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

National **Leader**
Regional **Reach**

stock code: 0980

Interim Report 2006

Contents

CORPORATE INFORMATION

Directors

Executive Directors

Mr. Wang Zong-nan *(Chairman)*
Mr. Liang Wei
Ms. Xu Ling-ling
Ms. Cai Lan-ying

Non-Executive Directors

Mr. Lu Ming-fang
Mr. Narita Koichi
Mr. Wong Tak-hung
Mr. Hua Guo-ping
Mr. Shi Zu-qi

Independent Non-Executive Directors

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

Board Committees

Audit Committee

Mr. Lee Kwok-ming, Don *(Chairman)*
Mr. Zhang Hui-ming
Mr. Xia Da-wei
Mr. Hua Guo-ping

Remuneration and Appraisal Committee

Mr. Xia Da-wei *(Chairman)*
Mr. Zhang Hui-ming
Mr. Hua Guo-ping

Strategic Committee

Mr. Wang Zong-nan *(Chairman)*
Mr. Lu Ming-fang
Mr. Narita Koichi
Mr. Zhang Hui-ming

Nomination Committee

Mr. Xia Da-wei *(Chairman)*
Mr. Zhang Hui-ming
Mr. Hua Guo-ping

Supervisors

Mr. Wang Long-sheng
Mr. Zhang Zeng-yong
Mr. Shen Bo

Joint Company Secretaries

Ms. Xiao Ying-lin
Mr. Stephen Mok

Authorised Representatives

Ms. Xu Ling-ling
Ms. Xiao Ying-lin

International Auditors

PricewaterhouseCoopers

Legal Advisers to the Company

as to Hong Kong law
Simmons & Simmons

Investors and Media Relation Consultant

Christensen International (Hong Kong) Limited
Room 2507
25th Floor, Tower One
Lippo Centre
89 Queensway
Hong Kong

Principal Bankers

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

Registered Office

Place of Business in the PRC
11th to 15th Floors
1666 Sichuan (North) Road
Shanghai
People's Republic of China

Place of Business in Hong Kong
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Telephone

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Company Website

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Shareholder's Enquiries

Contact Information of the Company

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Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Share Information

Listing Place

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

MANAGEMENT DISCUSSION AND ANALYSIS

Operating environment

In the first half of 2006, the People's Republic of China (the "PRC") kept its economy growing at a rapid and steady pace. The gross domestic product of the PRC for the first half of 2006 was approximately RMB9,144.3 billion, representing an increase of approximately 10.9% compared to the same period of last year. The overall macro-economic measures were implemented with favourable results. The growth in fixed asset investment increased and total retail sales of consumer products in the society amounted to approximately RMB3,644.8 billion representing an increase of approximately 13.3% 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 1.3% 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 RMB5,997, representing an effective increase of approximately 10.2% compared to the same period of last year after deducting price factors. The PRC economy gradually transferred from an export-orientated and investment-driven growth model to a balanced demand-led development model. As consumer confidence of urban and suburban areas increased, the retail sector continued to enjoy a favourable operating environment.

Meanwhile, the domestic retail sector's development led it into an increasingly intensive competition especially when the PRC market was fully opened to foreign investment. During the period under review, given such intense competition environment, retailers were forced to face more challenges as they expanded rapidly, while higher operation ability would be required. Thus, keen competitions were seen between leading domestic and foreign market players, with bigger market shares went into hands of the giant chain retailers. The second and third tier cities, which have developed at a higher growth rate than those first tier cities due to fast growing purchasing power of their citizens, have become the most promising market and the key regions for the giant retailers to set up new business deployments.

Business review

2005 was the first year following the complete opening of the PRC retail market to foreign retail enterprises, who were rapidly expanding their retail outlets in the PRC. The increasingly competitive environment required retailers to better enhance their operating ability. In the first half of 2006, the Group proactively adjusted the competitive strategy and made adjustment and reform in every aspect of the business operation, which resulted in improvement in the Group's operating ability.

Maintaining quality network expansion capability with focus on development and readjustment

In the course of development, the Group has continued to adhere to its centralised development strategy and maintained a stable network expansion capability. For the six months ended 30 June 2006, there was a net increase of 99 outlets, 81 of which were located in the eastern region of the PRC. All of the new outlets were located in existing markets for strategic expansion and to further benefit from the scale of operation in the region.

As at 30 June 2006, the Group remained dominant position in the sector with 3,708 directly operated and franchise operated outlets in total (excluding those operated by associated companies of the Company), which were detailed as follows:

	Hypermarkets		Supermarkets		Convenience stores		Total	
	30 June 2006	31 December 2005	**30 June 2006**	31 December 2005	**30 June 2006**	31 December 2005	**30 June 2006**	31 December 2005
The Group	**101**	97	**1,628**	1553	**1,979**	1959	**3,708**	3609
Among								
which: Direct operation	**101**	97	**657**	653	**1,185**	1245	**1,943**	1995
Franchise operation	**–**	–	**971**	900	**794**	714	**1,765**	1614

Franchise has always been an important and effective means of network expansion of the Group. During the period under review, the net increase in the number of new franchised outlets by the Group was 151, of which net increase in supermarkets was 71 and convenience stores was 80.

Successful transformation of supermarkets' operating model which facilitated further expansion

During the period under review, based on the successful trial transformation cases, the Group continued to proceed with the transformation of its supermarkets stores. A total of 36 directly operated supermarkets had been successfully transformed by the Group during the period under review, with a year-on-year increase of 37% in sales. As at 30 June 2006, the Group has transformed 46 directly operated supermarkets in total, with a year-on-year increase of 45% in sales. Meanwhile, based on in-depth development of the transformation, the Group's supermarkets and stores also emphasized the transformed stores' ability in continuous improvement, further improved their operating mechanism in a scientific way, focusing on the enhancement of transformed stores' quality and communication and sharing of the transformation experience. The comprehensive operation management capability for supermarkets business was also strengthened.

Further development of the supply chain management platform project

During the period under review, the efficiency of the Group's supply chain system further increased. The Group continued to develop and promote the supply chain management platform project (B2B project) among the suppliers of hypermarkets in its trial period. More efforts were put to management and promotion. Responsibility and assessment systems were reinforced. For the six months ended 30 June 2006, there were 855 new suppliers joining our B2B system. As at 30 June 2006, the total online suppliers amounted to 2,585.

Strengthening cost control to face with market challenges

Recently, operating costs have increased together with rising prices of various resources and energies under current operating environment. The Group understands that cost control is the key to the success of retail chain business. The Group will take cost control as one of the Group's key emphases, and adopt fixed-rate, fixed-amount and process-improvement methods for variable costs, administrative expenses and significant expenses respectively, so as to maintain various expenses at a reasonable level.

Total number of members exceeded 5,500,000

During the period under review, more efforts were put to the development and management of the membership system. As at 30 June 2006, the total number of the Company's members exceeded 5,500,000. During the period under review, Lianhua OK membership (聯華OK會員卡) has essentially become the major brand among membership systems in the fast moving consumer goods sector in Shanghai and Zhejiang. Membership systems have been initiated in convenience stores business in Guangxi region, Nanjing in Jiangsu region and Shanghai region, thus expanding the application scope of Lianhua OK membership. The Group continued to actively carry out numerous promotions for members, including a membership lottery and points conversion programme, and further push ahead membership compatible score and conversion in different regions in the PRC.

Development of other businesses

During the period under review, the Group further improved its logistics distribution capability. A third-party logistics system tailored for hypermarkets business is being developed, in order to further enhance the purchase scale superiority in specific regions and gradually replace the existing supplier direct distribution mode, and thus enhancing the efficiency of supply chain. Meanwhile, the convenience store business segment also strengthened the nation-wide logistics planning and system building and management in certain key areas. The advanced logistics distribution centre in Shanghai region has improved its logistics information system and expanded the inventory capacity while speeding up commodity receiving and delivery process, and thus further improving the operation of the supply chain.

