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

Strengthening leading position
Optimising operational structure

Stock Code: 0980

INTERIM REPORT 2007

Contents

CORPORATE INFORMATION

Directors

Executive Directors

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

Non-Executive Directors

Mr. Lu Ming-fang
Mr. Yao Fang
Mr. Narita Koichi
Mr. Wong Tak-hung
Mr. Hua Guo-ping

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 Zhi-gang *(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
Huen Wong & Co. in association with Fried, Frank, Harris, Shriver & Jacobson LLP

Investors and Media Relation Consultant

Christensen International (Hong Kong) Limited

Principal Bankers

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

Registered Office and Place of Business

Registered Office and Place of Business in the PRC
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Shareholder's Enquiries

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Share Information

Listing Place

The Stock Exchange of Hong Kong Limited (the "Stock Exchange")

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 2007, the total national retail sales of consumer goods in the People's Republic of China (the "PRC") grew by 15.4% to approximately RMB4,204.4 billion, setting a new high since 1997, highlighting the remarkable growth of China's macro-economy. The retail market capacity of the PRC expanded continuously, with consumer expenditure playing a more important role in the economy. The income of urban and rural citizens has grown at rapid pace rarely seen in many years, among which the disposable income per capita of urban citizens grew approximately 14.2%, representing an increase of 4 percentage point in the percentage of growth over the corresponding period of last year, whereas the per capita cash income of farmers increased 13.3%. In the meantime, the Consumer Confidence Index still maintained a growing trend. The total retail sales of consumer goods in the 16 cities of the Yangtze River Delta region amounted to approximately RMB604.6 billion, representing an increase of 14.8% as compared to the corresponding period of last year.

As a domestic retail enterprise in the PRC, Lianhua Supermarket Holdings Company Limited (the "Company") and its subsidiaries (collectively, the "Group") are pleased to see the stable growth of the economy in the PRC and the bright future of the market development. The continuous growth in residents' income in the PRC, the booming of the middle income class and the speeding up of urbanization help whetting a strong spending appetite of consumers in the PRC. With the objective of steady development with quality, the Group determines to grasp the opportunities and grow in line with the trend of development. While our development emphasized in the Yangtze River Delta, we also developed across the whole country. The Group enhanced the business growth and created returns for shareholders through implementing the operation strategy of identification, variation and diversification.

Business review

Improved operating results and performance indicators

As at 30 June 2007, the turnover of the Group amounted to RMB8,981 million, representing an increase of 7.54% as compared to the corresponding period of last year. The operating profit of the Group amounted to RMB223 million, representing an increase of 64.36% as compared to the corresponding period of last year. The profit attributable to shareholders amounted to RMB140 million, representing an increase of 1.37% as compared to the corresponding period of last year. The earnings per share amounted to RMB0.23. The overall performance indicators have been improved compared to the corresponding period of last year.

Optimized network with stronger regional presence

As at 30 June 2007, the Group had a total of 3,649 directly operated and franchised outlets (not including outlets operated by associated companies). The Group continued to maintain its market leading position in the PRC, details of which are as follows:

	Hypermarkets		Supermarkets		Convenience stores		Total	
	30 June 2007	31 December 2006	**30 June 2007**	31 December 2006	**30 June 2007**	31 December 2006	**30 June 2007**	31 December 2006
The Group	**103**	104	**1,660**	1,652	**1,886**	1,960	**3,649**	3,716
of which:								
Direct operation	**103**	104	**576**	625	**981**	1,114	**1,660**	1,843
Franchise operation	**0**	0	**1,084**	1,027	**905**	846	**1,989**	1,873

During the period under review, while the Group was implementing its whole country development strategy of "Concentration, Stabilization and Quality", the Group focused on the scientific planning, rationalized layout and major breakthroughs in the Yangtze River Delta region and other cities where we have established business. The Group sold 111 convenience stores in Guangzhou through transferring its equity interests therein and, meanwhile, transformed the directly operated supermarkets into franchised stores in certain cities, which has led to an optimized network structure and a stores network with quality. During the period under review, 83% of new outlets were opened in the Eastern China region, which resulted in further increment in percentage of outlets in the Eastern China region to 84%, as a result of which our market position were further enhanced in the said region. The Board believes that an optimized network structure will provide a solid base and confidence for exploring profit-gaining markets.

The Group persisted in its 'two-tier' strategy for developing direct operation of hypermarkets, and both direct operation and franchise operation of supermarkets and convenience stores, which utilized the characteristics of different business formats and different operation models, and the advantages of concentrated, quality and powerful new network. During the period under review, the Group actively promoted the development of franchised outlets. Currently, 55% of our total outlets were franchised outlets, among which the percentage of franchised outlets was increased to 65% and 48% for supermarkets and convenience stores, respectively. The large scale of the market, its good brand image and reputation, and the matured business model were favorable factors driving the growth of franchised outlets.

Transformation boosting the results and facilitating the organic growth

A total of 42 supermarkets were transformed by the Group during the period under review. Accumulatively, the Group had transformed 137 supermarkets in total. The average daily sales and the average daily volume of customers of transformed outlets rose by approximately 19.16% and 12.42%, respectively, as compared to the corresponding period of last year.

Ever since we commenced the transformation of supermarkets in 2005, our modern business models have successfully attracted a group of middle to high-end consumers, which consequently enlarged our market share in the middle to high-end market, explored our market network and attracted customers. At the same time, the Group also implemented our thriving experiences of transforming supermarkets and applied our idea and mechanism of 'transformation' in hypermarkets and convenience stores.

During the period under review, the Group has been actively transforming hypermarkets. By way of choosing a suitable business formats in accordance with different locations and market-positioning in accordance with the needs of consumers, the Group has set up its product structure and operation model in line with the local culture. Currently, the preliminary results of our trial transformed outlets proved our strategy to be successful, for example, the outlet at Fuyang, Zhejiang Province. After the transformation, the Fuyang store satisfied the market demand for local department stores by enhancing its function. With the introduction of more high-end products, the Fuyang store recorded a year-on-year increase of 22.46% in sales, 4.81% in purchase per transaction of customers and 23.78% in volume of customers as compared to the corresponding period of last year.

Enhancing the supply chain system and exploring its additional value

During the period under review, the Group continued to develop and promote the online supply chain management platform project (B2B project) among the suppliers. Currently, over 50% of our suppliers have registered with such management platform.

The Group focused on analyzing the information of its supply chain management platform, managing its process and developing new functions. After applying the B2B system by the Group, its system of online ordering, online account checking, online settlement and online figure consultation enhanced our products satisfaction rate effectively. The turnover of inventory of our outlets and suppliers were both improved, bringing about a win-win situation.

Total number of members exceeded 6,300,000 while the percentage of member spending increased

As at 30 June 2007, the total number of members exceeded 6,300,000. Total member spending as a percentage to the Group's total turnover accounted for 45.60%. The members' average purchase per transaction increased 13.82% as compared to the corresponding period of last year.

