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

INTERIM REPORT 2004

二零零四年中期報告

Stay Ahead in China
Create Regional Dominance
鞏固全國領先地位
形成區域優勢

CONTENTS

RESULTS AND FINANCIAL HIGHLIGHTS

The board of directors (the "Board") of Lianhua Supermarket Holdings Company Limited ("Lianhua Supermarket" or the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") is pleased to announce the unaudited results for the six months ended 30 June 2004.

Results Highlights

- For the six months ended 30 June 2004, the Group continued to have healthy and rapid growth. Turnover, operating profit and profit attributable to shareholders of the Company amounted to approximately RMB5,242,440,000, RMB129,410,000 and RMB107,170,000 respectively, representing an increase of 15.02% in turnover, 29.28% in operating profit and 25.91% in profit attributable to shareholders of the Company when compared to the same period of last year. Profit attributable to shareholders for the interim period exceeded RMB100 million for the first time. During the period under review, operating profit margin increased from 2.20% to 2.47% when compared with the corresponding period of last year. Net profit margin increased from 1.87% to 2.04% when compared with the same period of last year.

- Progress on the expansion of chain outlets was satisfactory. As at 30 June 2004, the total number of the Group's directly-operated and franchised stores was 2,706 (excluding associated companies), of which 34 were hypermarkets, 1,192 were supermarkets and 1,480 were convenience stores. This represents an increase of 492 stores when compared to the same period of last year.

- The number of outlets operated by associated companies continued to grow. Century Lianhua, an associated company of the Company entrusted to be managed by the Company, operated 23 hypermarkets. Shanghai Carhua operated and managed 7 hypermarkets in Shanghai. The number of discount stores operated by Shanghai Dia increased to 69.

- The business of hypermarkets maintained its trend of rapid growth. During the period under review, segment turnover was approximately RMB2,213,580,000, representing an increase of approximately 47.13% when compared with RMB1,504,470,000 for the same period of last year, and constituted approximately 42.22% of the Group's turnover.

- The Group further enhanced the profitability of its convenience stores. Profit was recorded for its convenience stores segment in Dalian, making it the second city after Shanghai to generate a profit.

- The Group further accelerated its pace of development through mergers and acquisitions. The Group completed the acquisition of two major hypermarkets owned by Dalian You Jia Shopping Company Limited（大連友嘉購物有限公司）in Shenyang. This initiated the Group's development in the most important strategic city of three provinces in the northeastern region of the PRC.

Operating Environment

Growth in gross domestic product for the first half of 2004 was 9.7%. The performance of economic indicators remained steady despite the fluctuation in the economy for the first and second quarters. The growth of the investment in fixed assets gradually slowed down in the PRC, with the total investment in fixed assets reaching RMB2,608.2 billion for the first half of the year, an increase of 28.6% compared with the same period last year. The PRC government implemented macro-economic adjustment and control measures in 2004, mainly targeted at industries with excessive investment, to reallocate national resources. The most important objective for such control measures was to generate growth in the economy through stimulating domestic demand and enhancing domestic consumption. For the first half of the year, the total retail sales of consumer goods reached RMB2,524.9 billion, an increase of 12.8% compared with the same period of last year, whilst national consumer price index ("CPI") increased by 3.6% for the first half of the year. This reflected the increase in the purchasing power of urban and suburban citizens was in line with the gradual growth of the economy, and placed the retail industry in a favourable environment for development.

The Group firmly believes that the development of the PRC economy in 2004 will remain steady. With the development of economy becoming more mature, demand for quality, brand and hygienic shopping environment by the consumers increases. The retail chain industry has become an integral part of the PRC economy, and will create a satisfactory operating environment for chain operators.

Meanwhile, competition in the PRC retail business is becoming increasingly intense, especially when such market will be fully opened up to foreign investors in 2005. In the coming few years, expansions, mergers and acquisitions, reorganizations and consolidations are expected to be the major channels to accelerate the pace of expansion and cross-border development for retail industry, becoming the trend for the retail development in the PRC.

Business Review

Against the backdrop of a fast growing economy in the PRC, the Group, as the largest retail chain operator in the PRC, faced both opportunities and challenges.

During the period under review, although the State implemented macro-economic adjustment and control measures, the Group continued to have steady growth. Turnover increased from approximately RMB4,557,770,000 in the first half of last year to approximately RMB5,242,440,000 for the first half of 2004, representing an increase of 15.02%. Net profit increased from approximately RMB85,118,000 in the first half of last year to RMB107,169,000 for the first half of 2004, representing a year-on-year increase of 25.91%. Apart from the rapid economic growth in the PRC economy, increase in total turnover and net profit was mainly attributable to the efforts of the Group in:

1. Implementing the strategy that consistently focuses on regional development by increasing the coverage of outlets in regions that has commenced operation to achieve higher economies of scale. During the period under review, the Group continued to implement the regional development strategy. 396 out of 492 newly open stores were located in the eastern region of the PRC when compared to the same period of last year. As the Group's operations in these regions attained economies of scale, the Group's competitive edge in certain parts of such regions was further strengthened. The Board is pleased to announce that profits were recorded for all hypermarkets in Shanghai in their first year of operation. In addition, subsequent to Shanghai, the convenience store operations in Dalian started to record profits as a whole, while strong growth was demonstrated by the convenience store operations in other regions. Apart from the new hypermarkets directly operated by the Group in the northeastern region of the PRC which were established through mergers and acquisitions, other hypermarkets were concentrated in the well- established regions in the PRC such as the northern, eastern and southern regions.

2. During the period under review, the Group leveraged on the success of integration upon mergers and acquisitions, and further enhanced its competitive edge in Zhejiang region. In the period under review, through development, integration and improvement, turnover of Hangzhou Lianhua Huashang Group Co., Ltd increased by approximately 54.3% when compared with the same period of last year. Profit attributable to shareholders increased by approximately 110.9% when compared with the same period of last year.

3. Attainment of economies of scale of the Group continued. At the same time, the Group continuously devoted efforts to enhance the competitiveness of each store so as to achieve satisfactory growth in store operating capability.

4. The Group further enhanced the loyalty of their customers. The members of the Group increased from 1,060,000 in the end of 2003 to 1,710,000 as at 30 June 2004. Using the database, the Group conducted research on consumers' spending behaviour and practice, so as to formulate specific and effective sales and marketing plans.

5. During the period under review, sales techniques of the Group were continually enhanced. More promotion campaigns were held to enhance sales including "Fascinating Thirteen Years, Happy Shopping in Lianhua". As the assortment of promotion merchandise and pricing strategy were rational, turnover and gross profit grew significantly.