Segment results

Segment turnover

	For the six months ended 30 June RMB million				
	2006		2005		
	Turnover	**Percentage of total turnover %**	Turnover	Percentage of total turnover %	Change %
Hypermarkets	**4,402.57**	**52.72**	3,435.70	49.86	28.14
Supermarkets	**3,174.33**	**38.01**	2,739.92	39.76	15.85
Convenience stores	**748.02**	**8.96**	694.73	10.08	7.67
Other operations	**25.70**	**0.31**	20.38	0.30	26.10
Total	**8,350.62**	**100.00**	6,890.73	100.00	21.19

Segment operating profit

	For the six months ended 30 June RMB million 2006		2005		
	Operating Profit	**Percentage of operating profit %**	Operating Profit	Percentage of operating profit %	Change %
Hypermarkets	**22.73**	**15.40**	50.50	32.84	-54.99
Supermarkets	**113.92**	**77.18**	93.49	60.81	21.85
Convenience stores	**16.16**	**10.95**	14.94	9.72	8.17
Other operations	**-5.21**	**-3.53**	-5.18	-3.37	0.58
Total	**147.60**	**100.00**	153.75	100.00	-4.00

Hypermarkets

Summary of results

Directly operated stores 101

Hypermarkets are the principal business of the Group. For the six months ended 30 June 2006, sales in hypermarkets accounted for 52.72% of total sales attributable to the Group. During the period under review, the net increase in the number of hypermarkets of the Group was 4. With higher concentration of hypermarkets in one district, the resources are being shared more effectively, increasing brand impact.

For the six months ended 30 June 2006, segment turnover of the Group's hypermarket business was approximately RMB4,402.57 million, accounting for approximately 52.72% of the turnover of the Group and representing an increase of approximately 28.14% when comparing with RMB3,435.70 million in the corresponding period of the previous year. Operating profit amounted to approximately RMB22.73 million, accounting for approximately 15.40% of the Group's operating profit and representing a decrease of approximately 54.99% from approximately RMB50.50 million in the corresponding period of the previous year.

	Six months ended 30 June 2006	2005
Gross profit margin %	**8.8**	8.5
Consolidated income margin % (Note)	**21.9**	16.2
Operating profit margin %	**0.5**	1.5

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

During the period under review, hypermarket business has sustained continuous development and its results achieved significant improvement. Its operating profit margin was 0.5%, representing a 1% decrease as compared to the operating profit margin of 1.5% in the corresponding period of the previous year, but a rise of 0.4% as compared to the operating profit margin of 0.1% in the second half of 2005.

Business development

Hypermarket business is also one of the most competitive business unit in food chain store operations in the PRC. During the period under review, the hypermarket continued to strengthen management framework of regional focus and further perfect the organization and human resources structure. The purchase and marketing within the same region carried out in a centralized manner to further enhance the bargaining power and reduce the operating costs. Meanwhile, in accordance with the purchasing power and patterns of various areas, hypermarkets continued to strengthen the commodities management and further adjust and optimize regional commodities structure, consolidate the existing type structure and prices of commodities. It was emphasized that more efforts were put to purchase "live and fresh" products, optimizing the quality and prices of "live and fresh" products. In the meantime, by further integrating the regional strategies and the characteristics of the regional outlets, a number of marketing activities were launched.

Meanwhile, hypermarket strengthened the co-operation with suppliers and entered into strategic alliances with some of them. With the B2B platform, hypermarket ensured the integrity of the supply chain, further raised the rate of overall order satisfaction of suppliers and adjusted the poor inventory structure, speeding up the inventory turnover.

The hypermarket business remained the most promising business segment of the Group. The Group will continue to focus on enhancing the profitability of this segment and further deploy the economies of scale to lower management costs. In the meantime, in order to enhance the operating capacity of hypermarket, emphasis was put on the training of outlet managers to strengthen their on-site supervisory capacity, based on the fully implemented training system which was set at various levels.

Supermarkets

Summary of results

Directly operated stores	657
Franchised stores	971

Supermarkets remained the most mature business segment amongst the Group's retail chain business and a major profit contributor to the Group. As at 30 June 2006, the number of the Group's supermarkets amounted to 1,628. During the period under review, the net increase in the number of directly operated supermarkets was 4, while the net increase in the number of franchised supermarkets was 71.

For the six months ended 30 June 2006, segment turnover of the Group's supermarket business was approximately RMB3,174.33 million, accounting for approximately 38.01% of the Group's turnover and representing an increase of approximately 15.85% from approximately RMB2,739.92 million in the corresponding period of the previous year. Operating profit amounted to approximately RMB113.92 million, accounting for approximately 77.18% of the Group's operating profit and representing an increase of approximately 21.85% from approximately RMB93.49 million in the corresponding period of the previous year.

	Six months ended 30 June	
	2006	2005
Gross profit margin %	**14.6**	13.9
Consolidated income margin %	**22.3**	22.2
Operating profit margin %	**3.6**	3.4

Business development

As a result of market segmentation, supermarkets should be operated in a different way from hypermarkets and convenience stores, so the Group placed emphasis on "transformation " of supermarkets to cater for particular market segments. During the period under review, major efforts were made to transform supermarket stores which included formulating standard workflows, controlling cost of transformation and training key staff for transformed stores. At the same time, experience sharing of successful cases was promoted to help other supermarkets to gain success in transformation. A total of 36 directly operated supermarkets completed the transformation during the period under review, with a year-on-year increase of 37% in sales. As at 30 June 2006, the Group has transformed 46 directly operated supermarkets in total, with a year-on-year increase of 45% in sales for the transformed outlets. During the period under review, the Group strengthened the operating capability of live and fresh merchandise, continuously optimized the composition of merchandise and drove on the transformation task. Moreover, the customer orientation approach was adopted, purchasing ability was enhanced and the mix of product types were further improved. The transformation was not regarded only as a revamp of environment, it was regarded as the overall change of an operating organization in tandem with an optimization of workflows, so as to raise the overall operating effectiveness of supermarket segments.

The Group adhered to the strategy of the co-existence of direct operation and franchised operation. For the period under review, "Lianhua Supermarket" was recognised by the China Franchise Operation Association as an "2005 Excellent Franchising Brand in China " for the second straight year and by the Shanghai Franchise Operation Association as the "2006 Most Influential Brand". During the period under review, the franchise operation of supermarkets developed steadily. In addition to number of outlets, standardized management was enhanced and coordination among franchised stores was stressed. Based on the successful transformation of directly operated supermarkets, the Group carried out a trial transformation of three franchised supermarket stores, in which a restructure was made to design and layout and adjustments to product mix were made according to local consumer characteristics. The trial transformation of franchised stores provided important indications to the future development of franchised supermarket stores. In order to consolidate the management of franchised supermarket stores and better manage and protect our brand image, we evaluated the grading of each franchised store in terms of management performance and risks according to certain operating data.

During the period under review, diversified marketing activities played an important role in improvement of the performance of supermarkets. The overall marketing strategy increasingly concentrated on personalization and differentiation. Various combinations of marketing activities were implemented and marketing campaigns with various features were launched. We also selected products for promotion through posters and organized the sales of such products. Moreover, by way of strategic cooperation with key suppliers, a series of marketing activities tailored to the Group's supermarkets were launched. At the same time, along with the changes in functions and positioning of transformed outlets, some highly amusing interactive sports programs were on trial provision which have so far received satisfactory feedbacks from customers.

Convenience stores

Summary of results

Directly operated stores	1185
Franchised stores	794

The convenience store business was still concentrated in six cities, namely Shanghai, Beijing, Guangzhou, Dalian, Hangzhou and Ningbo, which are economically more developed cities with stronger consuming power as the income of their residents is relatively higher. As at 30 June 2006, the Group had altogether 1,979 convenience stores, and during the period under review, the net increase in the number of convenience stores was 20.