During the period under review, the Group continued to optimize, promote and develop the membership management system and to promote alliance business actively. In the meantime, the Group also provided more convenience to its customers through carrying out a series of promotional activities, such as offering discount prices to members and members' lottery. The Group's online shopping platform broadened its functions, hence attracting and retaining high-end consumers for the Group.

Promoting sales as well as economizing on expenditures to tackle cost pressure

In order to tackle the problems caused by increasing rental cost, labour cost and operating cost, the Group persisted in its strategy of controlling cost through enhancing its sales on one hand and controlling the cost on the other hand, so that the Group could grow and develop healthily. While putting great efforts in achieving better results, the Group took cost control as one of its key focuses, conducted researches and implemented the measures with focus. Cost control measures were implemented in assets engineering management, labour force management, rental management, marketing cost management and utilities cost management. Through maximizing the rate of store area usage, improving the labour efficiency, advancing the operation efficiency and improving the operation process, the overall cost control of the Group was maintained at a reasonable, appropriate and efficient level. During the period under review, the Group had a great achievement in cost control, with a decrease of approximately 1 percentage point recorded in its cost rate as compared to the corresponding period of last year.

Improving the standard of employees through accumulation of experiences

While the Group was celebrating its 16th anniversary, it compiled a series of management manuals "The road of Lianhua" regarding the management of human resources, management of supermarkets, management of finance, management of convenience stores and management of franchise operation. These series of manuals concluded the retail business experiences of the Group. These manuals were textbooks for staff training and toolkits for business operation, which played an active role in enhancing the standard of the whole team and the ability of implementation and operation of the Group.

Segment results

Segment turnover

	For the six months ended 30 June				
	RMB million				
	2007		2006		
	Turnover	**Percentage of total turnover**	Turnover	Percentage of total turnover	Change
		%		%	%
Hypermarkets	**4,861.12**	**54.13**	4,402.57	52.72	10.42
Supermarkets	**3,263.37**	**36.34**	3,174.33	38.01	2.81
Convenience stores	**739.74**	**8.24**	748.02	8.96	(1.11)
Other operations	**116.34**	**1.29**	25.70	0.31	352.68
Total	**8,980.57**	**100.00**	8,350.62	100.00	7.54

Segment operating profit

	For the six months ended 30 June RMB million				
	2007		2006		
	Operating profit	**Percentage of operating profit %**	Operating profit	Percentage of operating profit %	Change %
Hypermarkets	**(7.06)**	**(3.17)**	21.71	16.01	(132.52)
Supermarkets	**155.07**	**69.57**	112.67	83.08	37.63
Convenience stores	**36.37**	**16.32**	16.01	11.81	127.17
Other operations	**38.51**	**17.28**	(14.78)	(10.90)	(360.55)
Total	**222.89**	**100**	135.61	100.00	64.36

Hypermarkets

Results overview

Directly operated stores	103

For the six months ended 30 June 2007, segment turnover of the Group's hypermarket business was approximately RMB4,861.12 million, accounting for 54.13% of the turnover of the Group and representing an increase of approximately 10.42% when comparing with approximately RMB4,402.57 million in the corresponding period of last year. Operating profit amounted to approximately RMB(7.06) million, representing a decrease of RMB28.77 million from approximately RMB21.71 million in the corresponding period of the previous year.

	As at 30 June 2007	As at 30 June 2006
Gross profit margin (%)	**10.8**	8.8
Consolidated income margin (%) (Note)	**22.9**	21.9
Operating profit margin (%)	**(0.1)**	0.5

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

Business development

During the period under review, the Group implemented a strategy of "promoting stores" for hypermarket business, which aimed at improving the performance of the existing hypermarkets. With its focus on promoting the volume of customers and improvements in its basic operation, the Group accomplished its goal in further enhancing the sales of its hypermarkets by improving product display, advancing the shopping environment, strengthening its management of orders, matching the product structure in different regions and avoiding the shortage of high sales volume products. The sales growth for individual stores of the hypermarket business increased approximately 6.96% in the first six months of 2007. During the period under review, the Group opened 4 new hypermarkets, which are located in Shanghai, Zhejiang Province and Jiangsu Province in the Eastern China region. The scientifically-selected locations, clear-cut operational directions, reasonable and appropriate product mix, combined application of marketing strategies and stringent cost control have led to the remarkable improvement in the quality of these newly opened stores, as well as the increase in turnover and gross profit.

During the period under review, the Group began to implement proactive and prudent streamlining on five hypermarkets which operated under a negative environment and had a longer expected period of development. Long-term assets impairment was also provided by the Group for certain stores with a longer expected period of development. Due to the one-off loss for the hypermarket business triggered by the two factors mentioned above, together with the decrease in profit resulting from the closing of three prime stores in the second half of 2006, the results of the hypermarket business were affected during the reporting period. Without taking into account the above factors, the segment operating profit of the hypermarket business recorded significant growth as compared to the corresponding period of last year. From now on, given the increase of the profitability of existing stores and the outstanding performance of newly opened stores together with the optimization of sales network, the Group remains optimistic for the prospect of the hypermarket business.

During the period under review, the hypermarket business implemented creative marketing models. The Group introduced a target-oriented marketing system "perceive and go", giving out coupons to customers for their next purchase. Through implementing our target-oriented marketing models, the Group attempted to change the shopping pattern of customers, to increase their frequency of re-visiting the store, to increase the purchase volume per transaction and to consolidate their loyalty to the Group. At present, the Group had implemented such marketing system in its hypermarkets located in the Shanghai region.

Supermarket

Results overview

Directly operated stores	576
Franchised stores	1,084

For the six months ended 30 June 2007, segment turnover of the Group's supermarket business was approximately RMB3,263.37 million, accounting for approximately 36.34% of the Group's turnover and representing an increase of approximately 2.81% from approximately RMB3,174.33 million in the corresponding period of last year. Operating profit amounted to approximately RMB155.07 million, representing an increase of approximately RMB42.4 million from approximately RMB112.67 million in the corresponding period of the previous year.

During the period under review, the Group opened 114 new supermarkets, of which 5 are directly-operated supermarkets and 109 are franchised supermarkets. As at 30 June 2007, the number of supermarkets of the Group amounted to 1,660 stores.

