100.0	上海華申會計事務所有限公司	Supermarket operation

30. **Events after the Relevant Periods**

On 1 October 2013, Tesco PLC and Cheshunt Holdings Guernsey Limited ("Tesco") entered into an investment agreement with China Resources Enterprise, Limited and certain of its subsidiaries ("CRE") pursuant to which the parties have conditionally agreed to establish a joint venture. The joint venture formation process involves the following:

(1) Tesco disposing of, and CRE acquiring the entire issued share capital of The Retail Business Target Group and its fellow subsidiaries in China which are engaged in development of real estate properties and properties holding business in China;

(2) CRE issuing new shares to Tesco so that CRE and Tesco will hold 80% and 20% interests in the joint venture respectively. Tesco will satisfy the consideration for such shares by way of the aforementioned disposal and an aggregate cash sum of HK$4,325 million;

(3) Tesco shall have the right to subscribe for additional shares in certain subsidiary of CRE, so that the total interest in the joint venture held by Tesco will increase by 5% (on a fully diluted basis) upon the earlier of an initial public offering or the fifth anniversary of completion. Tesco will also be granted the right, if certain events were to occur, to sell its interest in the joint venture to CRE or to be granted a one-time right to instigate an initial public offering of the joint venture at any time after the seventh anniversary of completion; and

(4) Tesco and CRE will enter into an intellectual property agreement, pursuant to which Tesco, as licensor, agrees to license and make available certain of its intellectual property assets, existing from time to time, to certain CRE's subsidiaries, as licensee, for the operation of the retail business of the joint venture in greater China.

As at the date of this report, the abovementioned proposed transactions are subject to the relevant government authorities and CRE's shareholders approval.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Retail Business Target Group in respect of any period subsequent to 25 August 2013 and up to the date of this report. No distribution has been made by the Retail Business Target Group in respect of any period subsequent to 25 August 2013.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong

The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

羅兵咸永道

25 February 2014

The Directors
China Resources Enterprise, Limited

Dear Sirs,

We report on the financial information of the China Property Holdings (HK) Limited and its subsidiaries, principally engaged in the Real Estate Properties Business in Chinese Mainland as set out in Note 33 of Section II below (together, the "**Real Estate Properties Business Target Group**"), which comprises the combined statements of balance sheets of the Real Estate Properties Business Target Group as at 28 February 2011, 29 February 2012 and 28 February 2013 and 25 August 2013, and the combined profit and loss accounts, the combined statements of comprehensive income, the combined statements of changes in equity and the combined cash flow statements of the Real Estate Properties Business Target Group for each of the years ended 28 February 2011, 29 February 2012 and 28 February 2013 and the six months ended 25 August 2013 (the "**Relevant Periods**") and a summary of significant accounting policies and other explanatory information (the "**Financial Information**").

This Financial Information set out in Sections I to III below has been prepared for inclusion in Appendix II-B to the circular of China Resources Enterprise, Limited (the "**Company**") dated 25 February 2014 (the "**Circular**") in connection with the proposed formation of joint venture with Tesco PLC.

The Real Estate Properties Business Target Group have adopted 28 or 29 February as their financial year end date.

The audited financial statements of the companies comprising the Real Estate Properties Business Target Group as at the date of this report for which there are statutory audit requirements have been prepared in accordance with the relevant accounting principles generally accepted in their place of incorporation. The details of the statutory auditors of these companies are set out in Note 33 of Section II.

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The directors of the China Property Holdings (HK) Limited are responsible for the preparation of the combined financial statements of the Real Estate Properties Business Target Group for the Relevant Periods that are fairly presented in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board (the "**Underlying Financial Statements**"), and for such internal control as the directors determine is necessary to enable the preparation of the Underlying Financial Statements that are free from material misstatement, whether due to fraud or error. PricewaterhouseCoopers Zhong Tian LLP, a certified public accountant registered in People's Republic of China has audited the Underlying Financial Statements in accordance with International Standards on Auditing (the "**ISAs**") issued by the International Auditing and Assurance Standards Board ("**IAASB**") pursuant to separate terms of engagement.

The Financial Information has been prepared based on the Underlying Financial Statements, after making such adjustments as are appropriate, and on the basis set out in Note 2 of Section II below.

Directors' Responsibility for the Financial Information

The directors of the Company are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2 of Section II below and the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and accounting policies adopted by the Company and its subsidiaries (together, the "**Group**") as set out in the interim report of the Company for the period ended 30 June 2013.

Reporting Accountant's Responsibility

Our responsibility is to express an opinion on the Financial Information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

Opinion

In our opinion, the Financial Information gives, for the purpose of this report and presented on the basis set out in Note 2 of Section II below, a true and fair view of the state of affairs of the combined state of affairs of the Real Estate Properties Business Target Group as at 28 February 2011, 29 February 2012 and 28 February 2013 and 25 August 2013 and of the Real Estate Properties Business Target Group's combined results and cash flows for the Relevant Periods then ended.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information set out in Sections I to II below included in Appendix II-B to the Circular which comprises the combined profit and loss account, the combined statement of comprehensive income, the combined statement of changes in equity and the combined cash flow statement of the Real Estate Properties Business Target Group for the six months ended 26 August 2012 and a summary of significant accounting policies and other explanatory information (the "**Stub Period Comparative Financial Information**").

The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation set out in Note 2 of Section II below and accounting policies set out in Note 4 of Section II below and the accounting policies adopted by the Group as set out in the interim report of the Company for the period ended 30 June 2013.

Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review of Stub Period Comparative Financial Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purpose of this report and presented on the basis set out in Note 2 of Section II below, is not prepared, in all material respects, in accordance with the accounting policies set out in Note 4 of Section II below.

I FINANCIAL INFORMATION OF THE REAL ESTATE PROPERTIES BUSINESS TARGET GROUP

The following is the Financial Information of the Real Estate Properties Business Target Group prepared by the directors of the Company as at 28 February 2011, 29 February 2012 and 28 February 2013 and 25 August 2013 and for each of the years ended 28 February 2011, 29 February 2012 and 28 February 2013 and the six months ended 26 August 2012 and 25 August 2013.

COMBINED PROFIT AND LOSS ACCOUNTS

		Year ended			Six months ended	
	Notes	**28 February 2011**	**29 February 2012**	**28 February 2013**	**26 August 2012**	**25 August 2013**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Turnover	*9*	25,136	59,187	70,781	34,471	33,319
Cost of sales		(8,914)	(16,986)	(21,050)	(10,632)	(9,841)
Gross profit		16,222	42,201	49,731	23,839	23,478
Other income	*10*	56,383	57,114	93,609	58,060	31,388
Selling and distribution expenses		(4,400)	(2,488)	(1,356)	(2,045)	(182)
General and administrative expenses		(229,651)	(352,595)	(347,867)	(200,962)	(134,296)
Other loss/(gains) – net	*11*	(212,840)	(6,528)	(219,058)	(42,196)	6,343
Finance income	*12*	5,037	32,508	54,556	26,207	25,661
Finance costs	*12*	(19,246)	(42,104)	(29,808)	(25,948)	(23,032)
Share of losses of joint ventures	*19*	(24,186)	(22,128)	(192,061)	(84,907)	(18,201)
Loss before taxation		(412,681)	(294,020)	(592,254)	(247,952)	(88,841)
Taxation	*17*	(2,216)	(3,688)	(11,235)	(3,630)	(61)
Loss for the year/period	*13*	(414,897)	(297,708)	(603,489)	(251,582)	(88,902)
Attributable to:						
Owner of the Real Estate Properties Business Target Group		(414,768)	(297,708)	(603,489)	(251,582)	(88,902)
Non-controlling interests		(129)	–	–	–	–
		(414,897)	(297,708)	(603,489)	(251,582)	(88,902)

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended			Six months ended	
	28 February 2011	29 February 2012	28 February 2013	26 August 2012	25 August 2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Loss for the year/period	(414,897)	(297,708)	(603,489)	(251,582)	(88,902)
Other comprehensive loss					
Currency translation differences	(8,297)	–	–	–	–
Total comprehensive loss for the year/period	(423,194)	(297,708)	(603,489)	(251,582)	(88,902)
Attributable to:					
Owner of the Real Estate Properties Business Target Group	(423,065)	(297,708)	(603,489)	(251,582)	(88,902)
Non-controlling interests	(129)	–	–	–	–
	(423,194)	(297,708)	(603,489)	(251,582)	(88,902)

COMBINED BALANCE SHEETS

	Notes	28 February 2011 RMB'000	29 February 2012 RMB'000	28 February 2013 RMB'000	25 August 2013 RMB'000
Non-current assets					
Fixed assets					
– Investment properties	18	3,372,832	4,606,533	5,203,797	5,830,565
– Other property, plant and equipment	18	48,922	90,083	70,119	69,531
Investments in joint ventures	19	1,700,164	2,054,267	1,892,925	2,013,759
Trade and other receivables	20	392,441	396,834	414,769	418,283
Total non-current assets		5,514,359	7,147,717	7,581,610	8,332,138
Current assets					
Trade and other receivables	20	612,500	255,510	352,673	453,346
Cash and bank balances		1,748,202	1,707,595	1,464,465	1,135,572
Derivative financial instruments	21	–	–	267	17,633
		2,360,702	1,963,105	1,817,405	1,606,551
Non-current assets held for sale	22	–	–	351,617	398,928
		2,360,702	1,963,105	2,169,022	2,005,479
Current liabilities					
Trade and other payables	23	(728,033)	(848,912)	(940,884)	(934,266)
Short term loans	25	(874,169)	(1,100,027)	(1,073,074)	(1,193,268)
Derivative financial instruments	21	–	–	(744)	–
Taxation payable		(2,909)	(3,626)	(369)	(404)
		(1,605,111)	(1,952,565)	(2,015,071)	(2,127,938)
Net current assets/(liabilities)		755,591	10,540	153,951	(122,459)
Total assets less current liabilities		6,269,950	7,158,257	7,735,561	8,209,679

	Notes	28 February 2011 RMB'000	29 February 2012 RMB'000	28 February 2013 RMB'000	25 August 2013 RMB'000
Non-current liabilities					
Long term loans	25	(343,837)	(574,410)	(384,016)	(470,639)
Deferred taxation liabilities	26	–	–	(10,404)	(14,515)
		(343,837)	(574,410)	(394,420)	(485,154)
Net assets		5,926,113	6,583,847	7,341,141	7,724,525
Capital and reserves					
Capital reserve	27	6,391,251	7,339,151	8,698,481	9,169,076
All other reserves	28	4,080	18,521	15,166	21,494
Accumulated losses	28	(476,395)	(773,825)	(1,372,506)	(1,466,045)
		5,918,936	6,583,847	7,341,141	7,724,525
Non-controlling interests		7,177	–	–	–
Total equity		5,926,113	6,583,847	7,341,141	7,724,525

COMBINED CASH FLOW STATEMENTS

		Year ended			Six months ended	
		28 February	29 February	28 February	26 August	25 August
	Notes	2011	2012	2013	2012	2013
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)	
Cash flows from operating activities						
Cash used in operations	*29(a)*	(177,483)	(75,923)	(286,486)	(187,556)	(68,946)
Interest received		5,037	10,875	20,271	13,090	2,843
Interest paid		(13,746)	(31,779)	(35,349)	(26,809)	(24,722)
Net cash used in operating activities		(186,192)	(96,827)	(301,564)	(201,275)	(90,825)
Cash flows from investing activities						
Loan repayments received from joint ventures		–	15,000	16,000	16,000	22,650
Interest received from joint ventures		–	2,609	5,622	1,275	3,955
Proceeds from disposal of fixed assets		32,625	204	1,327	432	1,002
Cash received in connection with the disposal of subsidiaries		270,018	354,684	–	–	–
Addition of fixed assets		(1,960,553)	(848,318)	(939,169)	(459,758)	(601,585)
Acquisitions of subsidiaries, net of cash acquired	*29(b)*	(333,169)	(888,571)	(114,460)	(43,323)	(99,561)
Investments in and loans granted to joint ventures		(501)	(61,545)	(42,661)	(30,000)	(249,035)
Net cash used in investing activities		(1,991,580)	(1,425,937)	(1,073,341)	(515,374)	(922,574)

	Year ended			Six months ended	
	28 February 2011	29 February 2012	28 February 2013	26 August 2012	25 August 2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Cash flows from financing activities					
Proceeds from issue of ordinary shares	1,932,615	947,900	1,359,330	1,044,455	470,595
Proceeds from borrowings	1,351,869	2,581,265	1,396,133	576,093	1,124,848
Repayments of borrowings	(210,477)	(2,047,008)	(1,623,688)	(1,217,044)	(910,937)
Net cash from financing activities	3,074,007	1,482,157	1,131,775	403,504	684,506
Net increase/(decrease) in cash and cash equivalents	896,235	(40,607)	(243,130)	(313,145)	(328,893)
Cash and cash equivalents at beginning of the year/period	851,967	1,748,202	1,707,595	1,707,595	1,464,465
Cash and cash equivalents at the end of the year/period	1,748,202	1,707,595	1,464,465	1,394,450	1,135,572

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Equity attributable to shareholders of the Real Estate Properties Business Target Group						
	Capital reserve	Share-based payments	Exchange reserve	Accumulated losses	Sub-total	Non-controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 28 February 2010 (unaudited)	4,458,636	–	7,159	(69,140)	4,396,655	7,306	4,403,961
Other comprehensive loss – Exchange reserves	–	–	(8,297)	–	(8,297)	–	(8,297)
Loss for the year	–	–	–	(414,768)	(414,768)	(129)	(414,897)
Total comprehensive loss	–	–	(8,297)	(414,768)	(423,065)	(129)	(423,194)
Total transaction with owner							
Share-based payments	–	5,218	–	7,513	12,731	–	12,731
Proceeds from shares issued	1,932,615	–	–	–	1,932,615	–	1,932,615
Total transaction with owner	1,932,615	5,218	–	7,513	1,945,346	–	1,945,346
At 28 February 2011	6,391,251	5,218	(1,138)	(476,395)	5,918,936	7,177	5,926,113
At 28 February 2011	6,391,251	5,218	(1,138)	(476,395)	5,918,936	7,177	5,926,113
Total comprehensive loss							
Loss for the year	–	–	–	(297,708)	(297,708)	–	(297,708)
Transactions with owner							
Share-based payments	–	14,347	–	278	14,625	–	14,625
Proceeds from shares issued	947,900	–	–	–	947,900	–	947,900
Disposal of a subsidiary	–	–	94	–	94	(7,177)	(7,083)
Total transaction with owner	947,900	14,347	94	278	962,619	(7,177)	955,442
At 29 February 2012	7,339,151	19,565	(1,044)	(773,825)	6,583,847	–	6,583,847

	Equity attributable to shareholders of the Real Estate Properties Business Target Group						
	Capital reserve	Share-based payments	Exchange reserve	Accumulated losses	Sub-total	Non-controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 29 February 2012	7,339,151	19,565	(1,044)	(773,825)	6,583,847	–	6,583,847
Total comprehensive loss							
Loss for the year	–	–	–	(603,489)	(603,489)	–	(603,489)
Transactions with owner							
Share-based payments	–	(3,355)	–	4,808	1,453	–	1,453
Proceeds from shares issued	1,359,330	–	–	–	1,359,330	–	1,359,330
Total transactions with owner	1,359,330	(3,355)	–	4,808	1,360,783	–	1,360,783
At 28 February 2013	8,698,481	16,210	(1,044)	(1,372,506)	7,341,141	–	7,341,141
At 28 February 2013	8,698,481	16,210	(1,044)	(1,372,506)	7,341,141	–	7,341,141
Total comprehensive loss							
Loss for the period	–	–	–	(88,902)	(88,902)	–	(88,902)
Transactions with owner							
Share-based payments	–	6,328	–	(4,637)	1,691	–	1,691
Proceeds from shares issued	470,595	–	–	–	470,595	–	470,595
Total transactions with owner	470,595	6,328	–	(4,637)	472,286	–	472,286
At 25 August 2013	9,169,076	22,538	(1,044)	(1,466,045)	7,724,525	–	7,724,525

	Equity attributable to shareholders of the Real Estate Properties Business Target Group						
	Capital reserve	Share-based payments	Exchange reserve	Accumulated losses	Sub-total	Non-controlling interests	Total equity
	RMB'000 *(Note 27)*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
(Unaudited)							
At 29 February 2012	7,339,151	19,565	(1,044)	(773,825)	6,583,847	–	6,583,847
Total comprehensive loss							
Loss for the period	–	–	–	(251,582)	(251,582)	–	(251,582)
Transactions with owner							
Share-based payment	–	14,543	–	–	14,543	–	14,543
Proceeds from shares issued	1,044,455	–	–	–	1,044,455	–	1,044,455
Total transactions with owner	1,044,455	14,543	–	–	1,058,998	–	1,058,998
At 26 August 2012	8,383,606	34,108	(1,044)	(1,025,407)	7,391,263	–	7,391,263

II NOTES TO THE FINANCIAL INFORMATION

1. GENERAL

The combined financial statements of the Real Estate Properties Business Target Group comprise the subsidiaries of China Property Holdings (HK) Limited ("CPHL") and 50% equity interests in the real estate joint ventures ("Real Estate Joint Ventures"), principally engaged in the Real Estate Properties Business in Chinese Mainland ("Properties Business"), as set out in the note 19 and note 33 to the combined financial statements. CPHL is a wholly owned subsidiary of Tesco PLC.

