联华超市股份有限公司
LIANHUA SUPERMARKET HOLDINGS CO., LTD.

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

Lianhua, Building Presence Nationwide

全國佈點　開拓向前

Interim Report 2003

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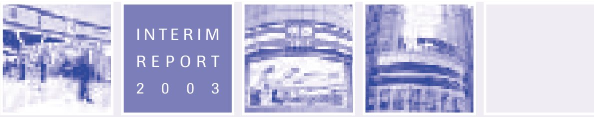

Corporate Information

DIRECTORS

Executive Directors

Mr. Wang Zong-nan *(Chairman)*
Mr. Liang Wei *(General Manager)*
Ms. Xu Ling-ling *(Chief Financial Officer)*

Non-Executive Directors

Mr. Lu Ming-fang
Mr. Hua Guo-ping
Mr. Tsunao Kijima
Mr. Wong Tak Hung
Mr. Zhu Jia-liu*

Independent Non-Executive Directors

Mr. Lee Kwok Ming, Don*
Mr. Zhang Huiming*

* *Members of the Audit Committee*

SUPERVISORS

Mr. Wang Long-sheng
Mr. Shi Zu-qi
Mr. Zhang Zeng-yong

JOINT COMPANY SECRETARIES

Mr. Wang Jian
Mr. Chung Ying Jye, Andrew

AUTHORISED REPRESENTATIVES

Ms. Xu Ling-ling
Mr. Wang Jian

REGISTERED OFFICE

11th to 15th Floors
1666 Sichuan (North) Road
Shanghai
The PRC
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WEBSITE

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AUDITOR

PricewaterhouseCoopers

LEGAL ADVISERS

Simmons & Simmons (HKSAR)
Grandall Legal Group (PRC)

PRINCIPAL BANKERS

Industrial and Commercial Bank of China
Pudong Development Bank
China Merchants Bank

SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

Results and Financial Highlights

Lianhua Supermarket Holdings Company Limited ("Lianhua Supermarket" or the "Company") is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively known as the "Group") for the six months ended June 30, 2003.

RESULTS HIGHLIGHTS

– Successfully listed its H Shares on the main board of The Stock Exchange of Hong Kong Limited on June 27, 2003

– As the retail industry in the PRC maintained strong and steady growth and the Group actively expanded its retail businesses, the Group recorded a year-on-year growth of 87% in its turnover during the period under review

– As of June 30, 2003, the Group continued to be the largest retail chain operator in the PRC in terms of turnover. As of June 30, 2003, the Group operated a total of 2,214 retail outlets, spanning 20 provinces and municipalities such as Shanghai, Zhejiang, Jiangsu, Beijing and Guangzhou

– During the period under review, the number of hypermarkets increased from 11 to 17 when compared with December 31, 2002. The number of supermarkets went up from 828 as at December 31, 2002, to 934 and the number of convenience stores grew from 1,045 to 1,263

– Entered into an agreement with Distribuidora Internacional De Alimentacion S.A. of Spain to establish a joint venture to develop up to 300 discount stores in Shanghai in three years

– The joint venture agreement with Trading Zhou (Group) S.R.L. of Italy and Hui Feng Handles G.M.B.H. of Austria to develop the distribution business in Europe is under progress

– Expanded the retail network of Quik convenience stores nationwide through opening new stores at gas stations operated under the Sinopec brand name.

FINANCIAL HIGHLIGHTS

	Six months ended June 30,		**Year-on-year**
Unit: RMB million	**2003**	2002	**increase**
Turnover	**4,558**	2,434	87%
Gross profit	**575**	316	82%
Operating profit	**100**	52	92%
Net profit	**85**	55	56%
Basic earnings per share (RMB)	**0.20**	0.13	54%

Results and Financial Highlights

To facilitate Lianhua Supermarket's expansion plans of its hypermarket business, convenience store business and its logistic infrastructure, as well as to strengthen the Group's financial position, the Company listed its H Shares on the main board of The Stock Exchange of Hong Kong Limited ("SEHK") on June 27, 2003 and offered 172,500,000 H Shares (including 22,500,000 H Shares issued pursuant to an over-allotment option granted by the Company to BNP Paribas Peregrine Capital Limited) by means of public offer in Hong Kong (the "Public Offer") and international placing (the "Placing"). The Public Offer recorded encouraging response and was 83 times over-subscribed. The Placing was also well received and fully subscribed by institutional investors around the globe. The over-allotment option was exercised on July 7, 2003. As such, the Company's shareholding structure at the date of this report is as follows:

Shareholders	**Number of shares**	**Approximate shareholding** *(%)*
Domestic Shares (Note 1):		
Shanghai Friendship Group Incorporated Company	211,640,000	36.02
Shanghai Industrial United (Group) Commercial Network Development Company Limited	131,683,000	22.41
Shanghai Liding Investment Company Limited	12,220,000	2.08
Unlisted Foreign Shares (Note 2):		
Mitsubishi Corporation	41,900,000	7.13
Wong Sun Hing (Hong Kong) Investment Company Limited	17,557,000	2.99
H Shares (Note 3):		
H Share shareholders	172,500,000	29.37
	587,500,000	100.00

Notes:

1. Domestic Shares are ordinary shares in the share capital of the Company, with a Renminbi-denominated par value of RMB1.00 each, which were subscribed for and paid up in Renminbi and issued to certain promoters of the Company.

2. Unlisted Foreign Shares are ordinary shares in the share capital of the Company, with a Renminbi-denominated par value of RMB1.00 each, which were subscribed for and paid up in foreign currency and issued to certain promoters of the Company. For the avoidance of doubt, Unlisted Foreign Shares exclude H Shares.

3. H Shares are overseas listed foreign shares in the share capital of the Company, with a Renminbi-denominated par value of RMB1.00 each, which are subscribed for and traded in Hong Kong dollars.

Including the exercise of the over-allotment, the net proceeds raised from the placing and public offer amounted to approximately HK$615.12 million. The successful listing allows the Group to raise sufficient funds for realizing its future plans and setting the Group on the right path for its long-term development. The proceeds raised will be applied in ways as stated in the Company's prospectus dated June 17, 2003 (the "Prospectus").

Management Discussion & Analysis

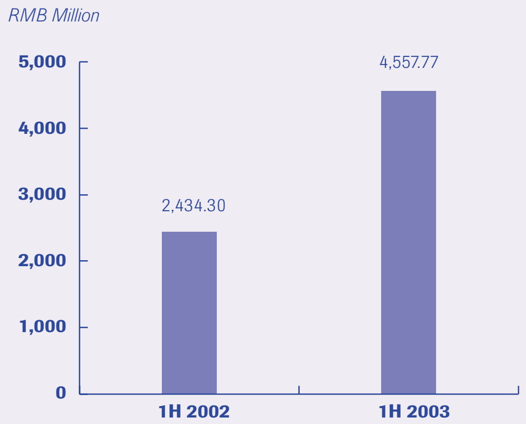
BUSINESS REVIEW

The first half of 2003 is of profound importance for Lianhua Supermarket.

