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

Robust Development for Fruitful Returns

INTERIM REPORT 2005

CONTENTS

Corporate Information

Executive Directors

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Ms. Xu Ling-ling
Ms. Cai Lan-ying

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Mr. Tsunao Kijima
Mr. Wong Tak Hung
Mr. Hua-guoping
Mr. Shi Zu-qi

Independent Non-Executive Directors

Mr. Lee Kwok Ming,Don
Mr. Zhang Hui-ming
Mr. Xia Da-wei

Supervisors

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Mr. Zhang Zeng-yong
Mr. Shen Bo

Joint Company Secretaries

Mr. Wang Jian
Mr. Stephen Mok

Audit Committee

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Mr. Zhang Hui-ming
Mr. Xia-Dawei
Mr. Hua-guoping

Authorised Representatives

Ms. Xu Ling-ling
Mr. Wang Jian

International Auditors

PricewaterhouseCoopers

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as to Hong Kong law
Simmons & Simmons

as to PRC law
Grandall Legal Group

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Share Information

- Listing Place of H shares
  The Stock Exchange of Hong Kong Limited
- Listing Date
  27 June 2003
- SEHK Stock Code
  980
- Number of H shares Issued
  207,000,000 H shares
- Year-end Date
  31 December

Results Highlights

The board of directors (the "Board") of Lianhua Supermarket Holdings Company Limited ("Lianhua Supermarket" or the "Company") and its subsidiaries (collectively referred to as the "Group") is pleased to announce the unaudited results for the six months ended 30 June 2005.

Results Highlights

- For the six months ended 30 June 2005, the Group continued to implement its strategy of expanding outlets and upgrading management simultaneously. Turnover, operating profit and profit attributable to shareholders of the Company (the "Shareholders") amounted to approximately RMB6,890.729 million, RMB153.752 million and RMB130.979 million respectively, representing an increase of approximately 31.4% in turnover, 18.8% in operating profit and 22.2% in profit attributable to Shareholders when compared to the same period of last year. This reflects the Group's highest half-year earnings since its establishment and commencement of listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

- Progress on the expansion of chain outlets was satisfactory. For the six months ended 30 June 2005, the total number of the Group's directly-operated and franchised stores amounted to 3,377 (excluding those operated by the Company's associated companies), of which 61 were hypermarkets, 1,481 were supermarkets and 1,835 were convenience stores. This represents an increase of 254 stores during the period under review and the Group continues to maintain its leading position in the industry.

- The business of hypermarkets maintained its trend of rapid growth, which has exceeded the supermarket business of the Group to become the largest turnover contributor to the Company, representing approximately 49.9% of the total turnover of the Group. Since the distribution of Group's hypermarkets was focused in major regions, coupled with the strategies of localised management, integration of internal and external human resources and provision of training, the business of hypermarkets has proceeded to a stage of stable growth.

- The transformation of supermarket business has undergone a large breakthrough. Following the transformation into three business formats, namely: the community stores, live and fresh stores and standard stores, and after the successful experimental transformation into a live and fresh store and a standard store respectively last year, the Group underwent the transformation of high-end community store in the first half of the year. The successful transformation of the supermarket business reversed the downturn in same store sales when compared with the sales of same period of last year.

- The Group further enhanced the profitability of convenience stores by actively implementing the strategy of product differentiation and strengthening its focus on instant food development. For the development structure of convenience store business format, the Group began to focus on the development model of franchised outlets, and the new outlets mainly target on the high-end market. The brand "Quik" was accredited as the "2005 Shanghai's Most Influential Retail Chain Brand".

Results Highlights

- The Group further expedited its development pace in merger and acquisition. During the first half of 2005, the Group increased its penetration into Jiangsu province of the eastern region of the PRC and Guangxi province of the southern region of the PRC respectively. Through the increase of equity interests, transfer of shares and purchase of assets, the Group acquired 8 hypermarkets and 70 supermarkets, representing approximately 30.7% of the net increase of outlets of the Group for the first half of the year.

- The Group's supply chain management system with international standard was initiated. In April 2005, the Group cooperated with IBM China Company to establish a supply chain management platform progressively for the six years from 2005 to 2010. In May 2005, the restructuring of the Group's Room Temperature Distribution Center in Shanghai was completed, which has effectively improved the distribution capability of the Group.

Management Discussion and Analysis

Operating Environment

The gross domestic product of the PRC for the first half of 2005 was approximately RMB6,742.2 billion, representing an increase of approximately 9.5% compared to the same period of last year. The overall macro-economic measures were implemented with favourable results. The growth in fixed asset investment decreased and total retail sales of consumer products in the society amounted to approximately RMB2,961.0 billion representing an increase of approximately 13.2% when compared to the same period of last year, which in turn shows that the trend of rapid growth in consumption. During the first half of the year, commodity price increased moderately with the national consumer price index rose by approximately 2.3% compared to the same period of last year, while the income of urban and suburban citizens continued to increase rapidly, with national disposable income per capita of urban citizens of approximately RMB5,374, representing an increase of approximately 9.5% compared to the same period of last year. The government has restricted the growth of an overheated economy in the first half year, and the PRC economy has changed from a stage of expedited growth to that of stable growth. This reflects that the increase in purchasing power and consumer confidence of urban and suburban citizens was in line with the gradual growth of the economic development, which places the retail industry in a favourable environment for development.

Meanwhile, the Group believes that the competition in the PRC retail business is becoming more intense, especially when the retail market is fully opened to foreign investors in 2005. In addition to enhancing the network of the retail outlets in the China's retail market, foreign retail companies have established management infrastructure and logistic distribution system to pursue their strategic development in China, and competition have been more concentrated among strong domestic and foreign companies. On the other hand, retail chain companies continued on differentiating demands of customers, improved supply chain system, reduced operation cost, and put more emphasis on the upgrading of internal management to confront the intense competition. Under the intensified retail environment, it is expected that the retail chain companies will accelerate the pace of expansion and cross-regional development mainly by opening of new stores, merger and acquisition, which will become the development trend of the retail industry in the PRC as integration has become the key to successful acquisition and merger. With the intensifying competitions, retail chain companies have arrived at a mutual consensus in optimisation of network deployment and adjustments to underperforming stores.

Business Review

During the period under review, although the government has implemented macro-economic adjustment and control measures to restrict investment in the overheated industries, the economic growth continued to rely on the momentum of consumption and the Group continued to maintain a steady growth. During the period under review, the Group continued to follow the "Development, Transformation and Enhancement" operation principle to focus on quality expansion, increase mergers and acquisitions to strengthen regional penetration, further transform the format of supermarket business, initiate the establishment of a supply chain management platform with international standard, and adjust the human resources strategy of the Company gradually from retaining professional staff in the PRC to recruiting international talents.

As at 30 June 2005, the number of outlets operated by the Group and its associated companies were as follows:

	Hypermarkets		Supermarkets		Convenience stores		Total	
	30 June 2005	31 December 2004	30 June 2005	31 December 2004	30 June 2005	31 December 2004	30 June 2005	31 December 2004
The Group	**61**	49	**1,481**	1,340	**1,835**	1,734	**3,377**	3,123
— direct operations	**61**	49	**639**	584	**1,213**	1,192	**1,913**	1,825
— franchise operations	**0**	0	**842**	756	**622**	542	**1,464**	1,298

Outlets operated by the associated companies of the Company also 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 28. Shanghai Carhua Supermarket Company Limited ("Shanghai Carhua") operated and managed 8 hypermarkets in Shanghai. Shanghai Dia-Lianhua Retail Co., Ltd ("Shanghai Dia") now operates 117 discount stores in Shanghai.

The Group sustained its regional concentration development strategy by increasing the coverage of outlets in regions that have commenced operation so as to prevent dispersing various resources widely. As at 30 June 2005, the number of outlets of the Group reached 3,377 (excluding those operated by associated companies of the Company), representing a net increase of 254 during the period under review, of which 187 were located in the eastern region of the PRC. As the Group's operation in these regions attained economies of scale, its competitive edge in such regions was further enhanced.

Segment Results

Hypermarkets

As at 30 June 2005, 61 hypermarkets were directly operated by the Group, among which 33 were located in Yangtze Delta Region in the eastern region of the PRC with Shanghai, Zhejiang and Jiangsu as its core, 11 were located in the northern region of the PRC with Beijing. Tianjin and Hebei as its core, 4 were located in the northeastern region of the PRC with Shenyang as its core, 13 was located in the southern region of the PRC with Guangdong and Guangxi as its core, with a net increase of 12 outlets during the period under review. The hypermarkets was concentrated further in certain regions so as to facilitate resources sharing and strengthen the brand name effect. As at 30 June 2005, there were 89 hypermarkets, either directly operated by the Group or managed in trust for Century Lianhua, an associated company of the Company, allowing it to maintain the leading position in the industry.