6. For improving the overall budgeting, the Group adopted management by benchmark. By improving the respective database, results on the analysis of differences between benchmarks and indicators were published on regular basis to strengthen incentive for operators. Through learning from internal model entities, the operators became aware of its shortfall and problems for further improvement in the standard of management.

7. The Group further developed its supply chain system. During the period under review, it cooperated with major suppliers including Procter & Gamble (China) Ltd., Shanghai Bright Dairy & Food Co., Ltd. and Coca-cola, and implemented a procedural reform for a standardized operation. As a result, occurrences of stock shortage decreased, and sales grew steadily.

As at 30 June 2004, the number of outlets operated by the Group and its associated companies were as follows:

	Hypermarkets		Supermarkets		Convenience stores		Total	
	30 June 2004	30 June 2003	30 June 2004	30 June 2003	30 June 2004	30 June 2003	30 June 2004	30 June 2003
The Group	34	17	1,192	934	1,480	1,263	2,706	2,214
- directly operated	34	17	533	510	1,021	921	1,588	1,448
- franchise	0	0	659	424	459	342	1,118	766

The Group continued to develop rapidly whilst assuring quality. Further adjustments have been made to the development strategy, which optimized the composition of investment. During the past six months, the Group strengthened the positioning of different business segments to cater to the competition in the market and demand from consumers. New management methods for franchise stores were introduced. Supporting mechanisms were established for franchised stores which in turn improved the image of the brand of the Group. As at 30 June 2004, the number of the Group's outlets reached 2,706, representing an increase of 492 when compared to the same period of last year.

At the same time, the network of the associated companies continued to expand. The number of hypermarkets under Shanghai Century Lianhua Supermarket Development Company Limited ("Century Lianhua"), an associated company entrusted to be managed by the Company, reached 23. Shanghai Carhua Supermarket Company Limited ("Shanghai Carhua") operated and managed 7 hypermarkets in Shanghai. Shanghai Dia-Lianhua Retail Co., Ltd ("Shanghai Dia") commenced operation in Shanghai in July 2003 and now operated 69 discount stores in Shanghai for the period under review.

Segment Results

Hypermarkets

Hypermarket is the most rapidly growing segment among the three segments of the Company. For the six months ended 30 June 2004, segment turnover for the hypermarkets of the Group was approximately RMB2,213,580,000, an increase of approximately 47.13% when compared with approximately RMB1,504,470,000 in the same period of last year, representing approximately 42.22% of the total turnover of the Group. Turnover from hypermarkets increased significantly, which was attributable to the growth in store operating capability resulting from the increase in competitiveness of the store coupled with the sales contributed by the newly opened stores as a result of our rapid development. Economies of scale in these regions were strengthened through expansion of the coverage of outlets in such regions. Composition of merchandise was optimized in accordance with the purchasing power and consumption model of different regions in order to increase the frequency of purchases by the consumers. Gross profit margin and operating profit margin were 8.58% and 1.72% respectively, demonstrating an increase from last year's 7.55% and 1.48% respectively. Excluding the turnover generated from the merchandise sold at cost to associated companies, gross profit margin and operating profit margin were 10.92% and 2.19% respectively, demonstrating an increase from last year's 9.78% and 1.92% respectively.

As at 30 June 2004, there were 57 hypermarkets, either directly operated by the Group or managed in trust for Century Lianhua, an associated company of the Company, representing an increase of 25 from the same period of last year. Currently, there are 25 outlets, 3 outlets, 2 outlets and 4 directly operated outlets operating in the eastern, northern, northeastern and other regions in the PRC respectively. Competitive edge in such regions would be further strengthened.

The Group further accelerated its pace of development through cost-efficient mergers and acquisitions. The Group completed the acquisition of two major hypermarkets owned by Dalian You Jia Shopping Company Limited (大連友嘉購物有限公司) in Shenyang. This marked the Group's development in the most important strategic city of the northeastern region of the PRC.

Supermarkets

Supermarkets remained the most established retail chain business of the Group and brought significant contributions to the result of the Group. As supermarkets require relatively large scale of coverage to achieve economies of scale and require the support of the distribution centre, it would be difficult for competitors, particularly foreign enterprises, to challenge the dominance of the Group in the short and medium term. For the six months ended 30 June 2004, segment turnover of the supermarkets of the Group amounted to approximately RMB2,480,490,000, a decrease from last year's RMB2,612,760,000. It was mainly because the Group shut down economically-inefficient stores with an aim to improve the operating efficiency of the stores. During the period under review, the Group's supermarkets reached 1,192 as at 30 June 2004, 533 of which were under direct operation and 659 were franchise stores. During the period under review, gross profit margin was 14.80% and operating profit margin was 3.48%. Gross profit margin was 14.92% and operating profit margin was 2.89% for the same period of last year.

During the period under review, the development of the franchise business for supermarkets had been relatively favourable. The franchise administration implemented stringent reviews on applicants in order to maintain the brand image of Lianhua. At the same time, further recognition of the Group's own brand by the franchise stores assured the gross profit, quality and variety of merchandise, and facilitated the growth in sales of products for the Group's own brand among the franchise stores. During the period under review, First Merchandising Seminar for the Franchise Stores of Lianhua (第一屆聯華加盟訂貨會) was held by the Group, which further enhanced the supporting mechanisms of the Group for the franchise stores and consolidated the partnership between Lianhua and its franchisees. In addition, Mr Shi Wei, our deputy general manager of the Group who is in charge of franchise business, was awarded "Outstanding Management of Franchise Business of China in 2003" from China Chain Store & Franchise Association for his outstanding performance in franchise management.

Convenience stores

Currently, the development of the Group's convenience stores still concentrated in well-developed regions, including the six cities of Shanghai, Beijing, Guangzhou, Dalian, Hangzhou and Ningbo. Consumers in these regions enjoy fast and convenient shopping and have stronger purchasing power because of their higher income levels. For the six months ended 30 June 2004, segment turnover of our convenience stores amounted to approximately RMB514,830,000, representing an increase of 26.85% when compared to RMB405,850,000 for the same period of last year. Turnover from convenience stores increased significantly, which was mainly attributable to the expansion of its scope of operation, further strengthening and subdivision in operation management, and improvement in service standard of employees. Gross profit margin and operating profit margin were 17.76% and 2.40% respectively during the period under review, representing an increase from 17.50% and 2.25% for the same period of last year.