2. BASIS OF PREPARATION OF COMBINED FINANCIAL STATEMENTS

The combined financial statements are prepared for the purposes of the Company's public circular in relation with a proposed formation of a joint venture with Tesco PLC. As at the end of each financial year of the combined financial statements, Tesco PLC is the legal owner of the Real Estate Properties Business Target Group.

Prior to a restructuring, details of which are set out below, the Real Estate Properties Business Target Group is owned by CPHL. Upon the completion of restructuring, Gain Land Limited will own the Real Estate Properties Business Target Group through the acquisition of Ting Cao (C.I.) Holding Corp. ("Ting Cao"). Prior to that the following restructuring steps are undertaken:

- Wholly owned Property Holding Companies namely, Hong Kong Tesco Beijing Investment Company Limited (HK), Glory Investment International Holdings Limited (BVI), Nanjing Tesco Investments Limited, Pacemaker Investments Limited, Quick Success Investments Limited, Target Choice Limited, Tesco Brookfield (HK) Co. Limited, Tesco China East DC (HK) Limited, Tesco Marlborough (HK) Co. Limited, Tesco Qingdao Mingxia (HK) Co. Limited, Tesco Sheffield (HK) Co. Limited, Tesco Xiamen Xianglu (HK) Co. Limited, and Tesco Yangzhou Weiyang (HK) Investment Limited ("Propco Companies") will be transferred from CPHL to Ting Cao;

- Economic interests of the 50% equity interests in the Real Estate Joint Ventures and several wholly owned subsidiaries managing the Real Estate Joint Ventures will be held by Ting Cao at Completion; and

- Ting Cao will be injected to the Joint Venture between Tesco PLC and the Company.

Pursuant to the Investment Agreement, the assets and liabilities of CPHL ("Non Transferred Entity"), which historically formed part of the Real Estate Properties Business are not transferred to the Joint Venture. As this CPHL is an integral part of the Real Estate Properties Business, the combined financial information for the Relevant Periods includes the Non-Transferred Entity on the same basis as those assets and liabilities to be transferred to the Joint Venture.

The combined financial statements of the companies engaged in the Properties Business have been prepared by the directors of the Company, to present the combined results and cash flows of the Real Estate Properties Business Target Group, which are under the management of CPHL, for each of the three years ended 28 February 2011, 29 February 2012 and 28 February 2013 and each of the two six-months periods ended 26 August 2012 and 25 August 2013 (the "Relevant Periods"), and the combined balance sheets of the Real Estate Properties Business Target Group as of 28 February 2011, 29 February 2012, 26 August 2012, 28 February 2013 and 25 August 2013.

The combined profit and loss accounts, combined statements of comprehensive income, combined statements of cash flows and combined statements of changes in equity of the Real Estate Properties Business Target Group for each of the Relevant Periods have been prepared using the financial information of the companies engaged in the Properties Business, under the common control of CPHL, since the respective dates of incorporation/establishment of the combining companies or since the date when the combining companies or components thereof first came under the control of CPHL, whichever is a shorter period. The combined balance sheets of the Real Estate Properties Business Target Group as at relevant periods have been prepared to present the assets and liabilities of the combining companies engaged in the Properties Business at these dates, as if the Properties Business structure had been in existence as at these dates. The net assets and results of the Properties Business were combined using the existing book values from CPHL's perspective.

The combined financial statements of the Real Estate Properties Business Target Group has been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). Save as specified in the principal accounting policies as set out in note 4, the Financial Information has been prepared under the historical cost convention.

The Real Estate Properties Business Target Group suffered a net loss of RMB88,902 for the six months ended 25 August 2013, and reported accumulated losses of RMB1,466,045 as at 25 August 2013. The Real Estate Properties Business Target Group's current liabilities exceed its current assets by RMB122,459,000. The continuation of the business of the Real Estate Properties Business Target Group largely depends on continuing financial support from Tesco PLC and the Company, so as to enable the Real Estate Properties Business Target Group to meet its liabilities as and when they fall due and to carry on its business without significant curtailment of operations in the foreseeable future. As Tesco PLC and the Company have agreed to provide continuing support to the Real Estate Properties Business Target Group in the twelve months from the approval date of the combined financial statements, the management of the Company believes that the Real Estate Properties Business Target Group will continue as a going concern and, consequently, have prepared the combined financial statements on a going concern basis.

3. ADOPTION OF NEW AND REVISED STANDARDS, AMENDMENTS AND INTERPRETATIONS

New standards, amendments and interpretation to the existing standards that are effective during the Relevant Periods presented have been adopted by Real Estate Properties Business Target Group consistently throughout the Relevant Periods presented unless prohibited by the relevant standard to apply retrospectively.

The following new and revised standards, amendments and interpretations that have been issued but are not yet effective.

HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities
HKAS 36 (Amendments)	Recoverable amount disclosures for non-financial assets
HKAS 39 (Amendments)	Novation of derivatives and continuation of hedge accounting
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures
HKFRS 9	Financial Instruments
HKFRS 10, HKFRS 12 and HKAS 27 (Amendments)	Investment entities
HKFRS Interpretation 21	Levies

The Real Estate Properties Business Target Group has not early applied the new standard, amendments and interpretations that have been issued by the HKICPA but are not yet effective. The Real Estate Properties Business Target Group has already commenced an assessment of the impact of these new standards, amendments and interpretations but is not yet in a position to determine whether these new standards, amendments and interpretations would have a material impact on its results of operations and financial position.

4. PRINCIPAL ACCOUNTING POLICIES

a Consolidation

The combined financial statements of the Real Estate Properties Business Target Group include the financial statements of all companies comprising the Real Estate Properties Business Target Group. The results of subsidiaries acquired or disposed of during the year are included from the effective date of acquisition or up to the effective date of disposal, as appropriate. All material intra-group transactions and balances have been eliminated on consolidation.

Prior to 1 January 2010, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. For decreases in interests in subsidiaries, regardless of whether the disposals would result in the Real Estate Properties Business Target Group losing control over the subsidiaries, the difference between the consideration received and the carrying amount of the share of net assets disposed of was recognized in the combined profit and loss account. From 1 January 2010 onward, changes in the ownership interests in existing subsidiaries comprising the Real Estate Properties Business Target Group that do not involve a loss of control are accounted for as equity transactions, with no impact on goodwill or profit or loss. When control of subsidiary is lost as a result of a transaction, event or other circumstance, the Real Estate Properties Business Target Group derecognises all assets, liabilities and non-controlling interests at their carrying amount. Any retained interest in the former subsidiary is recognised at its fair value at the date the control is lost, with the gain or loss arising recognised in the combined profit and loss account.

b Subsidiaries

A subsidiary is an entity (including a structured entity) over which the Real Estate Properties Business Target Group has control. The Real Estate Properties Business Target Group controls an entity when the Real Estate Properties Business Target Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Real Estate Properties Business Target Group. They are deconsolidated from the date that control ceases.

c Joint Ventures

The Real Estate Properties Business Target Group's share of the results of joint ventures is included in the combined profit and loss account using the equity method of accounting. Investments in joint ventures are carried in the balance sheet at cost plus post-acquisition changes in the Real Estate Properties Business Target Group's share of the net assets of the entity, less any impairment in value. The carrying values of investments in joint ventures include acquired goodwill.

If the Real Estate Properties Business Target Group's share of losses in a joint venture equals or exceeds its investment in the joint venture, the Real Estate Properties Business Target Group does not recognise further losses, unless it has incurred obligations to do so or made payments on behalf of the joint venture.

Unrealised gains arising from transactions with joint ventures are eliminated to the extent of the Real Estate Properties Business Target Group's interest in the entities.

d Financial assets and liabilities

The Real Estate Properties Business Target Group's financial assets are classified as "loans and receivables". Financial liabilities are classified as "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". Details of classifications and measurements are as follows:

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market which are initially measured at fair value. At each balance sheet date subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses.

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Objective evidence of impairment includes significant financial difficulty of the debtors, the Real Estate Properties Business Target Group's past experience of collecting payments, and observable changes in national of local economic conditions that correlate with default on receivables.

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(b) Other financial liabilities

Other financial liabilities are initially measured at fair value and subsequently measured at amortised cost, using the effective interest method.

(c) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Real Estate Properties Business Target Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in the profit and loss account.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the profit and loss account.

e Fixed assets

(a) Investment properties

Investment properties are interests in land and buildings which are held for long term rental and/or for capital appreciation. Such properties except for investment properties under construction are carried in the balance sheet at their fair values. Changes in fair value of investment properties are recognised directly in the profit and loss account in the period in which they arise.

Investment property under construction is stated at cost less impairment as the fair value is not reliably determinable. Investment property under construction will be remeasured at fair value upon the construction is completed or its fair value becomes reliably determinable (whichever is earlier).

(b) ***Other property, plant and equipment***

Fixed assets other than investment properties are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation of other fixed assets is provided to write off the cost of the assets over their estimated useful lives and after taking into account their estimated residual values, using the straight line method. The residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date. The estimated useful lives are as follows:

–	Plant and machinery, furniture and equipment	5 to 25 years
–	Motor vehicles	5 to 6 years
–	Leasehold improvements	3 to 10 years or over the expired term of lease, whichever is shorter

(c) ***Impairment of fixed assets***

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets other than investment properties are impaired. If any such indication exists, the recoverable amount of the assets is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

Where an impairment loss subsequently reverses, the carrying amount of the assets is increased to the revised estimate of its recoverable amount. Such reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the profit and loss account in the year in which the reversals are recognised.

The gain or loss on the disposal or retirement of an item of fixed assets is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit and loss account.

f Deferred taxation

Deferred taxation is provided in full on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with limited exceptions. Deferred taxation assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred taxation is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

g Assets held for sale

Non-current assets or disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Non-current assets or disposal groups classified as held for sale are measured at the lower of the assets' or disposal groups' previous carrying amount and fair value less costs to sell.

h Derivative financial instruments

Derivative financial instruments are recognised at fair value at each balance sheet date and are deemed as held-for-trading financial assets/liabilities, unless they are designated and qualified as effective hedging instruments. The Real Estate Properties Business Target Group designates certain derivatives as either fair value hedges or cash flow hedges.

i Recognition of revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business and net of discounts.

Sales are recognised upon delivery of services and interest income is recognised in the profit and loss account as it accrues.

j Operating lease charges

All leases which do not transfer substantially all the risks and rewards of ownership to the Real Estate Properties Business Target Group are classified as operating leases.

Rental income or expense arising from operating leases (net of any benefits received and receivable as an incentive to enter into an operating lease) is recognised in the profit and loss account on a straight line basis over the periods of the respective leases except where an alternative basis is more representative of the time pattern of the user's benefit.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

k Foreign exchange

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its function currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non--monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non--monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in the profit and loss account in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Real Estate Properties Business Target Group's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income in the combined financial statements. Exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income.

For the purposes of presenting the combined financial statements, the assets and liabilities of the Real Estate Properties Business Target Group's foreign operations are translated into the presentation currency of the combined financial statements (i.e. Renminbi) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in the Real Estate Properties Business Target

Group's exchange reserve. Such exchange differences are recognised in the combined profit and loss account in the period which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation before 1 January 2005 is treated as non-monetary foreign currency items of the acquirer and reported using the historical cost prevailing at the date of acquisition.

l Share-based payment

The Real Estate Properties Business Target Group's ultimate holding company, Tesco PLC, has granted share options and share bonus to certain employees of Group, for their services rendered, to subscribe for shares of the Tesco PLC in accordance with the Tesco PLC's share option scheme and share bonus schemes. The fair value of services received is determined by reference to the fair value of share options and share bonus granted at the grant date and is expensed over the vesting period, with a corresponding increase in equity or liability.

5. CRITICAL ACCOUNTING ESTIMATES

a Investment properties

The fair value of investment properties are determined annually on market value for existing use basis or calculated on the net rental income and allowing for reversionary income potential. In making the judgment, considerations have been given to assumptions that are mainly based on market conditions existing at the balance sheet date.

In assessing the fair values of investment properties under construction, various factors have been considered and it has been concluded that the fair values are not determinable. For instance, comparable market transactions are infrequent as the investment properties are hypermarkets which are located outside of the city centre. Further, there are no alternative reliable estimates of fair value available, there are no discounted cash flow projections available due to the fact that no tenancy agreements have been entered into.

b Depreciation

The Real Estate Properties Business Target Group exercises judgement to determine useful lives and residual values of property, plant and equipment. The assets are depreciated down to their residual values over their estimated useful lives.

c Impairment of assets

The Real Estate Properties Business Target Group has determined each mall as a separate cash-generating unit for impairment testing. Where there are indicators for impairment, the Real Estate Properties Business Target Group performs an impairment test.

Recoverable amounts for cash-generating units are based on the higher of value in use and fair value less costs to sell. Value in use is calculated from cash flow projections for five years using data from the Real Estate Properties Business Target Group's latest internal forecasts. Fair value less costs of sell are based on either binding sale agreement, active market for an asset, or best information available to reflect the amount the Real Estate Properties Business Target Group could obtain at the end of the reporting period, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal.

d Impairment of loans and receivables

The Real Estate Properties Business Target Group's loan impairment provisions are established to recognise incurred impairment losses in its portfolio of loans classified as loans and receivables and carried at amortised cost.

e Income taxes

Given the nature of the Real Estate Properties Business Target Group's business, there are transactions and calculations for which the ultimate tax determination is uncertain. The Real Estate Properties Business Target Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Real Estate Properties Business Target Group's activities expose it to a variety of financial risks: credit risk, liquidity risk, interest rate risk and currency risk. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Credit risk

The Real Estate Properties Business Target Group has no significant concentrations of credit risk. The carrying amounts of cash and cash equivalents and trade and other receivables included in the combined balance sheets represent the Real Estate Properties Business Target Group's maximum exposure to credit risk in relation to its financial assets.

Cash deposits have been placed with institutions concluded to have high-credit-quality which are considered to have minimal risk. Management does not expect any losses from non-performance of any counterparties.

The Real Estate Properties Business Target Group has policies in place to ensure that lease of properties are made to tenants with an appropriate financial strength and appropriate percentage of down payment. Deposits and down payments are required for tenants before the commencement of the lease. Credit is only granted to larger tenants with sufficient financial strength. It also has other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. Other receivables mainly comprise deposits made to government agencies which are to be recovered upon rental advances received by business partners for business cooperations. The Real Estate Properties Business Target Group closely monitors these deposits and advances to ensure that actions are taken to recover these balances in the case of any risk of default.

(b) Liquidity risk

The Real Estate Properties Business Target Group's policy on liquidity risk management is to consistently maintain a prudent financial policy and maintain sufficient cash and the availability of long-term funding. The Real Estate Properties Business Target Group's liquidity position is closely monitored by management.