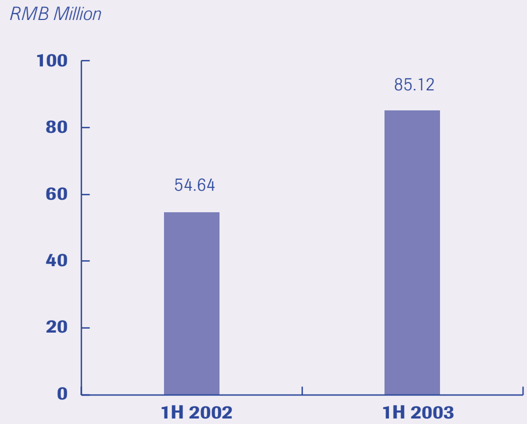
During the period under review, Lianhua Supermarket successfully listed its H Shares on the main board of the SEHK on June 27, 2003 and tapped into the international capital market. Both the Placing and the Public Offer exercises were well received, signifying a new milestone of Lianhua Supermarket's corporate development.

Despite of the outbreak of severe acute respiratory syndrome ("SARS") in the People's Republic of China (the "PRC"), the market in which the Group's operates, the Group was able to maintain healthy growth during the period under review. The Group's business has also benefited from the strong economy of the PRC and reached new heights. Total turnover of the Group increased from RMB2,434.30 million in the first half of 2002 to RMB4,557.77 million in the first half of 2003, representing an increase of 87%. Net profit increased from RMB54.64 million to RMB85.12 million in the first half of 2003, representing a year-on-year increase of 56%. This increase is due to the Group's continuous efforts in expanding its scale of operations and the rapid development of the retail industry in the PRC. In addition, SARS has raised consumer awareness towards hygiene and quality of both product and shopping environment, which facilitated the Group's retail chain expansion.

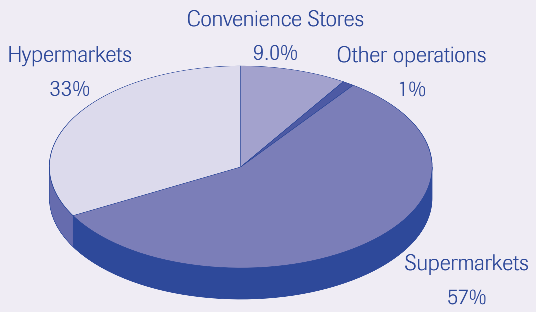
Turnover



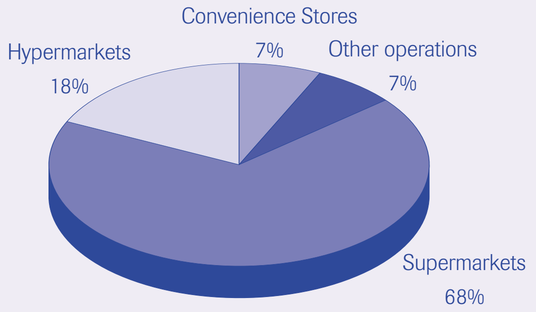
Net Profit



Turnover by retail format (1H 2003)



Net profit by retail format (1H 2003)



Management Discussion & Analysis

The total number of stores under the Group increased from 1,884 as at December 31, 2002 to 2,214 as at June 30, 2003, representing a growth of 330 stores. The number of hypermarkets, supermarkets and convenience stores grew by 6, 106 and 218 respectively. The map below illustrates the geographical distribution of all outlets of the Group as at June 30, 2003.

On July 2, 2003, the Group signed a letter of intent to set up a joint venture with Trading Zhou (Group) S.R.L. of Italy and Hui Feng Handles G.M.B.H. of Austria to develop its distribution business in Europe. The Group shall hold 51% equity interest in the joint venture, while each of the other two companies shall hold 24.5% equity interest respectively. At the moment, the joint venture plan is pending for approval from relevant authorities in Belgium. The Group believes that this joint venture can leverage on Lianhua Supermarket's edge in quality products and retail network in the PRC market to expand its business into Europe and beyond.

HYPERMARKET BUSINESS

Hypermarket plays an important role in the Company's core businesses, which is believed to possess great potential for further development and expansion in the PRC. Turnover from the hypermarket business increased by 447% to reach RMB1,504.47 million as compared to RMB274.98 million over the same period last year. It accounted for approximately 33% of the total turnover of the Group. This increase is primarily due to the opening of six hypermarkets during the period under review. Gross profit margin and operating profit margin were approximately 7.55% and 1.48% respectively during the period under review. Excluding the turnover generated from the merchandise sold at cost to associates, gross profit margin and operating profit margin were 9.78% and 1.92% respectively.

As at June 30, 2003, the Group directly operated 17 hypermarkets. Of the six outlets opened during the first half of the year, two were located in Zhejiang, two in Guangdong and two in Tianjin. Together with the six hypermarkets under Shanghai Carhua Supermarket Company Limited and the 15 hypermarkets under Shanghai Century Lianhua Supermarket Development Limited ("Century Lianhua"), the Group operates a total of 38 hypermarkets.

SUPERMARKET BUSINESS

Out of the three retail formats, the supermarket business is the most established retail chain business of the Group and also the major revenue contributor of the Group. For the six months ended June 30, 2003, turnover from the supermarket business amounted to RMB2,612.76 million, representing an increase of 40% from the same period last year. It accounted for approximately 57.3% of the total turnover of the Group. During the period under review, the Group opened 106 new outlets. As at June 30, 2003, the total number of supermarkets under the Group reached 934, of which 510 store outlets were under its direct operations and 424 were operated through franchise agreements. Most of the new supermarket outlets were opened in Shanghai. The total number of new stores in Shanghai amounted to 39. 20 outlets were opened in Zhejiang, 21 were opened in Jiangsu and 16 were opened in Shandong. During the period under review, gross profit margin for this business sector was approximately 14.9%, while operating profit margin was approximately 2.89%.

CONVENIENCE STORE BUSINESS

The convenience store business has achieved steady growth in sales revenue. It complements and supports the growth and development of the Group's other retail formats. For the six months ended June 30, 2003, turnover from the convenience store business reached RMB405.85 million, representing a 41.6% increase as compared to RMB286.6 million during the same period last year, contributing approximately 9% of the total turnover of the Group. Gross profit margin and operating profit margin were approximately 17.5% and 2.25% respectively.

As at June 30, 2003, the Group operated 1,263 convenience stores. The number of directly operated convenience stores surged from 740 as at December 31, 2002, to 921 as at June 30, 2003, while the number of franchised outlets grew from 305 to 342. Of the new directly operated outlets, 37 are located in Shanghai, 27 in Zhejiang, 31 in Dalian, 39 in Guangdong and 47 in Beijing. For the new franchised outlets, 31 of which are located in Shanghai while six are located in Zhejiang.

During the period under review, the Group entered into an agreement with a subsidiary of China Petroleum and Chemical Corporation to operate Quik convenience stores at gas stations operated under the Sinopec brand name. Pursuant to the agreement, the Group will lease store space at gas stations operated under the Sinopec brand name. As at June 30, 2003, a total of 12 Quik convenience stores have been opened at such gas stations. The expansion plan is well in progress.

NEW RETAIL FORMAT – DISCOUNT STORE BUSINESS

The Group has always been active in bringing in different retail formats to suit different consumer tastes and needs. In March 2003, the Group entered into an agreement with Distribuidora Internacional De Alimentacion S.A. ("Dia") of Spain, a unit of Carrefour, to form a joint venture, Shanghai Dia-Lianhua Commercial Co., Ltd. ("Shanghai Dia"), for the development of the discount store business under the brand name 'Dia'. The joint venture enterprise will have a registered capital of RMB93,087,000 in which Lianhua Supermarket will hold a 45% interest while Dia will hold a 55% interest.