Suppliers gradually recognised convenience stores as an effective channel of sales. The Group continued to conduct research on personalised merchandise for this business segment and increased sales and marketing activities. During the period under review, 217 stores were opened by the Group. As at 30 June 2004, the number of the Group's convenience stores reached 1,480, of which 1,021 were directly operated by the Group and 459 were franchise stores. For the first half of the year, convenience stores in Dalian as a whole recorded profit by way of expanding the coverage in the region. As such, the convenience stores in Shanghai and Dalian recorded profit as a whole, while progress in other regions remained satisfactory. We shall further increase the number of stores in areas that has commenced operation so as to enhance economies of scale. At the same time, the coverage of convenience stores in commercial areas will be further strengthened so as to expand commercial zones.

Associated companies

During the period under review, one hypermarket was opened by Shanghai Carhua. It currently operated a total of 7 hypermarkets in Shanghai. The Group believes that with the efforts of the shareholders of Shanghai Carhua, the development of Shanghai Carhua in Shanghai will be accelerated.

The Group has been actively introducing comprehensive retail formats so as to meet the needs and tastes of different customers. In mid-2003, discount stores were introduced in Shanghai by Shanghai Dia as a brand-new retail format. As at 30 June 2004, 69 discount stores were set up in Shanghai. Although Shanghai Dia has yet to breakeven, the Group believes that with the expansion in the scale of operation for discount stores and growing recognition by its consumers, this new retail format will become an integral part of the chain industry in the PRC.

For the six months ended 30 June 2004, share profit from the associated companies of the Company attributable to the Group was RMB31,060,000, accounting for 28.98% of the profit attributable to the shareholders of the Company.

Development of Other Business

Development of life and fresh cold storage business

On 24 June 2004 the Group announced that it would subscribe to the capital contribution of the registered capital of Shanghai Lianhua Life and Fresh Produce Processing and Distribution Center Co. Ltd. ("Shanghai Lianhua Life") of approximately RMB33,450,000 at par. After the capital contribution was made, the Company's interests in Shanghai Lianhua Life was 18.753%. The capital contribution made to Shanghai Lianhua Life benefited the Company by way of developing live and fresh cold storage and logistics business at low cost through functional specialisation. With the experience and management skills of COSMO Investments Limited ("COSMO Investments"), it is expected that Shanghai Lianhua Life will be able to improve the efficiency of its distribution for live and fresh products, expand its existing customer base and better utilize the capacity of its existing cold storage and logistic system. As at the date to which these accounts were made up, the capital contribution has not yet been completed. The Directors considered that the completion in the deemed disposal of equity interests in the subsidiaries would not generate any gain or loss for the Group.

Corporate Culture

During the period under review, significant progress was made by the Group in building its corporate culture. A long-term plan for the next three to five years was thus formulated. With the theme of "Innovation, Strive for Perfection, Team Spirit, Magnanimity" and the core value of "result-orientation", the Group shall promote the team spirit of the staff through strengthening our corporate culture and enhance the sustained growth momentum for the Group.

Financial Review

During the period under review, the Group's turnover and net profit recorded growth as compared to the corresponding period of 2003. Turnover increased by approximately RMB684,670,000 to approximately RMB5,242,440,000, while net profit increased by 25.91% and reached approximately RMB107,170,000.

	For the six months ended 30 June	
	2004 RMB million	2003 RMB million
Turnover	5,242.44	4,557.77
Net profit	107.17	85.12

(I) Segment information

For the six months ended 30 June 2004, turnover breakdown by business segment was as follows:

	For the six months ended 30 June				
Business segment	2004 RMB million	%	2003 RMB million	%	Year-on-year change %
Hypermarkets	2,213.58	42.22	1,504.47	33.01	47.13
Supermarkets	2,480.49	47.32	2,612.76	57.33	-5.06
Convenience stores	514.83	9.82	405.85	8.90	26.85
Other operations	33.54	0.64	34.69	0.76	-3.31

(II) Liquidity and financial resources

During the first half of 2004, the capital resource of the Group was mainly from cash inflow from operations. As at 30 June 2004, the Group had non-current assets of approximately RMB2,188,160,000. Non-current assets were mainly comprised of construction in progress and fixed assets of approximately RMB1,728,850,000, intangible assets of approximately RMB91,300,000, investment in associates of approximately RMB329,530,000, long-term investments and other non-current assets of approximately RMB38,480,000. As at 30 June 2004, the Group had net current liabilities of approximately RMB506,160,000. Current assets were mainly comprised of cash and bank balances of approximately RMB689,860,000, inventories of approximately RMB670,590,000, receivables and prepayments of approximately RMB182,520,000, and amounts due from associates of approximately RMB137,380,000. Current liabilities were mainly comprised of current portion of long-term bank loans which will be due in one year of approximately RMB30,000,000, dividend payable of approximately RMB47,000,000, payables and accruals of approximately RMB2,079,350,000 and tax payable of approximately RMB35,390,000. For the six months ended 30 June 2004, turnover period of the Group's account payable was 59 days, maintaining the same level for the twelve months ended 31 December 2003. The Group constantly improved inventory turnover. Inventory turnover decreased from 30 days for the twelve months ended 31 December 2003 to 29 days for the six months ended 30 June 2004, which also represents a decrease of 3 days when compared with 32 days for the same period of last year. For the six months ended 30 June 2004, the Group did not use any financial instrument for hedging purposes and the Group did not have any hedging instrument outstanding as at 30 June 2004.

During the period under review, according to "Notice issued to the First Batch of Enterprises that Applied for Proceeds from National Debt for Technology Advancement and Industry Upgrade in 2004" (發改投資 [2004] No. 1248) issued by the National Development and Reform Commission and Ministry of Finance, our Company will establish multi-segment and cross regional information system, intrasegment integration system, multitier system for supermarkets, multitier system for convenience stores and the system for Century Lianhua's hypermarkets. The period for construction was from 2003 to 2004, with interest subsidy from the State amounting to RMB14,040,000 in aggregate, thus reducing the Group's cost of capital expenditure during the period under review and in the future.

(III) Capital structure

As at 30 June 2004, the Group's borrowings were primarily denominated in Renminbi, and its cash and cash equivalents were mainly held in Renminbi. It is the intention of the Group to maintain an appropriate mix of equity and debt to ensure an efficient capital structure from time to time. With total outstanding long-term borrowings of RMB127,740,000 as at 30 June 2004, the gearing ratio of the Group was 3.3% (total borrowings/total assets). All of the Group's bank borrowings were non-floating rate loans. Unutilized credit facilities available to the Group was approximately RMB772,260,000.

During the period under review, shareholders' equity of the Group rose from approximately RMB1,279,190,000 to approximately RMB1,339,360,000, which was mainly attributable to the increase in profit of RMB107,169,000 and dividend distribution amounting to RMB47,000,000 during the period.

(IV) Details of the Group's pledged assets

As at the date of this announcement, no asset was pledged by the Group.