For the six months ended 30 June 2006, segment turnover of the Group's convenience store business was approximately RMB748.02 million, accounting for approximately 8.96% of the Group's turnover and representing an increase of approximately 7.67% from approximately RMB694.73 million in the corresponding period of the previous year. Operating profit amounted to approximately RMB16.16 million, accounting for approximately 10.95% of the Group's operating profit and representing an increase of approximately 8.17% from approximately RMB14.94 million in the corresponding period of the previous year.

	Six months ended 30 June	
	2006	2005
Gross profit margin %	**16.2**	15.9
Consolidated income margin %	**25.2**	25.2
Operating profit margin %	**2.2**	2.2

Business Development
As for the convenience store business segment of the Group, the proportion of franchised outlets has been increasing, and franchised outlets have now become an essential part of the development of the convenience store business. During the period under review, the audit system of franchised network selection of convenience store was further improved with enhanced standardised control. During the six months ended 30 June 2006, the net increase in the number of convenience store franchised outlets was 80.

In order to accelerate the accommodation to the current "six cities development"(六城發展) strategy in convenience store business to facilitate the dynamic and innovative management model, the Group has refined the functions of divisions among departments and improved our specialized management capabilities so as to adapt to the rapidly changing market and the demand for specialized management, and to ensure an effective use of resources and the improvement of management efficiency.

The convenience store business segment of the Group has classified markets according to target customers and operated by a model of differentiation and we have started to explore the transformation of the business model of the convenience stores. As at 30 June 2006, 613 outlets of the Group began to use the new corporate logo, thereby significantly enhancing the recognition of our "Lianhua Quik" brand name among the consumers. In the meantime, our convenience stores took advantage of the promotion activities of "the Third Generation Outlet"(第三代門店) to focus on the realignment of the structure of product category and the advancement of the instant food operations.

During the period under review, the Group adopted a consumer oriented approach for its convenience store business segment to emphasise on the consumer mentality and the competitive position. The Group developed different pricing and profit margin strategies depending on product category and product unit, continued to optimise the product structure based on the business circle and the characteristics of consumption, accelerated the introduction of new products, rationalised the mix of slow-moving products, concentrated on the differentiation of the convenience store products by features, and enhanced the pace of developing privately labelled products which are suitable for convenience store sales.

Associated companies

As at 30 June 2006, Shanghai Carhua Supermarket Company Limited ("Shanghai Carhua") operated a total of 10 hypermarkets in Shanghai, which were in stable development and sustained continuous growth.

For the six months ended 30 June 2006, the share of results of associates was RMB55.05 million, accounting for approximately 39.8% of the profit for the period attributable to Company's shareholders.

Financial review

Analysis of financial results

	For the six months ended 30 June In RMB million		
	2006	2005	Change (%)
Turnover	**8,350.6**	6,890.7	21.2
Gross profit	**973.2**	786.2	23.8
Consolidated income (Note)	**1,873.4**	1,353.9	38.4
Operating profit	**147.6**	153.8	-4.0
Profit attributable to Company's shareholders	**138.4**	131.0	5.6
Earnings per share (RMB)	**0.22**	0.21	4.8
Interim dividend per share (RMB)	**0.06**	0.06	–

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

In the first half of 2005, the financial statements of the Group included the sales to Shanghai Century Lianhua Supermarket Development Company Limited (hereafter called "Century Lianhua") at cost. In the first half of 2006, the Group consolidated the financial statements of Century Lianhua, and all of Century Lianhua's assets, liabilities and expenses were included into the consolidated financial statements of the Group. Accordingly, the financial structure of the Group has undergone significant changes in the first half of 2006 as compared with that of the first half of 2005.

Liquidity and financial resources

During the first half of 2006, the capital resource of the Group was mainly from cash inflow from operations. As at 30 June 2006, the Group had non-current assets of approximately RMB3,857.60 million. The non-current assets were mainly comprised of construction in progress, property, plant and equipment and land use rights of approximately RMB3,190.33 million, intangible assets of approximately RMB193.57 million, investments in associates of approximately RMB387.13 million, available-for-sale financial assets and other non-current assets of approximately RMB86.57 million.

As at 30 June 2006, the Group had net current liabilities of approximately RMB1,575.72 million. Current assets were mainly comprised of cash and bank balances of approximately RMB984.43 million, inventories of approximately RMB1,306.16 million, trade receivables, other receivables and prepayments of approximately RMB549.50 million, and amounts due from associates of approximately RMB1.71 million. Current liabilities were mainly comprised of dividends payable of approximately RMB43.54 million, trade payables, other payables, accruals and coupon liabilities of approximately RMB3,610.73 million and tax payable of approximately RMB31.10 million.

For the six months ended 30 June 2006, turnover period of the Group's accounts payable was 71 days. Inventory turnover was 37 days for the Period.

During the period under review, the Group did not use any financial instrument for hedging purposes and the Group did not have any hedging instrument outstanding in the six months ended 30 June 2006.

Capital structure

As at 30 June 2006, the Group's cash and cash equivalents were mainly held in Renminbi, and the Group did not have any bank borrowings.

During the period under review, equity attributable to shareholders increased from approximately RMB1,890.76 million to approximately RMB1,985.59 million, which was mainly due to the increase in profit amounting to RMB138.37 million offsetting by dividends distribution amounting to RMB43.54 million during the period under review.

Details of the Group's pledged assets

As at the date of this report, the Group did not have any pledged assets.

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 purchased any financial instruments to hedge the foreign exchange risks of the Group. The Board believe that the Group is able 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 issues	%
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 2006, the Group did not have any material contingent liabilities.

Employment, training and development

As at 30 June 2006, the Group had a total of 46,733 employees, representing a decrease of 556 employees during the period under review. Total staff costs amounted to RMB530.87 million. Remuneration for the Group's employees was determined on the basis of their performance, experience and the then practice in the industry. The Group regularly reviews its compensation policies and remuneration packages. Apart from basic salary, welfare allowances and performance bonus, the Group also provides its full-time employees with housing allowances, medical and other subsidies. The Group also contributes to the retirement benefit schemes organized by the government under which the Group and its employees are required to make monthly contributions to these schemes at a certain percentage of the employees' salaries subject to certain ceiling during the relevant periods.

Strategies and plans

Competition is keen in 2006. By adhering to the goal of internationalization, the Group will strive to strengthen its advantages in local market, optimize the national network, enhance the core competitive edge and focus on the three core operations. In order to meet customers' needs, further strengthen its leading position in the country and expand its market share in the PRC market, the Group will endeavour to lead the industry in terms of outlets scale and various operating indices reflecting competitive strength.

Maintaining the quality centralised development strategy

The Group will adhere to the quality centralised development strategy. The centralised strategy will be further implemented in the regions where the Group has made headway, while continuing to open quality outlets in occupied cities and key regions. About 500 new outlets will be opened each year with the hypermarkets mainly located in the Yangtze River Delta. More than 80% of new outlets in terms of floor area will concentrate in east PRC region. The Group will proceed with the merger, acquisitions and integration strategies in China.

Extending the transformation of supermarket business

The basic objective of transformation of 100 directly operated supermarket outlets remains unchanged. Through the further improvement of scientific work arrangements, the Group will better master the quality of the transformed outlets, pay big emphasis on to improving the service quality, and promote innovative marketing, with an aim to further enhance the overall operating management capability for supermarket business.

Enhancement of profitability

Boosting result of individual store: To sustain healthy growth of individual stores, it is necessary to optimize composition of merchandise, increase customer satisfaction rate, and strengthen the training of employees of outlets.

In addition, the Group will optimize business model, enhance capability in "live and fresh" operation: drive forward the work of operation and procurement by the same individual store, increase procurement from live and fresh product production base and expand the processing capacity of processing and distribution centre for live and fresh merchandise. Further, the Group plans to establish a standardized system for live and fresh merchandise, improve the construction of supply chain for cold merchandise, and strengthen the monitoring of food safety and hygiene for better satisfying the ever-increasing demands of consumers.