	As at 30 June 2007	As at 30 June 2006
Gross profit margin (%)	**14.6**	14.6
Consolidated income margin (%)	**22.9**	22.3
Operating profit margin (%)	**4.8**	3.6

Business development

The Group continued to proceed with the transformation of its supermarket business. During the period under review, a total of 42 directly operated supermarkets have been transformed, and the aggregate number of supermarkets that have been transformed amounted to 137. For those successfully transformed outlets, the Group will further explore their growth potential through optimizing and enhancing the variety of product structure. For example, sales contribution of industrial goods in the Grand Gateway store in Xujiahui District has kept increasing after the post-transformation adjustment of the categories of merchandises. In accordance with the analysis on the operation of middle to high-end industrial goods cater to the demands of customers in this business district. Accordingly, the Group therefore further restructured this category and displayed them in the way that department stores display their goods. The products without clear positioning were taken out while suppliers with reputable brand names were introduced. The establishment of middle to high-end position of industrial goods in the market offered a valuable experience for other outlets with middle- to high-end position.

After the transformation of our supermarkets, the age range of customers tends to be younger and most of them are white-collar workers who aspire for a better quality of life. In response to such demands, the transformed supermarkets have launched a series of exciting programs on the themes of imported products, high-end fresh produces and leisure activities, such as the "American Food Festival", "Japanese Fish Exhibition" and "Norway Salmon Festival". Such activities offered younger target customers, who aspire for quality life, an unique and interesting supermarket shopping experience and helped increasing sales after such transformation.

During the period under review, the Group actively explored the establishment of the product procurement and delivery systems for serving franchised stores directly. We also held special trade fairs for franchisees and developed custom-made products that cater to the demands of franchised stores. The Group also provided franchise operators with the mature operational skills and management in an effort to increase their profitability. The development of franchise operations of supermarkets will be focused on the Yangtze River Delta region, and a pilot operation was initiated in Changxing county, Zhejiang Province, where the township economy is booming. There are currently 19 "Nongcun Fangxin Chain" stores (農村放心連鎖店) in the region. Such stores have been operating smoothly due to their well-established brand image and insights into the local market.

Convenience stores

Results overview

Directly operated stores	981
Franchised stores	905

For the six months ended 30 June 2007, segment turnover of the Group's convenience store business was approximately RMB739.74 million, accounting for approximately 8.24% of the Group's turnover and representing a decrease of approximately 1.11% from approximately RMB748.02 million of the corresponding period of last year. Operating profit was approximately RMB36.37 million, representing an increase of RMB20.36 million from approximately RMB16.01 million in the corresponding period of last year.

Our convenience stores are currently located in five cities, namely Shanghai, Beijing, Dalian, Hangzhou and Ningbo. During the period under review, the Group opened 130 new convenience stores, of which 5 are directly-operated and 125 are franchised stores. As at 30 June 2007, the Group had 1,886 convenience stores in total.

	As at 30 June 2007	As at 30 June 2006
Gross profit margin (%)	**15.8**	16.2
Consolidated income margin (%)	**25.9**	25.2
Operating profit margin (%)	**4.9**	2.1

Business development

Given the well-established sales networks of the Group in these five major cities, together with the matured management model and positive market image, the Group is well equipped with the technology and management capabilities to proactively develop the franchised convenience stores. With our in-depth development of management and technological resources, and fully utilizing the social resources of the franchise operators, the unique development advantage of franchise operation will be further demonstrated. In the development of directly operated stores, the Group is focused on the effectiveness of regional advantage of middle to high-end locations and opened new quality stores in efficient order.

With a strategic foresight of its convenience store business and alertness of market developments, the Group strives to extend its scope of service, to enhance its functions and standard of service, with an aim at attracting customers. For example, in order to meet the demands of foreign tourists who may visit Beijing before and during the Olympics Games in 2008, the Company had organized trainings on daily English conversations for managers and employees of stores which are located in scenic spots and city centers of Beijing. The Company has also added English graphics to the main categories of our products in order to enhance communications and increase sales.

During the period under review, based on the strategy of optimizing the allocation of resources and strengthening the development in the Yangtze River Delta region, the Group had optimized the locations of its stores by transferring equity interest in the Guangzhou convenience store business. Meanwhile, the Group has strengthened the expansion in the market of the Yangtze River Delta region and started to conduct thorough market research in the major cities of Jiangsu Province.

Associated companies

As at 30 June 2007, Shanghai Carhua Supermarket Company Limited operated a total of 11 hypermarkets in Shanghai.

For the six months ended 30 June 2007, the Group's share of results of associated companies amounted to RMB64.916 million, representing an increase of 17.93% as compared to the corresponding period of last year. The associated companies were in stable development and sustained continuous growth.

Financial review

Analysis of financial results

	For the six months ended 30 June RMB million		
	2007	2006	Change (%)
Turnover	**8,980.57**	8,350.62	7.54
Gross profit	**1,153.77**	973.20	18.55
Consolidated income (note 1)	**2,173.16**	1,861.42	16.75
Operating profit	**222.89**	135.61	64.36
Taxation (note 2)	**125.14**	48.54	157.81
Profit attributable to Company's shareholders	**140.26**	138.37	1.37
Basic Earnings per share (RMB)	**0.23**	0.22	4.55
Interim dividend per share (RMB)	**0.06**	0.06	0

Note 1: Consolidated income = Gross profit + Other income + Other revenues

Note 2: The increase of taxation was attributable to (i) the increase of operating profit; and (ii) the income taxes of the Group has not been reduced by the loss arising from the closing of certain stores and the provision for long-term assets impairment.

Liquidity and financial resources

During the first half of 2007, the capital resource of the Group was mainly from cash inflow from operations. As at 30 June 2007, the Group had non-current assets of approximately RMB3,828.835 million. The non-current assets were mainly comprised of construction in progress, property, plant, equipment and land use rights of approximately RMB3,120.702 million, intangible assets of approximately RMB219.762 million, investments in associates of approximately RMB393.245 million, available-for-sale financial assets, deferred tax assets and other non-current assets of approximately RMB95.126 million.

As at 30 June 2007, the Group had net current liabilities of approximately RMB1,330.277 million. Current assets were mainly comprised of bank balances and cash of approximately RMB2,987.218 million, inventories of approximately RMB1,335.809 million, trade receivables, deposits, prepayments and other receivables of approximately RMB727.88 million, financial assets at fair value through profit or loss of RMB251.862 million, and amount due from associates of approximately RMB53,000. Current liabilities were mainly comprised of dividends payable of approximately RMB44.593 million, trade payables, other payables, accruals and coupon liabilities of approximately RMB6,464.666 million, amount due to holding company of RMB39 million and taxation payable of approximately RMB84.84 million.

For the six months ended 30 June 2007, turnover period of the Group's accounts payable was 60 days. Inventory turnover was 36 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 2007.

Capital structure

As at 30 June 2007, 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 RMB2,051.5 million to approximately RMB2,148.22 million, which was mainly due to the increase in profit amounting to RMB140.26 million and dividends distribution amounting to RMB43.54 million during the period under review.

Details of the Group's pledged assets

As at 30 June 2007, the Group did not have any pledged assets.