(V) Exposure to foreign exchange risk

Most of the income 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 fluctuation in currency exchange rates. The Group has not entered into any agreements or purchases of any financial instruments to hedge the foreign exchange risks of the Group. The directors of our Company (the "Directors") believe that the Group would have sufficient foreign exchange to meet its foreign exchange requirements.

(VI) Employment, training and development

As at 30 June 2004, the Group had a total of 27,929 employees, representing an increase of 4,524 employees as compared to 30 June 2003. Total staff costs amounted to RMB287,010,000. Renumeration for the Group's employees were determined on the basis of their performance, experience and prevailing practice in the industry. The Group will regularly review its compensation policies and renumeration packages. Apart from basic salary, welfare allowances and performance bonus, the Group also provides its employees with housing allowances, medical and other subsidies. The Group also contributes to the retirement benefit plans organized by the government under which the Group and our employees are required to make monthly contributions to these plans at a certain percentage of the employees' salaries during the relevant periods.

The Group will continue to provide training for its staff so as to enhance their technical and product knowledge. The Group also aims to improve the sales technique and products knowledge of its staff as well as their knowledge towards quality standards of the retail industry. During the period under review, to enhance standardized management of the stores and operational training and guidance, the audio version of the Training Materials for Lianhua Supermarkets was published on the basis of the original training kit. Over 200 management staff were invited to participate in training on public administration management and skills, so as to improve their management skills.

In celebrating its 13th anniversary since its establishment and its first anniversary for the listing of its H shares, the Group took this opportunity to reward its fellow staff who have been with the Group for over ten years with an aim to enhance the staff's sense of belonging and loyalty to the Group.

(VII) Share capital

As at the date of this report, the issued share capital of the Company was as follows:

Class of shares	Number of shares in issue	%
Domestic shares	355,543,000	60.52
Unlisted foreign shares	59,457,000	10.12
H shares	172,500,000	29.36
Total	587,500,000	100.00

(VIII) Contingent liabilities

As at 30 June 2004, the Group did not have any material contingent liabilities.

Strategies and Plans

It is the belief of the Directors that the macro-economic factors facilitating the sustainable growth of the Group still exist. The Group will continue to focus on its core businesses, with an aim to satisfy the needs of the consumers. This will further consolidate its predominance in the country and consolidate its leading position in the industry and further expand its market share in the PRC.

The Group will devote its efforts to the steady development of its three core business segments, which is consistent with its regional concentration strategy of retail outlets. Hypermarkets will be developed across the nation. The development of supermarkets will be concentrated in the eastern region of the PRC with Shanghai as the focus. The development of convenience stores will continue to concentrate at the most prosperous cities in the PRC. During the second half of the year, the Group will focus its development in regions where it has coverage of retail outlets. At the same time, it will devote more resources for mergers and acquisitions, of which, the Group will pursue to acquire other competitors in regions it is now enjoying competitive edge. As to regions which it has not yet established predominance, the major targets for mergers and acquisitions will be the leading players in the local markets.

Apart from the expansion in the market, the Group will continue to enhance the competitiveness of stores so as to further improve its operation efficiency. It will seek to achieve the standards of those adopted by the leading operators in the international market. Management by benchmark will enhance the quality of management of the Group.

The Group has implemented its establishment plan for flagship stores. Seven stores have been preliminarily selected as flagship stores for its three core business segments. The Group will continue to enhance and improve key performance indicators of these selected stores within three years, study the development trend for different segments and form the driving force for the sustainable growth of the Group. A network of flagship store will be established in phases by the Group in key cities in the future. This will upgrade the image of outlets, establish the flagship store as a model for the outlets in the peripheral area, increase the operating effeciency, stock control and market penetration for the outlets in the peripheral area. Flagship stores will become the ideal platform for the Group to strengthen its regional presence. At the same time, flagship stores will also help the Group to increase profitability, as well as consolidating and strengthening the competitive position of the Group in the market.

Further improvement in the infrastructure of supply chain system will also be one of the Group's key objectives in the future. During the second half of the year, the Group will leverage on the framework agreement it has entered with its suppliers for the establishment of strategic cooperation alliance. The Group and its suppliers will jointly implement management of sales targets. At the same time, the Group will further improve the services that it provides to its suppliers, such as procurement, distribution, promotion, clearance, settlement and inventory. The purposes of such cooperation framework agreement were to further enhance the competitiveness of both parties in the market through cooperation in a mutually complementary manner to create "win-win" situation.

The Group will continue to plan for the construction of logistic infrastructure across the country. Logistics and distribution management will be strengthened. State-of-the-art technologies will be adopted to further enhance the efficiency of logistics and distribution.

As to the development of its own brand products, the Group will further enhance the research and development of its products. Adjustments and changes will be made as to the formula, technique and ingredient. Costs will be reduced whilst assuring quality so as to enhance competitiveness. A system for the development, control and management of its own brand is thus established, which is comprised of a series of proprietary merchandise that cater to customer demands for personalized and value-added services. It is intended to achieve vertical and upward integration from the end of retail sales to the manufacturing of fast moving consumer goods for rational allocation of upstream resources.

The Group will further apply information technology to enhance the core competitiveness of the Group. During the first half of 2004, the Group commenced the second phase work for its information database system. This project has adopted a data analysis system of the retail industry that was a leading international model so as to establish an international first class On-Line Analysis Programme ("OLAP") for the Group. The system will facilitate the Group to be the first among the retail industry operators in the PRC to complete its entrepreneurial and commercial intelligence system. Upon the completion of the system, it will become the unified reporting and decision-making system for the Group's headquarters. Flow of businesses between segments, goods and information will be shared thereupon.

The Directors believe the Group consistently implements those strategies and plans that it has relied upon for its success, and tackles the challenges arising from the opening up of the market in the PRC upon its accession into the World Trade Organisation. Further strengthening its leading competitive edge to establish its foremost position in the retail market in the PRC, the Group is committed to offer to customers quality products and excellent services, create maximum value for its staff, cooperation partners and consumers and bring satisfactory return to its shareholders and investors.

DISCLOSURE OF INTERESTS

So far as the Directors are aware, as at 30 June 2004, 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"):

Name	Number of Domestic Shares/ Unlisted Foreign Shares	Approximate percentage of voting power (%)	
Shanghai Friendship Group Incorporated Company	211,640,000	36.02	
Shanghai Industrial United (Group) Commercial Network Development Company Limited	131,683,000	22.41	
Mitsubishi Corporation	41,900,000	7.13	
Shanghai Industrial United (Group) Joint Stock Company Limited	131,683,000	22.41	(Note 1)
Shanghai Industrial Investment (Holdings) Company Limited	131,683,000	22.41	(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 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 30 June 2004.