Improving supply chain system: Through the supply chain management platform system ("B2B project"), the Group will reduce the rate of inventory inadequacy, increase the rate of meeting demand and enhance inventory turnover. The Group will enhance merchandise procurement capacity and further strengthen the strategic co-operation with suppliers, which includes co-operation in the areas of joint promotion, stock management and quality control with shared information. As a result, market share, brand recognition and market competitiveness of both sides will be strengthened. The Group will create greater synergy between location and business, and strengthen the sharing of supply chains among various businesses in regions where economies of scale are in place. The Group will speed up the formulation of nation-wide logistics plans and their implementation, and set up logistics and distribution centre in Jiangsu region for the distribution to hypermarkets and supermarkets in Jiangsu region.

Controlling cost strictly

The Group will further analyze cost structure and formulate measures to reduce costs. For the project whose costs rise significantly, the Group will seek ways to reduce costs and increasing profits by re-engineering workflow and adjusting management mode.

Improving implementation at various levels of the Company

The Group will strengthen the building of corporate culture. In order to further improve its multi-faceted training system, the Group will set training goals at various levels and provide more training, so as to improve staff's knowledge and comprehensive abilities for the further development of the Company. The Group will adhere to the corporate spirit of "Innovative, Practical, Commitment and Dedication" and enhance the management of operating goals, so as to accomplish the whole year's operating goals.

OTHER INFORMATION

Disclosure of interests

Directors, Chief Executive and Supervisors of the Company

As at 30 June 2006, none of the Directors, chief executive or Supervisors of the Company had any interests or short positions in the shares, underlying shares or debt securities of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)) (the "SFO") which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("the Mode Code") set out in Appendix 10 of the Rules Governing the Listing of Securities in the Stock Exchange (the "Listing Rules").

As at 30 June 2006, Mr. Wang Zongnan, Mr. Liang Wei and Mr. Lu Mingfang are directors, supervisors or employees of Shanghai Friendship Group Incorporated Company, Shanghai Industrial United (Group) Joint Stock Company Limited, Shanghai Industrial Holdings Limited and/or Shanghai Industrial Investment (Holdings) Company Limited respectively. As disclosed below, these companies had interests in the shares of the Company as at 30 June 2006 which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO.

Substantial Shareholders of the Company

So far as the Directors are aware, as at 30 June 2006, the following persons (not being a Director, chief executive or Supervisor of the Company) had interests in the shares of the Company which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO:

Name of shareholders	Class of shares	No. of domestic shares/unlisted foreign shares/ H shares	Approximate percentage of voting rights of the Company (%)	Approximate percentage of voting rights of domestic shares/unlisted foreign shares (%)	Approximate percentage of voting rights of H shares (%)
Shanghai Friendship Group Incorporated Company	domestic	211,640,000	34.03% (Note 3)	51.00%	–
Shanghai Industrial United (Group) Commercial Network Development Company Limited	domestic	131,683,000	21.17% (Note 6)	31.73%	–
Mitsubishi Corporation	unlisted foreign	41,900,000	6.74%	10.10%	–

Name of shareholders	Class of shares	No. of domestic shares/unlisted foreign shares/ H shares	Approximate percentage of voting rights of the Company (%)	Approximate percentage of voting rights of domestic shares/unlisted foreign shares (%)	Approximate percentage of voting rights of H shares (%)
Shanghai Industrial United (Group) Joint Stock Company Limited	domestic	131,683,000	21.17% (Note 1) (Note 5)	31.73%	–
Shanghai Industrial YKB Limited	domestic	131,683,000	21.17% (Note 1)	31.73%	–
Shanghai Industrial Holdings Limited	domestic	131,683,000	21.17% (Note 1) (Note 5)	31.73%	–
Shanghai Investment Holdings Limited	domestic	131,683,000	21.17% (Note 2)	31.73%	–
Shanghai Industrial Investment (Holdings) Company Limited	domestic	131,683,000	21.17% (Note 2) (Note 4)	31.73%	–
Shanghai Industrial Investment Treasury Company Limited	domestic	131,683,000	21.17% (Note 2)	31.73%	–
SIIC Capital (BVI) Limited	domestic	131,683,000	21.17% (Note 2)	31.73%	–
Fidelity International Limited	H shares	28,341,000 (L)	4.56% (L)	–	13.69% (L)
IXIS Asset Management Asia Ltd	H shares	19,132,000 (L)	3.08% (L)	–	9.24% (L)
The Capital Group Companies, Inc.	H shares	18,707,000 (L)	3.01% (L)	–	9.04% (L)
Matthews International Capital Management, LLC	H shares	12,935,000 (L)	2.08% (L)	–	6.25% (L)
Government of Singapore Investment Corporation Pte Ltd	H shares	12,418,300 (L)	2.00% (L)	–	6.00% (L)

(L) = Long position
(S) = Short position
(P) = Lending pool

Notes:

1. Shanghai Industrial Holdings Limited ("SIHL") owns 100% interests in Shanghai Industrial YKB Limited ("YKB") whilst YKB owns 43.62% interests in Shanghai Industrial United (Group) Joint Stock Company Limited ("SI United"). SI United owns 90% interests in Shanghai Industrial United (Group) Commercial Network Development Company Limited ("SI Commercial Network"). Accordingly, SIHL and SI United are deemed to have the discloseable interests in shares of the Company above.

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 through SIIC Capital (BVI) Limited directly owns an aggregate of 56.67% interests in SIHL. Thus, SIIC, STC, SIIC Capital (BVI) Limited and SIH are deemed to have the discloseable interests in shares of the Company above.

3. Mr. Wang Zongnan, the Chairman of the Board and an executive Director of the Company, is also the chairman of the board of directors of Shanghai Friendship Group Incorporated Company. Mr. Liang Wei, an executive Director of the Company, is a supervisor of Shanghai Friendship Group Incorporated Company.

4. Mr. Lu Mingfang, a non-executive Director of the Company, is also an executive director and chairman of the board of directors of SI United, and an executive Director of SIHL and SIIC.

5. Mr. Lu Mingfang, a non-executive Director of the Company, beneficially owned 19,500 shares in SI United. Mr. Lu also beneficially ownes 4,200,000 ordinary shares and 480,000 share options in SIHL, which entitle him to subscribe for a total of 480,000 ordinary shares at an exercise price of HK$14.89 per share during the period from 2 March 2006 to 1 March 2009. Mr. Shi Zuqi, a non-executive Director of the Company, beneficially owns 3,900 shares in SI United.

6. On 20 June 2005, SIHL and SI United entered into an asset exchange agreement. Pursuant to which, SI United transferred its 22.21% interests in Century Lianhua held by its subsidiary, SI Commercial Network, to S.I. Commerce Holdings Limited ("SI Commerce"), a wholly-owned subsidiary of SIHL. On 21 July 2006, SIHL and SI United have announced that the asset exchange agreement was naturally terminated as it failed to go through the statutory approval process and the asset exchange was not carried out. As a result, SI Commercial Network, YKB, SI United, SIHL, SIIC Capital (BVI) Limited, SIH, STC and SIIC will be deemed as holding 21.17% discloseable interests of the Company, while SI Commerce will not be deemed to own any interests in the Company.

Save as disclosed above, the Directors are 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 Divisions 2 and 3 of Part XV of the SFO as at 30 June 2006.

Interests of Directors, Supervisors and Chief Executive Officers

As at 30 June 2006, none of the Directors, Supervisors and chief executive of the Company have any interests and short positions in the shares, underlying shares or 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.

The Legal Status of Unlisted Foreign Shares

The summary of 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 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 others, the China Securities Regulatory Commission (the "CSRC") and the Stock Exchange are not expressly provided for under 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

As authorised by the annual general meeting for 2005, the Board has declared the payment of an interim dividend of RMB0.06 per share for the six months ended 30 June 2006.