Hypermarket still demonstrates the most rapid growth among the three segments of the Group. For the six months ended 30 June 2005, segment turnover for the hypermarkets of the Group was approximately RMB3,435.702 million, representing an increase of approximately 55.2% when compared with approximately RMB2,213.582 million in the same period of last year, representing approximately 49.9% of the total turnover of the Group. Hypermarket segment recorded a higher sales contribution than supermarket segment for the first time. During the period under review, operating profit was approximately RMB50.501 million increased by approximately 32.6% compared with RMB38.073 million in the same period of last year. Gross profit margin, consolidated income margin and operating profit margin were approximately 8.5%, 16.2% and 1.5%, respectively during the period under review, and as compared with 8.6%, 14.5% and 1.7%, respectively, in the corresponding period of last year. Excluding the turnover generated from the merchandise sold at cost to associated companies of the company gross profit margin, consolidated income margin and operating profit margin were 10.6%, 20.0% and 1.8%, respectively, as compared with 10.9%, 18.5% and 2.2%, respectively, in the corresponding period of last year.

During the period under review, hypermarkets strengthened the pricing image of "Every Day Low Price", optimized composition of merchandise and strengthened promotion of merchandise categories with growing popularity in accordance with the purchasing power and consumption pattern of different regions in order to increase the frequency of purchases by the consumers. Meanwhile, a comprehensive analysis regarding the operation and management structure of existing hypermarkets has been conducted to identify the operation characteristics of hypermarkets of the Group in different regions. The operation flow was improved by focusing on those characteristics and the periodical stocktaking of merchandises was optimized. With the recruitment of experienced and skillful management staff from international companies, the operation of hypermarkets business has upgraded and the implementation effort of employees was greatly enhanced.

Supermarkets

As at 30 June 2005, the total number of the Group's supermarkets reached 1,481, of which, 639 were directly operated supermarkets, 842 were operated under franchise arrangements.

Following a more detailed segmentation of the market business format, supermarkets have to be operated in a different way than hypermarkets and convenience stores. Therefore, the "transformation" of business formats has become crucial for the new development of supermarkets. The Group has been actively engaged in the transformation of its supermarkets, and has successfully transformed some stores to live and fresh store and standard store during last year. In the first half of the year, the Group also transformed other stores to high-end community stores, focusing on the core competitiveness of live and fresh operations. The Group has made significant upgrading in store decoration, merchandise selection, service standard, and there has been significant growth of 31.5% over the corresponding period in the overall sales of the transformed stores. The successful market diversification of pilot stores during the period under review has set a direction for the further transformation of the supermarket business.

Supermarkets remained the most mature business segment amongst the Group's retail chain business and a major profit contributor to the Group. Due to the characteristics of scale requirements and centralised distribution, foreign enterprises will not be a threat to the Group's supermarkets business in a short term. After the primary completion of successive transformation to high-end community store of supermarkets outlets in Shanghai in the second half of the year, it is believed that the profit contributions from supermarkets will be solid and reinforced.

For the six months ended 30 June 2005, segmental turnover of the Group's supermarkets was approximately RMB2,739.919 million, representing an increase of approximately 10.5% when compared with approximately RMB2,480.492 million in the same period of last year. During the period under review, operating profit was approximately RMB93.488 million, increased by approximately 8.3% compared with RMB86.347 million in the same period of last year. Gross profit margin, consolidated income margin and operation profit margin were approximately 13.9%, 22.2% and 3.4%, respectively, during the period under review, as compared with 14.8%, 21.7% and 3.5%, respectively, in the corresponding period of last year. Following the acceleration in the transformation, the effect of differentiated operation in the Group's supermarkets will be increasingly obvious, and there will be significant enhancement in the profit margins of the stores.

During the period under review, the supermarkets fully leveraged on the advantage of centralised operation resources. To cater the demands for differentiation and competition, the Group actively launched multi-layer promotion composition, launched marketing activities with themes during various festival days, organised the screening and sales of various DM merchandises, and also proactively capitalised on its cooperation with key suppliers such as Coca Cola, Bright Dairy and P&G, tailor-made a series of segmental marketing activities specialised for the Group's supermarkets. The multi-layered promotion activities effectively promoted the sales results of the supermarket business in the first half of the year, which was one of the important factors for the increase of the first half year's results.

Convenience stores

Currently, the development of the Group's convenience stores still concentrated in economically-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.

As at 30 June 2005, the number of the Group's convenience stores reached 1,835, of which 1,213 were directly operated by the Group and 622 were operated under franchise arrangements.

Selection of outlet location target on high-end markets and gradually concentrate in places with higher density of lifestyle consumers, such as high-end community districts, commercial buildings and high-end hotels. Various aspects including the store image, merchandise mix and marketing strategy, all aimed at the high-end market. Upon upgrading the standards of operation management, nearly 300 convenience stores of the Group have adopted the new corporate identity labels.

In respect of development structure, the development focus of the Group's convenience stores in the first half of the year gradually shifted to franchise arrangements. There were 80 newly added franchise convenience stores, accounting for approximately 79.2% of the newly added convenience stores during the period under review. Change in the development structure of convenience stores is helpful for the Group to implement the gradual transformation of profit model.

For the six months ended 30 June 2005, the segmental turnover of the Group's convenience stores was approximately RMB694.728 million, representing an increase of approximately 34.9% when compared with approximately RMB514.825 million in the same period of last year. Of these, sales in the Guangzhou region and Beijing region increased by approximately 52.2% and 47.4%, respectively, over the correspondingly period of last year. During the period under review, operating profit was approximately RMB14.939 million, increased by about 20.8% compared with RMB12.366 million in the same period of last year. Gross profit margin during the period was approximately 15.9%, consolidated income margin was approximately 25.2%, and operating profit margin was approximately 2.2%, as compared with 17.8%, 28.9% and 2.4%, respectively, in the corresponding period of last year. Excluding the turnover derived form the cost of sales to franchised convenience stores, the gross profit margin, consolidated income margin and operation profit margin were approximately 20.3%, 32.1% and 2.7%, respectively, as compared with 19.7%, 32.0% and 2.7%, respectively, in the corresponding period of last year.

The Group's convenience stores have made an in-depth research on the market and demands of consumers and put much efforts in implementing differentiation strategies in merchandise to fully promote the development of instant food (such as lunch-boxes) and introduced more imported merchandise into its stores in Shanghai. During the period under review, the "Quik" brand was accredited as "2005 Shanghai's Most Influential Retail Chain Brand".

Associated companies

During the period under review, Shanghai Carhua operated a total of 8 hypermarkets in Shanghai. Shareholders of Shanghai Carhua will continue to maintain close cooperation relationship.

As a new retail business format trial, Shanghai Dia has set up 117 discount stores in Shanghai as at 30 June 2005. Although Shanghai Dia has not reached its break-even point, the Group is currently discussing with the partners of joint venture on how discount stores can be adapted to the local market after its introduction into China and the risk control during cultivation period of the business format. The Group will in future continue to explore new retail formats to cope with market changes and continue to satisfy demands of consumers.

For the six months ended 30 June 2005, net profit from the associated companies of the Company attributable to the Group was approximately RMB41.476 million, accounting for approximately 31.7% of the profit attributable to the Shareholders.

Development of Other Business

Foster the implementation of acquisition and merger strategies

In March 2005, Lianhua Supermarket (Jiangsu) Company Limited（聯華超市（江蘇）有限公司）("Lianhua Jiangsu") and Wuxi Zhongbai Supermarket (Distribution) Company Limited ("Wuxi Zhongbai") entered into an agreement, pursuant to which Lianhua Jiangsu acquired the assets of 14 chain supermarkets of Wuxi Zhongbai, and contributed approximately RMB14.50 million to establish Wuxi Lianhua Zhongbai Supermarket Company Limited（無錫聯華中百超市有限公司）("Lianhua Wuxi"). Lianhua Jiangsu holds approximately 90.625% equity interests in Lianhua Wuxi so as to operate its assets. As at 30 June 2005, the Group took over the asset of one store and the overall acquisition is in process. Such acquisition will further enhance the concentration advantages of the Group in Jiangsu region.