Interests of Directors, Supervisors and Chief Executive Officers

As at 30 June 2004, the Directors, Supervisors and Chief Excutive Officers of the Company or their respective associates did not have any interests nor short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) which was required to notify the Company and SEHK pursuant to the provisions of Division 7 and 8 under Part XV of the Securities and Futures Ordinance (including interests and short positions which he is taken or deemed to have under such provisions of the Securities and Futures Ordinance), or to be recorded in the register as referred to in Section 352 of the Securities and Futures Ordinance, or to notify the Company and SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Companies under the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules"). For the purposes herewith, the relevant provisions of the Securities and Futures Ordinance shall be interpreted as equally applicable to all Supervisors.

The Legal Status of Unlisted Foreign Shares

The summary on legal opinion given by Grandall Legal Group on the rights attached to Unlisted Foreign Shares is set out as follows:

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 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 of 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 or 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 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 18 December, 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, 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 relevant PRC approval authorities and the SEHK have been satisfied, the Unlisted Foreign Shares may be converted into new H Shares.

Purchase, Sale or Redemption of Shares

Since the listing of H shares of the Company on 27 June 2003 to the date of this report, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

Interim Dividend

The Board has recommended the payment of an interim dividend of RMB0.05 per share for the six months ended 30 June 2004.

Investment Overview

During the period under review, the Group did not have any significant investment project.

On 24 June 2004, the Group announced that the Company entered into an agreement with Shanghai Everbright City Co. Ltd. ("Shanghai Everbright") and COSMO Investments. Pursuant to such agreement, Shanghai Lianhua Life will increase its registered capital by RMB197,393,196.62. The Company agreed to subscribe to the capital contribution of the increase in registered capital of Shanghai Lianhua Life of RMB33,454,707.36 at par. COSMO investments agreed to subscribe to the increase in registered capital of RMB163,938,489.26 at a premium for RMB172,451,328.61. The parties agreed that, upon the completion of such capital contribution, the registered capital of Shanghai Lianhua Life will be increased to RMB202,393,196.62 and the Company, Shanghai Everbright and COSMO Investments will hold approximately 18.753%, 0.247% and 81% of the total registered capital of Shanghai Lianhua Life respectively. The Company agreed to make its capital contribution in Shanghai Lianhua Life in cash in full by using internal funds of the Company.

Audit Committee

The Company has established an audit committee in accordance with the requirements of the Code of Best Practice as set out in Appendix 14 of the Listing Rules pursuant to a resolution passed by the Board in June 2003. The major duties of the audit committee of the Company (the "Audit Committee") are to review the financial reporting procedures of the Company. The Audit Committee is comprised of two independent non-executive Directors, namely, Mr. Lee Kwok Ming, Don and Mr. Zhang Hui-ming, and a non-executive Director, namely Mr. Zhu Jia-liu. The Audit Committee has reviewed the accounting principles and practices adopted by the Group with the management, and discussed matters as to internal control and financial reporting, including the review of the Company's condensed interim accounts prepared in accordance with the accounting principles generally accepted in Hong Kong.

Code of Best Practice

The Board 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 under review in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules.

By Order of the Board
Wang Zong-nan
Chairman

12 August 2004, Shanghai, The PRC

Amendments to the articles of association

At present, before the retail stores of the Company can sell generic drugs of supermarket (超市常用藥品), each of them shall obtain approval from the drugs administration authority and shall apply for inclusion of selling generic drugs of supermarkets （超市常用藥品）in their scope of business from the Administration for Industry and Commerce. In accordance with the concurring view of Shanghai Administration for Industry and Commerce and the drugs administration authority, from now on retail stores which sell generic drugs of supermarkets （超市常用藥品）only need to obtain approval from the drugs administration authority, and need not include such item in their scope of business. As required by the Administration for Industry and Commerce, the Company shall delete the item of selling generic drugs of supermarkets（超市常用藥品）from its scope of business. The Company considers that such policy change reflect the aim of simplifying procedures and enhancing efficiency, and will not affect the business of the retail stores of the Company selling generic drugs of supermarkets （超市常用藥品).

In order to comply with the relevant requirements under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and to fulfil the needs for business development, the Company appointed an additional independent non-executive Director and an additional executive Director.

In order to reflect the above changes, the Board proposed amendments shall be made to paragraph 2 of clause 15 and clause 95 of the articles of association of the Company, and such amendments to the articles of association of the Company shall be put forward in the extraordinary general meeting of the Company for approval by the shareholders of the Company as special resolutions.

Shanghai Bailian

In accordance with the relevant notice, the entire issued share capital of Shanghai Friendship Group Incorporated Company directly and indirectly held by Shanghai Friendship (Group) Company Limited, the ultimate controlling shareholder of the Company, was permitted to be transferred to Shanghai Bailian (Group) Company Limited ("Shanghai Bailian"). Upon completion of the relevant administrative procedures such as business registration, Shanghai Bailian will become the ultimate controlling shareholder of the Company. The Directors consider that this change would not constitute material impact on the daily operations of the Company.

Connected transactions

The connected transactions of the Company were mainly involved in:

1. The sales of merchandise with connected parties, including the distribution of merchandise to Century Lianhua, the sales of merchandise to hypermarkets by certain subsidiaries of the Company, the sales of merchandise to Shanghai Lianhua Quik Convenience Stores Company Limited ("Lianhua Quik") and the sales of merchandise to supermarkets owned by certain subsidiaries of the Company;

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

3. Management of Century Lianhua; and

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

During the period under review, the consideration involved in each of the connected transactions of the Company as referred to above did not exceed the maximum aggregate annual amount as stipulated in the respective waiver granted by the SEHK and were exempted from the reporting, announcement and independent shareholders' approval requirements under the Listing Rules. The terms of these connected transactions were normal commercial terms and were regarded as fair and reasonable to the shareholders of the Company.