Foreign exchange risk

Most of the income and expenditures of the Group are denominated in Renminbi. 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 believes that the Group is able to meet its foreign exchange requirements.

Share capital

As at 30 June 2007, the issued share capital of the Company was as follows:

Class of shares	Number of shares in issue	Percentage
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 2007, the Group did not have any material contingent liabilities.

Employment, training and development

As at 30 June 2007, the Group had a total of 44,957 employees, representing a decrease of 1,852 employees during the period under review. Total staff costs amounted to RMB551.297 million. Remuneration for the Group's employees was determined on the basis of their performance, experience and the then practice in the industry. Apart from basic salary, welfare allowances and performance bonus, the Group also provides its fulltime employees with housing welfare, medical allowance and other subsidies. The Group also contributes to the retirement benefit schemes organized by the government and makes monthly contributions for its employees to these schemes in accordance with the policies of the PRC.

In accordance with its operational performance, the Group further optimized the remuneration package for its employees and established the normal salary increment mechanism in line with market rate so as to share the Group's achievement on its development and operation with the employees.

While actively responding to market changes and maintaining the positive growth of the results of the Group, the Group also focuses on the continuous optimization of its manpower resources system. The Group promotes the cultivation of talented personnel through the establishment of talents cultivation system, performance assessment management system, personnel training and development system, and salary and distribution incentive mechanism. The Group further defined the requirements and responsibilities of management executives at various levels for the cultivation and retaining of talents. The Group has established talents cultivation and retaining funds and strengthened the efforts in cultivating and retaining talents to respond to market competitions and meet the demands for talents arising from the development of the Group.

Strategies and plans

Capturing opportunities to accelerate development

The Group will reinforce its leading position in the fast moving consumer goods market on a centralized and efficient basis. The Group will standardize the process of network development and continue to set up new quality stores in the Yangtze River Delta region and the other major cities where the Group has market presence.

The Group will continue to implement the strategy that focuses on the balanced development of directly operated and franchised stores and the synchronized development of hypermarkets, supermarkets and convenience stores. The Group will further improve the quality of its new stores and maintain the momentum of sustainable development by summarizing and applying the successful experience of store operations and studying the essentials that lead to the success of stores with outstanding performance.

The Group will continue to regard mergers and acquisitions activities as one of its development strategies and identify the merger and acquisition targets so as to realize expansions by reasonably leveraging on its mergers and acquisitions strategies.

Further store transformation through the segmentation of markets

The Group will continue to transform its supermarkets with the emphasis shifting from extensiveness to thoroughness. The Group will readjust its product structure and conduct targeted marketing by segmenting the markets and focusing on its target customers. The Group will proactively summarize and apply the successful experiences of transformed stores, in the meantime, explore the breakthrough points for the transformation of middle to low-end stores.

The Group will actively proceed with the transformation of the operation of hypermarkets and convenience stores, and continue to be innovative by reference to the market demands and study the changes in the demands of its customers. The Group will strengthen the operations of fresh produces and brand marketing so as to enhance the performance of our products and attract more customers.

Strengthening of management to promote competitiveness

The Group will further develop its operational supporting system by refining its procurement system, franchise development system training system and the standardization system, so as to increase management efficiency, guarantee product quality and realize the increase of results.

The Group will optimize its procurement system. The Group will analyze the demands for custom-made products and optimize its procurement system based on the characteristics of the cross-region and cross-sector development mode of the Group. The Group will procure products with localization as the starting point, and focus on the characteristics and capabilities of regional procurement. The Group will further improve its prime products, introduce such products into different markets, and explore and develop new suppliers.

With the increasing importance of the franchise development strategy in the Group, the Group will strengthen the development of franchise network and provide franchise operators with timely training to increase their system-application ability. The Group will develop custom-made products that meet the demands of different franchise operators, and reinforce the composition of the supervision team constitution to enhance daily management.

The Group will further enhance the knowledge management system by providing materials and platforms for the study and training of its employees. The Group focused on the composition of a team of trainers and standardizing the acquisition and sharing of information. In the face of the transformation of the industry, the Group will train up store managers with high management capabilities and strengthen the training in the provision of quality fresh produces and services. Through the development of standardized training materials, the Group will stabilize the quality of various training programs and standardize their contents. The Group will further enhance the business standards and working capacities of its employees by organizing targeted and effective management and business training sessions.

With the strengthening of the basic management skills as the core, the Group will proceed with the standardization of operations and management. The Group will also optimize its organizational structures, rebuild the workflow and further enhance the responsibilities and capabilities of the relevant departments so as to respond to the market developments quickly.

OTHER INFORMATION

Disclosure of interests

Directors, Chief Executive and Supervisors of the Company

As at 30 June 2007, 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 Issuers (the "Model Code") set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

As at 30 June 2007, Mr. Hua Guo-ping, Mr. Wang Long-sheng, Mr. Zhang Zeng-yong, Mr. Lu Ming-fang and Mr. Yao Fang are directors, supervisors or employees of Shanghai Friendship Group Incorporated Company ("Shanghai Friendship"), Shanghai Industrial Pharmaceutical Investment Co., Ltd. ("Shanghai Industrial Pharmaceutical"), Shanghai Industrial Holdings Limited ("SIHL") and/or Shanghai Industrial Investment (Holdings) Company Limited ("SIIC"). As disclosed below, these companies had interests in the shares of the Company as at 30 June 2007 as recorded in the register required to be kept under section 336 of the SFO.

Substantial Shareholders of the Company

So far as the Directors are aware, as at 30 June 2007, the following persons (not being a director, chief executive or supervisor of the Company) had interests in the shares of the Company as recorded in the register required to be kept under section 336 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	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 1)	31.73%	–
Shanghai Hua Rui Investment Co. Ltd.	domestic	131,683,000	21.17% (Note 1)	31.73%	–
Shanghai Industrial Pharmaceutical	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%	–

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 (%)
SIHL	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%	–
SIIC Capital (BVI) Limited	domestic	131,683,000	21.17% (Note 2)	31.73%	–
SIIC CM Development Ltd.	domestic	131,683,000	21.17% (Note 2)	31.73%	–
SIIC	domestic	131,683,000	21.17% (Note 2) (Note 4)	31.73%	–
Mitsubishi Corporation	unlisted foreign shares	41,900,000	6.74%	10.10%	–
Arisaig Greater China Fund Limited	H Shares	42,165,000 (L)	6.78% (L)	–	20.37% (L)
Arisaig Partners (Mauritius) Limited	H Shares	42,165,000 (L)	6.78% (L)	–	20.37% (L)
Cooper Lindsay William Ernest	H Shares	42,165,000 (L)	6.78% (L)	–	20.37% (L)
The Hamon Investment Group Pte Limited	H Shares	23,496,000 (L)	3.78% (L)	–	11.35% (L)
JPMorgan Chase & Co.	H Shares	19,597,000 (L) 19,134,000 (P)	3.15% (L) 3.08% (L)	– –	9.47% (L) 9.24% (P)
IXIS Asset Management Asia Ltd	H Shares	19,132,000 (L)	3.08% (L)	–	9.24% (L)
Government of Singapore Investment Corporation Pte Ltd	H Shares	16,523,300 (L)	2.66% (L)	–	7.98% (L)
Atlantis Investment Management Ltd	H Shares	15,000,000 (L)	2.41% (L)	–	7.25% (L)
Matthews International Capital Management, LLC	H Shares	10,354,000 (L)	1.66% (L)	–	5.00% (L)