In May 2005, the Group contributed approximately RMB107 million and RMB92.306 million respectively to complete the capital injection and acquisition of 95% shareholding interests in Guangxi Jiayong Trading Company Limited（廣西佳用商貿股份有限公司）("Guangxi Jiayong"), and newly added 77 stores, including 8 hypermarkets and 69 supermarkets, after the acquisition. This acquisition will be helpful to enhance the concentration of the Group's outlet distribution in the southern region of the PRC, and consolidate the Group's strategic deployment in the southern region of the PRC.

Completion of restructuring of the logistics center

On 30 May 2005, the Group completed the restructuring of Shanghai Room Temperature Distribution Center (上海常溫物流配送中心) and formally commenced operation. Total investment in the restructuring was approximately RMB47.15 million. Prior to the restructuring, the Group has two room temperature distribution centers in Shanghai. After the restructuring, the Group merged the two distribution centers into one. Although the total area of Shanghai Room Temperature Distribution Center is reduced, the process flow is optimized due to the introduction of advanced logistics equipment and adoption of high-end information technology systems to improve the efficiency of the restructured distribution center which has exceeded the sum of the original two distribution centers. The total area of the new logistics center is over 29,000 sq.m., with warehousing capacity of 300,000 boxes, and is capable of distribution for an average of 600 stores each day, at the same time, warehousing costs and error rate in sorting and delivery are reduced, thus heightening the satisfaction rate of order and bringing direct economic return to the Company.

Further enhancement in the supply chain and information system functions

On 5 April 2005, the Group cooperated with the globally renowned information technology enterprise IBM China Company and Test-Rite Products Corporation (台灣特力集團), a Taiwan-based enterprise, to develop an advanced supply chain management platform system ("B2B project") for Lianhua Supermarket. Total investment in this project is anticipated to amount to RMB120 million, which is to be invested by stages in six years from 2005 to 2010 in accordance with the progress of the project. Up to the present, B2B project is the Group's largest IT investment project. The directors of the Company (the "Directors") believe that the B2B project built by the Group in the first half of the year is one of the basic components of the nationwide supply chain system infrastructure construction. Under this platform, it first built up a supply chain management and support system of electronic order handling, on-line statement of account and settlement, data analysis and sharing for the hypermarkets of the Group. This system will subsequently be adopted in the supermarkets and convenience stores. The supply chain management platform will reduce the rate of inventory inadequacy, enhance inventory turnover, reduce communication cost in various links with suppliers, thereby improving and strengthening relationship with suppliers to create a "win-win" situation with the suppliers.

New progress in the development of membership system

During the period under review, the Group further strengthened the loyalty of its customers, and increased the management efforts in the membership system. The Group specially set up a customer relationship management headquarters for the centralisation and standardisation of the membership system, As at the end of June 2005, the total number of the Company's members exceeded 4 million. The proportion of total consumption of members to total turnover of the Group increased by approximately 8 percentage points over the corresponding period of last year. The average purchase per transaction of members increased by approximately 31.8% over the corresponding period of last year. The favourable development of the membership system was mainly attributable to the Company's strategy by focusing more on promotion of member purchase. Various measures were adopted in the first half of the year to stimulate member purchase, including member lucky draws and prize redemptions. The Group will further strengthen its analysis on the consumption patterns of members to provide merchandises which better cater to the needs of the members.

Financial Review

Analysis of Financial Results

		In RMB million	
	30 June 2005	30 June 2004	Year-on-year Change
Turnover	**6,890.7**	5,242.4	31.4
Gross profit	**786.2**	649.6	21.0
Consolidated income (Note 1)	**1,353.9**	1,017.0	33.1
Operating profit	**153.8**	129.4	18.9
Net profit	**131.0**	107.2	22.2
Earnings per share (RMB)	**0.21**	0.18	16.7
Interim dividends per share (RMB)	**0.06**	0.05	20.0

Note 1: Consolidated income = gross profit + other revenues and other income.

	30 June 2005	Note 1	30 June 2004	Note 1
Gross profit margin (%)	11.4	12.6	12.4	13.6
Consolidated income margin (%) (Note 2)	19.6	21.7	19.4	21.3
Operating profit margin (%)	2.2	2.5	2.5	2.7
Net profit margin (%)	1.9	2.1	2.0	2.2

Note 1: Excluding the sales of merchandise at cost to Century Lianhua, an associated company.

Note 2: Consolidated income margin = (gross profit + other revenues + other income)/turnover.

Segment information

For the six months ended 30 June 2005, turnover breakdown by business segment was as follows:

	For the six months ended 30 June				
	2005		2004		
Business segment	RMB (million)	% of turnover	RMB (million)	% of turnover	Year-on-year change %
Hypermarkets	3,435.70	49.86	2,213.58	42.22	55.2
Supermarkets	2,739.92	39.76	2,480.49	47.32	10.5
Convenience stores	694.73	10.08	514.83	9.82	34.9
Other operations	20.38	0.30	33.54	0.64	-39.2

Operating profit by business segment

For the six months ended 30 June 2005, operating profit breakdown by business segment was as follows:

	For the six months ended 30 June				
	2005		2004		
Business segment	RMB (million)	% of operating profit	RMB (million)	% of operating profit	Year-on-year change %
Hypermarkets	50.5	32.8	38.1	29.4	32.5
Supermarkets	93.5	60.8	86.3	66.7	8.3
Convenience Stores and others	9.8	6.4	5.0	3.9	96.0

Liquidity and financial resources

During the first half of 2005, the capital resource of the Group was mainly cash inflow from operations. As at 30 June 2005, the Group had non-current assets of approximately RMB3,054.763 million. Non-current assets were mainly comprised of construction in progress, fixed assets and land use rights of approximately RMB2,452.71 million, intangible assets of approximately RMB156.877 million, investment in associates of approximately RMB332.95 million, long-term investments and other non-current assets of approximately RMB98.031 million.

As at 30 June 2005, the Group had net current liabilities of approximately RMB933.653 million. Current assets were mainly comprised of cash and bank balances of approximately RMB708.336 million, inventories of approximately RMB999.787 million, accounts receivable, other receivables and prepayments of approximately RMB341.395 million, and amounts due from associates of the Company approximately RMB152.05 million. Current liabilities were mainly comprised of bank loans which will be due in one year of approximately RMB71.759 million, dividend payable of approximately RMB43.540 million, accounts payable, other payables, accruals and coupon liabilities of approximately RMB2,983.121 million and tax payable of approximately RMB26.188 million.

For the six months ended 30 June 2005, turnover period of the Group's accounts payable was 57 days. Inventory turnover was 29 days for the period under review, which maintained the same level in 2004.

For 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 30 June 2005.

Capital structure

As at 30 June 2005, the Group's cash and cash equivalents were mainly held in Renminbi. The Group's borrowings were primarily denominates 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. For the six months ended 30 June 2005, the Group's outstanding short-term loan amounted to RMB71.759 million and the outstanding long-term loan was RMB17.655 million. The debt ratio was 1.7% (total loan/total asset). All the bank loans of the Group were non-floating interest loan. The bank loan with an amount of RMB550 million was still unused by the Group.

During the period under review, the equity attributable to the Shareholders rose from approximately RMB1,728.349 million to approximately RMB1,815.788 million, which was mainly attributable to the increase in profit of RMB130.979 million and dividend distribution amounting to RMB43.54 million during the period under review.

Details of the Group's pledged assets

The Group's bank borrowings of RMB86.414 million are secured liabilities, which was assumed by the Group during the period under review through the acquisition of a subsidiary, Guangxi Lianhua Supermarket Joint Stock Company Limited (formerly known as Guangxi Jiayong). They are secured by certain buildings of the Group with a total net book amount of RMB134.86 million as at 30 June 2005.

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 believe that the Group would have sufficient foreign exchange to meet its foreign exchange requirements.

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	57.16
Unlisted foreign shares	59,457,000	9.56
H shares	207,000,000	33.28
Total	622,000,000	100.00

Contingent liabilities

As at 30 June 2005, the Group did not have any material contingent liabilities.

Employment, training and development

As at 30 June 2005, the Group had a total of 36,560 employees, representing an increase of 5,242 employees during the period under review. Total staff costs amounted to RMB378.070 million. Renumeration for the Group's employees were determined on the basis of their performance, experience and prevailing practice in the industry. The Group regularly reviews 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 its employees are required to make monthly contributions to these plans at a certain percentage of the employees' salaries during the relevant periods.