On July 17, 2003, the first batch of four Dia discount stores were officially opened in the Shanghai city, including locations such as Zhen Ru Town. The Group plans to open 55 outlets within this year. Each discount store measures between 200-500 sq. m. in size and carries between 1,000-1,500 product categories. Each product is represented by two to three brand names, one of which will be the joint venture's own brand. The discount stores provide consumers with quality products at a discounted rate. Together with the other three retail formats, the Group offers customers with a comprehensive range of retail chain services. The Group is confident that this new retail format introduced from Europe can replicate its success in the PRC market.

Management Discussion & Analysis

FINANCIAL REVIEW

For the period under review, the Group's turnover and net profit both achieved growth as compared to the corresponding period last year. Turnover grew by 87% to RMB4,557.77 million and net profit was increased by 56% to RMB85.12 million. The growth in the Group's turnover and net profit was attributable to the overall expansion of the Group's retail network, the increase in sales and better economies of scale.

	First half of 2003	First half of 2002
	RMB million	*RMB million*
Turnover	**4,557.77**	2,434.30
Net profit	**85.12**	54.64

(I) Segment Information

Turnover by business segment for the six months ended June 30, 2003 was as follows:

	Turnover for the six months ended June 30,				**Year-on-year**
Business segment	**2003**		2002		**Change**
	RMB million	***%***	*RMB million*	*%*	*%*
Hypermarkets	**1,504.47**	**33.01**	274.98	11.30	447.12
Supermarkets	**2,612.76**	**57.33**	1,865.94	76.65	40.02
Convenience stores	**405.85**	**8.90**	286.60	11.77	41.61
Other operations	**34.69**	**0.76**	6.77	0.28	412.41

(II) Liquidity and Financial Resources

In the first half of 2003, the majority of financial resources of the Company came from operating cash. As at June 30, 2003, the Group had non-current assets of approximately RMB1,992.75 million. Non-current assets mainly comprised construction in progress and fixed assets of approximately RMB1,583.01 million, intangible assets of approximately RMB90.69 million, investment in associates of approximately RMB279.43 million, long-term investments and other non-current assets of approximately RMB39.61 million. The Group raised a net proceeds of approximately HK$530.13 million from its initial public offering (excluding the exercise of over-allotment option).

As at June 30, 2003, the Group had net current liabilities of approximately RMB640.70 million. Current assets mainly comprised cash and bank balances of approximately RMB904.93 million, inventories of approximately RMB589.81 million, receivables and prepayments of approximately RMB133.87 million, and amounts due from associates of approximately RMB77.97 million. Current liabilities mainly comprised short-term bank loans of approximately RMB274.00 million, (including notes payable of approximately RMB204.00 million), dividend payable of approximately RMB124.50 million, payables and accruals of approximately RMB1,930.53 million and taxes payable of approximately RMB18.25 million.

The Group's account payable turnover day was about 60 days for the six months ended June 30, 2003, improved from 57 days for the year ended December 31, 2002. Inventory turnover days during the period decreased from 33 days to 32 days.

During the period under review, the Group did not use any financial instrument for hedging purposes and the Group did not have any hedging instrument outstanding as at June 30, 2003.

(III) Capital Structure

As at June 30, 2003, the Group's borrowings as well as its cash equivalents were primarily denominated in RMB.

It is the intention of the Group to maintain an appropriate mix of equity and debt to ensure an efficient capital structure over time. With a total outstanding borrowings of RMB274.00 million as at June 30, 2003, the gearing ratio of the Group was 7.41% (total debts/total assets).

The shareholders' equity of the Group rose from approximately RMB587.11 million to approximately RMB1,110.21 million during the period under review.

(IV) Details of the Group's Pledged Assets

As at the date of this report, no asset of the Group is pledged.

(V) Exposure to Foreign Exchange Risk

Most of the incomes and expenditures of the Group are denominated in RMB. During the period under review, the Group had not experienced any material difficulties or negative effects on its operations or liquidity as a result of fluctuations in currency exchange rates. The Directors believe that the Group would have sufficient foreign exchange to meet its foreign exchange requirements.

(VI) Employment, Training and Development

As at June 30, 2003, the Group had a total of 23,405 employees, representing an increase of 7,867 employees as compared to June 30, 2002. Total staff costs amounted to RMB245.80 million. Apart from basic salary, welfare allowances and performance bonus, the Group also provides its employees with housing, medical benefits and other allowances. The Group also participates in various contribution retirement benefit plans organized by the government under which the Group and the employees are required to make monthly contributions to these plans at a certain percentage of the employees' salaries during the relevant periods. Furthermore, the Group continues to provide training for its staff to enhance technical and product knowledge as well as knowledge of quality standards in the industry.

(VII) Share Capital

As of the date of publishing of this report, the Company's issued share capital is as follows:

Share Category	**Number of Shares in Issue**	**Percentage %**
Domestic Shares	355,543,000	60.51
Unlisted Foreign Shares	59,457,000	10.12
H Shares	172,500,000	29.37
Total	587,500,000	100.00

USE OF PROCEEDS

The international placing and initial public offer of the Company has raised a net proceeds of approximately HK$615.12 million (including the exercise of over-allotment option). The Group did not utilize any part of the net proceeds during the period from the date of listing on June 27, 2003 up to the half-year end date of June 30, 2003. The net proceeds will be used in accordance to the plan as described in the Prospectus.

Management Discussion & Analysis

STRATEGIES AND PLANS

The increasing rate of urbanization in the PRC and the improvement of living standards, coupled with the increasingly hectic lifestyle of the urban dwellers, have led to the growing demand of consumers for shopping convenience as well as product and services quality. This trend has created tremendous opportunities for the uprise of the retail chain industry, and has laid a strong foundation for the continuous growth of the Group over the past decade.

The Group believes that the growth momentum of the PRC economy will continue throughout the second half of 2003. Moreover, it is expected that the GDP growth for 2003 will exceed the 7% as forecasted in 2003. The robust economic growth in the PRC would no doubt benefit Lianhua Supermarket's business and facilitate the Group's nationwide expansion. Given the PRC's entry into the WTO and the major events which will take place in Beijing and Shanghai within the next decade, the rate of urbanization in the PRC is expected to accelerate.

Facing the numerous business opportunities ahead, the Group will continue to capture market share in the second half of the year. As such, the Group has devised the following development strategies:

1. Lianhua Supermarket will follow through its core values by enhancing the reforms of various aspects of its operations, which include business model and management structure through innovation and revolution, so as to seek for excellence, new opportunities and cost-effectiveness;

2. Riding on its listing opportunity, the Group will speed up the internationalization of its operations management in accordance with the requirement set out by the international capital market. Lianhua Supermarket will strive to achieve performance to meet both domestic and international retail industry standards, including disclosure level, legal matters, distribution and logistics, as well as IT sourcing technology. We aim to follow suit with the successful experience of other global players to stay at the forefront of the industry;

3. We will execute our business plans as scheduled in order to achieve better results. We will accelerate the quality growth of our business through placing much effort in mergers and acquisitions and franchise operations management while at the same time, speeding up the expansion of our retail network.