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

Notes:

1. SIHL beneficially owns 100% interests in Shanghai Industrial YKB Limited ("YKB") whilst YKB owns 43.62% interests in Shanghai Industrial Pharmaceutical. Shanghai Industrial Pharmaceutical beneficially owns 99.997% interests in Shanghai Hua Rui Investment Co. Ltd. ("Shanghai Hua Rui"). Shanghai Industrial Pharmaceutical and Shanghai Hua Rui hold 72.62% and 27.38% interests, respectively, in Shanghai Industrial United (Group) Commercial Network Development Company Limited ("SH United Commercial"). Accordingly, SIHL, YKB, Shanghai Industrial Pharmaceutical and Shanghai Hua Rui are deemed to have the discloseable interests in shares of the Company above.

2. SIIC, through its wholly-owned subsidiaries, namely Shanghai Investment Holdings Limited ("Shanghai Investment"), SIIC Capital (B.V.I.) Limited ("SIIC Capital") and SIIC CM Development Ltd. ("SIIC CM Development") directly owns an aggregate of 56.53% interests in SIHL. Thus, SIIC, Shanghai Investment, SIIC Capital and SIIC CM Development are deemed to have the discloseable interests in shares of the Company above.

3. Mr. Hua Guo-ping, a non-executive director of the Company, is an executive director of Shanghai Friendship. Mr. Wang Long-sheng , a supervisor of the Company, is an executive director and general manager of Shanghai Friendship. Mr. Zhang Zeng-yong, a supervisor of the Company, is a supervisor of Shanghai Friendship.

4. Mr. Lu Ming-fang, a non-executive director of the Company, is also a chairman of the board of directors of Shanghai Industrial Pharmaceutical, and an executive director of SIHL and SIIC. Mr. Yao Fang, a non-executive director of the Company, is also an executive director of SIHL, and a director and president of Shanghai Industrial Pharmaceutical.

5. Mr. Lu Ming-fang, a non-executive director of the Company, beneficially owned 23,400 shares in Shanghai Industrial Pharmaceutical. Mr. Lu also beneficially owns 3,280,000 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. Yao Fang, a non-executive director of the Company, beneficially owns 200,000 ordinary shares in SIHL.

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 recorded in the register pursuant to section 336 of the SFO as at 30 June 2007.

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" (these 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 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 express laws and regulations in the PRC 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 shall enjoy the same ranking 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; and

(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 may choose to resort to 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 in respect of the arbitrate of their disputes, either party may 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 has ended 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) the 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) the 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 the 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.

Upon satisfaction of all the conditions mentioned above and other conditions as may be imposed from time to time by the Stock Exchange, 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, the Group has not purchased, sold or redeemed any of the Company's listed shares.

Interim dividend

On 15 August 2007, the Board of the Company has declared the payment of an interim dividend of RMB0.06 per share for the six months ended 30 June 2007.

Interim dividend will be paid to the shareholders whose names appear on the Company's register of members as at the close of business on 18 September 2007. The H Shares share register of the Company will be closed from 14 September 2007 to 18 September 2007 (both days inclusive) during which period no transfer of H Share will be effected. 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 Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, by no later than 4:30 p.m. on Thursday, 13 September 2007.

Dividends payable to shareholders shall be calculated and declared in RMB. On or before 15 October 2007, dividends payable to the holders of the Company's domestic shares shall be paid in RMB, whereas dividends payable to the holders of the Company's Unlisted Foreign Shares shall be paid in the relevant foreign currencies and dividends payable to the 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 RMB against the HK$ of the week prior to the date of declaration of interim dividend as announced by the People's Bank of China, i.e., HK$103.29 for RMB100. Therefore, in terms of Hong Kong dollars, the interim dividends payable will be HK$0.062 per ordinary share of the Company.

Connected transactions

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

1. *Connected transaction entered into during the period under review – acquisition of Shanghai Lianhua Supermarket Distribution Co., Ltd ("Lianhua Supermarket Distribution")*

In order to strengthen the Company's overall management on its core businesses and thus facilitating its implementation of its overall development strategy, the Company and Shanghai Xin Wan Rong Engineering Technology Company ("Xin Wan Rong"), on 30 March 2007, have entered into equity transfer agreement in respect of an acquisition of 20% equity interest in Lianhua Supermarket Distribution by the Company from Xin Wan Rong. The consideration for the equity transfer is RMB2,800,000. Upon completion of the equity transfer agreement, 90% and 10% of the equity interest of Lianhua Supermarket Distribution will be owned by the Company and a subsidiary of the Company. As at 30 March 2007, Xin Wan Rong was the substantial shareholder of Lianhua Supermarket Distribution, which is a subsidiary of the Company. Xin Wan Rong is therefore a connected person of the Company under the Listing Rules and the equity transfer constitutes a connected transaction of the Company. Given that each of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) is less than 2.5%, the transaction is only subject to the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules. The Company has discharged its obligations of reporting and announcement requirements.

2. *Continuing connected transaction – Lease agreements*

The rental agreement entered into between Shanghai Century Lianhua Supermarket Development Company Limited ("Century Lianhua") as the lessee and Shanghai Friendship Shopping Center Development Co., Ltd. ("SFSC") as the lessor in respect of No. 88, Xian Xia Xi Lu, Chang Ning District, Shanghai, the PRC.

The rental agreement entered into between Century Lianhua as the lessee and Homemart Decoration and Materials Co., Ltd. ("Homemart") as the lessor in respect of No. 645, Xie Tu Lu, Lu Wan District, Shanghai, the PRC.

The rental agreement entered into between Century Lianhua as the lessee and Homemart as the lessor in respect of No. 1875, Ji Yang Lu, Pudong New District, Shanghai, the PRC.

Given that each of the applicable percentage ratios of the estimated aggregate rental payment payable by Century Lianhua to SFSC and Homemart under the aforementioned leasing agreements is less than 2.5%, the above leasing agreements are only subject to the reporting and announcement requirements under Rule 14A.45 to 14A.47 of the Listing Rules and are exempt from the independent shareholder approval requirement.

3. Continuing connected transaction – Merchandise agreement

The merchandise agreement between the Company as the vendor and Shanghai Lianhua Quik Convenience Stores Company Limited ("Lianhua Quik") as the purchaser.