It was announced by the Group on 8 June 2004 that the Company will apply RMB17,000,000 to renovate certain hypermarkets into flagship stores and increase the capital contribution of Shanghai Lujiazui Lianhua Hypermarket Company Limited ("Lujiazui Lianhua"), Shanghai Century Lianhua Supermarket Baoshan Company Limited ("Century Lianhua Baoshan") and Shanghai Century Lianhua Supermarket Hongkou Company Limited ("Century Lianhua Hongkou") by RMB10,000,000, RMB5,000,000 and RMB2,000,000 respectively so that the proportion of capital contribution in the respective companies will increase from 55%, 49.9% and 51% to 77.5%, 74.9% and 83.7% respectively. As Century Lianhua has invested in Lujiazui Lianhua, Century Lianhua Baoshan and Century Lianhua Hongkou, Lujiazui Lianhua, Century Lianhua Baoshan and Century Lianhua Hongkou constituted the connected parties of the Company pursuant to the Listing Rules. Accordingly, the capital contribution by the Company to these companies constituted connected transactions for the Company, and were subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30th June 2004

		Unaudited Six months ended 30th June	
	Note	2004 RMB'000	2003 RMB'000
Turnover	2	5,242,444	4,557,770
Cost of sales		(4,592,830)	(3,983,199)
Gross profit		649,614	574,571
Other revenues	2	340,688	269,539
Other income		26,654	8,373
Distribution costs		(777,794)	(651,771)
Administrative expenses		(107,530)	(94,927)
Other operating expenses		(2,219)	(5,681)
Operating profit	3	129,413	100,104
Finance costs	4	(2,552)	(5,247)
Share of results of associates		51,288	48,511
Profit before taxation		178,149	143,368
Taxation	5	(59,965)	(38,944)
Profit after taxation		118,184	104,424
Minority interests		(11,015)	(19,306)
Profit attributable to shareholders		107,169	85,118
Dividends	6	29,375	—
Basic earnings per share	7	RMB 0.18	RMB 0.20

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June 2004 and 31st December 2003

	Note	Unaudited 30th June 2004 RMB'000	Audited 31st December 2003 RMB'000
Non-current assets			
Intangible assets	8	91,298	94,972
Fixed assets	9	1,657,643	1,662,555
Construction in progress	10	71,207	24,852
Investments in associates	11	329,528	279,507
Long-term investments		10,193	10,397
Deferred tax assets	20	7,185	7,114
Other non-current assets	12	21,103	21,800
		2,188,157	2,101,197
Current assets			
Inventories		670,590	906,531
Trade receivables	13	20,483	21,820
Deposits, prepayments and other receivables		162,038	133,351
Amounts due from associates	14	137,382	137,453
Investments in trading securities		5,221	3,406
Bank balances and cash		689,864	758,146
		1,685,578	1,960,707
Current liabilities			
Trade payables	15	1,570,163	1,858,132
Other payables, accruals and coupon liabilities	16	509,188	397,207
Amounts due to associates	14	—	15,771
Taxes payable	17	35,388	39,289
Unsecured short-term borrowings	18	—	208,000
Current portion of long-term bank loans	19	30,000	—
Dividends payable		47,000	—
		2,191,739	2,518,399
Net current liabilities		(506,161)	(557,692)
Total assets less current liabilities		1,681,996	1,543,505
Non-current liabilities			
Unsecured long-term bank loans	19	(97,740)	—
Deferred tax liabilities	20	(44,000)	(44,579)
Minority interests		(200,897)	(219,736)
Net assets		1,339,359	1,279,190
Capital and reserves			
Share capital	21	587,500	587,500
Reserves	22	751,859	644,690
Proposed final dividend	22	—	47,000
		1,339,359	1,279,190

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June 2004

	Unaudited Six months ended 30th June	
	2004 RMB'000	2003 RMB'000
Total equity at 1st January	1,279,190	587,108
Issue of H shares	—	150,000
Premium arising from issue of H shares	—	466,730
Share issuance expenses	—	(54,244)
Profit for the period	107,169	85,118
Dividends	(47,000)	(124,500)
Total equity at 30th June	1,339,359	1,110,212

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June 2004

	Unaudited Six months ended 30th June	
	2004 RMB'000	2003 RMB'000
Net cash inflow from operating activities	207,326	290,231
Net cash outflow from investing activities	(167,540)	(357,688)
Net cash (outflow)/inflow from financing activities	(108,068)	666,656
(Decrease)/increase in cash and cash equivalents	(68,282)	599,199
Cash and cash equivalents at 1st January	758,146	305,727
Cash and cash equivalents at 30th June	689,864	904,926
Comprising:		
Bank balances and cash at 30th June	689,864	904,926

NOTES TO THE CONDENSED INTERIM ACCOUNTS

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 in the Eastern Region of the People's Republic of China (the "PRC"). All the operating assets of the Group and its associates are located in the PRC.

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.

These condensed accounts should be read in conjunction with the 2003 annual accounts.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31st December 2003.

2. 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 30th June	
	2004 RMB'000	2003 RMB'000
Turnover		
Sales of merchandise	5,242,444	4,557,770
Other revenues		
Income from suppliers		
— Promotion and store display income	203,252	168,777
— Merchandise storage and delivery income	57,016	37,736
— Information system service income	4,779	1,285
Gross rental income from leasing of shop premises	50,193	41,024
Interest income	2,115	1,828
Royalty income from franchised stores	16,416	11,235
Others	6,917	7,654
	340,688	269,539
Total revenues	5,583,132	4,827,309

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.

2. Turnover, other revenues and segment information (continued)

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

	Six months ended 30th June 2004				
	Supermarkets RMB'000	Hypermarkets RMB'000	Convenience stores RMB'000	Other operations RMB'000	Group RMB'000
Segment revenue	2,633,970	2,342,354	571,609	33,084	5,581,017
Including sales of merchandise to					
— an associate at cost	—	475,258	—	—	475,258
— an associate at retail price less 2%	33,341	65,486	—	—	98,827
— franchised stores at cost	139,966	—	50,991	—	190,957
Interest income					2,115
Total revenues					5,583,132
Segment results	68,239	35,533	12,049	558	116,379
Interest income					2,115
Other income					26,654
Unallocated costs					(15,735)
Operating profit					129,413
Finance costs					(2,552)
Share of results of associates					51,288
Profit before taxation					178,149
Taxation					(59,965)
Profit after taxation					118,184
Minority interests					(11,015)
Profit attributable to shareholders					107,169

2. Turnover, other revenues and segment information (continued)

	Six months ended 30th June 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%	44,019	86,601	—	—	130,620
— franchised stores at cost	107,284	—	45,315	—	152,599
Interest income					1,828
Total revenues					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

3. Operating profit

Operating profit is stated after crediting and charging the following:

	Six months ended 30th June 2004 RMB'000	Six months ended 30th June 2003 RMB'000
Crediting:		
Income from leasing of shop premises		
— Gross rental income	50,193	41,024
— Outgoings	(18,578)	(11,215)
Government subsidies	10,243	8,373
Gain on disposal of leasehold land and properties	15,976	—
Net gain on disposal of trading securities	435	—
Gain on disposal of fixed assets	182	56
Charging:		
Amortisation of goodwill	4,752	4,190
Amortisation of non-current assets	697	699
Amortisation of software	3,143	2,583
Depreciation of fixed assets	118,443	108,426
Loss on disposal of fixed assets	905	1,750
Operating lease rental in respect of land and buildings	209,010	169,495
Staff costs excluding directors' emoluments	287,006	245,795
Provision for doubtful debts	1,922	867
Provision for obsolescence of inventories	10	179
Unrealised losses on trading securities	—	349

4. Finance costs

	Six months ended 30th June 2004 RMB'000	Six months ended 30th June 2003 RMB'000
Interest expenses on bank loan	5,123	5,247
Less: Interest subsidies from government (note)	(2,571)	—
	2,552	5,247

Note:

During the period, interest subsidies have been granted by the relevant government authorities to the Group in respect of bank loans taken out to finance the development and improvement of the Group's information systems (2003: Nil). Such subsidies are recognized in the profit and loss account as a reduction of the corresponding interest expenses incurred during the period.