The Group will seek to expand its existing retail network to achieve higher economies of scale. Meanwhile, it will continue to focus on its core businesses with an aim to satisfy consumers' needs. The Group will also strive to develop more effective and integrated supply chain infrastructure and advanced information technology to reduce operational costs.

Looking ahead, the management and employees of the Group will make every endeavour to develop a more comprehensive retail chain business through strategies such as direct operations, franchising agreements and mergers & acquisitions. The Lianhua Supermarket team is ready to face the challenges arising from the gradual opening up of the domestic retail market upon the PRC's accession to the WTO, and lead the Group from a leadership position to a supreme player of the retail market in the PRC. The Group strives to maximize value for its employees, business partners and consumers, and to bring fruitful returns for its shareholders and investors.

DISCLOSURE OF INTERESTS

Interests of Shareholders

So far as the directors of the Company are aware, as at June 30, 2003, the following persons had an interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (the "SFO"), or who is, 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:

Name	Number of Domestic Shares/ Unlisted Foreign Shares	Approximate percentage of voting power *(%)*
Shanghai Friendship Group Incorporated Company	211,640,000	37.46%
Shanghai Industrial United (Group) Commercial Network Development Company Limited	131,683,000	23.31%
Mitsubishi Corporation	41,900,000	7.42%
Shanghai Industrial United (Group) Joint Stock Company Limited	131,683,000	23.31% *(Note 1)*
Shanghai Industrial Investment (Holdings) Company Limited	131,683,000	23.31% *(Note 2)*

Notes:

1. Shanghai Industrial United (Group) Joint Stock Company Limited and its subsidiaries have interests in more than one-third of the registered capital of Shanghai Industrial United (Group) Commercial Network Development Company Limited and is, accordingly, deemed to have an interest in the shares of the Company owned by Shanghai Industrial United (Group) Commercial Network Development Company Limited.

2. Shanghai Industrial Investment (Holdings) Company Limited and its subsidiaries have interests in more than one-third of the registered capital of Shanghai Industrial United (Group) Joint Stock Company Limited and is, accordingly, deemed to have an interest in the shares of the Company which Shanghai industrial United (Group) Joint Stock Company Limited is deemed to have an interest in.

Save as disclosed above, the directors of the Company were not aware of any persons holding any interests or short positions in shares or underlying shares of the Company which were required to be disclosed pursuant to the SFO as at June 30, 2003.

Interests of Directors and Supervisors

None of the directors or supervisors of the Company holds or is deemed to hold interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in the SFO) nor have they been granted the right to acquire any interests in shares or debentures of the Company or any of its associated corporations.

Legal Status of Unlisted Foreign Shares

Set out below is a summary of the legal opinions of Grandall Legal Group, legal counsel to the Company as to PRC law, on the rights attached to the Unlisted Foreign Shares.

Management Discussion & Analysis

Although the Mandatory Provisions for Articles of Association of Companies to be Listed Overseas (the "Mandatory Provisions") provide for the definitions of "domestic shares", "foreign shares" and "overseas listed foreign shares" (which definitions have been adopted in the articles of association of the Company (the "Articles of Association")), the rights attached to the Unlisted Foreign Shares (which are subject to certain restrictions on transfer as referred to in the Prospectus and may become H Shares upon obtaining the requisite approvals from, among other bodies, the China Securities Regulatory Commission (the "CSRC") and the SEHK) are not expressly provided for under the existing PRC laws or regulations. However, the creation by the Company and the subsistence of the Unlisted Foreign Shares do not contravene any PRC laws or regulations.

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

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

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

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

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

As advised by the Company's PRC legal counsel, the following conditions must be satisfied before the Unlisted Foreign Shares can be converted into new H Shares:

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

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

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

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

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

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

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

PURCHASE, SALE, OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares since the listing of the H Shares on June 27, 2003 up to the date of this report. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the same period.

INTERIM DIVIDEND

As Lianhua Supermarket listed its H Shares on the SEHK on June 27, 2003, the Directors do not recommend the payment of an interim dividend for the six months ended June 30, 2003 in order to retain capital for future business development.

MAJOR INVESTMENTS

The Company has not made any major investments between the date of listing and the publishing date of this report.

EXERCISE OF OVER-ALLOTMENT OPTIONS

On July 7, 2003, BNP Paribas Peregrine Capital Limited, sponsor of the listing of the H Shares on the SEHK, exercised in full the over-allotment option granted to it by the Company, to require the Company to issue 22.5 million additional H Shares at the offer price of HK$3.875 per H Share and raised an additional proceeds of approximately HK$87.0 million for general working capital purpose.

AUDIT COMMITTEE

The Company established an audit committee pursuant to a resolution of the board of directors passed in June, 2003 in compliance with the Code of Best Practice as set out in appendix 14 to the Listing Rules. The primary duties of the audit committee are to review the financial reporting process of the Group. The Company's audit committee consists of the two independent non-executive directors of the Company, namely Mr. Lee Kwok Ming, Don, Mr. Zhang Hui-ming and one non-executive director of the Company, Mr. Zhu Jia-liu. The Company's audit committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed the internal controls and financial reporting matters including a review of the condensed interim accounts of the Company prepared under the accounting principles generally accepted in Hong Kong.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

The board of directors of the Company is pleased to confirm that the Company has complied with the Code of Best Practice of the Listing Rules for the period under review.

None of the directors is aware of any information that would reasonably indicate that the Company is not or was not for any part of the period ended June 30, 2003 in compliance with the Code of Best Practice as set out in appendix 14 to the Rules Governing the Listing of Securities of the SEHK.

By Order of the Board
Chairman
Wang Zong-nan

Shanghai, the PRC, August 20, 2003

Supplementary Information

Shanghai Bailian

On April 6, 2003, the Shanghai Municipal Government announced that it was planning to effect the merger of Shanghai Friendship Group, Yibai Group, Hualian Group and Wuzi Group into Shanghai Bailian (Group) Company Limited ("Shanghai Bailian"). The merger aims to facilitate collaboration among these Shanghai retail enterprises so as to enhance their competitiveness in the PRC retail market. During the period under review, Shanghai Bailian has not made any propositions through Shanghai Friendship Group concerning matters related to business cooperation or company restructuring to the Company's Board of Directors.

At the same time, Shanghai Bailian has made an undertaking supporting the independent operation and equal treatment of Lianhua Supermarket. As such, Shanghai Bailian will endeavor to ensure that the independence of the business operation in the PRC and the legal status of the Group are fully respected and that it will not interfere with future business development plan, sales and merchandising operations, and financial operations of the Group. Furthermore, Shanghai Bailian has undertaken that it will provide all of its subsidiaries, including the Group, with an equal and fair competition environment, and that it will ensure that all of its subsidiaries, including the Group, have equal commercial opportunities in relation to their business.

In light of the equal treatment the Group has received and that the Group operates its own management team under the independent operation of the board of Directors, the Group believes that the merger will not adversely affect the Group's operations but will instead help strengthen future collaboration opportunities among the associates, which are beneficial to the Group's business development.