Interim dividend will be paid to the shareholders whose names appear on the Company's register of members on 29 September 2006. The Company's register of members of H shareholders will be closed from 25 September 2006 to 29 September 2006 (both days inclusive). In order to qualify for the declared interim dividend, all instrument of transfers of H Shares, accompanied by the relevant H share certificates, must be lodged for registration with the Company's H Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, by no later than 4:00 p.m. on Friday, 22 September 2006.

Dividends payable to shareholders shall be calculated and declared in RMB. Dividends payable to holders of the Company's domestic shares shall be paid in RMB on 13 October 2006 or before, whereas dividends payable to holders of the Company's unlisted foreign shares shall be paid in relevant foreign currencies and dividends payable to holders of the Company's H shares shall be paid in Hong Kong dollars. The exchange rate to be adopted shall be the average closing rates of the RMB against the HK$ of the week preceding the date of declaration of interim dividend as announced by the People's Bank of China.

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. Lease agreement

The lease agreement of No. 88 Xianxia Road West Changlin district Shanghai, China signed by Century Lianhua, as the leasee, and Shanghai Friendship Shopping Center Company Limited ("Shanghai Friendship Shopping Mall"), as the leaser.

The lease agreement of No 645 Xietu Road Luwan district Shanghai, China signed by Century Lianhua, as the leasee, and Homemart Decoration and Materials Co., Ltd. ("Homemart"), as the leaser.

The lease agreement of No 1875 Jiyang Road Pudong New District Shanghai, China signed by Century Lianhua, as the leasee, and Homemart, as the leaser.

The percentage ratios of the total continual yearly rentals payable to Shanghai Friendship Shopping Mall and Homemart under the above lease agreements by Century Lianhua are all lower than 2.5%, thus these lease agreements will only be subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules, and are exempt from the independent shareholders' approval requirements.

2. Purchase agreement

The Company, as the supplier, signed a purchase agreement with Shanghai Lianhua Quik Convenience Stores Company Limited ("Lianhua Quik"), as the buyer.

Since each of the asset ratio, revenue ratio and consideration ratio of the total estimated annual sales amount of the Company to Lianhua Quik under the purchase agreement in each of three years ended at 31 December 2008 all exceed 2.5%, the Company has made an announcement in this regard, and obtained independent shareholders' approval in the extraordinary general meetings of the Company held on 13 December 2005. The sales amount to Lianhua Quik of the Company this year has been capped at RMB448,400,000.

Audit Committee

The audit committee of the Company (the "Audit Committee") has considered and reviewed the accounting principles and practices adopted by the Group and has discussed matters in relation to internal control and financial reporting with the management, including the review of the condensed interim accounts for 2006 of the Company which was prepared in accordance with the Hong Kong Financial Reporting Standards. The Audit Committee considered that the interim financial report for the six months ended 30 June 2006 is in compliance with relevant accounting standards, requirements of the Stock Exchange and the Laws of Hong Kong and the Company has made appropriate disclosures thereof.

Compliance with the Model Code

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

Compliance with 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 ("Code") for the period. 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.

Termination of transfer of 22.21% of Century Lianhua Held by SI Commerce and SI Commercial Network

On 21 July 2006, SIHL and SI United announced that the equity transfer agreement in connection with SI Commercial Network intending to transfer 22.21% equity interest of Century Lianhua to SI Commerce, a wholly owned subsidiary of SIHL, was terminated due to failure to complete the statutory approval process during the effective period; at the same time, the equity transfer agreement between the Company and SI Commerce was terminated naturally; thus the equity of 22.21% of Century Lianhua is still held by SI Commercial Network. On 22 July 2006, SI Commercial Network has entrusted its shareholders' voting rights to the Company.

By Order of the Board
Wang Zong-nan
Chairman

15 August 2006, Shanghai, The PRC

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE SIX MONTHS ENDED 30 JUNE 2006

		Unaudited Six months ended 30 June	
	Note	**2006 RMB'000**	2005 RMB'000
Turnover	4	**8,350,616**	6,890,729
Cost of sales		**(7,377,415)**	(6,104,487)
Gross profit		**973,201**	786,242
Other revenues	4	**878,563**	545,494
Other income		**21,645**	22,177
Distribution costs		**(1,589,093)**	(1,079,967)
Administrative expenses		**(132,885)**	(114,023)
Other operating expenses		**(3,832)**	(6,171)
Operating profit	5	**147,599**	153,752
Finance costs	6	**(2,593)**	(614)
Share of results of associates	11	**55,046**	41,476
Profit before taxation		**200,052**	194,614
Taxation	7	**(48,539)**	(55,250)
Profit for the period		**151,513**	139,364
Attributable to:			
Company's shareholders		**138,367**	130,979
Minority interests		**13,146**	8,385
		151,513	139,364
Dividends	8	**37,320**	37,320
Basic earnings per share for profit attributable to Company's shareholders	9	**RMB0.22**	RMB0.21

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2006

	Note	**Unaudited 30 June 2006 RMB'000**	Audited 31 December 2005 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	**2,734,475**	2,764,679
Construction in progress	10	**251,964**	23,614
Land use rights	10	**203,892**	205,663
Intangible assets	10	**193,571**	197,302
Investments in associates	11	**387,132**	335,261
Available-for-sale financial assets		**12,848**	12,848
Deferred tax assets		**27,975**	24,097
Other non-current assets	12	**45,744**	49,630
		3,857,601	3,613,094
Current assets			
Inventories		**1,306,162**	1,757,363
Trade receivables	13	**45,257**	30,636
Deposits, prepayments and other receivables		**504,239**	497,452
Amounts due from associates	14	**1,706**	863
Financial assets at fair value through profit or loss		**3,425**	12,437
Bank balances and cash		**984,427**	1,083,221
		2,845,216	3,381,972
Total assets		**6,702,817**	6,995,066

CONDENSED CONSOLIDATED BALANCE SHEET *(continued)*

AS AT 30 JUNE 2006

	Note	**Unaudited 30 June 2006 RMB'000**	Audited 31 December 2005 RMB'000
EQUITY			
Equity attributable to Company's shareholders			
Share capital		**622,000**	622,000
Reserves	16	**1,363,588**	1,268,761
		1,985,588	1,890,761
Minority interests		**218,265**	224,450
Total equity		**2,203,853**	2,115,211
LIABILITIES			
Non-current liabilities			
Bank borrowings	17	**–**	16,377
Deferred tax liabilities		**78,032**	79,388
		78,032	95,765
Current liabilities			
Trade payables	18	**2,200,548**	2,747,609
Other payables, accruals and coupon liabilities	19	**1,410,180**	1,445,841
Amounts due to associates	14	**696,564**	471,781
Amount due to holding company	15	**39,000**	39,000
Taxation payable		**31,100**	40,006
Bank borrowings	17	**–**	2,533
Dividends payable		**43,540**	37,320
		4,420,932	4,784,090
Total liabilities		**4,498,964**	4,879,855
Total equity and liabilities		**6,702,817**	6,995,066
Net current liabilities		**(1,575,716)**	(1,402,118)
Total assets less current liabilities		**2,281,885**	2,210,976

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 2006

	Unaudited				
	Attributable to Company's shareholders			Minority interests	Total
	Share capital	Other reserves	Retained earnings		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2006	622,000	955,761	313,000	224,450	2,115,211
Profit for the period	–	–	138,367	13,146	151,513
Acquisition of additional equity interests in a subsidiary	–	–	–	(1,565)	(1,565)
Closure of a subsidiary	–	–	–	(150)	(150)
Dividend relating to 2005	–	–	(43,540)	(17,616)	(61,156)
	–	–	94,827	(6,185)	88,642
Balance at 30 June 2006	622,000	955,761	407,827	218,265	2,203,853
Balance at 1 January 2005	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	–	–	–	3,434	3,434
Capital contributions from minority interests	–	–	–	2,550	2,550
Dividend relating to 2004	–	–	(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

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2006

	Unaudited Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
Net cash inflow from operating activities	**404,772**	274,820
Net cash outflow from investing activities	**(429,720)**	(381,676)
Net cash outflow from financing activities	**(73,846)**	(21,977)
Decrease in cash and cash equivalents	**(98,794)**	(128,833)
Cash and cash equivalents at 1 January	**1,083,221**	837,169
Cash and cash equivalents at 30 June	**984,427**	708,336
Comprising:		
Bank balances and cash at 30 June	**984,427**	708,336

NOTES TO THE CONDENSED INTERIM ACCOUNTS

FOR THE SIX MONTHS ENDED 30 JUNE 2006

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 condensed consolidated accounts for the six months ended 30 June 2006 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").