5. Taxation

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

	Six months ended 30th June	
	2004 RMB'000	2003 RMB'000
PRC income tax		
Company and subsidiaries		
— Current taxation	40,389	25,429
— Deferred taxation (note 20)	(650)	(2,695)
	39,739	22,734
Share of taxation of associates	20,226	16,210
	59,965	38,944

PRC income tax is calculated based on the statutory income tax rate of 33% (2003: 33%) of the assessable income of the Group, as determined in accordance with the relevant PRC tax laws and regulations except for certain subsidiaries and associates which are taxed at preferential rates ranging from 0% to 15% (2003: 0% to 15%) based on the relevant PRC tax laws and regulations.

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

	Six months ended 30th June	
	2004 RMB'000	2003 RMB'000
Profit before taxation	178,149	143,368
Calculated at a taxation rate of 33%	58,789	47,311
Effect of preferential tax rates applicable to certain subsidiaries and associates	(3,446)	(9,674)
Expenses not deductible for taxation purpose	72	791
Utilisation of previously unrecognised tax losses	(215)	(155)
Tax effect of losses from certain subsidiaries and associates not deductible	4,765	671
Taxation charges	59,965	38,944

As at 30th June 2004, an associate of the Group which is subject to PRC income tax at a rate of 15% had tax losses carried forward of approximately RMB47,136,000. In addition a subsidiary of the Group which is subject to PRC income tax at a rate of 33% had tax losses carried forward of approximately RMB7,671,000. These tax losses can only be carried forward for 5 years. No deferred tax asset has been recognised for these tax losses which would have amounted to approximately RMB3,182,000 and RMB2,531,000 respectively as it is uncertain that the associate and subsidiary will have sufficient future taxable profits to utilise these tax losses before they expire.

6. Dividends

	Six months ended 30th June 2004 RMB'000	2003 RMB'000
Interim, proposed, of RMB0.05 (2003: Nil) per share	29,375	—

At a meeting held on 12th August 2004, the Directors proposed an interim dividend of RMB0.05 per share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st December 2004.

At a meeting held on 1st April 2004, the Directors proposed a final dividend of RMB 0.08 per share for the year ended 31st December 2003, totalling RMB47,000,000, which was approved by the shareholders on 18th May 2004 and has been reflected as an appropriation of retained earnings for the six months ended 30th June 2004 (Note 22).

7. Earnings per share

The calculation of basic earnings per share for the six months ended 30th June 2004 is based on the profit attributable to shareholders of RMB107,169,000 (2003: RMB85,118,000) and the weighted average number of 587,500,000 (2003: 418,314,917) 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 RMB'000	Goodwill RMB'000	Total RMB'000
Opening net book value at 1st January 2003	10,961	38,620	49,581
Additions	15,402	46,009	61,411
Amortisation charges	(3,498)	(8,943)	(12,441)
Disposals	(3,579)	—	(3,579)
Closing net book value at 31st December 2003	19,286	75,686	94,972
Additions	4,221	—	4,221
Amortisation charges	(3,143)	(4,752)	(7,895)
Closing net book value at 30th June 2004	20,364	70,934	91,298

9. Fixed assets

	30th June 2004 RMB'000	31st December 2003 RMB'000
Opening net book value at beginning of period/year	1,662,555	1,461,126
Additions	107,716	379,212
Transfer from construction in progress (Note 10)	18,159	59,648
Disposals	(12,344)	(13,949)
Depreciation for the period/year	(118,443)	(223,482)
Closing net book value at end of period/year	1,657,643	1,662,555

10. Construction in progress

	RMB'000
At 1st January 2003	5,825
Additions	78,675
Transfer to fixed assets (Note 9)	(59,648)
At 31st December 2003	24,852
Additions	64,514
Transfer to fixed assets (Note 9)	(18,159)
At 30th June 2004	71,207

11. Investments in associates

	30th June 2004 RMB'000	31st December 2003 RMB'000
Share of net assets	329,528	279,507
Unlisted equity investments, at cost	152,126	130,487

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 30th June 2004 and 31st December 2003 together with the turnover and profit attributable to shareholders of Carhua during the six months ended 30th June 2004 and 2003, as extracted from the accounts of Carhua are as follows:

	30th June 2004 RMB'000	31st December 2003 RMB'000
Non-current assets	712,153	730,166
Current assets	572,267	486,212
Current liabilities	(726,728)	(747,554)

	Six months ended 30th June	
	2004 RMB'000	2003 RMB'000
Turnover	1,550,848	1,390,104
Profit attributable to shareholders	92,769	71,378

12. Other non-current assets

Other non-current assets mainly represent payments for obtaining the rights to use certain buildings, which may or may not have a specified period of time limit, and are being amortised over the shorter of the contract period or the estimated useful lives of the buildings.

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:

	30th June 2004 RMB'000	31st December 2003 RMB'000
Within 30 days	17,892	16,705
31-60 days	1,482	3,582
61-90 days	361	1,309
91 days-one year	748	224
	20,483	21,820

14. Amounts due from/to associates

Amounts due from/to associates represent balances arising from sales of merchandise and advanced payments for merchandise received from associates respectively. Balances are all aged within 90 days and the credit terms range from 30 to 90 days. Such balances with associates are unsecured and interest free.

15. Trade payables

The ageing analysis of the trade payables are as follows:

	30th June 2004 RMB'000	31st December 2003 RMB'000
Within 30 days	893,966	968,260
31-60 days	485,680	708,284
61-90 days	132,254	162,957
91 days-one year	58,263	18,631
	1,570,163	1,858,132

16. Other payables, accruals and coupon liabilities

	30th June 2004 RMB'000	31st December 2003 RMB'000
Other payables	327,618	319,594
Coupon liabilities	135,751	35,496
Accruals	37,340	15,425
Customers' advances	8,479	26,692
	509,188	397,207

17. Taxes payable

	30th June 2004 RMB'000	31st December 2003 RMB'000
PRC business tax payable	5,260	5,314
PRC income tax payable	24,122	25,187
PRC value-added tax payable	6,006	8,788
	35,388	39,289

18. Unsecured short-term borrowings

	30th June 2004 RMB'000	31st December 2003 RMB'000
Short-term bank loans	—	70,000
Notes payable (note)	—	138,000
	—	208,000

Note:

Notes payable as at 31st December 2003 were issued by the Company to a subsidiary for settlement of trade balances which were subsequently discounted by the subsidiary to bank for cash. These were all settled by the Company during the period.