Strategies and Plans

2005 marks the first year of full deregulation of the PRC retail market and a critical year for the Group's development. Under an intense competitive environment, the Group continues to pursue the targets of internationalization, consolidating domestic predominance, optimizing nationwide network, strengthening core competitiveness and focusing core business segments. The Group aims at fulfilling the needs of customers and further consolidating its leading position in the retail industry to expand its market share in the PRC. The Group strives to enhance its network scale and fortify its leading market position as reflected by different operation indicators of competitiveness.

The Group will devote its efforts to the steady development of its three core business segments, which is consistent with its regional concentration development strategy. The Group emphasizes the pace of development and the balance between quality control, profitability and internal management improvement during the course of development. In 2005, the Group retains its expansion plan of annual net growth of 600 outlets. For the second half of the year, the Group will continue to establish outlets to meet with the annual development target. The hypermarkets are located mainly in the eastern, northern, northeastern and southern regions of the PRC, and the focus will be particularly placed on Yangtze River Delta region in the eastern region of the PRC. Supermarkets will launch the promotion on transformation of outlets based on the success of the pilot stores. In the second half of the year, the transformation of the high-end community store of Shanghai supermarkets will be basically completed. In addition to further enhancing its profitability in Shanghai and Dalian, convenience store business will further accelerate its development in the other four cities. It is believed that the convenient store business will reach the break-even point for its regional scale.

In addition to increasing the number of directly operated stores and franchised stores, the Group concentrated on further enhancing the effort of mergers and acquisitions. The strategies of the Group on mergers and acquisitions are to focus on regions with developed economies of scale. The Group will merge and acquire those retail chain enterprises which have complimentary and supplementary effects for the Group. In those regions which the Group have not yet established economies of scale, the Group will devote effort on merger and acquisition with the top three local retain chain companies so as to achieve sale advantages in short term. The Group will consolidate the four mergers and acquisitions completed in 2004 and the merger of Guangxi Jiayong and Wuxi Zhongbai completed in 2005 as soon as possible in order to effectively achieve synergies for the Group.

After the Group has basically finished the network spanning across the nation, its further improvement of the infrastructure of supply chain system in the nation will also be one of the Group's long-term objectives. It will pursue this target step by step in accordance to its current development stage. In the second half of the year, the Group strives to encourage the first batch of suppliers to commence online operation. The next important task on the construction of supply chain system is to optimise the logistics system, the Group has an advanced and centralized distribution system in the Yangtze River Delta region in the eastern region of the PRC. Currently, it also partially applies the supplier direct delivery and third party logistics distribution model. In view of developing the network across the nation, the Group will conduct research on the infrastructure of distribution system across the country and formulate plans to accommodate the needs of its development in the PRC.

Apart from expansion of the network, the Group will explore for potential on customer demands, enhance differentiation of customers, and focus on the analysis of the consumption behaviour of its members. It will place emphasis on processing the membership data as well as research on the promotion of membership as to further enhance the loyalty of its members.

In the second half of the year, the Group will further strengthen the Group's capabilities in the management of resources, enhance "implementation effort" on various levels, and raise internal management capability and operational efficiency. During the past years, the Group has launched a series of management measures, such as the "Flagship Store Plan" and "Management by Benchmark". While market competition continues to intensify, the Group will highlight "implementation effort", through different measures, including devoting more effort in recruitment and training of international and professional senior management staff to complement the competitive edges of the talents, promoting creativity of various business segments to improve business workflow and the establishment of a responsive feedback mechanism.

Other Information

Disclosure of Interests

So far as the Directors and chief executive of the Company are aware, as at 30 June 2005, 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 section 336 of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) ("SFO") or the relevant persons directly or indirectly held 10% or more of the nominal value of any class of share capital carrying rights to vote under any circumstances on the general meetings of any other members of the Group.

Domestic Shares/Unlisted Foreign Shares

Name of Shareholders	Number of Domestic Shares/ Unlisted Foreign Shares ('000)	Approximate percentage of rights to vote in the entire company (%) (Note 4)	Approximate percentage of rights to vote in Domestic Shares/ Unlisted Foreign Share (%)
Shanghai Friendship Group Incorporated Company	211,640	34.03%	51.00%
Shanghai Industrial United (Group) Commercial Network Development Company Limited	131,683	21.17%	31.73%
Mitsubishi Corporation	41,900	6.74%	10.10%
Shanghai Industrial United (Group) Joint Stock Company Limited	131,683	21.17% (Note 1)	31.73%
Shanghai Industrial YKB Limited	131,683	21.17% (Note 1)	31.73%
Shanghai Industrial Holdings Limited	131,683	21.17% (Note 1)	31.73%
Shanghai Investment Holdings Limited	131,683	21.17% (Note 2)	31.73%
Shanghai Industrial Investment (Holdings) Company Limited	131,683	21.17% (Note 2)	31.73%
Shanghai Industrial Investment Treasury Company Limited	131,683	21.17% (Note 2)	31.73%
SIIC Capital (BVI) Limited	131,683	21.17% (Note 2)	31.73%

Notes:

1. Shanghai Industrial Holdings Limited ("SIHL") owns 100% interests of Shanghai Industrial YKB Limited ("YKB") whilst YKB owns 56.63% interests of Shanghai Industrial United (Group) Joint Stock Company Limited ("Shanghai United"). Shanghai United owns 90% interests of Shanghai Industrial United (Group) Commercial Network Development Company Limited ("SH United Commercial"). Accordingly, SIHL and Shanghai United are deemed to have the interests in shares of the Company above that are required to be disclosed.

2. Shanghai Industrial Investment (Holdings) Company Limited ("SIIC") owns 100% interests in Shanghai Industrial Investment Treasury Company Limited ("STC") and STC owns 100% interests in Shanghai Investment Holdings Limited ("SIH"). SIH directly owns an aggregate of 56.67% interests in SIHL through SIIC Capital (BVI) Limited. Accordingly, SIIC, STC, SIIC Capital (BVI) Limited and SIH are deemed have the interests in shares of the Company above that are required to be disclosed.

On 20 June 2005, SIHL and Shanghai United entered into an asset exchange agreement. Shanghai United transferred its 21.17% interests in the Company held by its subsidiary, SH United Commercial, to S.I. Commerce Holdings Limited ("SI Commerce"), a wholly-owned subsidiary of SIHL. The agreement will be subject to approval by shareholders of SIHL and Shanghai United and will take effect at the same time with the other six agreements. If the agreement is approved, Shanghai Commercial, SIHL, SIIC Capital (BVI), SIH, STC and SIIC will be deemed as holding 21.17% disclosable interests of the Company. SH United Commercial, YKB and Shanghai United will not be deemed to own any interests in the Company.

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 2005.

Interests of Directors, Supervisors and Chief Executive Officers

As at 30 June 2005, none of the Directors, Supervisors and chief executive of the Company have any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) as recorded in the register of the Company required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The Legal Status of Unlisted Foreign Shares

The summary on legal opinion given by the PRC law adviser of the Company, Grandall Legal Group, on the rights attached to unlisted foreign shares (the "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 of the company (the "H Shares") upon obtaining the requisite approvals from, among other bodies, the China Securities Regulatory Commission (the "CSRC") and the the Stock Exchange 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. Grandall Legal Group 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 of the Company ("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 Grandall Legal Group, 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 Stock Exchange 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 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.

When all of the conditions mentioned above and other conditions as may be imposed from time to time by the Stock Exchange 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 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 RMB0.06 per share for the six months ended 30 June 2005.

Further details of interim dividend will be announced in due course.

Connected Transactions

The following transactions entered into by the Company constituted continuing connected transactions under Chapter 14A of the Listing Rules. These transactions mainly involved:

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 Stock Exchange 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.

Audit Committee

In accordance with the requirements of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules, the Board passed a resolution on 8 June 2005 to elect and establish the second session of the audit committee of the Company (the "Audit Committe") which comprises of three independent non-executive Directors, namely Mr. Lee Kwok Ming, Don, Mr. Zhang Hui-ming, Mr. Xia Da-wei and one non-executive Director, Mr. Hua Guo-ping. The major duties of the Audit Committee are to review the financial reporting procedures of the Company. 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 Hong Kong Financial Reporting Standards. The Audit Committee considered that the interim financial report of the Group is in compliance with the relevant accounting standards, the requirements of the Stock Exchange and the laws, and has made sufficient disclosures.