The table below analyses the Real Estate Properties Business Target Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Within 1 year	Between 1 to 2 years	Between 2 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 28 February 2011					
Borrowings	874,169	17,500	90,000	236,337	1,218,006
Interest payments on borrowings	24,749	22,693	59,302	94,768	201,512
Trade and other payables	630,236	–	–	–	630,236
	1,529,154	40,193	149,302	331,105	2,049,754
As at 29 February 2012					
Borrowings	1,100,027	50,500	221,000	302,910	1,674,437
Interest payments on borrowings	65,506	40,988	122,964	145,090	374,548
Trade and other payables	836,258	–	–	–	836,258
	2,001,791	91,488	343,964	448,000	2,885,243
As at 28 February 2013					
Borrowings	1,073,074	35,500	172,500	176,016	1,457,090
Interest payments on borrowings	59,202	28,406	85,217	42,231	215,056
Trade and other payables	931,324	–	–	–	931,324
	2,063,600	63,906	257,717	218,247	2,603,470
As at 25 August 2013					
Borrowings	1,193,268	40,462	281,032	149,145	1,663,907
Interest payments on borrowings	58,499	35,348	87,002	26,609	207,458
Trade and other payables	922,981	–	–	–	922,981
	2,174,748	75,810	368,034	175,754	2,794,346

(c) Interest rate risk

Management does not anticipate significant impact to interest-bearing assets resulted from the changes in the interest rates, because the interest rates of bank deposits are not expected to change significantly.

The Real Estate Properties Business Target Group's exposure to changes in interest rates is mainly attributable to its borrowings. Borrowings issued at variable rates may expose the Real Estate Properties Business Target Group to interest rates risk. As at 28 February 2011, 29 February 2012, 28 February 2013, 26 August 2012 and 25 August 2013, all of the Real Estate Properties Business Target Group's bank borrowings bore at variable interest rates.

The interest rates and repayment terms of the Real Estate Properties Business Target Group's borrowings are disclosed in Note 25.

As at 28 February 2011, 29 February 2012, 28 February 2013, 26 August 2012 and 25 August 2013, if market interest rates on borrowings had been 10 basis point higher/lower with all other variables held constant, the pre-tax loss for the Relevant Periods would have changed as follows:

		Year ended		Six months ended	
	28 February 2011	**29 February 2012**	**28 February 2013**	**26 August 2012**	**25 August 2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Pre-tax loss increase/(decrease)					
– 10 basis points higher	1,018	899	691	762	470
– 10 basis points lower	(1,018)	(899)	(691)	(762)	(470)

(d) Foreign exchange risk

The functional currency of all the companies comprising the Real Estate Properties Business Target Group is RMB, so the bank balances, certain amount due from/to related parties and certain borrowings denominated in foreign currencies are subject to translation at each reporting date. Fluctuation of the exchange rates for RMB against foreign currencies could affect the Real Estate Properties Business Target Group's results of operations. Management used forward contracts to manage part of the Real Estate Properties Business Target Group's foreign exchange risk against its functional currency (Note 21).

As at 28 February 2011, 29 February 2012, 28 February 2013 and 25 August 2013, if RMB had strengthened/weakened by 10% against US$ with all variables held constant, the pre-tax loss for the Relevant Periods would have changed as follows:

		Year ended		Six months ended	
	28 February 2011	**29 February 2012**	**28 February 2013**	**26 August 2012**	**25 August 2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Pre-tax loss increase/(decrease)					
– 10% higher	102,420	92,378	120,272	98,501	73,135
– 10% lower	(102,420)	(92,378)	(120,272)	(98,501)	(73,135)

7. CAPITAL RISK MANAGEMENT

The Real Estate Properties Business Target Group's objectives when managing capital are to safeguard the Real Estate Properties Business Target Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Real Estate Properties Business Target Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debts.

Consistent with others in the industry, the Real Estate Properties Business Target Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the combined balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the combined balance sheet plus net debt.

The gearing ratios at 28 February 2011, 29 February 2012, 28 February 2013 and 25 August 2013 were as follows:

	28 February 2011	**29 February 2012**	**28 February 2013**	**25 August 2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Borrowings	1,218,006	1,674,437	1,457,090	1,663,907
Less: Cash and cash equivalents	(1,748,202)	(1,707,595)	(1,464,465)	(1,135,572)
Net debt	(530,196)	(33,158)	(7,375)	528,335
Total equity	5,926,113	6,583,847	7,341,141	7,724,525
Total capital	5,395,917	6,550,689	7,333,766	8,252,860
Gearing ratio	0%	0%	0%	6%

8. FAIR VALUE ESTIMATION

The table below analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

– Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

– Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

– Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Real Estate Properties Business Target Group's assets and liabilities that are measured at fair value at 28 February 2011, 29 February 2012, 28 February 2013 and 25 August 2013 respectively:

	Level 1	Level 2	Level 3	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets:				
Forward foreign exchange contracts				
28 February 2011	–	–	–	–
29 February 2012	–	–	–	–
28 February 2013	–	–	267	267
25 August 2013	–	–	17,633	17,633
Investment properties				
28 February 2011	–	–	–	–
29 February 2012	–	–	–	–
28 February 2013	–	–	–	–
25 August 2013	–	–	658,000	658,000

	Level 1	Level 2	Level 3	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Liabilities:				
Forward foreign exchange contracts				
28 February 2011	–	–	–	–
29 February 2012	–	–	–	–
28 February 2013	–	–	(744)	(744)
25 August 2013	–	–	–	–

There are no transfers between Levels during the year/period.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The directors of the Company have estimated the fair value of the investment properties held by its subsidiaries and joint ventures at the Relevant Periods with reference to valuation reports as at 28 February 2013 and 25 August 2013 prepared by DTZ Debenham Tie Leung Limited, an independent professional valuer. The valuation was arrived at by reference to market evidence of recent transaction prices for similar properties.

Fair values of investment properties have been derived using the Discounted Cash Flow model ("DCF"), which results in the measurements being classified as Level 3 in the fair value hierarchy. DCF involves discounting future net cash flow of the properties to their respective present values by using an appropriate discount rate that reflects the rate of return required by a third party investor for an investment of this type.

The main Level 3 inputs used by the Group are as follows:

– Estimated future net cash flow of the properties

– Discount rates

The estimates are largely consistent with the budgets developed internally by the Real Estate Properties Business Target Group based on management's experience and knowledge of market conditions. The higher the estimated future net cash flow of the properties and the lower the discount rate, results in higher the fair value of investment properties.

There were no changes in valuation techniques during the Relevant Periods.

9. TURNOVER

Turnover of the Real Estate Properties Business Target Group comprises revenues recognised as follows:

	Year ended			Six months ended	
	28 February 2011	**29 February 2012**	**28 February 2013**	**26 August 2012**	**25 August 2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Rental income	14,080	38,021	48,323	23,574	23,882
Property management fees	7,634	15,936	18,914	8,982	8,079
Commission income	3,422	5,230	3,544	1,915	1,358
	25,136	59,187	70,781	34,471	33,319

10. OTHER INCOME

	Year ended			Six months ended	
	28 February 2011	**29 February 2012**	**28 February 2013**	**26 August 2012**	**25 August 2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Service fees *(Note 32(a))*	56,383	57,114	93,609	58,060	31,388

The amount represents the consulting service fees charged to the related parties.

11. OTHER GAINS/ (LOSS) – NET

	Year ended			Six months ended	
	28 February 2011	29 February 2012	28 February 2013	26 August 2012	25 August 2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Fair value loss of investment properties *(Note 18)*	(150,761)	(42,302)	(212,620)	(31,687)	(36,054)
Reversal of provision for impairment on non-current assets held for sale	–	–	–	–	40,000
Gains/(losses) on disposal of subsidiaries (note)	(13,198)	69,340	–	–	–
Foreign exchange gains/(losses)	(51,749)	(47,512)	(15,888)	4,007	(28,342)
Fair value gains/(losses) on derivative financial instruments	20,294	21,060	6,325	(15,548)	30,868
Other gains/(losses)	(17,426)	(7,114)	3,125	1,032	(129)
	(212,840)	(6,528)	(219,058)	(42,196)	6,343

Note:

During the year ended 28 February 2011, the Real Estate Properties Business Target Group disposed 50% of interests in its subsidiaries, Shenyang (BVI) Co., Limited, Pushang (BVI) Co., Limited and Qixing (BVI) Co., Limited to a third party for a consideration of US$42,477,000 (equivalent to RMB279,845,000) and recognised a loss of RMB36,207,000 from the disposal. Pursuant to the revised Articles of Association, the Real Estate Properties Business Target Group and the third party jointly control the operation of these entities after the disposal.

During the year ended 28 February 2011, the Real Estate Properties Business Target Group disposed 50% of interests in a subsidiary, Tesco Nanjing Zhongshan (HK) Co., Limited to a third party for a consideration of US$81,602,000 (equivalent to RMB537,602,000) and recognised a gain of RMB23,009,000 from the disposal. Pursuant to the revised Articles of Association, the Real Estate Properties Business Target Group and the third party jointly control the operation of the entity after the disposal.

During the year ended 29 February 2012, the Real Estate Properties Business Target Group disposed 50% of interests in a subsidiary, Tesco (Fujian) Industry Limited ("Fujian Industry") to a third party for a consideration of US$54,761,000 (equivalent to RMB349,334,000) and recognised a gain of RMB23,328,000 from the disposal. Pursuant to the revised Articles of Association of Fujian Industry, the Real Estate Properties Business Target Group and the third party jointly control the operation of Fujian Industry after the disposal.

During the year ended 29 February 2012, the Real Estate Properties Business Target Group disposed its entire 90% of interests in a subsidiary, Yichia Investment Co., Ltd. to a third party for a consideration of RMB150,000,000 and recognised a gain of RMB46,012,000 from the disposal.

12. FINANCE INCOME AND COSTS

	Year ended			Six months ended	
	28 February 2011	29 February 2012	28 February 2013	26 August 2012	25 August 2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Finance income					
Interest income on bank deposits	1,949	10,875	20,271	13,090	2,843
Interest income on loans to related parties *(Note 32(a))*	3,088	21,633	34,285	13,117	22,818
	5,037	32,508	54,556	26,207	25,661
Finance costs					
Interest on borrowings	(25,501)	(63,628)	(70,708)	(41,569)	(45,276)
Less: interest capitalised	6,255	21,524	40,900	15,621	22,244
	(19,246)	(42,104)	(29,808)	(25,948)	(23,032)

13. LOSS FOR THE YEAR/PERIOD

	Year ended			Six months ended	
	28 February 2011	29 February 2012	28 February 2013	26 August 2012	25 August 2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Loss for the year/period has been arrived at after charging:					
Employment costs, including director's remuneration *(Note 14)*	78,129	187,979	134,713	85,037	49,828
Auditor's remuneration	2,000	2,300	2,300	–	–
Depreciation and impairment charge *(Note 18, 20)*	10,136	16,821	25,082	11,802	11,172
Operating leases expenses	26,284	40,977	34,828	21,677	10,844
And after crediting					
Gross rental income	25,136	59,187	70,781	34,471	33,319
Less: Related out-goings	(8,914)	(16,986)	(21,050)	(10,632)	(9,841)
Net rental income	16,222	42,201	49,731	23,839	23,478

14. DIRECTORS' EMOLUMENTS

The directors did not receive any fees or emoluments in respect of their services to the Real Estate Properties Business Target Group during the year ended 28 February 2011, 29 February 2012, 28 February 2013 and for the six months ended 26 August 2012 and 25 August 2013.

15. FIVE HIGHEST PAID EMPLOYEES

The details of the remunerations paid to the 5 highest paid employees are as follows:

	Year ended			Six months ended	
	28 February 2011	**29 February 2012**	**28 February 2013**	**26 August 2012**	**25 August 2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Basic salaries and other benefits	21,771	23,344	27,701	17,744	10,782
Provident fund contributions	168	434	895	192	623
Bonus	1,844	763	–	–	–
	23,783	24,541	28,596	17,936	11,405

The emoluments of the 5 highest paid individuals were within the following band:

	Year ended			Six months ended	
	28 February 2011	**29 February 2012**	**28 February 2013**	**26 August 2012**	**25 August 2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
RMB				(unaudited)	
1,000,001–1,500,000	–	–	–	–	1
1,500,001–2,000,000	–	–	–	–	2
2,000,001–2,500,000	–	–	–	–	1
2,500,001–3,000,000	–	1	–	1	–
3,000,001–3,500,000	3	1	–	2	–
3,500,001–4,000,000	1	1	–	–	–
4,000,001–4,500,000	–	–	1	2	1
4,500,001–5,000,000	–	–	2	–	–
6,500,001–7,000,000	–	1	–	–	–
7,000,001–7,500,000	–	–	1	–	–
7,500,001–8,000,000	–	–	1	–	–
8,000,001–8,500,000	–	1	–	–	–
10,000,001–10,500,000	1	–	–	–	–
	5	5	5	5	5

16. STAFF PROVIDENT FUND

The employees of the Real Estate Properties Business Target Group in the Chinese Mainland are members of state-managed retirement benefit schemes operated by the respective local government in the Chinese Mainland. The Real Estate Properties Business Target Group is required to contribute a specified percentage of payroll costs to the schemes to fund the benefits. The only obligation of the Real Estate Properties Business Target Group with respect to these schemes is to make the specific contributions.

The total cost charged to the combined profit and loss accounts in respect of the above-mentioned schemes in the Chinese Mainland amounted to approximately RMB9,361,000, RMB22,642,000 and RMB21,975,000 for the year ended at 28 February 2011, 29 February 2012, 28 February 2013, and RMB10,982,000 and RMB3,889,000 for the six months ended at 26 August 2012 and 25 August 2013.

17. TAXATION

(a) Pursuant to the rules and regulations of the BVI, the Real Estate Properties Business Target Group is not subject to any income tax in BVI.

(b) No Hong Kong profits tax has been provided for as the Real Estate Properties Business Target Group has no assessable profit in Hong Kong for the Relevant Periods.

(c) **PRC corporate income tax**

PRC corporate income tax is provided for companies comprising the Real Estate Properties Business Target Group incorporated in the PRC at 25% of the profits for the PRC statutory financial reporting purpose, adjusted for those items, which are not assessable or deductible for the PRC enterprise income tax purpose.

(d) The income tax expenses charged to the combined profit and loss accounts represents:

	Year ended			Six months ended	
	28 February 2011	**29 February 2012**	**28 February 2013**	**26 August 2012**	**25 August 2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Current taxation:					
– PRC enterprise income tax	2,222	778	(2,799)	–	61
– Hong Kong withholding income tax	(6)	2,910	3,630	3,630	–
	2,216	3,688	831	3,630	61
Deferred taxation: *(Note 26)*	–	–	10,404	–	–
	2,216	3,688	11,235	3,630	61

The taxation on the Real Estate Properties Business Target Group's loss before income tax differs from the theoretical amount that would arise using the enacted tax rate applicable to the Real Estate Properties Business Target Group as follows:

	Year ended			Six months ended	
	28 February 2011	**29 February 2012**	**28 February 2013**	**26 August 2012**	**25 August 2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Loss before taxation	(412,681)	(294,020)	(592,254)	(247,952)	(88,841)
Less: share of losses of joint ventures	24,186	22,128	192,061	84,907	18,201
	(388,495)	(271,892)	(400,193)	(163,045)	(70,640)
Tax charge at 25%	(97,124)	(67,973)	(100,048)	(40,761)	(17,660)
Effect of:					
Expenses not deductible for taxation purposes *(note)*	18,767	63,964	56,547	26,376	15,062
Income not subject to taxation	(1,221)	(2,191)	(4,044)	–	(6,203)
Tax losses for which no deferred tax assets were recognised	81,794	9,888	58,780	18,015	8,862
Taxation charged	2,216	3,688	11,235	3,630	61

Note:

Effect of expenses not deductible for income tax purpose mainly resulted from expenses incurred by the entities incorporated in Hong Kong which are not deductible for tax purpose.