19. Unsecured long-term bank loans

	30th June 2004 RMB'000	31st December 2003 RMB'000
Long-term bank loans	127,740	—
Less: Amount repayable within one year included under current liabilities	(30,000)	—
Amount repayable in the second year	97,740	—

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

	Deferred tax liabilities	Deferred tax assets		
	Fair value adjustments upon acquisition RMB'000	Pre-operating expenses RMB'000	Bad debt and inventory provisions RMB'000	Sub-total RMB'000
Balance at 1st January 2003	45,736	(1,407)	(1,808)	(3,215)
Credited to consolidated profit and loss account	(1,157)	(3,030)	(869)	(3,899)
At 31st December 2003	44,579	(4,437)	(2,677)	(7,114)
(Credited)/charged to consolidated profit and loss account	(579)	489	(560)	(71)
At 30th June 2004	44,000	(3,948)	(3,237)	(7,185)

21. Share capital

	Number of shares at RMB 1.00 each	Nominal value RMB'000
At 1st January 2003	415,000,000	415,000
Issue of H shares (note)	172,500,000	172,500
At 31st December 2003 and 30th June 2004	587,500,000	587,500

Note:

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

On 25th June 2003, the Company completed a placing and public offer of 150,000,000 H shares with a par value of RMB1.00 each at a price of HK$3.875 per share in cash for an aggregate consideration of HK$581,250,000 (equivalent to approximately RMB616,730,000). These H shares commenced trading on the Main Board on 27th June 2003. On 7th July 2003, pursuant to the terms of the over-allotment option, the Company issued an additional 22,500,000 H shares with a par value of RMB1.00 each at a price of HK$3.875 per share in cash for an aggregate consideration of HK$87,187,500 (equivalent to approximately RMB92,532,094).

21. Share capital (continued)

As at 31st December 2003 and 30th June 2004, the share capital of the Company composed of:

	Number of shares at RMB 1.00 each	Nominal value RMB'000
Domestic shares	355,543,000	355,543
Unlisted foreign shares	59,457,000	59,457
H shares	172,500,000	172,500
	587,500,000	587,500

The H shares rank pari passu in all respects with the domestic shares and the unlisted foreign shares and rank equally for all dividends declared or paid 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.

22. 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 1st January 2003	—	26,748	12,925	132,435	172,108
Issue of H shares	536,762	—	—	—	536,762
Share issuance expenses	(56,303)	—	—	—	(56,303)
Profit for the year	—	—	—	163,623	163,623
Profit appropriations	—	23,537	12,334	(35,871)	—
2002 final dividend	—	—	—	(124,500)	(124,500)
Balance at 31st December 2003	480,459	50,285	25,259	135,687	691,690
Representing:					
Final dividend proposed				47,000	47,000
Others				88,687	644,690
				135,687	691,690
Balance at 1st January 2004	480,459	50,285	25,259	135,687	691,690
Profit for the period	—	—	—	107,169	107,169
2003 final dividend (Note 6)	—	—	—	(47,000)	(47,000)
Balance at 30th June 2004	480,459	50,285	25,259	195,856	751,859
Representing:					
Interim dividend proposed				29,375	29,375
Others				166,481	722,484
				195,856	751,859

22. Reserves (continued)

Note:

(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.

No transfer has been made to the above two funds in respect of the net profit for the six months ended 30th June 2004 (2003: Nil). The transfer will be made at the year end based on the annual profit and upon Directors' approval.

23. Deemed disposal of a subsidiary

On 23rd June 2004, the Company entered into an agreement pursuant to which the Company and a third-party investor agreed to invest an aggregate amount of RMB197,393,197 in Shanghai Lianhua Live and Fresh Produce Processing and Distribution Center Co., Ltd. ("Shanghai Lianhua Live"), a 90% owned subsidiary of the Company. Upon completion of the capital contribution from the Company and the third-party investor, the Company's interest in Shanghai Lianhua Live will decrease from 90% to 18.75% and Shanghai Lianhua Live will therefore cease to be a subsidiary of the Company. The transaction has not been completed up to the date of issuance of these interim accounts and the Directors estimate that no gain or loss to the Group will arise as a result of the deemed disposal of Shanghai Lianhua Live upon completion.

24. Commitments

(a) Capital commitments for fixed assets

	30th June 2004 RMB'000	31st December 2003 RMB'000
Contracted but not provided for	31,717	32,090

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

24. Commitments (continued)

(b) Commitments for equity investments

As at 30th June 2004, the Group had a commitment to acquire the remaining equity interests of 25.39% in Hangzhou Lianhua Huashang Group Co., Ltd. held by third parties at a consideration of not less than RMB140.76 million.

(c) Commitments under operating leases

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

	30th June 2004 RMB'000	31st December 2003 RMB'000
Not later than one year	419,439	369,089
Later than one year and not later than five years	1,517,517	1,335,328
Later than five years	1,910,310	2,203,490
	3,847,266	3,907,907

25. Future operating lease arrangements

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

	30th June 2004 RMB'000	31st December 2003 RMB'000
Not later than one year	58,970	84,165
Later than one year and not later than five years	130,874	50,924
Later than five years	128,434	45,932
	318,278	181,021

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

26. 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 30th June	
	Note	2004 RMB'000	2003 RMB'000
Sales to associates			
- Shanghai Lianhua E-business Co., Ltd.	(a)	**98,827**	130,620
- Subsidiaries of Shanghai Century Lianhua Supermarket Development Co., Ltd.	(b)	**475,258**	342,260
Purchases from associates			
- Shanghai Lianhua Supermarket Food Co., Ltd. and Shanghai Gude Commercial Trading Co., Ltd.	(c)	**6,997**	8,063
Decoration cost paid to an associate	(d)	**8,160**	5,136

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.

27. 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 incorporated 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 current ultimate holding company. The equity interests directly and indirectly held by Shanghai Friendship (Group) Co., Ltd. in Shanghai Friendship Group Incorporated Company are in the process of being transferred to Shanghai Bailian (Group) Company Limited, a State-owned enterprise established in the PRC. Upon completion of the transfer, Shanghai Bailian (Group) Company Limited will become the ultimate holding company of the Company.