Connected Transactions

The connected transactions of the Company included:

1. Sales of merchandise to Century Lianhua;

2. Sales of merchandise to hypermarkets owned by certain subsidiaries of the Company (Fuzhou Century Lianhua Supermarket Company Limited, Shanghai Century Lianhua Supermarket Baoshan Company Limited, Shanghai Lujiazui Lianhua Hypermarket Company Limited, Guangzhou Century Lianhua Supermarket Company Limited and Shanghai Century Lianhua Supermarket Minhang Company Limited);

3. Sales of merchandise to Shanghai Lianhua Quik Convenience Stores Company Limited;

4. Sales of merchandise to supermarkets owned by certain subsidiaries of the Company (Suzhou Lianhua Supermarket Company Limited, Yangzhou Lianhua Supermarket Commercial Company Limited and Shanghai Lianhua Supermarket Jiading Company Limited);

5. Purchase of merchandise from Shanghai Lianhua Supermarket Distribution Company Limited ("Lianhua Distribution");

6. Management of Century Lianhua; and

7. Lease of property by the Company to Lianhua Distribution.

The connected transactions mentioned above were exempt during the period under review as the amount involved had not exceeded the pre-set caps. The independent directors of the Company have confirmed that these continuing connected transactions have been made under normal commercial terms and are fair and reasonable so far as the shareholders of the Company taken as a whole are concerned.

Condensed Consolidated Profit and Loss Account

For the six months ended June 30, 2003

	Notes	Unaudited Six months ended June 30, 2003 RMB'000	2002 RMB'000
Turnover	3	**4,557,770**	2,434,300
Cost of sales		**(3,983,199)**	(2,118,634)
Gross profit		**574,571**	315,666
Other revenues	3	**269,539**	115,557
Other income		**8,373**	5,549
Distribution costs		**(651,771)**	(326,919)
Administrative expenses		**(94,927)**	(54,915)
Other operating expenses		**(5,681)**	(2,892)
Operating profit	4	**100,104**	52,046
Finance costs		**(5,247)**	(3,844)
Share of results of associates		**48,511**	34,353
Profit before taxation		**143,368**	82,555
Taxation	5	**(38,944)**	(23,967)
Profit after taxation		**104,424**	58,588
Minority interests		**(19,306)**	(3,946)
Profit attributable to shareholders		**85,118**	54,642
Dividends	6	**–**	4,151
Earnings per share	7	**RMB0.20**	RMB0.13

Condensed Consolidated Balance Sheet

As at June 30, 2003 and December 31, 2002

	Notes	Unaudited June 30, 2003 RMB'000	(As restated) Audited December 31, 2002 RMB'000
Non-current assets			
Intangible assets	8	**90,694**	49,581
Fixed assets	9	**1,553,264**	1,461,126
Construction in progress	10	**29,747**	5,825
Investments in associates	11	**279,434**	252,924
Long-term investments		**11,776**	11,776
Deferred tax assets	19	**5,332**	3,215
Other non-current assets	12	**22,498**	23,197
		1,992,745	1,807,644
Current assets			
Inventories		**589,812**	662,941
Trade receivables	13	**14,377**	11,750
Deposits, prepayments and other receivables		**119,497**	85,213
Amounts due from associates	14	**77,971**	209
Bank balances and cash		**904,926**	305,727
		1,706,583	1,065,840
Current liabilities			
Trade payables	15	**1,365,027**	1,143,850
Coupon liabilities, other payables and accruals	16	**565,507**	604,389
Amounts due to associates	14	**–**	16,031
Unsecured short-term borrowings	17	**274,000**	170,000
Taxes payable	18	**18,250**	37,930
Dividends payable	6	**124,500**	–
		2,347,284	1,972,200
Net current liabilities		**(640,701)**	(906,360)
Total assets less current liabilities		**1,352,044**	901,284
Non-current liabilities			
Deferred tax liabilities	19	**(45,158)**	(45,736)
Minority interests		**(196,674)**	(268,440)
Net assets		**1,110,212**	587,108
Capital and reserves			
Share capital	20	**565,000**	415,000
Reserves	21	**545,212**	47,608
Proposed final dividend		**–**	124,500
		1,110,212	587,108

Condensed Consolidated Statement of Changes in Equity

For the six months ended June 30, 2003

	Notes	**Unaudited Six months ended June 30, 2003 RMB'000**	2002 RMB'000
Total equity at January 1, as previously reported		**584,762**	460,776
Adjustments arising from adoption of the revised SSAP 12			
– provision for deferred tax assets	2	**3,215**	3,885
– provision for deferred tax liabilities	2	**579**	–
– additional goodwill amortisation	2	**(1,158)**	–
– increase in minority interests' share of profit for year 2002	2	**(290)**	–
Total equity at January 1, as restated		**587,108**	464,661
Issue of H shares	20	**150,000**	–
Premium arising from issue of H shares	21	**466,730**	–
Share issuance expenses	21	**(54,244)**	–
Profit for the period	21	**85,118**	54,642
Dividends	21	**(124,500)**	(4,151)
Total equity at June 30		**1,110,212**	515,152

Condensed Consolidated Cash Flow Statement

For the six months ended June 30, 2003

	Unaudited Six months ended June 30, **2003** *RMB'000*	2002 *RMB'000*
Net cash inflow from operating activities	**290,231**	188,256
Net cash outflow from investing activities	**(357,688)**	(203,932)
Net cash inflow from financing activities	**666,656**	8,735
Increase/(decrease) in cash and cash equivalents	**599,199**	(6,941)
Cash and cash equivalents at January 1	**305,727**	185,784
Cash and cash equivalents at June 30	**904,926**	178,843
Comprising:		
Bank balances and cash at June 30	**904,926**	178,843

Notes to the Condensed Interim Accounts

For the six months ended June 30, 2003

1. Principal activities and basis of preparation

The principal activities of the Group and its associates are the operation of a chain of supermarkets, hypermarkets and convenience stores primarily in Shanghai, Zhejiang and Jiangsu Province of the People's Republic of China (the "PRC"). All the operating assets of the Group and its associates are located in the PRC.

These unaudited consolidated condensed accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA").

In connection with the listing of the Company's H shares on the Main Board of The Stock Exchange of Hong Kong Limited, the Company issued a prospectus (the "Prospectus") on June 17, 2003 and an accountants' report (the "Accountants' Report") is included in the Prospectus. These condensed accounts should be read in conjunction with the financial information of the Group for the year ended December 31, 2002 as set out in the Accountants' Report.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the preparation of the financial information for the year ended December 31, 2002 as set out in the Accountants' Report, except that the Group has changed certain of its accounting policies following its adoption of SSAP 35 "Government Grants and Disclosure of Government Assistance" ("SSAP 35") and SSAP 12 (revised) "Income Taxes" ("revised SSAP 12") issued by the HKSA which are effective for accounting periods commencing on or after July 1, 2002 and January 1, 2003, respectively.

The adoption of SSAP 35 did not have a material financial effect on the Group. The changes to the Group's accounting policies on deferred taxation pursuant to the revised SSAP 12 and the effect of adopting these new policies are set out in Note 2.