The Company is a limited liability company incorporated in the PRC. The address of its registered office is 11th to 15th Floors, 1666 Sichuan (North) Road, Shanghai, the PRC. The Company is listed on the main board of the Stock Exchange of Hong Kong Limited.

These condensed interim accounts should be read in conjunction with the 2005 annual accounts.

2. Accounting policies

The accounting policies used in the preparation of these condensed interim accounts are consistent with those used for and described in the annual accounts for the year ended 31 December 2005.

Certain new accounting and financial reporting standards, amendments to existing standards and interpretations have been published and are effective for financial year ending 31 December 2006. Those that are relevant to the Group's operations are as follows:

- Amendment to HKAS 39, "The Fair Value Option". This amendment does not have any impact on the classification and valuation of the Group's financial instruments classified as at fair value through profit or loss prior to 1 January 2006 as the Group is able to comply with the amended criteria for the designation of financial instruments at fair value through profit or loss.

- HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease". The Group has reviewed its contracts. This interpretation does not have any impact on classification of the leases of the Group and on the expenses recognised in respect of them.

Other new accounting and financial reporting standards, amendments to existing standards and interpretations which have been published and effective for financial year ending 31 December 2006 as set out below are currently not relevant to the Group's operations:

- Amendment to HKAS 19, "Actuarial Gains and Losses, Group Plans and Disclosures"

- Amendment to HKAS 21, "Net Investment in a Foreign Operation"

NOTES TO THE CONDENSED INTERIM ACCOUNTS

FOR THE SIX MONTHS ENDED 30 JUNE 2006

2. Accounting policies (continued)

- Amendment to HKAS 39, "Cash Flow Hedge Accounting of Forecast Intragroup Transactions"
- Amendments to HKAS 39 and HKFRS 4, "Financial Guarantee Contracts"
- HKFRS 6 "Exploration for and Evaluation of Mineral Resources''
- HK(IFRIC)-Int 5 "Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds"
- HK(IFRIC)-Int 6 "Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment"

The Group has not early adopted any new accounting and financial reporting standards, amendments to existing standards and interpretations which have been issued but are not yet effective for financial year ending 31 December 2006.

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.

NOTES TO THE CONDENSED INTERIM ACCOUNTS

FOR THE SIX MONTHS ENDED 30 JUNE 2006

3. Segment information (continued)

The segment results for the six months ended 30 June 2006 are as follows:

	Unaudited Six months ended 30 June 2006				
	Supermarkets RMB'000	**Hypermarkets RMB'000**	**Convenience stores RMB'000**	**Other operations RMB'000**	**Group RMB'000**
Segment revenue	3,411,925	4,977,234	815,144	24,876	9,229,179
Including sales of merchandise to					
– an associate at cost	–	–	–	–	–
– an associate at retail price less 1%	258,316	326,308	–	–	584,624
– franchised stores at cost	195,200	–	159,910	–	355,110
Segment results	106,245	19,025	15,724	88	141,082
Other income					21,645
Unallocated costs					(15,128)
Operating profit					147,599
Finance costs					(2,593)
Share of results of associates					55,046
Profit before taxation					200,052
Taxation					(48,539)
Profit for the period					151,513

NOTES TO THE CONDENSED INTERIM ACCOUNTS

FOR THE SIX MONTHS ENDED 30 JUNE 2006

3. Segment information (continued)

Other segment terms are as follows:

	Unaudited Six months ended 30 June 2006				
	Supermarkets RMB'000	**Hypermarkets RMB'000**	**Convenience stores RMB'000**	**Other operations RMB'000**	**Group RMB'000**
Capital expenditure	242,401	188,471	9,379	389	440,640
Depreciation charge	71,302	132,978	18,269	8,983	231,532
Amortisation charge	5,530	4,411	753	1,583	12,277

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
Segment results	87,163	47,284	14,062	(569)	147,940
Other income					22,177
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

NOTES TO THE CONDENSED INTERIM ACCOUNTS

FOR THE SIX MONTHS ENDED 30 JUNE 2006

3. Segment information (continued)

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

The unaudited segment assets and liabilities at 30 June 2006 are as follows:

	Supermarkets RMB'000	**Hypermarkets RMB'000**	**Convenience stores RMB'000**	**Other operations RMB'000**	**Group RMB'000**
Segment assets	1,682,660	3,344,593	332,496	22,663	5,382,412
Investments in associates					387,132
Unallocated assets					933,273
Total assets					6,702,817
Segment liabilities	1,277,308	2,925,332	214,152	3,095	4,419,887
Unallocated liabilities					79,077
Total liabilities					4,498,964

The audited segment assets and liabilities at 31 December 2005 are as follows:

	Supermarkets RMB'000	Hypermarkets RMB'000	Convenience stores RMB'000	Other operations RMB'000	Group RMB'000
Segment assets	1,764,703	3,509,363	342,928	26,553	5,643,547
Investments in associates					335,261
Unallocated assets					1,016,258
Total assets					6,995,066
Segment liabilities	1,496,949	3,016,246	246,464	10,001	4,769,660
Unallocated liabilities					110,195
Total liabilities					4,879,855

NOTES TO THE CONDENSED INTERIM ACCOUNTS

FOR THE SIX MONTHS ENDED 30 JUNE 2006

3. Segment information (continued)

Unallocated costs represent corporate expenses.

Segment assets consist primarily of property, plant and equipment, 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 related parties and financial assets at fair value through profit or loss.

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

Capital expenditure comprises additions to property, plant and equipment, 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	
	2006	2005
	RMB'000	RMB'000
Turnover		
Sales of merchandise	**8,350,616**	6,890,729
Other revenues		
Income from suppliers		
– Promotion and store display income	**638,135**	398,999
– Merchandise storage and delivery income	**15,375**	18,291
– Information system service income	**2,933**	1,920
Gross rental income from leasing of shop premises	**158,968**	84,638
Royalty income from franchised stores	**23,809**	19,584
Others	**39,343**	22,062
	878,563	545,494
Total revenues	**9,229,179**	7,436,223

NOTES TO THE CONDENSED INTERIM ACCOUNTS

FOR THE SIX MONTHS ENDED 30 JUNE 2006

5. Operating profit

Operating profit is stated after crediting and charging the following:

	Unaudited Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
Crediting:		
Income from leasing of shop premises		
– Gross rental income	**158,968**	84,638
– Outgoings	**(62,752)**	(35,601)
Government subsidies	**9,308**	11,737
Interest income	**11,988**	4,575
Fair value gain (realised and unrealised) on financial assets at fair value through profit or loss	**4,898**	5,048
Reversal of provision for obsolescence of inventories	**130**	–
Charging:		
Amortisation of other non-current assets	**3,886**	1,497
Amortisation of software (Note10)	**6,620**	2,774
Amortisation of land use rights (Note10)	**1,771**	2,080
Depreciation of property, plant and equipment (Note10)	**231,532**	149,922
Loss on disposal of property, plant and equipment	**3,896**	1,816
Operating lease rental in respect of land and buildings	**445,627**	303,675
Staff costs excluding directors' emoluments	**530,867**	378,074
Pre-operating expenses	**8,200**	3,663
Provision for impairment of receivables	**503**	398

6. Finance costs

Finance costs represent interest expenses on bank borrowings.