Compliance with Model Code for Securities Transactions by Directors in Appendix 10 of the Listing Rules

After specific enquiries to the Directors, the Board is pleased to confirm that all the Directors have fully complied with Appendix 10 of Model Code for Securities Transactions by directors of Listed Companies of the Listing Rules during the peried under review.

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

The Board is pleased to confirm that the Company has complied with the Code on Corporate Governance Practices in Appendix 14 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 time of the period under review in compliance with the Code on Corporate Governance Practices in Appendix 14 to the Listing Rules.

Upon approval by way of an ordinary resolution in the annual general meeting of the Company held on 8 June 2005, the Company formed the second session of the Board. On the same day, the Board established the new professional committees in accordance with the requirements of the Code on Corporate Governance Practices. The second session of the Audit Committee is comprised of Mr. Lee Kwok-ming, Don, Mr. Zhang Hui-ming Mr. Xia Da-wei and Mr. Hua Guo-ping. The second session of the remuneration and appraisal committee of the Company is comprised of Mr. Xia Da-wei, Mr. Zhang Hui-ming and Mr. Hua Guo-ping. The second session of the strategic committee of the Company is comprised of Mr. Wang Zong-nan, Mr. Lu Ming-fang, Mr. Tsunao Kijima and Mr. Zhang Hui-ming. The second session of the nomination committee of the Company is comprised of Mr. Xia Da-wei, Mr. Zhang Hui-ming and Mr. Hua Guo-ping.

By Order of the Board
Wang Zong-nan
Chairman

18 August 2005, Shanghai, The PRC

Condensed Consolidated Profit and Loss Account

For the six months ended 30 June 2005

	Note	Unaudited Six months ended 30 June 2005 RMB'000	 2004 Restated RMB'000
Turnover	4	6,890,729	5,242,444
Cost of sales		(6,104,487)	(4,592,830)
Gross profit		786,242	649,614
Other revenues	4	550,069	340,688
Other income		17,602	26,654
Distribution costs		(1,079,967)	(777,794)
Administrative expenses		(114,023)	(107,530)
Other operating expenses		(6,171)	(2,219)
Operating profit	5	153,752	129,413
Finance costs	6	(614)	(2,552)
Share of results of associates	11	41,476	31,062
Profit before taxation		194,614	157,923
Taxation	7	(55,250)	(39,739)
Profit for the period		139,364	118,184
Attributable to:			
Company's shareholders		130,979	107,169
Minority interests		8,385	11,015
		139,364	118,184
Dividends	8	37,320	29,375
Basic earnings per share for profit attributable to Company's shareholders	9	RMB0.21	RMB0.18

Condensed Consolidated Balance Sheet

As at 30 June 2005 and 31 December 2004

	Note	Unaudited 30 June 2005 RMB'000	Audited and restated 31 December 2004 RMB'000
Non-current assets			
Fixed assets	10	2,236,706	1,713,617
Construction in progress	10	10,400	218,367
Land use rights	10	205,604	187,846
Intangible assets	10	156,877	112,044
Investments in associates	11	332,950	293,842
Long-term investments		10,193	10,193
Deferred tax assets		14,195	9,005
Other non-current assets	12	87,838	40,406
		3,054,763	2,585,320
Current assets			
Inventories		999,787	968,465
Trade receivables	13	22,261	27,242
Deposits, prepayments and other receivables		319,134	253,944
Amounts due from associates	14	152,050	133,598
Trading securities		4,044	4,973
Bank balances and cash		708,336	837,169
		2,205,612	2,225,391
Total assets		5,260,375	4,810,711

Wang Zong-nan
Director

Liang Wei
Director

Xu Ling-ling
Director

Condensed Consolidated Balance Sheet

As at 30 June 2005 and 31 December 2004

	Note	Unaudited 30 June 2005 RMB'000	Audited and restated 31 December 2004 RMB'000
Equity attributable to Company's shareholders			
Share capital		622,000	622,000
Reserves	15	1,193,788	1,106,349
		1,815,788	1,728,349
Minority interests		215,386	220,768
Total equity		2,031,174	1,949,117
Non-current liabilities			
Borrowings	16	17,655	—
Deferred tax liabilities		72,281	43,422
		89,936	43,422
Current liabilities			
Trade payables	17	2,010,714	1,847,003
Other payables, accruals and coupon liabilities	18	972,407	869,153
Amounts due to associates	14	14,657	73,391
Taxation payable		26,188	28,625
Borrowings	16	71,759	—
Dividends payable		43,540	—
		3,139,265	2,818,172
Total liabilities		3,229,201	2,861,594
Total equity and liabilities		5,260,375	4,810,711
Net current liabilities		(933,653)	(592,781)
Total assets less current liabilities		2,121,110	1,992,539

Wang Zong-nan
Director

Liang Wei
Director

Xu Ling-ling
Director

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2005

	Note	Unaudited Attributable to Company's shareholders Share capital RMB'000	 Other reserves RMB'000	 Retained earnings RMB'000	Minority interests RMB'000	Total RMB'000
Balance at 1 January 2005, as previously reported as equity		622,000	889,421	216,928	—	1,728,349
Balance at 1 January 2005, as previously separately reported as minority interests		—	—	—	220,768	220,768
Balance at 1 January 2005, as restated		622,000	889,421	216,928	220,768	1,949,117
Profit for the period		—	—	130,979	8,385	139,364
Acquisition of additional equity interests in a subsidiary		—	—	—	(1,082)	(1,082)
Acquisition of a subsidiary	21	—	—	—	3,434	3,434
Capital contributions from minority interests		—	—	—	2,550	2,550
Dividend relating to 2004	8	—	—	(43,540)	(18,669)	(62,209)
		—	—	87,439	(5,382)	82,057
Balance at 30 June 2005		622,000	889,421	304,367	215,386	2,031,174
Balance at 1 January 2004, as previously reported as equity		587,500	556,003	135,687	—	1,279,190
Balance at 1 January 2004, as previously separately reported as minority interests		—	—	—	219,736	219,736
Balance at 1 January 2004, as restated		587,500	556,003	135,687	219,736	1,498,926
Profit for the period		—	—	107,169	11,015	118,184
Acquisition of additional equity interests in a subsidiary		—	—	—	(2,046)	(2,046)
Capital contributions from minority interests		—	—	—	4,359	4,359
Dividend relating to 2003	8	—	—	(47,000)	(32,167)	(79,167)
		—	—	60,169	(18,839)	41,330
Balance at 30 June 2004		587,500	556,003	195,856	200,897	1,540,256

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2005

	Unaudited Six months ended 30 June 2005 RMB'000	 2004 RMB'000
Net cash inflow from operating activities	274,820	207,326
Net cash outflow from investing activities	(381,676)	(167,540)
Net cash outflow from financing activities	(21,977)	(108,068)
Decrease in cash and cash equivalents	(128,833)	(68,282)
Cash and cash equivalents at 1 January	837,169	758,146
Cash and cash equivalents at 30 June	708,336	689,864
Comprising:		
Bank balances and cash at 30 June	708,336	689,864

1. Principal activities and basis of preparation

The principal activities of Lianhua Supermarket Holdings Company Limited (the "Company") and its subsidiaries (collectively the "Group") and its associates are the operation of a chain of supermarkets, hypermarkets and convenience stores, primarily 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 Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

These condensed accounts should be read in conjunction with the 2004 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 31 December 2004 except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (collectively the "new HKFRS") issued by the HKICPA, which are effective for accounting periods commencing on or after 1 January 2005. The Group had not early adopted the new HKFRS in the preparation of its 2004 annual accounts. The Group has also not early adopted any new HKFRS which has not yet been effective in the preparation of these condensed interim accounts.

The changes to the Group's accounting policies and the effect of adopting these new policies are set out in Note 2 below.

2. Changes in accounting policies

(a) Effect of adopting new HKFRS

In 2005, the Group adopted the following standards and interpretation of new HKFRS , which are relevant to its operations. The 2004 comparatives have been restated as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS-Int 15	Operating Leases – Incentives
HKFRS 3	Business Combinations

2. Changes in accounting policies (continued)

(a) Effect of adopting new HKFRS (continued)

Following the adoption of the new HKFRS, the Group's accounting policies remain consistent with those set out more fully in the 2004 annual accounts, except for the following:

(i) Land use rights

The adoption of revised HKAS 17, which is applied on a retrospective basis, has resulted in a change in the accounting policy relating to the reclassification of land use rights from fixed assets to operating leases. In prior years, the land use rights were depreciated on a straight-line basis over the period of the lease or where there was impairment, the impairment was expensed in the profit and loss account. Accordingly apart from presentational changes with comparatives restated, this change in accounting policy does not have any material effect on the accounts.