2. Adjustments arising from adoption of the revised SSAP 12

Pursuant to the revised SSAP 12, the Group's accounting policies on deferred taxation have been changed as follows:

(a) Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

(b) Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

In prior years, deferred taxation was accounted for at the current taxation rates in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the revised SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

The adjustments made by the Group on adoption of the revised SSAP 12 are summarised as follows:

	As at January 1, 2002 RMB'000	As at December 31, 2002 RMB'000	For the year ended December 31, 2002 RMB'000
		Increase/(Decrease)	
Retained earnings	3,885	2,346	–
Deferred tax assets	3,885	3,215	(670)
Deferred tax liabilities	–	45,736	579
Goodwill	–	21,999	(1,158)
Minority interests	–	(22,868)	–
Minority interests' share of profit	–	–	290
Profit attributable to shareholders	–	–	(1,539)

The adjustments on deferred taxation mainly relate to the acquisition of a major subsidiary in July 2002. Pursuant to the revised SSAP 12, when the carrying amount of an asset is increased to fair value upon acquisition of a subsidiary but the tax base of the asset remains at cost to the previous owner, a taxable temporary difference arises which results in a deferred tax liability. The resulting deferred tax liability arising from the acquisition in July 2002, amounted to RMB46,315,000 (Note 19), has the effect of increasing the Group's goodwill upon acquisition by RMB23,157,000 (Note 8), after excluding the minority interests' share of RMB23,158,000.

Notes to the Condensed Interim Accounts

For the six months ended June 30, 2003

3. Turnover, other revenues and segment information

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

	Six months ended June 30, 2003 RMB'000	2002 RMB'000
Turnover		
Sales of merchandise	**4,557,770**	2,434,300
Other revenues		
Income from suppliers		
– Store display income	**116,538**	57,952
– Leasing of warehouse storage space	**25,750**	25,178
– Promotion income	**52,239**	6,916
– Merchandise delivery income	**11,986**	–
Gross rental income from leasing of shop premises	**41,024**	8,234
Interest income	**1,828**	1,381
Royalty income from franchised stores	**11,235**	7,480
Others	**8,939**	8,416
	269,539	115,557
Total revenue	**4,827,309**	2,549,857

Segment information

No geographical segment analysis is presented as all assets and operations of the Group during the period are located in the PRC.

The principal operation of the Group is organised into three main business segments:

- Supermarkets chain operation
- Hypermarkets chain operation
- Convenience stores chain operation

There are no significant sales or other transactions between the business segments. Unallocated costs represent corporate expenses.

Other operations of the Group mainly comprise sales of merchandise to wholesalers and logistic services for wholesale business, neither of which are of a sufficient size to be reported separately.

	Six months ended June 30, 2003				
	Supermarkets *RMB'000*	**Hypermarkets** *RMB'000*	**Convenience stores** *RMB'000*	**Other operations** *RMB'000*	**Group** *RMB'000*
Segment revenue	**2,731,631**	**1,605,304**	**451,668**	**36,878**	**4,825,481**
Including sales of merchandise to					
– an associate at cost	**–**	**342,260**	**–**	**–**	**342,260**
– an associate at retail price less 2%	**130,620**	**–**	**–**	**–**	**130,620**
– franchised stores at cost	**107,284**	**–**	**45,315**	**–**	**152,599**
Interest income					**1,828**
Total revenue					**4,827,309**
Segment results	**75,134**	**21,032**	**9,061**	**556**	**105,783**
Interest income					**1,828**
Other income					**8,373**
Unallocated costs					**(15,880)**
Operating profit					**100,104**
Finance costs					**(5,247)**
Share of results of associates					**48,511**
Profit before taxation					**143,368**
Taxation					**(38,944)**
Profit after taxation					**104,424**
Minority interests					**(19,306)**
Profit attributable to shareholders					**85,118**

Notes to the Condensed Interim Accounts

For the six months ended June 30, 2003

	Six months ended June 30, 2002				
	Supermarkets *RMB'000*	Hypermarkets *RMB'000*	Convenience stores *RMB'000*	Other operations *RMB'000*	Group *RMB'000*
Segment revenue	1,952,118	290,089	298,941	7,328	2,548,476
Including sales of merchandise to					
– an associate at cost	72,966	–	–	–	72,966
– an associate at retail price less 2%	86,312	–	–	–	86,312
– franchised stores at cost	89,941	–	41,105	–	131,046
Interest income					1,381
Total revenue					2,549,857
Segment results	45,598	2,440	7,063	650	55,751
Interest income					1,381
Other income					5,549
Unallocated costs					(10,635)
Operating profit					52,046
Finance costs					(3,844)
Share of results of associates					34,353
Profit before taxation					82,555
Taxation					(23,967)
Profit after taxation					58,588
Minority interests					(3,946)
Profit attributable to shareholders					54,642

4. Operating profit

Operating profit is stated after charging/(crediting) the following:

	Six months ended June 30,	
	2003 **RMB'000**	2002 *RMB'000*
Depreciation of fixed assets	**108,426**	60,205
Amortisation of goodwill	**4,190**	530
Amortisation of software	**2,583**	511
Amortisation of non-current assets	**699**	566
Staff costs excluding directors' emoluments	**245,795**	141,612
Operating lease rental in respect of land and buildings	**169,495**	76,866
Loss on disposal of fixed assets	**1,694**	2,074
Provision for obsolescence of inventories	**179**	210
Provision/(reversal of provision) for doubtful debts	**867**	(1,269)
Unrealised gains/(losses) on trading securities	**349**	(199)
Net income from investments in trading securities		
– Net gain on disposal of trading securities	**–**	(2,566)
– Net income from designated deposits	**–**	(1,008)
Government subsidies	**(8,374)**	(1,975)
Income from leasing of shop premises		
– Gross rental income	**(41,024)**	(8,234)
– Outgoings	**11,215**	1,855

Notes to the Condensed Interim Accounts

For the six months ended June 30, 2003

5. Taxation

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

	Six months ended June 30,	
	2003	2002
	RMB'000	*RMB'000*
PRC income tax		
Company and subsidiaries		
– Current taxation	**25,429**	12,217
– Deferred taxation *(Note 19)*	**(2,695)**	36
	22,734	12,253
Share of taxation of associates	**16,210**	11,714
	38,944	23,967

6. Dividends

	Six months ended June 30,	
	2003	2002
	RMB'000	*RMB'000*
Interim, paid of RMB Nil (2002: RMB0.01) per share	**–**	4,151

At a meeting held on January 26, 2003, the shareholders declared and approved a final dividend of RMB0.30 per share, totalling RMB124,500,000 for the year ended December 31, 2002, which has been reflected as an appropriation of retained earnings for the six months ended June 30, 2003 (Note 21).

7. Earnings per share

The calculation of basic earnings per share for the six months ended June 30, 2003 is based on the profit attributable to shareholders of RMB85,118,000 (2002: RMB54,642,000) and the weighted average number of 418,314,917 (2002: 415,000,000) shares in issue during the period.

Diluted earnings per share has not been calculated as there were no material dilutive options and other dilutive potential shares in issue during both periods presented.

8. Intangible assets

	Software	**Goodwill**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Opening net book value at January 1, 2002	426	9,978	10,404
Acquisition of a subsidiary-Hangzhou Lianhua Huashang Group Co., Ltd.			
– as previously reported	3,077	8,108	11,185
– adjustment arising from adoption of the revised SSAP 12 *(Note 2)*	–	23,157	23,157
– as restated	3,077	31,265	34,342
Amortisation charges			
– as previously reported	(4,426)	(1,465)	(5,891)
– adjustment arising from adoption of the revised SSAP 12 *(Note 2)*	–	(1,158)	(1,158)
– as restated	(4,426)	(2,623)	(7,049)
Other additions	11,884	–	11,884
Closing net book value at December 31, 2002, as restated	10,961	38,620	49,581
Additions	1,877	46,009	47,886
Amortisation charges	(2,583)	(4,190)	(6,773)
Closing net book value at June 30, 2003	10,255	80,439	90,694

The adoption of the revised SSAP 12 did not have a material effect on the Group's intangible assets as of January 1, 2002.