18. FIXED ASSETS

	Investment properties *RMB'000*	Other property, plant and equipment *RMB'000*	Total *RMB'000*
Fair value/Cost			
At 28 February 2010 (unaudited)	2,942,553	42,639	2,985,192
Acquisition of subsidiaries *(Note 29b)*	590,384	–	590,384
Additions	2,008,769	30,815	2,039,584
Disposals	(27,972)	(9,602)	(37,574)
Disposal of 50% interest in subsidiaries *(Note 11)*	(1,990,141)	(499)	(1,990,640)
Adjustment on valuation *(Note 11)*	(150,761)	–	(150,761)
At 28 February 2011	3,372,832	63,353	3,436,185
Acquisition of subsidiaries *(Note 29b)*	1,170,314	–	1,170,314
Additions	835,298	22,868	858,166
Transfer	(34,916)	34,916	–
Disposals	–	(230)	(230)
Disposal of a subsidiary *(Note 11)*	(100,769)	–	(100,769)
Disposal of 50% interest in a subsidiary *(Note 11)*	(593,924)	–	(593,924)
Adjustment on valuation *(Note 11)*	(42,302)	–	(42,302)
At 29 February 2012	4,606,533	120,907	4,727,440
Acquisition of a subsidiary *(Note 29b)*	98,064	21	98,085
Additions	1,057,555	11,996	1,069,551
Transfer	(1,824)	1,643	(181)
Disposals	–	(5,305)	(5,305)
Transferred to non-current assets held for sale *(Note 22)*	(343,911)	(16,002)	(359,913)
Adjustment on valuation *(Note 11)*	(212,620)	–	(212,620)
At 28 February 2013	5,203,797	113,260	5,317,057
Additions	670,261	4,624	674,885
Transfer	(7,439)	7,439	–
Disposals	–	(5,080)	(5,080)
Adjustment on valuation *(Note 11)*	(36,054)	–	(36,054)
At 25 August 2013	5,830,565	120,243	5,950,808
(Unaudited)			
At 29 February 2012	4,740,533	91,793	4,832,326
Additions	337,154	7,118	344,272
Transfer	(104)	104	–
Disposals	–	(1,211)	(1,211)
Adjustment on valuation *(Note 11)*	(31,687)	–	(31,687)
At 26 August 2012	5,045,896	97,804	5,143,700

	Investment properties *RMB'000*	Other property, plant and equipment *RMB'000*	Total *RMB'000*
Accumulated depreciation			
At 28 February 2010 (unaudited)	–	(8,988)	(8,988)
Charge for the year	–	(7,942)	(7,942)
Disposals	–	2,499	2,499
At 28 February 2011	–	(14,431)	(14,431)
Charge for the year	–	(16,421)	(16,421)
Disposals	–	28	28
At 29 February 2012	–	(30,824)	(30,824)
Charge for the year	–	(23,532)	(23,532)
Transferred to non-current assets held for sale *(Note 22)*	–	8,477	8,477
Disposals	–	2,738	2,738
At 28 February 2013	–	(43,141)	(43,141)
Charge for the period	–	(10,715)	(10,715)
Disposals	–	3,144	3,144
At 25 August 2013	–	(50,712)	(50,712)
(unaudited)			
At 29 February 2012	–	(27,471)	(27,471)
Charge for the period	–	(11,665)	(11,665)
Disposals	–	364	364
At 26 August 2012	–	(38,772)	(38,772)
Net carrying value			
At 28 February 2011	3,372,832	48,922	3,421,754
At 29 February 2012	4,606,533	90,083	4,696,616
At 28 February 2013	5,203,797	70,119	5,273,916
At 26 August 2012 (unaudited)	5,045,896	59,032	5,104,928
At 25 August 2013	5,830,565	69,531	5,900,096

Total amount of depreciation charges for property, plant and equipment amounted to RMB7,942,000, RMB16,421,000, RMB23,532,000, RMB11,665,000 and RMB10,715,000 for the years ended 28 February 2011, 29 February 2012 and 28 February 2013 and the six months ended 26 August 2012 and 25 August 2013, which were charged to cost of sales and administrative expenses.

The valuation of investment properties at the Relevant Periods are estimated by the directors of the Company with reference to valuation reports as at 28 February 2013 prepared by DTZ Debenham Tie Leung Limited, an independent professional valuer. The valuation was arrived at by reference to market evidence of recent transaction prices for similar properties. Fair values of investment properties under construction are not reliably determinable, are carried at cost less impairment of RMB3,372,832, RMB4,606,533, RMB5,203,797 and RMB5,172,565 at 28 February 2011, 29 February 2012, 28 February 2013 and 25 August 2013 respectively.

Investment properties of RMB1,009,901,000, RMB1,879,207,000, RMB1,183,143,000 and RMB1,132,280,000 at 28 February 2011, 29 February 2012, 28 February 2013 and 25 August 2013 respectively were pledged as collaterals for the Real Estate Properties Business Target Group's borrowings (Note 25).

	28 February 2011	**29 February 2012**	**28 February 2013**	**25 August 2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Carrying amounts of the property interests comprise:				
Chinese mainland				
Properties held on medium-term lease (20-50 years)	3,372,832	4,606,533	5,203,797	5,830,565

19. INVESTMENTS IN JOINT VENTURES

	Year ended			**Six months ended**	
	28 February 2011	**29 February 2012**	**28 February 2013**	**26 August 2012**	**25 August 2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Opening balance	894,700	1,700,164	2,054,267	2,054,267	1,892,925
Share of results – loss for the year/period	(24,186)	(22,128)	(192,061)	(84,907)	(18,201)
Capital injection to joint ventures	–	49,952	30,719	473	–
Additions	829,650	326,279	–	–	–
Amount contributed in a joint venture *(Note)*	–	–	–	–	139,035
Ending balance	1,700,164	2,054,267	1,892,925	1,969,833	2,013,759

Note:

During the six months ended 25 August 2013, the Real Estate Properties Business Target Group contributed RMB139,035,000 to a joint venture, Anshan (BVI) Limited, for property development.

Details of the joint ventures of the Real Estate Properties Business Target Group as at 28 February 2011, 29 February 2012, 28 February 2013 and 25 August 2013 are as below:

		% interests held during the Relevant Periods				
Name of entity	Country of incorporation	28 February 2011	29 February 2012	28 February 2013	25 August 2013	Measurement method
Qinhuangdao (BVI) Limited	British Virgin Islands	50%	50%	50%	50%	Equity
Anshan (BVI) Limited	British Virgin Islands	50%	50%	50%	50%	Equity
Fushun (BVI) Limited	British Virgin Islands	50%	50%	50%	50%	Equity
Tesco Nanjing Zhongshan (HK) Co., Limited ("Nanjing Zhongshan")	Hong Kong	50%	50%	50%	50%	Equity
Pushang (BVI) Co., Limited	British Virgin Islands	50%	50%	50%	50%	Equity
Shenyang (BVI) Co., Limited	British Virgin Islands	50%	50%	50%	50%	Equity
Qixing (BVI) Co., Limited	British Virgin Islands	50%	50%	50%	50%	Equity
Tesco (Fujian) Industry Limited	PRC	100%	50%	50%	50%	Equity

The summarised financial information in respect of the Real Estate Properties Business Target Group's joint ventures which are accounted for using the equity method is set out below:

	28 February 2011	29 February 2012	28 February 2013	25 August 2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets				
Non-current assets	947,996	2,676,081	2,721,518	2,951,521
Current assets	1,845,288	1,009,656	895,017	837,131
	2,793,284	3,685,737	3,616,535	3,788,652
Liabilities				
Non-current liabilities	536,174	1,056,995	625,979	823,985
Current liabilities	556,946	574,475	1,097,631	950,908
	1,093,120	1,631,470	1,723,610	1,774,893
Net assets	1,700,164	2,054,267	1,892,925	2,013,759

	Year ended			Six months ended	
	28 February 2011	**29 February 2012**	**28 February 2013**	**26 August 2012**	**25 August 2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Income	109,070	321,455	162,304	116,051	194,314
Expenses	(133,256)	(343,583)	(354,365)	(200,958)	(212,515)
Loss after tax	(24,186)	(22,128)	(192,061)	(84,907)	(18,201)

The information above reflects the amounts presented in the financial statements of the joint ventures adjusted for differences in accounting policies between the Real Estate Properties Business Target Group and the joint ventures.

20. TRADE AND OTHER RECEIVABLES

	28 February 2011	**29 February 2012**	**28 February 2013**	**25 August 2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables – net *(Note (a))*	1,411	2,715	16,360	11,207
Loans to related parties *(Note 32(c))*	334,395	384,533	430,316	527,221
Amounts due from related parties *(Note 32(b))*	163,527	77,149	80,909	92,146
Receivables from disposal of subsidiaries *(Note (b))*	279,845	124,796	124,796	124,796
Other receivables	225,763	63,151	115,061	116,259
	1,004,941	652,344	767,442	871,629
Less non-current portion:				
Loans to related parties	334,395	338,788	356,723	360,237
Receivables from disposal of subsidiaries *(Note (b))*	58,046	58,046	58,046	58,046
	392,441	396,834	414,769	418,283
Current portion:	612,500	255,510	352,673	453,346

As at 28 February 2011, 29 February 2012, 28 February 2013 and 25 August 2013, the fair values of trade receivables and other receivables approximated their carrying amounts.

Notes:

(a) Trade receivables are mainly rental receivable for lease of properties. Rental in respect of properties leased are to be received in accordance with the terms of the related lease agreements as follows:

	28 February 2011	29 February 2012	28 February 2013	25 August 2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 90 days	1,341	2,467	15,502	10,271
Over 90 days and within 1 year	2,029	1,147	2,503	3,183
Over 1 year	235	1,695	501	356
	3,605	5,309	18,506	13,810

The aging analysis of these trade receivables past due but not impaired is as follows:

	28 February 2011	29 February 2012	28 February 2013	25 August 2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 90 days	286	1,962	14,462	10,180
Over 90 days	–	310	974	936
	286	2,272	15,436	11,116

As at 28 February 2011, 29 February 2012, 28 February 2013 and 25 August 2013, trade receivables of RMB2,194,000, RMB2,594,000, RMB2,146,000 and RMB2,603,000 respectively were considered impaired.

(b) The amount represents an aggregate unsettled consideration of RMB279,845,000 RMB124,796,000, RMB124,796,000, RMB124,796,000 respectively as at 28 February 2011, 29 February 2012, 28 February 2013 and 25 August 2013 in connection with the disposals of 50% interests in subsidiaries to be received from buyers, including RMB58,046,000 will be collected after 12 months.

Movement on the provision for impairment of trade receivables are as follows:

	Year ended			Six months ended	
	28 February 2011	29 February 2012	28 February 2013	26 August 2012	25 August 2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Opening balance	–	2,194	2,594	2,594	2,146
Provision for receivables impairment	2,194	400	1,550	137	457
Receivables written off during the year/period as uncollectible	–	–	(1,998)	(931)	–
Ending balance	2,194	2,594	2,146	1,800	2,603

21. DERIVATIVE FINANCIAL INSTRUMENTS

	28 February 2011	29 February 2012	28 February 2013	25 August 2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets:				
Forward foreign exchange contracts	–	–	267	17,633
Liabilities:				
Forward foreign exchange contracts	–	–	(744)	–
	–	–	(477)	17,633

As at 28 February 2013 and 25 August 2013, all forward foreign exchange contracts will be matured in 12 months. All the derivatives do not qualify for hedge accounting.

As at 28 February 2013 and 25 August 2013, the notional principal amounts of the outstanding forward foreign exchange contracts were US$170,000,000.

22. NON-CURRENT ASSETS HELD FOR SALE

Pursuant to the board resolution on 7 May 2013, a transfer agreement was entered into between the Real Estate Properties Business Target Group and a third party to dispose the Real Estate Properties Business Target Group's entire 100% equity interest in a subsidiary for a consideration of RMB487,619,000. The disposal was completed in September 2013.

The assets of the disposal group with an aggregate carrying amount of RMB351,617,000 were transferred to current assets as non-current assets held for sale as at 28 February 2013.

	28 February 2011	29 February 2012	28 February 2013	25 August 2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets of disposal group classified as held for sale				
Property, plant and equipment	–	–	110,782	158,093
Land use rights	–	–	240,835	240,835
Total assets	–	–	351,617	398,928

As at 28 February 2013, assets held-for-sale of RMB103,077,000 were pledged as collaterals for the Real Estate Properties Business Target Group's borrowings (Note 25).

23. TRADE AND OTHER PAYABLES

	28 February 2011 *RMB'000*	29 February 2012 *RMB'000*	28 February 2013 *RMB'000*	25 August 2013 *RMB'000*
Trade payables	201,606	204,839	341,569	438,132
Payable for acquisition of subsidiaries	306,884	378,716	341,986	236,144
Other taxation	3,598	5,981	3,609	3,507
Other payables	29,643	103,838	58,297	52,788
Amounts payable to related parties *(Note 32(b))*	92,103	69,352	88,121	102,559
Accruals	94,199	86,186	107,302	101,136
	728,033	848,912	940,884	934,266

The following is an aging analysis of trade payables at the balance sheet date:

	28 February 2011 *RMB'000*	29 February 2012 *RMB'000*	28 February 2013 *RMB'000*	25 August 2013 *RMB'000*
0–30 Days	109,482	101,040	315,076	177,573
31–60 Days	80,507	66,304	328	9,984
61–90 Days	4,120	(1,720)	1,310	1,013
> 90 Days	7,497	39,215	24,855	249,562
	201,606	204,839	341,569	438,132

24. SHARE-BASED PAYMENTS

During the Relevant Periods, the Real Estate Properties Business Target Group recognised or reversed the following share-based payments to be settled in equity or cash, which is made up of share option schemes and share bonus payments:

	Year ended			Six months ended	
	28 February 2011 *RMB'000*	29 February 2012 *RMB'000*	28 February 2013 *RMB'000*	26 August 2012 *RMB'000* (unaudited)	25 August 2013 *RMB'000*
Settlement in equity	7,594	16,029	(2,072)	14,543	6,328
Settlement in cash	(519)	9,503	1,493	5,975	4,520
Total share-based payments expense/(reversal)	7,075	25,532	(579)	20,518	10,848

Share option schemes

The Real Estate Properties Business Target Group had one share option scheme in operation during the financial years/periods, which is an equity-settled scheme:

The Discretionary Share Option Plan (2004) was adopted on 5 July 2004. This scheme permits the grant of approved, unapproved and international options in respect of ordinary shares to selected executives. Options are normally exercisable between three and ten years from the date of grant at a price not less than the middle-market quotation or average middle-market quotations of an ordinary share for the dealing day or three dealing days preceding the date of grant. The exercise of options will normally be conditional upon the achievement of a specified performance target related to the annual percentage growth in earnings per share over a three-year period. There will be no discounted options granted under this scheme.

Movements in the number of share options outstanding and their related weighted average exercise prices ("WAEP") are as follows:

For the year ended 28 February 2011

	Options	**WAEP**
		Pence
Outstanding at 28 February 2010	216,790	346.50
Granted	261,313	419.80
Forfeited	(102,435)	356.54
Outstanding as at 28 February 2011	375,668	394.75

For the year ended 29 February 2012

	Options	**WAEP**
		Pence
Outstanding at 28 February 2011	375,668	394.75
Forfeited	(63,353)	400.38
Outstanding as at 29 February 2012	312,315	393.61

For the year ended 28 February 2013

	Options	**WAEP**
		Pence
Outstanding at 29 February 2012	312,315	393.61
Forfeited	(103,376)	393.64
Outstanding as at 28 February 2013	208,939	391.12

Six months ended 25 August 2013

	Options	WAEP
		Pence
Outstanding at 28 February 2013	208,939	391.12
Forfeited	(141,720)	412.39
Outstanding as at 25 August 2013	67,219	346.27

(Unaudited)
Six months ended 26 August 2012

	Options	WAEP
		Pence
Outstanding at 29 February 2012	312,315	393.61
Forfeited	(40,989)	390.77
Outstanding as at 26 August 2012	271,326	394.04

Share bonus schemes

Selected executives participate in the Real Estate Properties Business Target Group Bonus Plan, a performance-related bonus scheme. The amount paid to employees is based on a percentage of salary and is paid partly in cash and partly in shares. Bonuses are awarded to elected executives who have completed a required service period and depend on the achievement of corporate targets. The accrued/(reversed) cash element of the bonus as at 28 February 2011, 29 February 2012, 28 February 2013 and 25 August 2013 is RMB(6,191,000), RMB2,147,000, RMB(1,247,000) and RMB3,273,000 respectively.

Selected executives participate in the Performance Share Plan (2011). Awards made under this plan will normally vest three years after the date of the award for nil consideration. Vesting will normally be conditional on the achievement of specified performance targets related to the return on capital employed and earnings per share over a three-year performance period.

The fair value of shares awarded under these schemes is their market value on the date of award.

25. BORROWINGS

	28 February 2011	29 February 2012	28 February 2013	25 August 2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current				
Bank borrowings – secured *(Note (a))*	343,837	574,410	384,016	372,145
Bank borrowings – guaranteed *(Note (b))*	–	–	–	98,494
	343,837	574,410	384,016	470,639
Current				
Bank borrowings – secured *(Note (a))*	–	–	156,000	–
Bank borrowings – guaranteed *(Note (b))*	–	299,358	121,000	68,000
Entrusted loans from related parties	864,669	775,169	766,074	1,095,268
Current portion of non-current bank borrowings – secured *(Note (a))*	9,500	25,500	30,000	30,000
	874,169	1,100,027	1,073,074	1,193,268
Total borrowings	1,218,006	1,674,437	1,457,090	1,663,907

Notes:

(a) As at 28 February 2011, the Real Estate Properties Business Target Group's bank borrowings of RMB353,337,000 were secured by its investment properties of RMB1,009,901,000 (Note 18).