Given that each of the applicable percentage ratios of the estimated aggregate annual amount of sales to Lianhua Quik by the Company under the merchandise agreement for the three years ending 31 December 2008 exceeds 2.5%, the Company has discharged its obligation for announcement and the transactions have been passed by the independent shareholders of the Company at the extraordinary general meeting of the Company held on 13 December 2005. The annual cap of the amount of sales to Lianhua Quik by the Company for the year ended 31 December 2007 is RMB615,310,000.

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 unaudited condensed interim accounts for 2007 of the Company. The Audit Committee considered that the interim financial report for the six months ended 30 June 2007 is in compliance with the 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 the code of conduct for securities transactions by all directors of the Company. After specific enquiries to all the directors, the Board is pleased to announce that all the directors have fully complied with the provisions under the Model Code during the period under review.

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

The Board is pleased to confirm that save and except the Company's practice relating to the directors' retirement rotation as set out below, the Company has complied with the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 of the Listing Rules for the period under review and, save as set out below, 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. Details of the deviation is set out as follows:

Provision A4.2 of the Code requires that every director (including those appointed for a specific term) of a listed issuer shall be subject to retirement by rotation at least once every three years. The Articles of Association of the Company provides that each director shall be appointed at the general meeting of the Company and for a term of not more than 3 years, and eligible for re-election. Having taken into account of the continuity of the implementation of the Company's operation and management policies, the Articles of Association contains no express provision for the mechanism of directors' retirement by rotation and thus deviating from the aforementioned provision of the Code.

By Order of the Board
Wang Zhi-gang
Chairman

15 August 2007, Shanghai, The PRC

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2007

		Unaudited Six months ended 30 June	
	Note	**2007 RMB'000**	2006 RMB'000
Turnover	4	**8,980,572**	8,350,616
Cost of sales	6	**(7,826,802)**	(7,377,415)
Gross profit		**1,153,770**	973,201
Other revenues	4	**799,458**	839,220
Other income	5	**219,928**	49,000
Distribution costs	6	**(1,635,131)**	(1,589,093)
Administrative expenses	6	**(158,883)**	(132,885)
Other operating expenses	6	**(156,254)**	(3,832)
Operating profit		**222,888**	135,611
Finance income		**19,340**	11,988
Finance costs		**(563)**	(2,593)
Finance income – net	7	**18,777**	9,395
Share of results of associates	12	**64,916**	55,046
Profit before taxation		**306,581**	200,052
Taxation	8	**(125,144)**	(48,539)
Profit for the period		**181,437**	151,513
Attributable to:			
Company's shareholders		**140,257**	138,367
Minority interests		**41,180**	13,146
		181,437	151,513
Dividends	9	**37,320**	37,320
Basic and diluted earnings per share for profit attributable to Company's shareholders	10	**RMB0.23**	RMB0.22

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2007

	Note	Unaudited 30 June 2007 RMB'000	Audited 31 December 2006 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	11	**2,737,785**	2,724,568
Construction in progress	11	**168,627**	353,155
Land use rights	11	**214,290**	198,316
Intangible assets	11	**219,762**	198,622
Investments in associates	12	**393,245**	328,622
Available-for-sale financial assets		**29,187**	9,446
Deferred tax assets		**30,459**	38,448
Other non-current assets	13	**35,480**	43,285
		3,828,835	3,894,462
Current assets			
Inventories		**1,335,809**	1,616,371
Trade receivables	14	**80,702**	45,242
Deposits, prepayments and other receivables		**647,178**	735,229
Amounts due from associates	15	**53**	945
Available-for-sale financial assets		**–**	30,000
Financial assets at fair value through profit or loss		**251,862**	78,252
Non-current assets classified as held for sale	5(a)	**–**	27,861
Bank balances and cash		**2,987,218**	2,472,519
		5,302,822	5,006,419
Total assets		**9,131,657**	8,900,881

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

As at 30 June 2007

	Note	Unaudited 30 June 2007 RMB'000	Audited 31 December 2006 RMB'000
EQUITY			
Equity attributable to Company's shareholders			
Share capital		**622,000**	622,000
Reserves	17	**1,526,217**	1,429,500
		2,148,217	2,051,500
Minority interests		**287,585**	273,319
Total equity		**2,435,802**	2,324,819
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		**62,756**	77,604
Current liabilities			
Trade payables	18	**2,377,721**	2,564,728
Other payables, accruals and coupon liabilities	19	**4,086,945**	3,827,064
Amounts due to associates	15	**–**	2,007
Amount due to holding company	16	**39,000**	39,000
Taxation payable		**84,840**	40,507
Dividends payable		**44,593**	1,053
Liabilities directly associated with non-current assets classified as held for sale	5(a)	**–**	24,099
		6,633,099	6,498,458
Total liabilities		**6,695,855**	6,576,062
Total equity and liabilities		**9,131,657**	8,900,881
Net current liabilities		**(1,330,277)**	(1,492,039)
Total assets less current liabilities		**2,498,558**	2,402,423

Wang Zhi-gang
Director

Liang Wei
Director

Xu Ling-ling
Director

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2007

	Unaudited					
	Attributable to Company's shareholders				Minority interests	Total equity
	Share capital	Other reserves	Retained earnings	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2007	622,000	998,714	430,786	2,051,500	273,319	2,324,819
Profit for the period	–	–	140,257	140,257	41,180	181,437
Acquisition of additional equity interests in a subsidiary	–	–	–	–	(2,000)	(2,000)
Dividend relating to 2006	–	–	(43,540)	(43,540)	(24,914)	(68,454)
	–	–	96,717	96,717	14,266	110,983
Balance at 30 June 2007	622,000	998,714	527,503	2,148,217	287,585	2,435,802
Balance at 1 January 2006	622,000	955,761	313,000	1,890,761	224,450	2,115,211
Profit for the period	–	–	138,367	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)	(43,540)	(17,616)	(61,156)
	–	–	94,827	94,827	(6,185)	88,642
Balance at 30 June 2006	622,000	955,761	407,827	1,985,588	218,265	2,203,853

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2007

	Unaudited Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
Net cash inflow from operating activities	**646,905**	404,772
Net cash outflow from investing activities	**(107,292)**	(429,720)
Net cash outflow from financing activities	**(24,914)**	(73,846)
Increase/(decrease) in cash and cash equivalents	**514,699**	(98,794)
Cash and cash equivalents at 1 January	**2,472,519**	1,083,221
Cash and cash equivalents at 30 June	**2,987,218**	984,427
Comprising:		
Bank balances and cash at 30 June	**2,987,218**	984,427

NOTES TO THE CONDENSED INTERIM ACCOUNTS

For the six months ended 30 June 2007

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 2007 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 5th to 14th Floors, 1258 Zhenguang 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 annual accounts for the year ended 31 December 2006.