Notes to the Condensed Interim Accounts

For the six months ended June 30, 2003

9. Fixed assets

	June 30, 2003 ***RMB'000***	December 31, 2002 *RMB'000*
Opening net book value at beginning of period/year	**1,461,126**	579,562
Acquisition of subsidiaries	**–**	456,319
Additions	**202,041**	451,854
Transfer from construction in progress *(Note 10)*	**6,048**	140,809
Disposals	**(7,525)**	(18,371)
Depreciation for the period/year	**(108,426)**	(149,047)
Closing net book value at end of period/year	**1,553,264**	1,461,126

10. Construction in progress

	RMB'000
At January 1, 2002	56,318
Additions	90,316
Transfer to fixed assets *(Note 9)*	(140,809)
At December 31, 2002	5,825
Additions	29,970
Transfer to fixed assets *(Note 9)*	(6,048)
At June 30, 2003	29,747

11. Investments in associates

	June 30, 2003 ***RMB'000***	December 31, 2002 *RMB'000*
Share of net assets	**279,434**	252,924
Unlisted equity investments, at cost	**108,057**	110,542

The Group's share of net assets of associates mainly represents the Group's share of the net assets of Shanghai Carhua Supermarket Company Limited ("Carhua"). The assets and liabilities of Carhua as at June 30, 2003 and December 31, 2002 together with the turnover and profit attributable to shareholders of Carhua during the six months ended June 30, 2003 and 2002, as extracted from the accounts of Carhua are as follows:

	June 30, 2003 ***RMB'000***	December 31, 2002 *RMB'000*
Non-current assets	**640,952**	641,432
Current assets	**398,233**	450,398
Current liabilities	**(547,168)**	(671,190)

	Six months ended June 30,	
	2003 ***RMB'000***	2002 *RMB'000*
Turnover	**1,390,104**	1,332,325
Profit attributable to shareholders	**71,378**	52,539

12. Other non-current assets

These are payments for obtaining the right to use certain buildings for a specified period of time or permanently. They are being amortised over the shorter of the contract period or the estimated useful lives of the buildings.

Notes to the Condensed Interim Accounts

For the six months ended June 30, 2003

13. Trade receivables

The ageing analysis of the trade receivables, arising mainly from sales of merchandise to franchised stores and with credit terms ranging from 30 to 45 days, are as follows:

	June 30, 2003 ***RMB'000***	December 31, 2002 *RMB'000*
<30 days	**12,456**	10,639
30-60 days	**950**	514
61-90 days	**454**	10
91 days-one year	**517**	587
	14,377	11,750

14. Amounts due from/to associates

The amounts due from associates represent trade balances arising from sales of merchandise. The credit terms range from 30 to 90 days and the ageing analysis of the amounts due from associates are as follows:

	June 30, 2003 ***RMB'000***	December 31, 2002 *RMB'000*
<30 days	**25,100**	209
30-60 days	**52,871**	–
	77,971	209

The amounts due to associates represented advances received from associates, which were unsecured, interest free and were repayable on demand.

15. Trade payables

The ageing analysis of the trade payables are as follows:

	June 30, 2003 ***RMB'000***	December 31, 2002 *RMB'000*
<30 days	**724,040**	608,926
30-60 days	**468,556**	294,559
61-90 days	**163,155**	196,491
91 days-one year	**9,276**	43,874
	1,365,027	1,143,850

16. Coupon liabilities, other payables and accruals

	June 30, 2003 ***RMB'000***	December 31, 2002 *RMB'000*
Coupon liabilities	**244,563**	299,536
Customers' advances	**4,578**	24,756
Other payables	**277,251**	275,321
Accruals	**39,115**	4,776
	565,507	604,389

Notes to the Condensed Interim Accounts

For the six months ended June 30, 2003

17. Unsecured short-term borrowings

	June 30, 2003 *RMB'000*	December 31, 2002 *RMB'000*
Short-term bank loans	**70,000**	170,000
Notes payable *(Note)*	**204,000**	–
	274,000	170,000

Note: During the period, the Company issued notes payable to one of its subsidiaries for settlement of trade balances which were subsequently discounted by the subsidiary to banks for cash. These notes payable are repayable within a period of three to six months.

18. Taxes payable

	June 30, 2003 *RMB'000*	December 31, 2002 *RMB'000*
PRC business tax payable	**3,357**	4,244
PRC income tax payable	**10,868**	11,987
PRC value-added tax payable	**4,025**	21,699
	18,250	37,930

19. Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using the tax rates which are expected to be applied at the time of reversal of the temporary differences.

The following are the major deferred tax liabilities/(assets) recognised by the Group and movements thereon during the current and prior periods:

	Fair value adjustments on acquisition of subsidiary *RMB'000*	**Pre-operating expenses** *RMB'000*	**Bad debt and inventory provisions** *RMB'000*	**Total** *RMB'000*
Balance at January 1, 2002, as previously reported	–	–	–	–
Adjustments arising from adoption of the revised SSAP 12 *(Note 2)*	–	(1,656)	(2,229)	(3,885)
Balance at January 1, 2002, as restated	–	(1,656)	(2,229)	(3,885)
Adjustments for 2002 arising from adoption of the revised SSAP 12 *(Note 2)*				
– Acquisition of a subsidiary	46,315	–	–	46,315
– (Credited)/charged to consolidated profit and loss account	(579)	249	421	91
Balance at December 31, 2002, as restated	45,736	(1,407)	(1,808)	42,521
(Credited)/charged to consolidated profit and loss account	(578)	(1,814)	(303)	(2,695)
At June 30, 2003	45,158	(3,221)	(2,111)	39,826

Notes to the Condensed Interim Accounts

For the six months ended June 30, 2003

20. Share capital

	Number of shares at RMB1.00 each	Nominal value *RMB'000*
At January 1, 2002 and 2003	415,000,000	415,000
Issue of H shares *(Note)*	150,000,000	150,000
At June 30, 2003	565,000,000	565,000

Note: Pursuant to a resolution passed at the shareholders' meeting on January 26, 2003 and approvals from the relevant government authorities, the Company was authorised to increase its registered share capital from RMB415,000,000 to an amount not less than RMB565,000,000 but not exceeding RMB587,500,000.

On June 25, 2003, the Company completed a placing and public offer of 150,000,000 H shares with a par value of RMB1.00 each at a price of HK$3.875 per share in cash for an aggregate consideration of HK$581,250,000 (equivalent to approximately RMB616,730,000). These H shares commenced trading on the Main Board on June 27, 2003.