As at 29 February 2012, the Real Estate Properties Business Target Group's bank borrowings of RMB599,910,000 were secured by its investment properties of RMB1,879,207,000 (Note 18).

As at 28 February 2013, the Real Estate Properties Business Target Group's bank borrowings of RMB570,016,000 were secured by its investment properties of RMB1,183,143,000 (Note 18) and non-current assets held-for-sale of RMB103,077,000 (Note 22).

As at 25 August 2013, the Real Estate Properties Business Target Group's bank borrowings of RMB402,145,000 were secured by its investment properties of RMB1,132,280,000 (Note 18).

(b) As at 28 February 2011, 29 February 2012, 28 February 2013 and 25 August 2013, the Real Estate Properties Business Target Group's bank borrowings of Nil, RMB299,358,000, RMB121,000,000 and RMB68,000,000 were guaranteed by Tesco PLC, the Real Estate Properties Business Target Group's ultimate parent company. As at 25 August 2013, the Real Estate Properties Business Target Group's bank borrowings of RMB98,494,000 were guaranteed by Tesco Holdings (China) Co., Ltd, a subsidiary of Tesco PLC.

The Real Estate Properties Business Target Group's borrowings were repayable as follows:

	28 February 2011	29 February 2012	28 February 2013	25 August 2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	874,169	1,100,027	1,073,074	1,193,268
Between 1 and 2 years	17,500	50,500	35,500	40,462
Between 2 and 5 years	90,000	221,000	172,500	281,032
Over 5 years	236,337	302,910	176,016	149,145
	1,218,006	1,674,437	1,457,090	1,663,907

The exposure of the Real Estate Properties Business Target Group's borrowings to interest rate changes and the contractual repricing dates or maturity whichever is the earlier date are as follows:

	6 months or less	6 – 12 months	Total
	RMB'000	*RMB'000*	*RMB'000*
Borrowings included in non-current liabilities:			
At 28 February 2011	236,000	107,837	343,837
At 29 February 2012	226,000	348,410	574,410
At 28 February 2013	–	384,016	384,016
At 25 August 2013	–	470,639	470,639
Borrowings included in current liabilities:			
At 28 February 2011	672,379	201,790	874,169
At 29 February 2012	967,786	132,241	1,100,027
At 28 February 2013	526,074	547,000	1,073,074
At 25 August 2013	522,308	670,960	1,193,268

The weighted average effective interest rate of borrowings as at 28 February 2011, 29 February 2012, 28 February 2013 and 25 August 2013 were 5.84%, 4.26%, 4.77% and 4.66% respectively per annum.

The carrying amounts and fair values of non-current borrowings are as follows:

	Carrying amounts	Fair values
	RMB'000	*RMB'000*
At 28 February 2011	343,837	355,455
At 29 February 2012	574,410	591,766
At 28 February 2013	384,016	399,765
At 25 August 2013	470,639	488,628

The carrying amounts of short-term borrowings approximate their fair values. The fair values are based on cash flows discounted using rates based on weighted average borrowing rates of 6.60%, 6.55%, 6.55% and 6.55% as at 28 February 2011, 29 February 2012, 28 February 2013 and 25 August 2013 respectively.

26. DEFERRED TAXATION

The movements in the deferred taxation liabilities are as follows:

	Year ended			Six months ended	
	28 February 2011	**29 February 2012**	**28 February 2013**	**26 August 2012**	**25 August 2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Opening balance	–	–	–	–	(10,404)
Opening adjustments	–	–	–	–	(4,111)
Others *(Note 17)*	–	–	(10,404)	–	–
Ending balance	–	–	(10,404)	–	(14,515)

The Real Estate Properties Business Target Group did not recognise deferred income tax assets of RMB112,124,000, RMB122,012,000, RMB180,792,000, RMB189,654,000 in respect of tax losses amount to RMB448,773,000, RMB488,048,000, RMB723,168,000, RMB758,615,000 as at 28 February 2011, 29 February 2012, 28 February 2013 and 25 August 2013 respectively due to the unpredictability of future profit streams. All these tax losses will expire within five years.

27. CAPITAL RESERVE

Capital reserve mainly represents the aggregate share capital and share premium of the companies comprising the Real Estate Properties Business Target Group

28. ALL OTHER RESERVES AND ACCUMULATED LOSSES

Details of changes in all other reserves and accumulated losses of the Real Estate Properties Business Target Group are set out in the combined statement of changes in equity on pages 10 to 12.

29. NOTE TO THE COMBINED CASH FLOWS STATEMENT

(a) Cash used in operations

	Year ended			Six months ended	
	28 February 2011	29 February 2012	28 February 2013	26 August 2012	25 August 2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Loss after income tax	(414,897)	(297,708)	(603,489)	(251,582)	(88,902)
Adjustments for:					
Additional/(reversal of) provision of impairment charges	2,194	400	1,550	137	(39,543)
Fair value loss of investment properties	150,761	42,302	212,620	31,687	36,054
(Gains)/losses on sales of property, plant and equipment	(2,951)	(2)	1,240	415	934
Share of losses from joint ventures	24,186	22,128	192,061	84,907	18,201
Depreciation	7,942	16,421	23,532	11,665	10,715
Finance income	(5,037)	(32,508)	(54,556)	(26,207)	(25,661)
Finance costs	19,246	42,104	29,808	25,948	23,032
Exchange (gains)/losses of borrowings and loans to related parties	(351)	3,105	3,420	220	(1,016)
Losses/(gains) on disposal of subsidiaries	13,198	(69,340)	–	–	–
	(205,709)	(273,098)	(193,814)	(122,810)	(66,186)
Changes in working capital:					
Trade and other receivables	(19,306)	168,288	(89,447)	(89,825)	(20,441)
Trade and other payables	47,532	28,887	(3,225)	25,079	17,681
Cash used in operations	(177,483)	(75,923)	(286,486)	(187,556)	(68,946)

(b) Acquisition of subsidiaries

During the year ended 28 February 2011, the Real Estate Properties Business Target Group completed acquisitions of 100% equity interests in Zibo Zhangdian Tesco Property Limited, Pacemaker investments limited, Glory Investment International Holdings Limited, Nanjing Tesco Investment Limited and their subsidiaries with total consideration of RMB84,121,000, RMB83,525,000, RMB202,800,000 and RMB167,656,000 respectively.

During the year ended 29 February 2012, the Real Estate Properties Business Target Group completed acquisitions of 100% equity interests in Hong Kong Tesco Beijing Investment Company Limited, Tesco Marlborough (HK) Co. Limited, Quick Success Investments Limited and their subsidiaries with total consideration of RMB511,991,000, RMB284,557,000 and RMB349,779,000 respectively.

During the year ended 28 February 2013, the Real Estate Properties Business Target Group completed acquisitions of 100% equity interest in Tesco Qingdao Zhengyang Property Co., Limited at a total consideration of RMB71,161,000.

The directors consider above acquisitions are asset acquisition in substance rather than business combination, and therefore combined the related assets and liabilities at their respective purchased value directly into the Real Estate Properties Business Target Group's combined financial statements at the date of completion of the transaction.

The assets and liabilities acquired are as below:

	Year ended			Six months ended	
	28 February 2011	**29 February 2012**	**28 February 2013**	**26 August 2012**	**25 August 2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Property, plant and equipment	59,184	42,354	30,108	–	–
Land use rights	531,200	1,127,960	67,977	–	–
Cash and cash equivalents	88,909	1,091	25	–	–
Trade and other receivables	402	9,236	13,088	–	–
Trade and other payables	(141,593)	(34,314)	(30,547)	–	–
Borrowings	–	–	(9,490)	–	–
Total net assets	538,102	1,146,327	71,161	–	–
Total purchase consideration	538,102	1,146,327	71,161	–	–
Less: Consideration settled in receivables	(30,564)	(178,241)	–	–	–
Consideration unsettled	(124,210)	(129,110)	–	–	–
Purchase consideration settled in cash	383,328	838,976	71,161	–	–
Less: Cash and cash equivalents in subsidiary acquired	(88,909)	(1,091)	(25)	–	–
Cash outflow on acquisition	294,419	837,885	71,136	–	–

30. CAPITAL COMMITMENTS

Capital expenditures contracted for at the balance sheet date but not recognised in the combined financial statements including capital commitment for joint ventures are as follows:

	28 February 2011	**29 February 2012**	**28 February 2013**	**25 August 2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Property, plant and equipment	4,249,042	2,764,019	2,397,524	2,103,127

31. OPERATING LEASE COMMITMENTS

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	28 February 2011	**29 February 2012**	**28 February 2013**	**25 August 2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
No later than 1 year	12,146	15,644	7,085	9,286
Between 1 and 2 years	10,862	10,419	10,527	7,866
More than 2 years	6,422	–	2,672	–
	29,430	26,063	20,284	17,152

32. RELATED PARTY TRANSACTIONS

The Real Estate Properties Business Target Group's ultimate parent company is Tesco PLC. The other related parties which have transactions with the Real Estate Properties Business Target Group include:

Related party name	Relationship
Shenyang (BVI) Co., Limited	Joint venture
Pushang (BVI) Co., Limited	Joint venture
Qixing (BVI) Co., Limited	Joint venture
Fushun (BVI) Limited	Joint venture
Anshan (BVI) Limited	Joint venture
Qinhuangdao (BVI) Limited	Joint venture
Tesco (Fujian) Industry Limited	Joint venture
Tesco Nanjing Zhongshan (HK) Co., Limited	Joint venture
Tesco Fujian Property Limited	Subsidiary of a joint venture
Xiamen Hete Property Co., Limited	Subsidiary of a joint venture
Fushun Jinxiu Real Estate Development Co., Ltd.	Subsidiary of a joint venture
Anshan Tesco Real Estate Development Co., Ltd.	Subsidiary of a joint venture
Tesco Qinhuangdao Property Co., Ltd.	Subsidiary of a joint venture
Tesco Shenyang Property Co., Ltd.	Subsidiary of a joint venture
Tesco Nanjing Zhongshan Property Co., Ltd.	Subsidiary of a joint venture
Tesco Commercial (Zhejiang) Co., Ltd.	Subsidiary of Tesco PLC
Tesco Commercial (Shanghai) Co., Ltd.	Subsidiary of Tesco PLC
Tesco Commercial (Jiangsu) Co., Ltd.	Subsidiary of Tesco PLC
Tesco Commercial (Fujian) Co., Ltd.	Subsidiary of Tesco PLC
Tesco Commercial (Liaoning) Co., Ltd.	Subsidiary of Tesco PLC
Tesco Commercial (Anhui) Co., Ltd.	Subsidiary of Tesco PLC
Tesco Commercial (Guangdong) Co., Ltd.	Subsidiary of Tesco PLC
Tesco Commercial (Hebei) Co., Ltd.	Subsidiary of Tesco PLC
Tesco Commercial (Beijing) Co., Limited	Subsidiary of Tesco PLC
Tesco Commercial (Xiamen) Co., Ltd.	Subsidiary of Tesco PLC
Tesco Commercial (Qingdao) Co., Ltd.	Subsidiary of Tesco PLC
Tesco Commercial (Shandong) Co., Ltd.	Subsidiary of Tesco PLC
Tesco Stores Ltd.	Subsidiary of Tesco PLC
Tesco International Services Ltd.	Subsidiary of Tesco PLC
Shanghai Kangcheng Storage Co., Ltd.	Subsidiary of Tesco PLC
Shanghai Qibao Hymall Shopping Center Co., Ltd.	Subsidiary of Tesco PLC
Shanghai Kangren Hymall Hypermarket and Trading Co., Ltd.	Subsidiary of Tesco PLC
Changzhou Wujin Hymall Life Style Shopping Center Co., Ltd.	Subsidiary of Tesco PLC
Shanghai Kangjiao Hymall Hypermarket Co., Ltd.	Subsidiary of Tesco PLC
Shanghai Longhua Hymall Life Style Shopping Co., Ltd.	Subsidiary of Tesco PLC
Tesco Holdings (China) Co., Ltd.	Subsidiary of Tesco PLC
Shanghai Hepan Xingzuan Shopping Co., Ltd.	Subsidiary of Tesco PLC
Tesco Management (Shanghai) Co., Ltd.	Subsidiary of Tesco PLC
Tesco Global Employment Company Limited	Subsidiary of Tesco PLC
TSL Group Costs	Subsidiary of Tesco PLC
Homeplus Co., Limited	Subsidiary of Tesco PLC
Shanghai Hymall Logistics Co., Ltd.	Subsidiary of Tesco PLC
Ningbo Hymall Life Style Shopping Center Co., Ltd.	Subsidiary of Tesco PLC

(a) Save as disclosed elsewhere, during the Relevant Periods, the Real Estate Properties Business Target Group had the following significant transactions with related parties:

	Year ended			Six months ended	
	28 February 2011	**29 February 2012**	**28 February 2013**	**26 August 2012**	**25 August 2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Transactions with ultimate parent company					
Expenses					
Interest expense	185	3,493	3,456	3,166	3,534
Others	793	1,325	1,025	–	–
Income					
Service fees *(Note 10)*	–	40	–	–	–
Interest income *(Note 12)*	3,088	1,346	–	–	–
Transactions with joint ventures					
Income from joint ventures					
Service fees *(Note 10)*	56,266	33,680	30,555	11,915	22,900
Interest income *(Note 12)*	–	20,287	26,496	13,117	22,818
Expenses charged by joint ventures					
Rental and property management fees	2,958	7,285	5,703	2,740	2,225
Transactions with subsidiaries of Tesco PLC					
Income from subsidiaries of Tesco PLC					
Service fees *(Note 10)*	117	23,394	63,054	46,145	8,488
Rental and property management fees *(Note 9)*	8,533	35,983	42,213	22,679	18,124
Interest waived *(Note 12)*	–	–	7,789	–	–
Expenses charged by subsidiaries of Tesco PLC					
Interest expenses	3,440	2,888	19,917	6,497	17,286
Others	72,197	36,789	70,666	23,833	23,863

The transactions between the Real Estate Properties Business Target Group and its related parties are based on the contractual agreements between the parties involved.

(b) The current account balances with related parties of the Real Estate Properties Business Target Group at the balance sheet dates are as follows:

	Notes	**28 February 2011** *RMB'000*	**29 February 2012** *RMB'000*	**28 February 2013** *RMB'000*	**25 August 2013** *RMB'000*
Balances with ultimate parent company					
Trade and other payables	*23*	738	2,570	2,970	3,879
Balances with joint ventures					
Trade and other payables	*23*	9,350	3,020	7,079	3,001
Trade and other receivables	*20*	162,360	69,184	49,454	65,136
Balances with other related parties					
Trade and other payables	*23*	82,015	63,762	78,072	95,679
Trade and other receivables	*20*	1,167	7,965	31,455	27,010

As at 28 February 2011, 29 February 2012, 28 February 2013 and 25 August 2013, these balances with the ultimate parent company and other related parties are either unsecured, interest free and have no fixed terms of repayment; or subject to agreed credit terms in the case of trade receivables.