(ii) Financial assets and liabilities

The adoption of HKAS 32 and HKAS 39 has resulted in a change in the accounting policy relating to the classification of financial assets and liabilities and their measurement. HKAS 32 requires retrospective application while HKAS 39 does not permit to recognise, derecognise and measure financial assets and liabilities on a retrospective basis.

Investments in securities, other than subsidiaries, associates and jointly controlled entities, were previously classified as long-term investments and trading securities. Effective from 1 January 2005, these are grouped under available-for-sale financial assets and financial assets at fair value through profit or loss respectively. Available-for-sale financial assets are carried at fair value, where an active market exists, with any unrealised gains and losses recognised in equity. Available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured by valuation techniques are carried at cost less impairment. Financial assets at fair value through profit or loss are carried at fair value.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Trade and other receivables were previously carried at cost less provision for doubtful debts.

Borrowings are now recognised initially at fair value, net of transaction costs incurred. They are subsequently stated at amortised cost with any difference between the proceeds (net of transaction costs) and the redemption value recognised in the profit and loss account over the period of the borrowings using the effective interest method. Borrowings were previously carried at cost.

The above changes in accounting policy do not have any material effect on the accounts.

2. Changes in accounting policies (continued)

(a) Effect of adopting new HKFRS (continued)

(iii) Goodwill

The adoption of HKFRS 3, HKAS 36 and HKAS 3, which is applied on a prospective basis, results in a change in the accounting policy for goodwill. Until 31 December 2004, goodwill was:

— Amortised on a straight-line basis over its estimated useful life; and

— Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3:

— The Group ceased amortisation of goodwill from 1 January 2005;

— Accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill;

— From the year ending 31 December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

This change in accounting policy has resulted in no charge for goodwill in the profit and loss account for the six months ended 30 June 2005.

(iv) Presentational changes

HKAS 1 has affected the presentation of minority interests, share of results of associates and other disclosures. Minority interests are now included in equity on the balance sheet and share of results of associates is presented net of taxation on the profit and loss account. These changes in presentation have been applied retrospectively.

2. Changes in accounting policies (continued)

(a) Effect of adopting new HKFRS (continued)

All changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards. The adoption of revised HKAS 17 and revised HKAS 1 resulted in certain reclassifications detailed below:

Adoption of revised HKAS 17 resulted in:

	As at	
	30 June 2005 RMB'000	31 December 2004 RMB'000
Decrease in fixed assets	(205,604)	(187,846)
Increase in land use rights	205,604	187,846

Adoption of revised HKAS 1 resulted in:

	For the six months ended	
	30 June 2005 RMB'000	30 June 2004 RMB'000
Decrease in share of results of associates	(20,864)	(20,226)
Decrease in taxation	20,864	20,226

In addition, minority interests of RMB215,386,000 as at 30 June 2005 have been included in equity with comparative figure of RMB220,768,000 as at 31 December 2004 restated.

(b) New accounting policies

The more significant new accounting policies adopted by the Group in the preparation of these condensed interim accounts are set out below:

2.1 Acquisition of subsidiaries

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit and loss account.

2. Changes in accounting policies (continued)

(b) New accounting policies (continued)

2.2 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary or associate at the date of acquisition. Goodwill on acquisitions is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

2.3 Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2.4 Investments

Until 31 December 2004, investments in securities, other than subsidiaries, associates and jointly controlled entities, were classified as long-term investments and trading securities. Effective from 1 January 2005, these are grouped under available-for-sale financial assets and financial assets at fair value through profit or loss respectively. The Group did not hold investments in other categories during the six months ended 30 June 2005.

The classification of investments depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

The accounting policies for the two new categories of investments are as follows:

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified in current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

2. Changes in accounting policies (continued)

(b) New accounting policies (continued)

2.4 Investments (continued)

(i) Financial assets at fair value through profit or loss (continued)

Financial assets at fair value through profit or loss are carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss category are included in the profit and loss account in the period in which they arise.

The fair values of quoted investments are based on current bid prices. If there is no quoted market for a financial asset, the Group establishes fair value by using valuation techniques.

The Group's investments in trading securities are grouped under this category.

(ii) Available-for-sale financial assets

Non-derivatives investments are categorised as available-for-sale financial assets when they are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Investments classified as available-for-sale financial assets are carried at fair value, where an active market exists. Unrealised gains and losses arising from changes in the fair value of investments classified as available-for-sale are recognised in equity. When investments classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the profit and loss account as gains or losses from investment securities. Those investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured by valuation techniques are carried at cost less impairment.

The Group's long-term investments are grouped under this category.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the profit and loss account – is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

2. Changes in accounting policies (continued)

(b) New accounting policies (continued)

2.5 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

2.6 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

3. 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.

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

3. Segment information (continued)

The segment results for the six months ended 30 June 2005 are as follows:

	Unaudited Six months ended 30 June 2005 Supermarkets RMB'000	Hypermarkets RMB'000	Convenience stores RMB'000	Other operations RMB'000	Group RMB'000
Segment revenue	2,960,614	3,695,431	758,430	21,748	7,436,223
Including sales of merchandise to					
— an associate at cost	—	652,950	—	—	652,950
— an associate at retail price less 1.3%	167,315	204,574	—	—	371,889
— franchised stores at cost	164,349	—	148,716	—	313,065
Interest income					4,575
Total revenues					7,440,798
Segment results	87,163	47,284	14,062	(569)	147,940
Interest income					4,575
Other income					17,602
Unallocated costs					(16,365)
Operating profit					153,752
Finance costs					(614)
Share of results of associates					41,476
Profit before taxation					194,614
Taxation					(55,250)
Profit for the period					139,364

Other segment terms are as follows:

	Unaudited Six months ended 30 June 2005 Supermarkets RMB'000	Hypermarkets RMB'000	Convenience stores RMB'000	Other operations RMB'000	Group RMB'000
Capital expenditure	242,453	223,554	19,242	9,802	495,051
Depreciation charge	64,500	61,346	16,772	7,304	149,922
Amortisation charge	3,000	1,605	607	1,139	6,351

3. Segment information (continued)

The segment results for the six months ended 30 June 2004 are as follows:

	Unaudited Six months ended 30 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					31,062
Profit before taxation					157,923
Taxation					(39,739)
Profit for the period					118,184

Other segment terms are as follows:

	Unaudited Six months ended 30 June 2004				
	Supermarkets RMB'000	Hypermarkets RMB'000	Convenience stores RMB'000	Other operations RMB'000	Group RMB'000
Capital expenditure	41,556	99,667	11,785	23,443	176,451
Depreciation charge	59,451	34,656	15,260	7,014	116,381
Amortisation charge	2,975	1,397	554	976	5,902

3. Segment information (continued)

The unaudited segment assets and liabilities at 30 June 2005 are as follows:

	Supermarkets RMB'000	Hypermarkets RMB'000	Convenience stores RMB'000	Other operations RMB'000	Group RMB'000
Segment assets	1,528,279	2,333,937	326,595	15,360	4,204,171
Investments in associates					332,950
Unallocated assets					723,254
Total assets					5,260,375
Segment liabilities	1,214,172	1,645,837	193,432	4,770	3,058,211
Unallocated liabilities					170,990
Total liabilities					3,229,201

The audited segment assets and liabilities at 31 December 2004 are as follows:

	Supermarkets RMB'000	Hypermarkets RMB'000	Convenience stores RMB'000	Other operations RMB'000	Group RMB'000
Segment assets	1,366,547	2,018,970	329,562	22,682	3,737,761
Investments in associates					293,842
Unallocated assets					779,108
Total assets					4,810,711
Segment liabilities	1,014,067	1,579,004	195,505	15,745	2,804,321
Unallocated liabilities					57,273
Total liabilities					2,861,594

Unallocated costs represent corporate expenses.

Segment assets consist primarily of fixed assets, land use rights, intangible assets, inventories, receivables and operating cash. They mainly exclude certain corporate bank balances and cash, investments in associates, deferred tax assets, amounts due from other related parties and trading securities.

Segment liabilities comprise operating liabilities. They exclude items such as taxation and corporate borrowings.