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 2006.

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 2007. Those that are relevant to the Group's operations are as follows:

- HKFRS 7 "Financial Instruments: Disclosures", and a complementary amendment to HKAS 1 "Presentation of Financial Statements – Capital Disclosures". HKFRS 7 introduces new disclosures to improve the information about financial instruments. The amendment to HKAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures are the sensitivity analysis to market risk and the capital disclosures required by the amendment of HKAS 1. Full disclosures as required will be disclosed in the annual accounts.

- HK(IFRIC)-Int 10 "Interim Financial Reporting and Impairment". HK(IFRIC)-Int 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. This interpretation does not have material impact on the Group's condensed interim accounts.

NOTES TO THE CONDENSED INTERIM ACCOUNTS

For the six months ended 30 June 2007

2. Accounting policies (continued)

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 2007 as set out below are currently not relevant to the Group's operations:

- HK(IFRIC)-Int 7 "Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies"
- HK(IFRIC)-Int 8 "Scope of HKFRS 2 Share – based payment"
- HK(IFRIC)-Int 9 "Reassessment of Embedded Derivatives"

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 2007.

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; logistic services for wholesale business; and sales through internet.

NOTES TO THE CONDENSED INTERIM ACCOUNTS

For the six months ended 30 June 2007

3. Segment information (continued)

The segment results for the six months ended 30 June 2007 are as follows:

	Unaudited Six months ended 30 June 2007				
	Supermarkets RMB'000	Hypermarkets RMB'000	Convenience stores RMB'000	Other operations RMB'000	Group RMB'000
Segment revenue	3,485,642	5,386,543	793,169	114,676	9,780,030
Including sales of merchandise to					
– an associate at retail price less 1%	–	–	–	–	–
– franchised stores at cost	212,645	–	183,135	–	395,780
Segment results	131,515	(51,581)	36,368	197	116,499
Other income					143,621
Unallocated costs					(37,232)
Operating profit					222,888
Finance income					19,340
Finance costs					(563)
Finance income – net					18,777
Share of results of associates					64,916
Profit before taxation					306,581
Taxation					(125,144)
Profit for the period					181,437

NOTES TO THE CONDENSED INTERIM ACCOUNTS

For the six months ended 30 June 2007

3. Segment information (continued)

Other segment items are as follows:

	Unaudited Six months ended 30 June 2007				
	Supermarkets RMB'000	**Hypermarkets RMB'000**	**Convenience stores RMB'000**	**Other operations RMB'000**	**Group RMB'000**
Capital expenditure	**63,858**	**109,145**	**5,054**	**8,265**	**186,322**
Depreciation charge	**67,871**	**123,093**	**15,340**	**9,168**	**215,472**
Amortisation charge	**4,060**	**8,059**	**695**	**2,322**	**15,136**
Impairment charge	**–**	**41,172**	**–**	**–**	**41,172**

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	3,396,600	4,956,585	814,047	22,604	9,189,836
Including sales of merchandise to					
– 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					9,657
Unallocated costs					(15,128)
Operating profit					135,611
Finance income					11,988
Finance costs					(2,593)
Finance income – net					9,395
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 2007

3. **Segment information** (continued)

Other segment items are 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 unaudited segment assets and liabilities at 30 June 2007 are as follows:

	Supermarkets RMB'000	**Hypermarkets RMB'000**	**Convenience stores RMB'000**	**Other operations RMB'000**	**Group RMB'000**
Segment assets	**1,694,530**	**5,381,723**	**313,466**	**39,366**	**7,429,085**
Investments in associates					**393,245**
Unallocated assets					**1,309,327**
Total assets					**9,131,657**
Segment liabilities	**1,447,185**	**4,849,188**	**243,853**	**31,542**	**6,571,768**
Unallocated liabilities					**124,087**
Total liabilities					**6,695,855**

NOTES TO THE CONDENSED INTERIM ACCOUNTS

For the six months ended 30 June 2007

3. Segment information (continued)

The audited segment assets and liabilities at 31 December 2006 are as follows:

	Supermarkets RMB'000	Hypermarkets RMB'000	Convenience stores RMB'000	Other operations RMB'000	Group RMB'000
Segment assets	2,062,353	4,820,727	373,049	26,499	7,282,628
Investments in associates					328,622
Unallocated assets					1,289,631
Total assets					8,900,881
Segment liabilities	1,826,238	4,328,916	309,917	24,632	6,489,703
Unallocated liabilities					86,359
Total liabilities					6,576,062

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, available-for-sale financial assets 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.

NOTES TO THE CONDENSED INTERIM ACCOUNTS

For the six months ended 30 June 2007

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	
	2007	2006
	RMB'000	RMB'000
Turnover		
Sales of merchandise	**8,980,572**	8,350,616
Other revenues		
Income from suppliers		
– Promotion and store display income	**612,164**	638,135
– Merchandise storage and delivery income	**17,220**	15,375
– Information system service income	**2,977**	2,933
Gross rental income from leasing of shop premises	**142,870**	158,968
Royalty income from franchised stores	**24,227**	23,809
	799,458	839,220
Total revenues	**9,780,030**	9,189,836

NOTES TO THE CONDENSED INTERIM ACCOUNTS

For the six months ended 30 June 2007

5. Other income

	Unaudited Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
Government subsidies	**13,501**	9,308
Fair value gain (realised and unrealised) on financial assets at fair value through profit or loss	**133,585**	4,898
Gain on disposal of available-for-sale financial assets	**10,068**	–
Gain on disposal of a subsidiary (Note a)	**19,781**	–
Gain on disposal of land use right	**8,930**	–
Compensation on store relocation and lease termination	**–**	7,784
Salvage sales	**19,478**	15,090
Others	**14,585**	11,920
	219,928	49,000

Note:

(a) On 22 December 2006, the Group entered into an agreement with Guangdong Sai Yi Convenience Stores Ltd. to sell its entire equity interest in Guangzhou Lianhua Quik Stores Co., Ltd. at a final consideration of RMB27,000,000 which was completed in March 2007. The disposal resulted in a gain of RMB19,781,000. The assets and liabilities of the subsidiary as at 31 December 2006 had been included as non-current assets classified as held for sale and liabilities directly associated with non-current assets classified as held for sale respectively in the consolidated balance sheet as at 31 December 2006.