NOTES TO THE CONDENSED INTERIM ACCOUNTS

FOR THE SIX MONTHS ENDED 30 JUNE 2006

7. Taxation

Hong Kong profits tax has not been provided for as the Group has no estimated assessable profits subject to Hong Kong profits tax.

PRC income tax is calculated based on the statutory income tax rate of 33% (2005: 33%) of assessable income of the Group except for certain subsidiaries which are taxed at preferential rate of 15% (2005: 0% to 15%) based on the relevant PRC tax rules and regulations.

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

	Unaudited Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
PRC income tax		
– Current taxation	**53,773**	56,109
– Deferred taxation	**(5,234)**	(859)
	48,539	55,250

8. Dividends

	Unaudited Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
Interim dividend, declared, of RMB0.06 (2005: RMB0.06) per share	**37,320**	37,320

At a meeting held on 15 August 2006, the Directors declared an interim dividend of RMB0.06 per share. This declared 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 2006.

At a meeting held on 18 April 2006, the Directors proposed a final dividend of RMB 0.07 per share for the year ended 31 December 2005, totalling RMB43,540,000, which was approved by the shareholders on 28 June 2006 and has been reflected as an appropriation of retained earnings for the six months ended 30 June 2006 (Note 16). The amount has not yet been paid as at 30 June 2006.

NOTES TO THE CONDENSED INTERIM ACCOUNTS

FOR THE SIX MONTHS ENDED 30 JUNE 2006

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	
	2006 RMB'000	2005 RMB'000
Profit attributable to Company's shareholders	**138,367**	130,979
Weighted average number of shares in issue	**622,000**	622,000
Basic earnings per share	**RMB0.22**	RMB0.21

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.

NOTES TO THE CONDENSED INTERIM ACCOUNTS

FOR THE SIX MONTHS ENDED 30 JUNE 2006

10. Major capital expenditure

				Intangible assets		
	Property, plant and equipment RMB'000	Construction in progress RMB'000	Land use rights RMB'000	Goodwill RMB'000	Software RMB'000	Total RMB'000
Opening net book amount as at 1 January 2006 (audited)	2,764,679	23,614	205,663	159,419	37,883	197,302
Acquisitions	–	–	–	435	–	435
Additions	202,253	236,201	–	–	2,186	2,186
Transfers	7,571	(7,851)	–	–	280	280
Disposals	(8,496)	–	–	–	(12)	(12)
Depreciation/amortisation charge (Note 5)	(231,532)	–	(1,771)	–	(6,620)	(6,620)
Closing net book amount as at 30 June 2006 (unaudited)	2,734,475	251,964	203,892	159,854	33,717	193,571
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
Acquisitions	527,546	15,691	–	30,394	7,142	37,536
Additions	180,690	6,274	4,329	–	–	–
Transfers	1,467	(8,751)	–	–	7,284	7,284
Disposals	(6,715)	–	–	–	–	–
Depreciation/amortisation charge	(175,015)	–	(4,270)	–	(4,395)	(4,395)
Closing net book amount as at 31 December 2005 (audited)	2,764,679	23,614	205,663	159,419	37,883	197,302

NOTES TO THE CONDENSED INTERIM ACCOUNTS

FOR THE SIX MONTHS ENDED 30 JUNE 2006

11. Investments in associates

	Unaudited Six months ended 30 June 2006 RMB'000	Unaudited Six months ended 30 June 2005 RMB'000	Unaudited From 1 July 2005 to 31 December 2005 RMB'000
Balance at beginning of the period	**335,261**	293,842	332,950
Share of associates' results	**55,046**	41,476	52,811
– Profit before taxation	**80,401**	62,434	79,968
– Taxation	**(25,319)**	(20,864)	(26,993)
– Minority interests	**(36)**	(94)	(164)
Acquisition of an associate	**–**	–	48,929
Additions arising from acquisition of subsidiaries	**–**	318	860
Cash dividends received	**(3,175)**	(2,580)	(82,013)
Disposal of associates	**–**	(106)	–
Reclassification as a subsidiary on acquisition of additional interest in an associate	**–**	–	(18,276)
Balance at end of the period	**387,132**	332,950	335,261

Investments in associates at 30 June 2006 include goodwill of RMB6,787,000 (2005: RMB6,787,000).

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 2006 RMB'000	Unaudited 31 December 2005 RMB'000
Assets	**1,409,064**	1,454,320
Liabilities	**(1,107,026)**	(1,174,351)
Net assets	**302,038**	279,969
Add: unrecognised losses	**78,307**	48,505
	380,345	328,474

NOTES TO THE CONDENSED INTERIM ACCOUNTS

FOR THE SIX MONTHS ENDED 30 JUNE 2006

11. Investments in associates (continued)

	Unaudited Six months ended 30 June	
	2006 **RMB'000**	2005 RMB'000
Turnover	**1,423,509**	1,406,421
Profit for the period	**25,244**	16,937
Add: unrecognised losses	**29,802**	24,539
	55,046	41,476

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 had reduced the Group's investment in the associate to zero. Since then, the Group had discontinued recognising its share of further losses from the associate. Losses incurred by the associate during the six months ended 30 June 2006 not recognised by the Group amounted to RMB29,802,000 (2005: RMB24,539,000).

12. Other non-current assets

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.

13. Trade receivables

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

	Unaudited **30 June** **2006** **RMB'000**	Audited 31 December 2005 RMB'000
Within 30 days	**37,646**	26,840
31-60 days	**3,759**	2,685
61-90 days	**960**	849
91 days-one year	**2,892**	262
	45,257	30,636

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.

NOTES TO THE CONDENSED INTERIM ACCOUNTS

FOR THE SIX MONTHS ENDED 30 JUNE 2006

15. Amount due to holding company

Amount due to holding company represents the balance due to Shanghai Friendship Group Incorporated Company, which is unsecured and bears interest at 2.85% per annum. The amount was assumed by the Group during 2005 as part of the acquisition of additional equity interest in an associate, Shanghai Century Lianhua Supermarket Development Co., Ltd.

16. Reserves

	Capital reserve RMB'000 (Note (a))	**Other reserves** RMB'000	**Statutory common reserve fund** RMB'000 (Note (b))	**Statutory common welfare fund** RMB'000 (Note (c))	**Retained earnings** RMB'000	**Total** RMB'000
Balance at 1 January 2006	755,953	3,595	130,265	65,948	313,000	1,268,761
Profit for the period attributable to Company's shareholders	–	–	–	–	138,367	138,367
2005 final dividend	–	–	–	–	(43,540)	(43,540)
Balance at 30 June 2006	755,953	3,595	130,265	65,948	407,827	1,363,588
Representing:						
2006 declared interim dividend					37,320	37,320
Others					370,507	1,326,268
					407,827	1,363,588
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	–	–	–	–	(43,540)	(43,540)
Balance at 30 June 2005	755,953	–	88,435	45,033	304,367	1,193,788
Profit for the period attributable to Company's shareholders	–	–	–	–	108,698	108,698
Profit appropriations	–	–	41,830	20,915	(62,745)	–
Revaluation reserve arising from acquisition of a subsidiary	–	3,595	–	–	–	3,595
2005 interim dividend	–	–	–	–	(37,320)	(37,320)
Balance at 31 December 2005	755,953	3,595	130,265	65,948	313,000	1,268,761
Representing:						
2005 proposed final dividend					43,540	43,540
Others					269,460	1,225,221
					313,000	1,268,761

NOTES TO THE CONDENSED INTERIM ACCOUNTS

FOR THE SIX MONTHS ENDED 30 JUNE 2006

16. Reserves (continued)

Note:

(a) Capital reserve of the Group mainly represents premium arising from issue of H shares net of share issuance expenses.

(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 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.