Capital expenditure comprises additions to fixed assets, construction in progress, land use rights, intangible assets and other non-current assets, including additions resulting from acquisitions through purchases of subsidiaries.

4. Turnover and other revenues

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:

	Unaudited Six months ended 30 June	
	2005 RMB'000	2004 RMB'000
Turnover		
Sales of merchandise	6,890,729	5,242,444
Other revenues		
Income from suppliers		
— Promotion and store display income	398,999	203,252
— Merchandise storage and delivery income	18,291	57,016
— Information system service income	1,920	4,779
Gross rental income from leasing of shop premises	84,638	50,193
Interest income	4,575	2,115
Royalty income from franchised stores	19,584	16,416
Others	22,062	6,917
	550,069	340,688
Total revenues	7,440,798	5,583,132

5. Operating profit

Operating profit is stated after crediting and charging the following:

	Unaudited Six months ended 30 June	
	2005	2004
	RMB'000	RMB'000
Crediting:		
Income from leasing of shop premises		
— Gross rental income	84,638	50,193
— Outgoings	(35,601)	(18,578)
Government subsidies	11,737	10,243
Gain on disposal of land use rights and buildings	—	15,976
Net gain on disposal of trading securities	5,865	435
Charging:		
Amortisation of goodwill	—	4,752
Amortisation of other non-current assets	1,497	697
Amortisation of software (Note10)	2,774	3,143
Amortisation of land use rights (Note10)	2,080	2,062
Depreciation of fixed assets (Note10)	149,922	116,381
Loss on disposal of fixed assets	1,816	723
Operating lease rental in respect of land and buildings	303,675	209,010
Staff costs excluding directors' emoluments	378,074	287,006
Pre-operating expenses	3,663	4,325
Provision for impairment of receivables	398	1,922
Net unrealised fair value loss on trading securities	817	—

6. Finance costs

	Unaudited Six months ended 30 June 2005 RMB'000	2004 RMB'000
Interest expense on bank borrowings	614	5,123
Less: Interest subsidies from government	—	(2,571)
	614	2,552

7. Taxation

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

	Unaudited Six months ended 30 June 2005 RMB'000	2004 Restated RMB'000
PRC income tax		
— Current taxation	56,109	40,389
— Deferred taxation	(859)	(650)
	55,250	39,739

Share of associates' taxation for the six months ended 30 June 2005 of RMB20,864,000 (2004: RMB 20,226,000) are included in the consolidated profit and loss account as share of results of associates.

8. Dividends

	Unaudited Six months ended 30 June 2005 RMB'000	2004 RMB'000
Proposed interim dividend of RMB0.06 (2004: RMB0.05) per share	37,320	29,375

At a meeting held on 18 August 2005, the Directors proposed an interim dividend of RMB0.06 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 31 December 2005.

At a meeting held on 19 April 2005, the Directors proposed a final dividend of RMB 0.07 per share for the year ended 31 December 2004, totalling RMB43,540,000,which was approved by the shareholders on 8 June 2005 and has been reflected as an appropriation of retained earnings for the six months ended 30 June 2005 (Note 15).

9. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to Company's shareholders by the weighted average number of shares in issue during the period.

	Unaudited Six months ended 30 June 2005 RMB'000	2004 RMB'000
Profit attributable to Company's shareholders	130,979	107,169
Weighted average number of shares in issue	622,000	587,500
Basic earnings per share	RMB0.21	RMB0.18

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

10. Major capital expenditure

	Fixed assets RMB'000	Construction in progress RMB'000	Land use rights RMB'000	Intangible assets: Goodwill RMB'000	Intangible assets: Software RMB'000	Intangible assets: Total RMB'000
Opening net book amount as at 1 January 2005 (audited)	1,713,617	218,367	187,846	88,010	24,034	112,044
Acquisitions	264,595	—	19,838	41,015	921	41,936
Additions	177,631	26,395	—	—	5,671	5,671
Transfers	234,362	(234,362)	—	—	—	—
Disposals	(3,577)	—	—	—	—	—
Depreciation/amortisation charge (Note 5)	(149,922)	—	(2,080)	—	(2,774)	(2,774)
Closing net book amount as at 30 June 2005 (unaudited)	2,236,706	10,400	205,604	129,025	27,852	156,877
Opening net book amount as at 1 January 2004 (audited)	1,469,747	24,852	192,808	75,686	19,286	94,972
Additions	107,716	64,514	—	—	4,221	4,221
Transfers	18,159	(18,159)	—	—	—	—
Disposals	(12,344)	—	—	—	—	—
Depreciation/amortisation charge (Note 5)	(116,381)	—	(2,062)	(4,752)	(3,143)	(7,895)
Closing net book amount as at 30 June 2004 (unaudited)	1,466,897	71,207	190,746	70,934	20,364	91,298
Acquisitions	136,515	—	—	22,320	1,253	23,573
Additions	201,682	192,155	—	—	4,880	4,880
Transfers	44,995	(44,995)	—	—	—	—
Disposals	(5,731)	—	—	—	(59)	(59)
Depreciation/amortisation charge	(130,741)	—	(2,900)	(5,244)	(2,404)	(7,648)
Closing net book amount as at 31 December 2004 (audited)	1,713,617	218,367	187,846	88,010	24,034	112,044

Included in fixed assets are certain buildings with a total net book amount of RMB134,860,000 as at 30 June 2005, which have been pledged against the Group's bank borrowings (Note 16).

The Group has not yet obtained the building ownership certificates of certain buildings included in fixed assets with a total net book amount of RMB12,194,000 as at 30 June 2005. The Group is in the process of applying for the building ownership certificates.

11. Investments in associates

	Unaudited Six months ended 30 June 2005 RMB'000	Unaudited Six months ended 30 June 2004 RMB'000	Unaudited From 1 July 2004 to 31 December 2004 RMB'000
Balance at beginning of the period	293,842	279,507	329,528
Share of associates' results	41,476	31,062	26,237
Profit before taxation	62,340	51,288	48,449
Taxation	(20,864)	(20,226)	(22,212)
Additions of investments in existing associates	—	19,389	—
Investments in new associates	—	2,050	2,790
Addition arising from acquisition of a subsidiary	318	—	—
Cash dividends received	(2,580)	(2,180)	(64,713)
Disposal of associates	(106)	(300)	—
Balance at end of the period	332,950	329,528	293,842

The aggregated amounts of the Group's interests in the assets, liabilities, turnover and profit or loss of its associates, all of which are unlisted, were as follows:

	Unaudited 30 June 2005 RMB'000	Unaudited 31 December 2004 RMB'000
Assets	1,339,585	1,257,541
Liabilities	(1,031,174)	(963,699)
Net assets	308,411	293,842
Add: unrecognised losses	24,539	—
	332,950	293,842

11. Investments in associates (continued)

	Unaudited Six months ended 30 June 2005 RMB'000	Unaudited Six months ended 30 June 2004 RMB'000
Turnover	1,406,421	1,009,109
Profit for the period	16,937	31,062
Add: unrecognised losses	24,539	—
	41,476	31,062

During the six months ended 30 June 2005, the Group's share of losses from an associate, Shanghai Dia-Lianhua Retail Co., Ltd., in which the Group holds a 45% equity interest has reduced the Group's investment in the associate to zero. Accordingly the Group has discontinued recognising its share of further losses from the associate. Losses incurred by the associate during the period not recognised by the Group amounted to RMB24,539,000 (2004: Nil).

12. Other non-current assets

	Unaudited 30 June 2005 RMB'000	Audited 31 December 2004 RMB'000
Payments for obtaining the rights to use certain buildings (Note (a))	38,909	40,406
Prepaid consideration for acquisition of an associate (Note (b))	48,929	—
	87,838	40,406

Note:

(a) The balance represents 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.

(b) In June 2005, the Group entered into an agreement with a third party to acquire 20% equity interest in Tianjin Yishang Development Company Limited at a consideration of RMB48,929,000. The acquisition was effective on 1 July 2005.

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:

	Unaudited 30 June 2005 RMB'000	Audited 31 December 2004 RMB'000
Within 30 days	20,358	26,507
31–60 days	936	287
61–90 days	617	89
91 days–one year	350	359
	22,261	27,242

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.

According to a tri-party agreement entered into during the six months ended 30 June 2005 among the Company and its two associates, Shanghai Century Lianhua Supermarket Development Co., Ltd. ("Century Lianhua") and Shanghai Lianhua E-business Co., Ltd.("Lianhua E-business"), an amount of RMB155,000,000 due by Century Lianhua to the Company was offset against an equivalent amount due by the Company to Lianhua E-business.