As at June 30, 2003, the share capital of the Company composed of:

	Number of shares at RMB1.00 each	Nominal value *RMB'000*
Domestic shares	355,543,000	355,543
Unlisted foreign shares	59,457,000	59,457
H shares	150,000,000	150,000
At June 30, 2003	565,000,000	565,000

The H shares rank pari passu in all respects with the domestic shares and the unlisted foreign shares and rank equally for all dividends declared, paid or made except that all dividends in respect of H shares are to be paid by the Company in Hong Kong dollars and H shares may only be subscribed for by, and traded in Hong Kong dollars between, legal or natural persons of Hong Kong, Taiwan, Macau Special Administrative Region of the PRC or any country other than the PRC. The transfer of the domestic and unlisted foreign shares is subject to such restrictions as the PRC laws may impose from time to time.

Notes to the Condensed Interim Accounts

For the six months ended June 30, 2003

21. Reserves

	Capital reserve RMB'000	Statutory common reserve fund RMB'000 (note (a))	Statutory common welfare fund RMB'000 (note (b))	Retained earnings RMB'000	Total RMB'000
Balance at January 1, 2002, as previously reported	–	13,782	6,443	25,551	45,776
Adjustments arising from adoption of the revised SSAP 12 *(Note 2)*					
– provision for net deferred tax assets	–	–	–	3,885	3,885
Balance at January 1, 2002, as restated	–	13,782	6,443	29,436	49,661
Profit for 2002, as previously reported	–	–	–	128,137	128,137
Adjustments arising from adoption of the revised SSAP 12 *(Note 2)*					
– provision for net deferred tax liabilities	–	–	–	(91)	(91)
– additional goodwill amortisation	–	–	–	(1,158)	(1,158)
– Increase in minority interests' share of profit for 2002	–	–	–	(290)	(290)
Profit for 2002, as restated	–	–	–	126,598	126,598
Profit appropriations	–	12,966	6,482	(19,448)	–
Dividends declared and paid	–	–	–	(4,151)	(4,151)
Balance at December 31, 2002, as restated	–	26,748	12,925	132,435	172,108
Representing:					
Final dividend proposed				124,500	124,500
Others (as restated)				7,935	47,608
				132,435	172,108
Balance at January 1, 2003, as restated	–	26,748	12,925	132,435	172,108
Issue of H shares	466,730	–	–	–	466,730
Share issuance expenses	(54,244)	–	–	–	(54,244)
Profit for the period	–	–	–	85,118	85,118
2002 final dividend	–	–	–	(124,500)	(124,500)
Balance at June 30, 2003	412,486	26,748	12,925	93,053	545,212

(a) Pursuant to the relevant PRC regulations and the Articles of Association of the companies within the Group, each of the companies within the Group is required to transfer 10% of its net profit, as determined under the PRC accounting regulations, to statutory common reserve fund until the fund aggregates to 50% of its registered capital. The transfer to this reserve must be made before distribution of dividends to shareholders.

The statutory common reserve fund shall only be used to offset previous years' losses, to expand its production operations, or to increase its capital. Upon approval by a resolution of shareholders' at a general meeting, each of the companies within the Group may convert its statutory common reserve fund into share capital and issue bonus shares to existing shareholders in proportion to their original shareholdings or to increase the nominal value of each share currently held by them, provided the balance of the reserve fund after such issue is not less than 25% of the registered capital.

(b) Pursuant to the relevant PRC regulations and the Articles of Association of the companies within the Group, each of the companies within the Group is required to transfer 5% to 10% of its net profit, as determined under the PRC accounting regulations, to the statutory common welfare fund. This fund can only be used to provide staff facilities and other collective benefits to its employees. This fund is non-distributable other than upon liquidation of the company.

Notes to the Condensed Interim Accounts

For the six months ended June 30, 2003

22. Commitments

(a) Capital commitments for fixed assets

	June 30, 2003 RMB'000	December 31, 2002 RMB'000
Contracted but not provided for	**53,743**	60,822

The capital commitments mainly represent commitments for construction of buildings and purchase of machinery and equipment.

(b) Commitments for equity investments

(i) As at June 30, 2003, the Group had a commitment to acquire the remaining equity interests of 25.5% in Hangzhou Lianhua Huashang Group Co., Ltd. held by third parties at a consideration of not less than RMB140.76 million.

(ii) As at June 30, 2003, the Group had a commitment to contribute capital of approximately RMB41.9 million in cash to establish a joint venture with Distribuidora Internacional De Alimentacion S.A. of Spain, in which the Company will hold 45% of the equity interest.

(c) Commitments under operating leases

The Group had future aggregate minimum lease payments under non-cancellable operating leases for land and buildings as follows:

	June 30, 2003 RMB'000	December 31, 2002 RMB'000
Not later than one year	**327,120**	327,515
Later than one year and not later than five years	**1,260,498**	1,243,710
Later than five years	**1,374,180**	1,575,820
	2,961,798	3,147,045

23. Future operating lease arrangements

The Group had future aggregate minimum lease receipts under non-cancellable operating leases for land and buildings as follows:

	June 30, 2003 RMB'000	December 31, 2002 RMB'000
Not later than one year	**41,749**	49,871
Later than one year and not later than five years	**65,661**	74,861
Later than five years	**55,791**	51,822
	163,201	176,554

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

Notes to the Condensed Interim Accounts

For the six months ended June 30, 2003

24. Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Apart from those disclosed under Note 14, the Group entered into significant related party transactions during the period, which were carried out in the normal course of the Group's business, as follows:

		Unaudited Six months ended June 30,	
		2003	2002
	Note	***RMB'000***	*RMB'000*
Sales to associates			
– Shanghai Lianhua E-business Co., Ltd.	*(a)*	**130,620**	86,312
– Subsidiaries of Shanghai Century Lianhua Supermarket Development Co., Ltd.	*(b)*	**342,260**	72,966
Purchases from associates			
– Shanghai Lianhua Supermarket Food Co., Ltd. and Shanghai Gude Commercial Trading Co., Ltd.	*(c)*	**8,063**	18,156
Decoration cost paid to an associate	*(d)*	**5,136**	4,682

Note:

(a) Sales to Shanghai Lianhua E-business Co., Ltd. were recognised when customers presented coupons issued by Shanghai Lianhua E-business Co., Ltd. at the Group's stores in exchange for the Group's merchandises. These sales were set at retail prices less a discount of 2%.

(b) Sales were made at cost and were in accordance with the terms of the underlying agreements.

(c) The purchase price was determined with reference to the then prevailing market prices and the prices charged by those associates to third parties.

(d) The decoration cost paid to an associate was determined with reference to the then prevailing market prices.

25. Subsequent event

In connection with the Company's placing and public offer of its H shares in June 2003, an over-allotment option was granted by the Company to the sponsors pursuant to which the Company would be required to issue an additional 22,500,000 H shares with a par value of RMB1.00 each. In July 2003, 22,500,000 new H shares with a par value of RMB1.00 each were issued by the Company pursuant to the terms of the over-allotment option at a price of HK$ 3.875 per share in cash for an aggregate consideration of HK$87,187,500 (equivalent to approximately RMB92,506,000). These new H shares rank pari passu in all respects with the existing H shares.

26. Controlling shareholder and ultimate holding company

The directors regard Shanghai Friendship Group Incorporated Company (formerly known as Shanghai Friendship & Overseas Chinese Co., Ltd.), a company established and listed in the PRC, as being the controlling shareholder.

The directors regard Shanghai Friendship (Group) Co., Ltd., a state-owned enterprise established in the PRC, as being the ultimate holding company.