(c) **Loans to related parties**

	28 February 2011 *RMB'000*	**29 February 2012** *RMB'000*	**28 February 2013** *RMB'000*	**25 August 2013** *RMB'000*
Loans to joint ventures				
Opening balance	–	334,395	384,533	430,316
Loans advanced during year/period	334,395	60,000	42,650	110,000
Loan repayments received	–	(15,000)	(16,000)	(22,650)
Interest charged	–	20,287	26,496	22,818
Interest received	–	(2,609)	(5,622)	(3,955)
Foreign exchanges	–	(12,540)	(1,741)	(9,308)
Ending balance	334,395	384,533	430,316	527,221

33. Particular of companies comprising the Real Estate Properties Business Target Group

Companies now comprising the Real Estate Properties Business Target Group are as follows:

Companies' name	Nominal value of issued ordinary share capital/ registered capital	Percentage of capital attributable to the Group	Principal activities
Incorporated in Hong Kong			
Tesco Yinkou (HK) Co. Limited	319,141,003 ordinary shares of HK$1 each	100.0	Investment holding
Tesco Qingdao Mingxia (HK) Co. Limited	50,475,001 ordinary shares of US$1 each	100.0	Investment holding
Tesco Brookfield (HK) Co. Limited	31,527,000 ordinary shares of US$1 each	100.0	Investment holding
Nanjing Tesco Investments Limited	318,863,481 ordinary shares of HK$1 each	100.0	Investment holding
Tesco Yangzhou Weiyang (HK) Investment Limited	60,069,540 ordinary shares of US$1 each	100.0	Investment holding
Tesco Sheffield (HK) Co. Limited	18,021,001 ordinary shares of US$1 each	100.0	Investment holding
Tesco Guangdong (HK) Co. Limited	11,407 ordinary shares of US$1 each	100.0	Investment holding
Tesco Covent Garden (HK) Co. Limited	10,000 ordinary shares of US$1 each	100.0	Investment holding
Tesco Fulwood (HK) Co. Limited	10,000 ordinary shares of US$1 each	100.0	Investment holding
Tesco Islington (HK) Co. Limited	10,000 ordinary shares of US$1 each	100.0	Investment holding
Tesco Kensington (HK) Co. Limited	10,000 ordinary shares of US$1 each	100.0	Investment holding
Tesco Mayfair (HK) Co. Limited	10,000 ordinary shares of US$1 each	100.0	Investment holding
Tesco Notting Hill (HK) Co. Limited	10,000 ordinary shares of US$1 each	100.0	Investment holding
Tesco Russell Square (HK) Co. Limited	10,000 ordinary shares of US$1 each	100.0	Investment holding
Tesco Swindon (HK) Co. Limited	10,000 ordinary shares of US$1 each	100.0	Investment holding

Companies' name	Nominal value of issued ordinary share capital/ registered capital	Percentage of capital attributable to the Group	Principal activities
Tesco Vauxhall (HK) Co. Limited	10,000 ordinary shares of US$1 each	100.0	Investment holding
Tesco Westminster (HK) Co. Limited	10,000 ordinary shares of US$1 each	100.0	Investment holding
Tesco Clapham (HK) Co. Limited	10,000 ordinary shares of US$1 each	100.0	Investment holding
China Property Holdings (Hong Kong) Limited	8,995,770,711 ordinary shares of HK$1 each	100.0	Investment holding
Tesco China East DC (HK) Limited)	36,325,999 ordinary shares of US$1 each	100.0	Investment holding
Pacemaker Investments Limited	397,178,259 ordinary shares of HK$1 each	100.0	Investment holding
Tesco Fice Holder (HK) Co. Limited	4,025,001 ordinary shares of US$1 each	100.0	Investment holding
Hong Kong Tesco Beijing Investment Company Limited	419,803,091 ordinary shares of HK$1 each	100.0	Investment holding
Tesco HuLuDao Investment Limited	449,458,702 ordinary shares of HK$1 each	100.0	Investment holding
Tesco Qingdao Renmin (HK) Co. Limited	107,515,421 ordinary shares of US$1 each	100.0	Investment holding
Tesco Xiamen Xianglu (HK) Co. Limited	31,475,100 ordinary shares of US$1 each	100.0	Investment holding
Suissue International Investment (Dalian)Limited	500,141,385 ordinary shares of HK$1 each	100.0	Investment holding
Tesco Marlborough (HK) Co. Limited	31,468,879 ordinary shares of US$1 each	100.0	Investment holding
Incorporated in Chinese Mainland			
Fushun Ledu Commercial Co. Limited	RMB3,334,360	100.0	Property management
Anshan Ledu Commercial Co. Limited	RMB3,300,147.5	100.0	Property management
Yingkou Ledu Commercial Co. Limited	RMB3,282,380	100.0	Property management

Companies' name	Nominal value of issued ordinary share capital/ registered capital	Percentage of capital attributable to the Group	Principal activities
Yingkou Tesco Property Company Limited	RMB300,000,000	100.0	Property management
Tesco Qingdao Mingxia Property Co. Limited	RMB324,240,000.03	100.0	Property management
Qingdao Zhengyang Property Co. Limited	RMB265,000,000	100.0	Property management
Nanjing Pukou Tesco Property Limited Company	RMB463,769,751.01	100.0	Property management
Tesco Yangzhou Wenchang Property Co. Limited	RMB398,330,060	100.0	Property management
Tesco Hefei Changjiang Property Limited	RMB122,913,000	100.0	Property management
Tesco logistics (Zhejiang) Co Ltd.	RMB306,285,133.65	100.0	Distribution center
Tesco Guangzhou Zhongshan Property Co. Limited	RMB334,999,167.88	100.0	Property management
Fuzhou ledu Property Management Co. Limited	RMB3,244,900	100.0	Property management
Xiamen Qixing Ledu Property Management Co. Limited	RMB3,153,650	100.0	Property management
Qinhuangdao Ledu commercial Co. Limited	RMB3,307,640	100.0	Property management
Qingdao Sifang Ledu Commercial Co. Limited	RMB6,815,760	100.0	Property management
Beijing Yaojiayuan Tesco Property Co. Ltd	RMB350,000,000	100.0	Property management
Huludao Tesco Real Estate Co. Limited	RMB407,093,970	100.0	Property management
Tesco qingdao Renmin Property Co. Limited	RMB695,000,000	100.0	Property management
Zibo Zhangdian Tesco Property Limited	RMB284,000,000	100.0	Property management

Companies' name	Nominal value of issued ordinary share capital/ registered capital	Percentage of capital attributable to the Group	Principal activities
Tesco Dalian Zhangqian properties Co. Limited	RMB416,551,750	100.0	Property management
Ningbo Qianhu Ledu Property Co. Limited	RMB203,262,500	100.0	Property management
Tesco Property Limited	US$100,000,000	100.0	Head office
Incorporated in British Virgin Islands			
Target Choice Limited	13,744 ordinary shares of US$1 each	100.0	Investment holding
Glory Investment International Holdings Limited	12,587 ordinary shares of US$1 each	100.0	Investment holding
Quick Success Investment Limited	54,784 ordinary shares of US$1 each	100.0	Investment holding

The statutory financial statements of the companies comprising the Real Estate Properties Business Target Group as at the date of this report for which there are statutory audit requirements have been were audited by PricewaterhouseCoopers Zhong Tian LLP.

34. Events after the Relevant Periods

On 1 October 2013, Tesco PLC and Cheshunt Holdings Guernsey Limited (collectively referred as "Tesco") entered into an investment agreement with the Company and certain of its subsidiaries (collectively referred as "CRE") pursuant to which the parties have conditionally agreed to establish a joint venture. The joint venture formation process involves the following:

(1) Tesco disposing of, and CRE acquiring the entire issued share capital of the Real Estate Properties Business Target Group and its fellow subsidiaries in China which are engaged in multi-category retail operations;

(2) CRE issuing new shares to Tesco so that CRE and Tesco will hold 80% and 20% interests in the joint venture respectively. Tesco will satisfy the consideration for such shares by way of the aforementioned disposal and an aggregate cash sum of HK$4,325 million;

(3) Tesco shall have the right to subscribe for additional shares in certain subsidiary of CRE, so that the total interest in the joint venture held by Tesco will increase by 5% (on a fully diluted basis) upon the earlier of an initial public offering or the fifth anniversary of completion. Tesco will also be granted the right, if certain events were to occur, to sell its interest in the joint venture to CRE or to be granted a one-time right to instigate an initial public offering of the joint venture at any time after the seventh anniversary of completion; and

(4) Tesco and CRE will enter into an intellectual property agreement, pursuant to which Tesco, as licensor, agrees to license and make available certain of its intellectual property assets, existing from time to time, to certain CRE's subsidiaries, as licensee, for the operation of the retail business of the joint venture in greater China.

As at the date of this report, the abovementioned proposed transactions are subject to the relevant government authorities and CRE's shareholders approval.

III SUBSEQUENT FINANCIAL STATEMENT

No audited financial statements have been prepared by the companies comprising the Real Estate Properties Business Target Group in respect of any period subsequent to 25 August 2013 and up to the date of this report. No distribution has been made by the companies comprising the Real Estate Properties Business Target Group in respect of any period subsequent to 25 August 2013.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong

RETAIL BUSINESS TARGET GROUP

Review of Operations

Retail Business Target Group is engaged in the development and operation of hypermarkets and convenience stores across China, principally across the East, Great North and South regions.

As at 25 August 2013, Retail Business Target Group operated 134 stores in China consisting of 120 Hypermarkets and 14 Express stores. The respective store numbers for the years ended 28 February 2011, 29 February 2012, 28 February 2013 and the six months ended 25 August 2013 were as below:

	25 August 2013	**28 February 2013**	**29 February 2012**	**28 February 2011**
Hypermarkets	120	117	110	93
Express	14	14	14	12
Total	134	131	124	105

Retail Business Target Group's reported revenue and loss from operating retail stores for the years ended 28 February 2011, 29 February 2012, 28 February 2013 and the six months ended 25 August 2013 were as below:

	25 August 2013 *RMB'million*	**28 February 2013** *RMB'million*	**29 February 2012** *RMB'million*	**28 February 2011** *RMB'million*
Revenue	7,092	15,164	14,226	12,277
Profit/Loss for the period	(689)	(1,793)	(1,126)	(721)
Year-on-year increase	260	(667)	(405)	(296)
Year-on-year increase (%)	27.4%	(59.2)%	(56.2)%	(69.7)%

During the period under review, Retail Business Target Group experienced the following sales growth from the sale of merchandise:

	25 August 2013 %	**28 February 2013** %	**29 February 2012** %	**28 February 2011** %
Like-for-like	(3.5)	(1.1)	4.1	5.5
Net new stores	4.5	6.9	11.4	14.8
Total	1.0	5.8	15.5	20.3

Like-for-like sales has declined over time, mainly due to slower growth in gross domestic product and health scares across the industry.

Net new stores growth was impacted by the number of stores opened and closed as follows:

	25 August 2013	28 February 2013	29 February 2012	28 February 2011
At start of period	**131**	**124**	**105**	**88**
Store openings – hyper	5	12	19	14
Store openings – express	0	0	2	5
Store closures – hyper	(2)	(5)	(2)	(1)
Store closures – express	0	0	0	(1)
At end of period	**134**	**131**	**124**	**105**

Retail Business Target Group has continued to invest in the market, and opened 57 stores during the period from 1 March 2010 to 25 August 2013, of which 48 were in the Hyper format, and 9 were in the Express format.

In June 2013, the Grocery Home Shopping online service was launched, allowing customers to order regular shopping online and have it delivered to their door in the Shanghai area. There are plans in place to rollout to more areas/stores going forward.

As part of the normal course of business, individual store performance is reviewed. During the period from 1 March 2010 to 25 August 2013, certain stores experienced a decline in sales performance which had a significant adverse impact on the trading performance. This resulted in a total of 11 store closures, of which 10 were in the Hyper format, and 1 were in the Express format.

	25 August 2013 *RMB'million*	28 February 2013 *RMB'million*	29 February 2012 *RMB'million*	28 February 2011 *RMB'million*
Loss attributable to owner of the Company	(689)	(1,793)	(1,126)	(721)
Loss attributable to owner of the Company (% Sales)	(9.7)	(11.8)	(7.9)	(5.9)

Loss attributable to owner of the company as % of sales was continuously increasing over the three and a half years under review. The main reasons for this trend is due to higher cost of sales, higher payroll and property costs, including the impact of new store openings in the periods under review. In addition, during the year ended 28 February 2013 the business underwent a restructuring and decided to close 5 stores due to a decline in trading performance resulting in higher restructure and store closure costs.

Looking ahead, Retail Business Target Group will continue to have hypermarkets as its main retail format, and expand its multi-format store network in regions where Retail Business Target Group has already established a presence.

Financial Review

Capital and Funding

Retail Business Target Group's policy on liquidity risk management is to consistently maintain a prudent financial policy and maintain sufficient cash and the availability of long-term funding. Retail Business Target Group's liquidity position is closely monitored by management.

As at 28 February 2011, 29 February 2012, 28 February 2013 and 25 August 2013, Retail Business Target Group's consolidated cash and bank balance amounted to RMB989 million, RMB872 million, RMB982 million and RMB658 million, respectively. Retail Business Target Group's borrowings as at 28 February 2011, 29 February 2012, 28 February 2013 and 25 August 2013 were repayable as below:

	25 August 2013	**28 February 2013**	**29 February 2012**	**28 February 2011**
	RMB'million	*RMB'million*	*RMB'million*	*RMB'million*
Within 1 year	1,803	718	1,656	745
1–5 years inclusive	725	725	875	700
	2,528	1,443	2,531	1,445

Retail Business Target Group was at a net borrowing position as at 28 February 2011, 29 February 2012, 28 February 2013 and 25 August 2013. On the basis of net borrowings relative to the shareholders' funds and non-controlling interests, the gearing of Retail Business Target Group was approximately:

	25 August 2013	**28 February 2013**	**29 February 2012**	**28 February 2011**
	%	%	%	%
Gearing Ratio	(923.7)	(94.7)	(93.2)	(54.4)

The percentage of Retail Business Target Group's cash and cash equivalent and borrowings denominated in the following currencies were as below:

	25 August 2013	**28 February 2013**	**29 February 2012**	**28 February 2011**
Cash and cash equivalents				
Denominated in US$	0.2%	0.2%	2.5%	0.3%
Denominated in RMB	99.8%	99.8%	97.5%	99.7%
Borrowings				
Denominated in US$	0%	0%	2.1%	0.3%
Denominated in RMB	100.0%	100.0%	97.9%	99.7%

Retail Business Target Group's principal assets, liabilities, revenue and payments are denominated in Renminbi. Retail Business Target Group's borrowings are principally on a fixed rate basis. As the majority of Retail Business Target Group's assets, liabilities, revenue and payments are denominated in functional currencies of the respective group entity, the expected foreign currency exposure is minimal.

Pledge of Assets

Retail Business Target Group did not have any pledged assets as at 25 August 2013, 28 February 2013, 29 February 2012 and 28 February 2011.

Contingent Liabilities

Other commitments and contingent liabilities of a subsidiary, Shanghai Kangren Hymall Hypermarket and Trading Co., Ltd. ("Guangxin store")

	25 August 2013	28 February 2013	29 February 2012	28 February 2011
	RMB'million	*RMB'million*	*RMB'million*	*RMB'million*
Not later than 1 year	18	14	9	–
Later than 1 year and not later than 5 years	123	113	92	–
Later than 5 years	527	547	583	–
Total	668	674	684	–

The lease contract of Guangxin store contains commitments to pay certain levels of taxation to specific government authorities. The gross value of the commitment is RMB689,000,000 over the total lease period. At the time of signing, the tax commitment was intended to be covered by tax payments made in the normal course of business. If such levels are not achieved, then additional rental is payable.

As at the end of each Relevant Period, the management assessed the gross value of the tax commitment over the remaining lease periods and recorded the shortfall for the Relevant Periods as operating lease rental expenses in the consolidated profit and loss accounts.

	25 August 2013	28 February 2013	29 February 2012	28 February 2011
	RMB'million	*RMB'million*	*RMB'million*	*RMB'million*
Gross value of the tax commitment over the remaining lease periods	668	674	684	–
Shortfall charged for each year/period	7	10	–	–

Other Contingent Liabilities

There are a number of contingent liabilities that arise in the normal course of business which if realised are not expected to result in a material liability to Retail Business Target Group. Retail Business Target Group recognises provisions for liabilities when it is more likely than not that a settlement will be required and the value of such a payment can be reliably estimated.

Employees

Retail Business Target Group staff size and total remuneration costs for the periods under review are shown as below:

	25 August 2013	**28 February 2013**	**29 February 2012**	**28 February 2011**
Headcount	29,758	30,811	29,585	27,440
	RMB'million	*RMB'million*	*RMB'million*	*RMB'million*
Remuneration	785	1,518	1,462	1,345

Remuneration packages are assessed in accordance with the nature of job duties, individual performance and market trends with built-in merit components, paid in the form of cash bonuses.

REAL ESTATE PROPERTIES BUSINESS TARGET GROUP

Review of Operations

Real Estate Properties Business Target Group is engaged in the acquisition of land and the development and operation of shopping malls across China. The business began acquiring land in 2008 and from 2010 onwards began to open and operate malls.