15. 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 1 January 2005	755,953	88,435	45,033	216,928	1,106,349
Profit for the period attributable to Company's shareholders	—	—	—	130,979	130,979
2004 final dividend (Note 8)	—	—	—	(43,540)	(43,540)
Balance at 30 June 2005	755,953	88,435	45,033	304,367	1,193,788
Representing:					
2005 proposed interim dividend				37,320	
Others				267,047	
				304,367	
Balance at 1 January 2004	480,459	50,285	25,259	135,687	691,690
Profit for the period attributable to Company's shareholders	—	—	—	107,169	107,169
2003 final dividend	—	—	—	(47,000)	(47,000)
Balance at 30 June 2004	480,459	50,285	25,259	195,856	751,859
Issue of H shares	287,893	—	—	—	287,893
Share issuance expenses	(12,399)	—	—	—	(12,399)
Profit for the period attributable to Company's shareholders	—	—	—	108,371	108,371
Profit appropriations	—	38,150	19,774	(57,924)	—
2004 interim dividend	—	—	—	(29,375)	(29,375)
Balance at 31 December 2004	755,953	88,435	45,033	216,928	1,106,349
Representing:					
2004 proposed final dividend				43,540	
Others				173,388	
				216,928	

15. 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 30 June 2005 (six months ended 30 June 2004: Nil). The transfer will be made at the year end based on the annual profit and upon Directors' approval.

16. Borrowings

	Unaudited 30 June 2005 RMB'000	Audited 31 December 2004 RMB'000
Non-current bank borrowings	17,655	—
Current bank borrowings	71,759	—
Total borrowings	89,414	—

The Group's bank borrowings of RMB86,414,000 are secured liabilities, which was assumed by the Group during the period through the acquisition of a subsidiary, Guangxi Lianhua Supermarket Joint Stock Company Limited (formerly known as Guangxi Jiayong Commercial and Trading Joint Stock Company Limited, hereafter "Guangxi Lianhua"). They are secured by certain buildings of the Group with a total net book amount of RMB134,860,000 as at 30 June 2005 (Note10).

The maturity of the Group's bank borrowings is as follows:

	Unaudited 30 June 2005 RMB'000	Audited 31 December 2004 RMB'000
Within 1 year	71,759	—
Between 1 and 2 years	2,609	—
Between 2 and 5 years	8,824	—
Over 5 years	6,222	—
	89,414	—

16. Borrowings (continued)

The effective interest rates at the balance sheet date were as follows:

	Unaudited 30 June 2005	Audited 31 December 2004
Non-current bank borrowings	5.94%	—
Current bank borrowings	7.03%	—

The carrying amounts of current and non-current borrowings approximate their fair values.

17. Trade payables

The ageing analysis of the trade payables are as follows:

	Unaudited 30 June 2005 RMB'000	Audited 31 December 2004 RMB'000
Within 30 days	1,499,619	1,428,912
31–60 days	358,226	363,978
61–90 days	103,993	29,499
91 days–one year	48,876	24,614
	2,010,714	1,847,003

18. Other payables, accruals and coupon liabilities

	Unaudited 30 June 2005 RMB'000	Audited 31 December 2004 RMB'000
Other payables	426,473	502,208
Coupon liabilities	469,934	318,874
Customers' advances	13,624	25,379
Accruals	62,376	22,692
	972,407	869,153

19. Commitments

(a) Capital commitments for fixed assets and system development

	Unaudited 30 June 2005 RMB'000	Audited 31 December 2004 RMB'000
Contracted but not provided for	187,381	59,764

The capital commitments mainly represent commitments for construction of buildings, leasehold improvements, purchase of equipment and development of a supply chain management system.

(b) Commitments under operating leases

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

	Unaudited 30 June 2005 RMB'000	Audited 31 December 2004 RMB'000
Not later than one year	545,501	597,352
Later than one year and not later than five years	2,132,884	1,943,850
Later than five years	5,072,041	3,267,741
	7,750,426	5,808,943

(c) Commitments for equity investments

As at 30 June 2005, the Group had a commitment to acquire the remaining equity interests of 25.39% (2004: 25.39%) in Hangzhou Lianhua Huashang Group Co., Ltd. held by third parties at a consideration of not less than RMB140.76 million.

20. Future operating lease arrangements

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

	Unaudited 30 June 2005 RMB'000	Audited 31 December 2004 RMB'000
Not later than one year	104,110	114,616
Later than one year and not later than five years	148,634	170,904
Later than five years	127,013	99,428
	379,757	384,948

The minimum lease receipts set out above mainly relate to sub-leasing of shop premises in the Group's hypermarkets.

21. Acquisition of a subsidiary

In March 2005, the Group entered into agreements with the then investors (the "Former Investors") of Guangxi Lianhua whereby the Group agreed to invest cash of RMB107,000,000 in Guangxi Lianhua and assumed the Former Investors' debts of RMB92,306,000 due to Guangxi Lianhua in return for a 95% of the enlarged equity interests in Guangxi Lianhua. The acquisition was effective on 1 June 2005 in accordance with the relevant agreements.

Guangxi Lianhua is a limited liability company registered in the PRC. The principal activities of Guangxi Lianhua are the operation of hypermarkets, supermarkets, processing, packaging and distribution of the related merchandise. Guangxi Lianhua contributed sales of RMB54,225,000 and net loss of RMB262,000 to the Group for the period from 1 June 2005 to 30 June 2005.

21. Acquisition of a subsidiary (continued)

Details of net assets acquired and goodwill are as follows:

	Unaudited RMB'000
Cost for the acquisition:	
— Capital injection in cash	107,000
— Direct costs relating to the acquisition	1,240
— Liabilities assumed	92,306
Total acquisition cost	200,546
Fair value of net assets acquired, shown as below	(160,410)
Goodwill	40,136

Significant synergies are expected to arise after the Group's acquisition of Guangxi Lianhua.

The assets and liabilities arising from the acquisition are as follows:

	Unaudited Fair value RMB'000	Unaudited Acquiree's carrying amount RMB'000
Non-current assets	290,230	215,998
Current assets	231,754	231,754
Including: Bank balances and cash (Note)	33,423	33,423
Non-current liabilities	(47,303)	(24,985)
Current liabilities	(310,837)	(310,837)
Net assets	163,844	111,930
Minority interests	(3,434)	
Net assets acquired	160,410	
Cash inflow on acquisition		14,423

Note: The balance includes the bank balances and cash originally held by Guangxi Lianhua of RMB14,423,000 and the remaining portion of capital injection of RMB19,000,000 at the date of acquisition. The original amount of capital injection is RMB107,000,000, of which RMB88,000,000 has been utilised by Guangxi Lianhua to turn into other assets or reduce liabilities up to the date of acquisition.

The Group's management is currently in the process of examining the final carrying amount of assets and liabilities of Guangxi Lianhua at the date of acquisition and, accordingly, the goodwill calculated above may subject to certain adjustments upon completion of the final acquisition cost allocation.

22. 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:

(a) Related party transactions

		Unaudited Six months ended 30 June	
		2005	2004
	Note	RMB'000	RMB'000
Sales to associates			
— Shanghai Lianhua E-business Co., Ltd.	(i)	**371,889**	98,827
— Subsidiaries of Shanghai Century Lianhua Supermarket Development Co., Ltd.	(ii)	**652,950**	475,258
Purchases from associates			
— Shanghai Lianhua Supermarket Food Co., Ltd. and Shanghai Gude Commercial Trading Co., Ltd.	(iii)	**5,268**	6,997
Decoration cost paid to an associate	(iv)	**14,895**	8,160

Note:

(i) 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 1.3% (2004: 2%).

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

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

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

22. Related party transactions (continued)

(b) Key management compensation

	Unaudited Six months ended 30 June 2005 RMB'000	2004 RMB'000
Salaries and other short-term employee benefits	2,727	2,039
Post-employment benefits	337	312
Other long-term benefits	337	312
	3,401	2,663

23. Controlling shareholder and ultimate holding company

The Directors regard Shanghai Friendship Group Incorporated, a company incorporated and listed in the PRC, as being the controlling shareholder.

The Directors regard Bailian Group Company Limited, a state-owned enterprise established in the PRC, as being the ultimate holding company.

24. Authorisation for the issue of the accounts

These unaudited condensed interim accounts were authorised for issue by the Company's Board of Directors on 18 August 2005.