(c) 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 2006 (six months ended 30 June 2005: Nil). The transfer will be made at the year end based on the annual profit and upon Directors' approval.

17. Bank borrowings

	Unaudited 30 June 2006 RMB'000	Audited 31 December 2005 RMB'000
Non-current bank borrowings	–	16,377
Current bank borrowings	–	2,533
Total borrowings	–	18,910

The Group's bank borrowings of RMB18,910,000 as at 31 December 2005 were secured liabilities, which was assumed by the Group 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). The borrowings have been repaid and the securities have been released by 30 June 2006.

NOTES TO THE CONDENSED INTERIM ACCOUNTS

FOR THE SIX MONTHS ENDED 30 JUNE 2006

18. Trade payables

The ageing analysis of the trade payables are as follows:

	Unaudited 30 June 2006 RMB'000	Audited 31 December 2005 RMB'000
Within 30 days	**1,509,900**	1,915,454
31-60 days	**483,756**	616,148
61-90 days	**96,358**	99,753
91 days-one year	**110,534**	116,254
	2,200,548	2,747,609

19. Other payables, accruals and coupon liabilities

	Unaudited 30 June 2006 RMB'000	Audited 31 December 2005 RMB'000
Other payables	**560,808**	621,589
Coupon liabilities	**726,647**	769,400
Customers' advances	**17,644**	15,139
Accruals	**105,081**	39,713
	1,410,180	1,445,841

20. Commitments

(a) Capital commitments for property, plant and equipment and system development

	Unaudited 30 June 2006 RMB'000	Audited 31 December 2005 RMB'000
Contracted but not provided for	**329,333**	173,400

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

NOTES TO THE CONDENSED INTERIM ACCOUNTS

FOR THE SIX MONTHS ENDED 30 JUNE 2006

20. Commitments (continued)

(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 2006 RMB'000	Audited 31 December 2005 RMB'000
Not later than one year	**837,656**	789,342
Later than one year and not later than five years	**3,140,381**	2,930,777
Later than five years	**6,346,282**	6,535,084
	10,324,319	10,255,203

(c) Commitments for equity investments

As at 30 June 2006, the Group had a commitment to acquire the remaining equity interests of 25.39% (2005: 25.39%) in Hangzhou Lianhua Huashang Group Co., Ltd. held by third parties at a consideration of not less than RMB140,760,000.

21. 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 2006 RMB'000	Audited 31 December 2005 RMB'000
Not later than one year	**153,484**	149,664
Later than one year and not later than five years	**248,982**	235,036
Later than five years	**215,112**	164,447
	617,578	549,147

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

NOTES TO THE CONDENSED INTERIM ACCOUNTS

FOR THE SIX MONTHS ENDED 30 JUNE 2006

22. Acquisition of a subsidiary

On 30 June 2006, the Group acquired 100% equity interests of Luoyang Xingyu Property Co., Ltd. ("Luoyang Xingyu") from third parties at a cash consideration of RMB6,700,000.

The acquired subsidiary did not contribute any revenue or net profit to the Group for the period.

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

	Acquiree's carrying amount RMB'000
Prepayment on land use rights	21,122
Other receivables	303
Bank balances and cash	8
Other payables	(14,733)
Net assets acquired	6,700
Net outflow of cash to acquire the subsidiary	
– Cash consideration	6,700
– Bank balances and cash in subsidiary acquired	(8)
	6,692

The fair value of assets and liabilities acquired appropriates the acquiree's carrying amount.

23. 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. Given that the PRC government still owns a significant portion of the productive assets in the PRC despite the continuous reform of the government's structure, the majority of the Group's business activities had been conducted with enterprises directly or indirectly owned or controlled by the PRC government ("state-owned enterprise"). In accordance with the HKAS 24, "Related Party Disclosures", state-owned enterprises and their subsidiaries, directly or indirectly controlled by the PRC government are also defined as related parties of the Group. In the normal course of its business, the Group enters into various transactions with one or more of such state-owned enterprises and their subsidiaries.

NOTES TO THE CONDENSED INTERIM ACCOUNTS

FOR THE SIX MONTHS ENDED 30 JUNE 2006

23. Related party transactions (continued)

Apart from those disclosed under Notes 14 and 15, 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	
	Note	**2006** **RMB'000**	2005 RMB'000
Sales to associates			
– Shanghai Lianhua E-business Co., Ltd.	(i)	**584,624**	371,889
– Subsidiaries of Shanghai Century Lianhua Supermarket Development Co., Ltd. ("Century Lianhua")	(ii)	**–**	652,950
Purchases from associates			
– Shanghai Lianhua Supermarket Food Co., Ltd. and Shanghai Gude Commercial Trading Co., Ltd.	(iii)	**13,235**	5,268
Decoration cost paid to an associate	(iv)	**19,819**	14,895
Rental expenses paid to subsidiaries of holding company	(v)	**9,461**	–

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% (2005: 1.3%).

(ii) Sales were made at cost and were in accordance with the terms of the underlying agreements. Century Lianhua became a subsidiary after being acquired by the Group in December 2005, such transactions for the six months ended 30 June 2006 have therefore been eliminated in these consolidated accounts.

(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.

(v) These represent rental expenses of certain hypermarkets paid to subsidiaries of Shanghai Friendship Group Incorporated Company, the holding company of the Group. The rentals were charged in accordance with the terms of the underlying agreements which were entered into with reference to the then prevailing market prices.

NOTES TO THE CONDENSED INTERIM ACCOUNTS

FOR THE SIX MONTHS ENDED 30 JUNE 2006

23. Related party transactions (continued)

(b) Related party balances with other state-owned enterprises

Included in the consolidated balance sheet were balances with other state-owned enterprises as follows:

	Unaudited 30 June 2006 RMB'000	Audited 31 December 2005 RMB'000
Current liabilities		
Accounts payable and other liabilities	**233,830**	246,496

All the above balances are unsecured, non-interest bearing and repayable within one year.

In addition, all cash at bank of the Group at the balance sheet date is deposited at state-owned banks.

(c) Related party transactions with other state-owned enterprises

	Unaudited Six months ended 30 June	
	2006 RMB'000	2005 RMB'000
Purchase of goods	**1,226,112**	820,612
Interest income received	**11,988**	4,575
Bank charges	**4,396**	3,025
Interest expenses	**2,593**	614

Related party transactions with other state-owned enterprises were conducted in the normal course of business at market rates.

NOTES TO THE CONDENSED INTERIM ACCOUNTS
FOR THE SIX MONTHS ENDED 30 JUNE 2006

23. Related party transactions (continued)

(d) Key management compensation

	Unaudited Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
Salaries and other short-term employee benefits	**3,005**	2,727
Post-employment benefits	**124**	337
Other long-term benefits	**124**	337
	3,253	3,401

24. Controlling shareholder and ultimate holding company

The Directors regard Shanghai Friendship Group Incorporated Company, 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.

25. Subsequent events

In October 2005, the Group entered into an equity transfer agreement with S.I. Commerce Holding Limited ("SI Commerce") to acquire 22.21% equity interest in Century Lianhua. SI Commerce's interest in Century Lianhua was assumed from Shanghai Industrial United (Group) Commercial Network Development Co., Ltd. ("SI Commercial Network") pursuant to an equity transfer agreement entered into in July 2005. The equity transfer agreement was terminated on 21 July 2006 since the statutory approval procedures were not completed within the time specified in that agreement. Accordingly, the agreement for the Group's acquisition of 22.21% equity interest in Century Lianhua from SI Commerce was also terminated.

The Group and SI Commercial Network are currently in negotiation of the acquisition of the 22.21% equity interest in Century Lianhua and on that basis, SI Commercial Network has agreed the Group to continue in exercising all voting rights attributable to its equity interest in Century Lianhua.

26. Authorisation for the issue of the accounts

These unaudited condensed interim accounts were authorised for issue by the Company's Board of Directors on 15 August 2006.