Real Estate Properties Business Target Group has opened and operated 4, 7, 8 and 12 malls as at the years ended 28 February 2011, 29 February 2012, 28 February 2013 and the six months ended 25 August 2013. At August 25th Real Estate Properties Business Target Group has a pipeline of 8 mall development projects, 11 operating malls and one distribution centre, including 12 wholly owned projects and 8 projects with 50% ownership. A project at Shanghai Donglan was disposed of in 2011 and Qingdao Renmin mall was disposed of during 2013.

Real Estate Properties Business Target Group's reported revenue and loss from leasing and mall operations of 100% owned malls for the years ended 28 February 2011, 29 February 2012, 28 February 2013 and the six months ended 25 August 2013 were as below:

	25 August 2013 *RMB'million*	**28 February 2013** *RMB'million*	**29 February 2012** *RMB'million*	**28 February 2011** *RMB'million*
Revenue	33	71	59	25
Loss for the period/year	(89)	(603)	(298)	(415)

During the periods outlined above, the increases of revenue for the years ended 29 February 2012 and 28 February 2013 were mainly attributable to the continuous opening of malls and the distribution centre. The slight decrease of revenue for the six months ended 25 August 2013 was mainly attributable to the cessation of business in Qingdao Renmin mall as well as the commencement of major asset enhancement initiative at Yingkou mall which meant that incomes were reduced as the mall was refitted.

The disposal loss of the project at Shanghai Donglan during the year ended 28 February 2011 and the disposal provision of Qingdao Renmin mall accrued during the year ended 28 February 2013 contributed the fluctuation of the loss for the year ended 29 February 2012, 28 February 2013 and the six months ended 25 August 2013 mentioned above. Over the periods Real Estate Properties Business Target Group implemented various initiatives to control operating costs, such as enhancing synergy effect by integrating Property and Retail resources, streamlining the organization chart and operation process of Real Estate Properties Business Target Group to promote cost saving. This made positive contribution to set off the impact of the loss resulting from disposal of project at Shanghai Donglan and Qingdao Renmin mall.

Financial Review

Capital and Funding

Real Estate Properties Business Target Group's policy on liquidity risk management is to consistently maintain a prudent financial policy and maintain sufficient cash and the availability of long-term funding. Real Estate Properties Business Target Group's liquidity position is closely monitored by management.

As at 28 February 2011, 29 February 2012, 28 February 2013 and 25 August 2013, Real Estate Properties Business Target Group's consolidated cash and bank balance amounted to RMB1,748 million, RMB1,708 million, RMB1,464 million and RMB1,136 million, respectively.

Real Estate Properties Business Target Group's borrowings as at 28 February 2011, 29 February 2012, 28 February 2013 and 25 August 2013 were repayable as below:

	25 August 2013	**28 February 2013**	**29 February 2012**	**28 February 2011**
	RMB'million	*RMB'million*	*RMB'million*	*RMB'million*
Within 1 year	1,194	1,073	1,100	874
Between 1 and 5 years	321	208	271	108
Over 5 years	149	176	303	236
	1,664	1,457	1,674	1,218

Real Estate Properties Business Target Group was at a net cash position as at 28 February 2011, 29 February 2012 and 28 February 2013 and at a net borrowings position as at 25 August 2013. On the basis of net borrowings relative to the shareholders' funds and non-controlling interests, Real Estate Properties Business Target Group's gearing was approximately at 6.95% as at 25 August 2013.

Real Estate Properties Business Target Group's principal assets, liabilities, revenue and payments are denominated in Renminbi and US dollars. The forward contracts were used to manage the foreign exchange risk against its functional currency of Renminbi.

The percentage of cash and cash equivalent and borrowings denominated in the following currencies were as below:

	25 August 2013	28 February 2013	29 February 2012	28 February 2011
Cash and cash equivalents				
Denominated in US$	65.0%	78.0%	74.0%	70.0%
Denominated in RMB	34.0%	21.0%	21.0%	30.0%
Denominated in HK$	1.0%	2.0%	5.0%	0.0%
Borrowings				
Denominated in US$	27.0%	17.0%	39.0%	43.0%
Denominated in RMB	73.0%	83.0%	61.0%	57.0%

Real Estate Properties Business Target Group's borrowings are principally on a floating rate basis. However, management does not anticipate significant impact to interest-bearing assets resulted from the changes in the interest rates, because the interest rates of bank deposits are not expected to change significantly.

Pledge of Assets

Assets with a net carrying value of RMB1,009 million, RMB1,879 million, RMB1,183 million, and RMB1,132 million at 28 February 2011, 29 February 2012, 28 February 2013 and 25 August 2013 respectively were pledged as collaterals for Real Estate Properties Business Target Group's borrowings.

Contingent Liabilities

Real Estate Properties Business Target Group did not have any material contingent liabilities as at 28 February 2011, 29 February 2012, 28 February 2013 and 25 August 2013.

Employees

As at 28 February 2011, 29 February 2012, 28 February 2013 and 25 August 2013, Real Estate Properties Business Target Group had a staff size of around 735, 863, 591 and 541, respectively. Remuneration of employees including directors' remuneration were RMB78 million, RMB188 million, RMB135 million and RMB50 million as at 28 February 2011, 29 February 2012, 28 February 2013 and 25 August 2013. Remuneration packages are assessed in accordance with the nature of job duties, individual performance and market trends with built-in merit components, paid in the form of cash bonuses.

The following is an illustrative and unaudited pro forma financial information of the Enlarged Group ("Unaudited Pro Forma Financial Information") comprising the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group, which have been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the following proposed transactions of the Company contemplated under the formation of the Joint Venture, including (1) the injection of the retail business and the real estate properties business currently operated by Tesco in the PRC from Tesco to Gain Land (the "Injection"); (2) Gain Land issuing new shares to the Subscriber so that Ondereel and the Subscriber will be interested in the Joint Venture as to 80% and 20% respectively (the "Subscription"); (3) the grant of the Step-up Option, the Default Call Right, the Default Put Right and the IPO Call Right ((1) to (3) collectively the "Transaction") as if the Transaction had taken place on 30 June 2013.

Under the Injection, the Subscriber will, as part of the consideration for the issue of the Shares by Gain Land pursuant to the Subscription, transfer the entire issued share capital of Ting Cao (C.I.) Holdings Corporation (the "Target") and the economic interests of the 50% equity interests in the Real Estate JVs held by Tesco or its Affiliates (the "Tesco RE JV Interests") to Gain Land at Completion. The Target owns (or will at Completion own) the retail business and the real estate properties business currently operated by the Target and its subsidiaries (the "Target Group") in the PRC, and to the extent that any of the Tesco RE JV Interests are not indirectly owned by the Target Group at Completion, the economic interests in the Tesco RE JV Interests. The Target and the companies which are principally engaged in the retail business are referred to as the Retail Business Target Group. The companies which are principally engaged in the real estate properties business including the economic interests of the Tesco RE JV Interests are referred to as the Real Estate Properties Business Target Group. The Retail Business Target Group and Real Estate Properties Business Target Group are collectively referred to as the "Contributed Business Operations".

Upon completion of the Injection and Subscription, the Company and Tesco will hold their respective 80% and 20% interests in the Joint Venture. Upon exercise of the Step-up Option and assuming the Subscriber has not disposed of any of its interest in the Joint Venture after Completion, Ondereel and the Subscriber will be interested in the Joint Venture as to 75% and 25% respectively.

The Unaudited Pro Forma Financial Information has been prepared using the accounting policies consistent with those of the Group as set out in the published unaudited interim report of the Group for the six months ended 30 June 2013.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group had the Transaction been completed as at 30 June 2013, or any future date.

The Unaudited Pro Forma Financial Information should be read in conjunction with other financial information included elsewhere in this circular.

(I) Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of the Enlarged Group

	Unadjusted unaudited consolidated statement of assets and liabilities of the Group as at 30 June 2013	Statement of assets and liabilities of the Retail Business Target as at 25 August 2013	Statement of assets and liabilities of the Real Estate Properties Business Target as at 25 August 2013	Pro-forma Adjustments			Unaudited pro forma statement of assets and liabilities of the Enlarged Group
	HK$'million	*HK$'million*	*HK$'million*	*HK$'million*	*HK$'million*	*HK$'million*	*HK$'million*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 5)*	*(Note 8)*	*(Note 9)*	
NON-CURRENT ASSETS							
Fixed assets	61,097	6,236	7,407		(35)		74,705
Goodwill	15,132	–	–				15,132
Other intangible assets	312	–	–				312
Investments in joint ventures	–	–	2,528				2,528
Interests in associates	401	–	–				401
Available for sale investments	109	–	–				109
Prepayments	1,018	–	–				1,018
Trade and other receivables	–	–	525				525
Deferred taxation assets	1,066	201	–				1,267
	79,135	**6,437**	**10,460**				**95,997**

	Unadjusted unaudited consolidated statement of assets and liabilities of the Group as at 30 June 2013	Statement of assets and liabilities of the Retail Business Target as at 25 August 2013	Statement of assets and liabilities of the Real Estate Properties Business Target as at 25 August 2013	Pro-forma Adjustments			Unaudited pro forma statement of assets and liabilities of the Enlarged Group
	HK$'million	*HK$'million*	*HK$'million*	*HK$'million*	*HK$'million*	*HK$'million*	*HK$'million*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 5)*	*(Note 8)*	*(Note 9)*	
CURRENT ASSETS							
Stocks	20,769	1,977	–				22,746
Trade and other receivables	15,371	2,875	569	1,000		(849)	18,966
Derivative financial instruments	2	–	23				25
Taxation recoverable	184	–	–				184
Pledged bank deposits	359	–	–				359
Non-current assets held for sale	–	–	500				500
Cash and bank balances	21,450	826	1,426	3,765			27,467
	58,135	**5,678**	**2,518**				**70,247**
	137,270	**12,115**	**12,978**				**166,244**
CURRENT LIABILITIES							
Trade and other payables	61,142	8,176	1,173	100		(849)	69,742
Short term loans	3,592	2,263	1,498	(608)			6,745
Taxation payable	942	57	1				1,000
	65,676	**10,496**	**2,672**				**77,487**

	Unadjusted unaudited consolidated statement of assets and liabilities of the Group as at 30 June 2013	Statement of assets and liabilities of the Retail Business Target as at 25 August 2013	Statement of assets and liabilities of the Real Estate Properties Business Target as at 25 August 2013	Pro-forma Adjustments			Unaudited pro forma statement of assets and liabilities of the Enlarged Group
	HK$'million	*HK$'million*	*HK$'million*	*HK$'million*	*HK$'million*	*HK$'million*	*HK$'million*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 5)*	*(Note 8)*	*(Note 9)*	
NON-CURRENT LIABILITIES							
Long term loans	14,461	910	591	(910)			15,052
Deferred taxation liabilities	1,650	–	18				1,668
Trade and other payables	–	961	–				961
Other non-current liabilities	699	–	–				699
	16,810	**1,871**	**609**				**18,380**
	82,486	**12,367**	**3,281**				**95,867**

Notes to the Unaudited Pro Forma Financial Information of the Enlarged Group:

1. The unadjusted unaudited consolidated statement of assets and liabilities of the Group as at 30 June 2013 was extracted from the published unaudited interim report of the Group for the six months ended 30 June 2013.

2. The adjustment reflects the injection of the Retail Business Target Group from Tesco to Gain Land assuming that the Transaction has been completed on 30 June 2013. The statement of assets and liabilities of the Retail Business Target as at 25 August 2013 was extracted from the accountant's report for the Retail Business Target Group as set out in Appendix II-A to this circular, which are converted from presentation currency of RMB to HK$ at the rate of RMB1 to HK$1.25541.

3. The adjustment reflects the injection of the Real Estate Properties Business Target Group from Tesco to Gain Land assuming that the Transaction has been completed on 30 June 2013. The statement of assets and liabilities of the Real Estate Properties Business Target as at 25 August 2013 was extracted from the accountant's report for the Real Estate Properties Business Target Group as set out in Appendix II-B to this circular, which are converted from presentation currency of RMB to HK$ at the rate of RMB1 to HK$1.25541.

4. China Property Holdings (HK) Limited ("CPHL") is the investment holding company of the Real Estate Properties Business Target Group, (and historically formed part of the Real Estate Properties Business but is no longer being transferred to the Joint Venture). As CPHL is an integral part of the Real Estate Properties Business Target Group, the combined financial information of the Real Estate Properties Business Target Group for the Relevant Periods includes CPHL on the same basis as those assets and liabilities to be transferred to the Joint Venture.

   Net assets of CPHL as at 25 August 2013 mainly includes investment costs in subsidiaries and joint ventures, and loans with related parties. According to the investment agreement, as the receivables and payables of CPHL are to be assigned to or settled by the Enlarged Group, it is expected no material difference in net assets when CPHL will no longer be the investment holding company of the Real Estate Properties Business Target Group and no adjustment was made for the purpose of the preparation of the Unaudited Pro Forma Financial Information.

5. This adjustment reflects the aggregate effects of the Injection and the Subscription according to the investment agreement dated 1 October 2013 (the "Investment Agreement").

   Subject to the satisfaction of the Condition Precedent, the Subscriber will, at Completion subscribe for the Gain Land Subscription Shares in accordance with the terms of the Investment Agreement so that the Company and Tesco will hold their respective 80% and 20% interests in the Joint Venture. The Subscriber will satisfy the total consideration for the Subscription (the "Total Consideration") by way of (1) the Injection, and (2) an aggregated cash sum of HK$4,325 million, of which HK$3,325 million is expected to be paid on or before the date of Completion.

   The Total Consideration was arrived at after arm's length negotiations between the Company and Tesco after taking into account the estimated relative business values of the retail business currently operated by Gain Land and the Contributed Business Operations, the cash injection of RMB470 million (equivalent to approximately HK$590 million) and capitalisation or waiver of shareholders' loans of RMB1,209 million (equivalent to approximately HK$1,518 million) by Tesco, and on the basis that the Contributed Business Operations have been and will continue to be operated in a manner consistent with its normal practice and in normal and ordinary course. Estimated transaction cost are also reflected in the adjustment.

   For the purpose of the preparation of the Unaudited Pro Forma Financial Information, it is assumed that the fair value of the Contributed Business Operations is the same as their carrying amounts of the identifiable assets and liabilities as at 25 August 2013. Since the fair values of the consideration and the assets and liabilities of the Contributed Business Operations at the actual completion date may substantially differ from the fair values used in the preparation of this Unaudited Pro Forma Financial Information of the Enlarged Group, the final amounts of the identified net assets (including intangible assets) may be different from the amounts presented here and the differences may be significant.

6. Under the Investment Agreement, the Subscriber shall have the right to subscribe for additional shares in Gain Land, so that the total interest in the Joint Venture held by the Subscriber will increase by 5% (on a fully diluted basis) upon the earlier of (a) a Listing or (b) the fifth anniversary of Completion. The Step-up Option shall be exercisable in respect of all and not part of the 5% additional interest (on a fully diluted basis), and at an exercise price which is equal to (as the case may be) the issue price per share at Listing or the fair market value of the Joint Venture as at the fifth anniversary of Completion to be determined by an independent expert. Upon exercise of the Step-up Option and assuming the Subscriber has not disposed of any of its interest in the Joint Venture after Completion, Ondereel and the Subscriber will be interested in the Joint Venture as to 75% and 25% respectively.

   For the purpose of the Unaudited Pro Forma Financial Information, the value of the option is considered to be trivial or insignificant since the exercise price of the option will always be equal to the fair value of the 5% equity interest of the Joint Venture.

7. Under the Investment Agreement, the Subscriber shall have the right to exercise its Default Put Right to sell its interest in the Joint Venture to the Company at the then fair market value to be determined by an independent expert; or the Subscriber will exercise its right to instigate a Listing of the Joint Venture at any time after the seventh anniversary of Completion, and the Company will exercise its right to acquire all of the Subscriber's interest in the Joint Venture within three months of the notice of instigation of the Listing at the then fair market value to be determined by an independent expert if the Company does not intend to implement a Listing.

   For the purpose of the Unaudited Pro Forma Financial Information, the value of the right and/or the option is considered to be trivial or insignificant since the exercise price of the right and/or the option will always be equal to the fair value of Tesco's interest in the Joint Venture.

8. This adjustment represents the reclassification of certain investment properties to property, plant and equipment, for those properties leased by the Real Estate Business Target Group to the Retail Business Target Group.

9. This adjustment represents the elimination of balances between the Retail Business Target Group and the Real Estate Properties Business Target Group.

10. Apart from the Transaction, no other adjustment has been made to the Unaudited Pro Forma Financial Information of the Enlarged Group to reflect any trading results or other transactions entered into by the Group subsequent to 30 June 2013 and, the Retail Business Target Group or the Real Estate Properties Business Target Group subsequent to 25 August 2013.

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

pwc 羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION INCLUDED IN A CIRCULAR

TO THE DIRECTORS OF CHINA RESOURCES ENTERPRISE, LIMITED

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of China Resources Enterprise, Limited (the "Company") and its subsidiaries (collectively the "Group") and the retail business and the real estate properties business (the "Target Group") to be injected from Tesco PLC ("Tesco") to Gain Land Limited ("Gain Land") (collectively the "Enlarged Group") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of assets and liabilities as at 30 June 2013 and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages III-1 to III-6 of the Company's circular dated 25 February 2014, in connection with the proposed transactions of the Company contemplated under the formation of the Joint Venture, including (1) the injection of the retail business and the real estate properties business currently operated by Tesco in the PRC from Tesco to Gain Land; (2) Gain Land issuing new shares to Cheshunt Holdings Guernsey Limited (the "Subscriber") so that Ondereel Ltd. and the Subscriber will be interested in the Joint Venture as to 80% and 20% respectively; (3) the grant of the Step-up Option, the Default Call Right, the Default Put Right and the IPO Call Right ((1) to (3) collectively the "Transaction"). The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described in Notes 1 to 10.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the Transaction on the Group's financial position as at 30 June 2013 as if the Transaction had taken place at 30 June 2013. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's financial statements for the period ended 30 June 2013, on which no audit or review report has been published.

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus", issued by the HKICPA. This standard requires that the reporting accountant complies with ethical requirements and plans and performs procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Transaction at 30 June 2013 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and

- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 25 February 2014

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

Interests and short positions of the Directors and chief executives in the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions, if any, of each Director and chief executive of the Company in any shares, underlying shares and debentures of the Company and any associated corporations (within the meaning of Part XV of the SFO) which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and chief executives of the Company were taken or deemed to have under such provisions of the SFO); or (ii) entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

(a) Interests in issued ordinary shares and underlying shares of the Company

Name of Director	Long position/ Short position	Number of Shares	Number of underlying shares[1]	Aggregate percentage of interest[3] *(%)*
Chen Lang	Long position	500,000	–	0.02
Hong Jie	Long position	350,000	290,000[2]	0.03
Lai Ni Hium, Frank	Long position	110,000	–	0.01
Du Wenmin	Long position	100,000	–	0.01
Yan Biao	Long position	500,000	–	0.02
Li Ka Cheung, Eric	Long position	200,000	–	0.01
Bernard Charnwut Chan	Long position	40,000	–	0.01

Notes:

1. This refers to underlying shares of the Company covered by share options granted under the share option scheme of the Company, such options being unlisted physically settled equity derivatives.

2. Options are exercisable from 25 May 2004 to 24 May 2014. Consideration for the grant is HK$1.00. The exercise price is HK$9.15.

3. This represents the percentage of the aggregate long positions in shares and underlying shares of the Company to the total issued share capital of the Company as at the Latest Practicable Date.

4. All interests disclosed above are being held by each director in his capacity as beneficial owner.

(b) Interests in issued ordinary shares and underlying shares of associated corporations

As at the Latest Practicable Date, certain directors had interests in the issued ordinary shares and underlying shares covered by options granted under the share option schemes of associated corporations (within the meaning of the SFO), such options being unlisted physically settled equity derivatives:

(i) Interests in issued ordinary shares and options outstanding under the share option schemes of an associated corporation, China Resources Land Limited ("CR Land"):

Name of Director	Long position/ Short position	Number of Shares	Number of share options outstanding[1]	Exercise price *HK$*	Date of grant	Aggregate percentage of interest[2] *(%)*
Lai Ni Hium, Frank	Long position	10,000	–	–	–	0.01
Du Wenmin	Long position	640,000	–	–	–	0.01
Yan Biao	Long position	1,992,000	–	–	–	0.03
Chen Ying	Long position	500,000	–	–	–	0.01
Hong Jie	Long position	50,000	–	–	–	0.01

Notes:

1. The number of share options refers to the number of underlying shares of CR Land covered by the share options.

2. This represents the percentage of the aggregate long positions in shares and underlying shares of CR Land to the total issued share capital of CR Land as at the Latest Practicable Date.

3. All interests disclosed above are being held by each director in his capacity as beneficial owner.

(ii) Interests in issued ordinary shares and options outstanding under the share option schemes of an associated corporation, China Resources Gas Group Limited ("CR Gas"):

Name of Director	Long position/ Short position	Number of Shares	Number of share options outstanding[1]	Exercise price *HK$*	Date of grant	Aggregate percentage of interest[2] *(%)*
Liu Hongji	Long position	372,000	–	–	–	0.02
Lai Ni Hium, Frank	Long position	10,000	–	–	–	0.01
Du Wenmin	Long position	54,000	–	–	–	0.01

Notes:

1. The number of share options refers to the number of underlying shares of CR Gas covered by the share options.

2. This represents the percentage of the aggregate long positions in shares and underlying shares of CR Gas to the total issued share capital of CR Gas as at the Latest Practicable Date.

3. All interests disclosed above are being held by each director in his capacity as beneficial owner.

(iii) Interests in issued ordinary shares and options outstanding under the share option schemes of an associated corporation, China Resources Power Holdings Company Limited ("CR Power"):

Name of Director	Long position/ Short position	Number of Shares	Number of share options outstanding[1]	Exercise price *HK$*	Date of grant	Aggregate percentage of interest[4] *(%)*
Chen Lang	Long position	–	152,700[5]	4.641	18/11/2005[2]	0.01
			203,600[5]	6.925	05/09/2006[3]	
Hong Jie	Long position	5,000	–	–	–	0.01
Liu Hongji	Long position	61,080	–	–	–	0.01
Lai Ni Hium, Frank	Long position	10,000	–	–	–	0.01
Du Wenmin	Long position	480,240	–	–	–	0.01
Yan Biao	Long position	570,080	–	–	–	0.01

Notes:

1. The number of share options refers to the number of underlying shares of CR Power covered by the share options.

2. Options are vested in 5 tranches of 20% each on each anniversary of the date of grant commencing from the first anniversary of the date of grant. All options expire on 18 November 2015. Consideration for each of the grants mentioned above is HK$1.00.

3. Options are vested in 5 tranches of 20% each on each anniversary of the date of grant commencing from the first anniversary of the date of grant. All options expire on 5 September 2016. Consideration for each of the grants mentioned above is HK$1.00.

4. This represents the percentage of the aggregate long positions in shares and underlying shares of CR Power to the total issued share capital of CR Power as at the Latest Practicable Date.

5. Mr. Chen Lang was deemed to be interested in 356,300 underlying shares through interests of his spouse.

6. Save as otherwise specified under notes 5, all interests disclosed above are being held by each director in his capacity as beneficial owner.

(iv) Interests in issued ordinary shares and options outstanding under the share option schemes of an associated corporation, China Resources Cement Holdings Limited ("CR Cement"):

Name of Director	Long position/ Short position	Number of Shares	Number of share options outstanding[1]	Exercise price *HK$*	Date of grant	Aggregate percentage of interest[2] *(%)*
Hong Jie	Long position	500,000	–	–	–	0.01
Liu Hongji	Long position	922,000	–	–	–	0.01
Lai Ni Hium, Frank	Long position	40,000	–	–	–	0.01
Chen Ying	Long position	230,000	–	–	–	0.01

Notes:

1. The number of share options refers to the number of underlying shares of CR Cement covered by the share options.

2. This represents the percentage of the aggregate long positions in shares and underlying shares of CR Cement to the total issued share capital of CR Cement as at the Latest Practicable Date.

3. All interests disclosed above are being held by each director in his capacity as beneficial owner.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executives had any interests or short positions in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which are required

(a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO); (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange.

Disclosure of interests of substantial shareholders

As at the Latest Practicable Date, according to the register kept by the Company pursuant to Section 336 of the SFO and, so far as is known to the Directors, the persons or entities who had an interest or a short position in the Shares or the underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, or of any other company which is a member of the Group, or in any options in respect of such share capital were as follows:

Name of interested party	Long position/ Short position	Number of shares in which the interested party is deemed to have interests	Percentage of shareholding *(%)*
China Resources National Corporation ("CRNC") *(Note 1)*	Long position	1,232,764,380	51.29
China Resources Co., Limited ("CRC") *(Note 1)*	Long position	1,232,764,380	51.29
CRC Bluesky Limited *(Note 1)*	Long position	1,232,764,380	51.29
China Resources (Holdings) Company Limited ("CRH") *(Note 1)*	Long position	1,232,764,380	51.29
Globe Fame Investments Limited *(Note 1)*	Long position	1,232,764,380	51.29
Genesis Asset Managers, LLP *(Note 2)*	Long position	144,188,662	6.00
Commonwealth Bank of Australia *(Note 3)*	Long position	157,360,628	6.55

Notes:

1. Globe Fame Investments Limited (currently known as CRH (Enterprise) Limited), a wholly-owned subsidiary of CRH, held the shares in the capacity of beneficial owner. CRH is a wholly-owned subsidiary of CRC Bluesky Limited, which is in turn a wholly-owned subsidiary of CRC, which is in turn held as to 100% by CRNC. So, CRH, CRC Bluesky Limited, CRC and CRNC are deemed to have corporate interest in the shares.

2. Genesis Asset Managers, LLP held the shares in the capacity of investment manager.

3. According to the information disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, other than the following corporation which was held by Commonwealth Bank of Australia in the manner described below, these shares were held by corporations controlled directly or indirectly as to 100% by Commonwealth Bank of Australia.

Name of Corporation	Percentage interest indirectly held by Commonwealth Bank of Australia
Colonial First State Investments Limited	50%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company was aware of any other person, other than a Director or the chief executive of the Company, who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group, or which was recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

3. COMMON DIRECTORS

The following is a list of the directors of the Company who, as at the Latest Practicable Date, were also a director of the companies which have interests or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Director	Name of the company which has interest in the Shares *(Note)* and in which the Director also acts a director
Chen Lang	China Resources National Corporation China Resources Co., Limited China Resources (Holdings) Company Limited
Du Wenmin	China Resources National Corporation China Resources Co., Limited China Resources (Holdings) Company Limited

Name of Director	Name of the company which has interest in the Shares *(Note)* and in which the Director also acts a director
Wei Bin	China Resources National Corporation China Resources Co., Limited China Resources (Holdings) Company Limited
Yan Biao	CRC Bluesky Limited Globe Fame Investments Limited (currently known as CRH (Enterprise) Limited)

Note: all such companies have a long position in the interests of the Shares.

4. DIRECTORS' INTERESTS

(a) As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Enlarged Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation, other than statutory compensation).

(b) As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any assets which have, since 31 December 2012 (being the date to which the latest published audited consolidated financial statements of the Group were made up), been acquired or disposed of by or leased to any member of the Enlarged Group, or were proposed to be acquired or disposed of by, or leased to, any member of the Enlarged Group.

(c) None of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date and which is significant in relation to the business of the Enlarged Group.

5. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, so far as the directors of the Company are aware of, none of the Directors or their respective associates had any interests in a business which competes or may compete, either directly or indirectly, with the business of the Group.

6. LITIGATION

As at the Latest Practicable Date, none of the members of the Enlarged Group was engaged in any litigation, arbitration or administrative proceedings of material importance and no litigation, arbitration, administrative proceedings or claim of material importance was known to the Directors to be pending or threatened against any member of the Enlarged Group.

7. QUALIFICATION AND CONSENT OF EXPERT

(a) The following is the qualification of the expert who has given an opinion or advice which is contained in this circular:

Name	Qualification
PricewaterhouseCoopers	Certified Public Accountants

(b) As at the Latest Practicable Date, the Auditor did not have any shareholding in any member of the Enlarged Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group.

(c) As at the Latest Practicable Date, the Auditor did not have any interest, direct or indirect, in any assets which have been, since 31 December 2012 (being the date to which the latest published audited accounts of the Group were made up), acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

(d) The Auditor has given and has not withdrawn their written consent to the issue of this circular with the inclusion of its letter and references to its name included herein in the form and context in which it appears.

8. MATERIAL CONTRACTS

Save as disclosed below, none of the members of the Enlarged Group had within the two years immediately preceding the date of this circular entered into any contract (not being contracts entered into in the ordinary course of business of the Enlarged Group) which are or may be material.

(a) the Investment Agreement, together with the deed of amendment and restatement entered into by the Parties thereto on 22 February 2014;

(b) a sale and purchase agreement dated 5 February 2013 between China Resources Snow Breweries Limited (a 51% owned subsidiary of the Company) (as purchaser) and Kingway Brewery Holdings Limited (as vendor) in relation to the sale and purchase of:

(i) the entire equity capital of each of 金威啤酒（中國）有限公司 (Kingway Brewery (China) Co., Ltd.), 金威啤酒集團（成都）有限公司 (Kingway Brewery Group (Chengdu) Co., Ltd.), 金威啤酒（東莞）有限公司 (Kingway Brewery (Dongguan) Co., Ltd.), 金威啤酒（佛山）有限公司 (Kingway Brewery (Foshan) Co., Ltd.), 金威啤酒（汕頭）有限公司 (Kingway Brewery (Shan Tou) Co., Ltd.), 金威啤酒（天津）有限公司 (Kingway Brewery (Tianjin) Co., Ltd.), 金威啤酒（西安）有限公司 (Kingway Brewery (Xian) Co., Ltd.), 深圳金威啤酒釀造有限公司 (Shenzhen Kingway Brewing Co., Ltd.) and Guangdong Kingway Sales Limited (粵海金威銷售有限公司);

(ii) the shareholder's loans due from 金威啤酒集團（成都）有限公司 (Kingway Brewery Group (Chengdu) Co., Ltd.), 金威啤酒（佛山）有限公司 (Kingway Brewery (Foshan) Co., Ltd.), 金威啤酒（汕頭）有限公司 (Kingway Brewery (Shan Tou) Co., Ltd.), 金威啤酒（天津）有限公司 (Kingway Brewery (Tianjin) Co., Ltd.) and 金威啤酒（西安）有限公司 (Kingway Brewery (Xian) Co., Ltd.); and

(iii) the payables of each of 金威啤酒（中國）有限公司 (Kingway Brewery (China) Co., Ltd.), 金威啤酒集團（成都）有限公司 (Kingway Brewery Group (Chengdu) Co., Ltd.), 金威啤酒（東莞）有限公司 (Kingway Brewery (Dongguan) Co., Ltd.), 金威啤酒（佛山）有限公司 (Kingway Brewery (Foshan) Co., Ltd.), Guangdong Kingway Sales Limited (粵海金威銷售有限公司), 金威啤酒（汕頭）有限公司 (Kingway Brewery (Shan Tou) Co., Ltd.), 金威啤酒（天津）有限公司 (Kingway Brewery (Tianjin) Co., Ltd.), 金威啤酒（西安）有限公司 (Kingway Brewery (Xian) Co., Ltd.) and 深圳金威啤酒釀造有限公司 (Shenzhen Kingway Brewing Co., Ltd.), to 深圳金威啤酒有限公司 (Shenzhen Kingway Brewery Co., Ltd.)

for a total consideration of RMB5,384.2 million.

9. MISCELLANEOUS

(a) The secretary of the Company is Mr. Lai Ni Hium, Frank, he is a member of the Hong Kong Institute of Certified Public Accountant and a fellow member of CPA Australia.

(b) The share registrar of the Company in Hong Kong is Tricor Standard Limited, whose office is at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(c) The English text of this circular shall prevail over the Chinese text in case of inconsistency.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the registered office of the Company in Hong Kong at 39/F, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong, during normal business hours on any business day from the date of this circular until 14 days hereafter:

(a) the memorandum and articles of association of the Company;

(b) the letter from the Board, the text of which is set out on pages 11 to 32 in this circular;

(c) the written consent given by the Auditor as referred to in the paragraph 7 of this appendix;

(d) the accountant's reports on the Target Group, the text of which is set out in Appendices II-A and II-B of this circular;

(e) a written statement signed by the Auditor setting out the adjustments made to the accountant's report on the Target Group;

(f) the report on unaudited pro forma information of the Enlarged Group, the text of which is set out in Appendix III of this circular;

(g) the material contracts referred to in the paragraph headed "Material Contracts" in this appendix; and

(h) the annual reports of the Company for the three financial years ended 31 December 2010, 2011 and 2012.