NOTES TO THE CONDENSED INTERIM ACCOUNTS

For the six months ended 30 June 2007

6. Expenses by nature

	Unaudited Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
Cost of merchandise	**7,826,802**	7,377,415
Amortisation of other non-current assets	**1,299**	3,886
Amortisation of software (Note 11)	**10,271**	6,620
Amortisation of land use rights (Note 11)	**3,566**	1,771
Depreciation of property, plant and equipment (Note 11)	**215,472**	231,532
Loss on disposal of property, plant and equipment	**36,011**	3,896
Operating lease rental in respect of land and buildings	**497,438**	458,129
Outgoings for income from leasing of shop premises	**52,563**	62,752
Staff costs	**551,297**	530,867
Pre-operating expenses	**5,199**	8,200
Utility expenses	**175,830**	173,030
Advertising and promotion costs	**39,545**	45,907
Other store operating expenses	**174,212**	151,638
Impairment of property, plant and equipment (Note 11)	**34,297**	–
Impairment of intangible assets (Note 11)	**369**	–
Impairment of other non-current assets	**6,506**	–
Store closure expenses (Note a)	**70,901**	3,323
Other expenses	**75,492**	44,259
Total cost of sales, distribution costs, administrative expenses and other operating expenses	**9,777,070**	9,103,225

Note:

(a) The store closure expenses consist primarily of the compensation for early termination of lease contract of RMB41,518,000, write-off of non-recoverable assets of RMB21,500,000, staff dismissal compensation of RMB1,068,000 and other miscellaneous items of RMB6,815,000.

NOTES TO THE CONDENSED INTERIM ACCOUNTS

For the six months ended 30 June 2007

7. Finance income and costs

	Unaudited Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
Interest income	**19,340**	11,988
Interest expenses:		
Bank borrowings wholly repayable within five years	**–**	(1,951)
Others	**(563)**	(642)
Net finance income	**18,777**	9,395

8. 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% (2006: 33%) of assessable income of the Group except for certain subsidiaries which are taxed at preferential rate of 15% (2006: 0% to 15%) based on the relevant PRC tax rules and regulations.

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

	Unaudited Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
PRC income tax		
– Current taxation	**132,003**	53,773
– Deferred taxation	**(6,859)**	(5,234)
	125,144	48,539

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "new CIT Law"). The new CIT Law reduces the corporate income tax rate for domestic enterprises and foreign invested enterprises from 33% to 25% with effect from 1 January 2008. As a result of the new CIT Law, net deferred tax liabilities of approximately RMB7,736,000 has been released and credited to the condensed consolidated profit and loss account in the six-month period ended 30 June 2007.

NOTES TO THE CONDENSED INTERIM ACCOUNTS

For the six months ended 30 June 2007

8. Taxation (continued)

The new CIT Law provides that further detailed measures and regulations on the determination of taxable profit, tax incentive and grandfathering provisions will be issued by the State Council in due course. As and when the State Council announces the additional regulations, the Company will assess their impact, if any, and this change in accounting estimate will be accounted for prospectively.

9. Dividends

	Unaudited Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
Interim dividend, declared, of RMB0.06 (2006: RMB0.06) per share	**37,320**	37,320

At a meeting held on 15 August 2007, 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 2007.

At a meeting held on 18 April 2007, the Directors proposed a final dividend of RMB0.07 per share for the year ended 31 December 2006, totalling RMB43,540,000, which was approved by the shareholders on 28 June 2007 and has been reflected as an appropriation of retained earnings for the six months ended 30 June 2007 (Note 17). The amount has not yet been paid as at 30 June 2007.

10. Earnings per share

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

	Unaudited Six months ended 30 June	
	2007	2006
Profit attributable to Company's shareholders (RMB '000)	**140,257**	138,367
Weighted average number of ordinary shares in issue ('000)	**622,000**	622,000
Basic earnings per share (RMB)	**0.23**	0.22

As there were no dilutive options and other dilutive potential shares in issue during both periods presented, diluted earnings per share is the same as basic earnings per share.

NOTES TO THE CONDENSED INTERIM ACCOUNTS

For the six months ended 30 June 2007

11. Major capital expenditure

	Property, plant and equipment	Construction in progress	Land use rights	Intangible assets: Goodwill	Intangible assets: Software	Intangible assets: Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Opening net book amount as at 1 January 2007 (audited)	2,724,568	353,155	198,316	163,247	35,375	198,622
Additions	132,965	31,433	21,000	856	924	1,780
Transfers	185,961	(215,961)	–	–	30,000	30,000
Disposals	(55,940)	–	(1,460)	–	–	–
Depreciation/amortisation charge (Note 6)	(215,472)	–	(3,566)	–	(10,271)	(10,271)
Impairment charge (Note 6)	(34,297)	–	–	–	(369)	(369)
Closing net book amount as at 30 June 2007 (unaudited)	2,737,785	168,627	214,290	164,103	55,659	219,762
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	–	–	2,174	2,174
Transfers	7,571	(7,851)	–	–	280	280
Disposals	(8,496)	–	–	–	–	–
Depreciation/amortisation charge (Note 6)	(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
Acquisitions	3,641	17,158	–	3,393	60	3,453
Additions	268,814	114,385	259	–	7,410	7,410
Transfers	28,846	(30,352)	–	–	1,506	1,506
Disposals	(65,671)	–	(13)	–	–	–
Depreciation/amortisation charge	(235,003)	–	(5,822)	–	(7,318)	(7,318)
Transfer to non-current assets classified as held for sale	(10,534)	–	–	–	–	–
Closing net book amount as at 31 December 2006 (audited)	2,724,568	353,155	198,316	163,247	35,375	198,622

NOTES TO THE CONDENSED INTERIM ACCOUNTS

For the six months ended 30 June 2007

12. Investments in associates

	Unaudited Six months ended 30 June		Unaudited From 1 July 2006 to 31 December
	2007	2006	2006
	RMB'000	RMB'000	RMB'000
Balance at beginning of the period	**328,622**	335,261	387,132
Share of associates' results	**64,916**	55,046	58,551
– Profit before taxation	**93,965**	80,365	83,744
– Taxation	**(29,049)**	(25,319)	(25,193)
Addition arising from acquisition of additional interest in an associate	**–**	–	1,000
Cash dividends received	**(293)**	(3,175)	(83,015)
Disposal of associates	**–**	–	(1,030)
Reclassification as a subsidiary on acquisition of additional interest in an associate	**–**	–	(34,016)
Balance at end of the period	**393,245**	387,132	328,622

Investments in associates at 30 June 2007 include goodwill of RMB6,787,000 (2006: 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 2007 RMB'000	Unaudited 31 December 2006 RMB'000
Assets	**1,044,237**	1,051,085
Liabilities	**(657,779)**	(729,250)
Net assets	**386,458**	321,835

NOTES TO THE CONDENSED INTERIM ACCOUNTS

For the six months ended 30 June 2007

12. Investments in associates (continued)

	Unaudited Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
Turnover	**1,210,342**	1,423,509
Profit for the period	**64,916**	25,244
Add: unrecognised losses	**–**	29,802
	64,916	55,046

During the six months ended 30 June 2006, share of losses incurred by a former associate amounting to RMB29,820,000 had not been recognised after the Group's investment in the associate had been reduced to zero. In November 2006, the Group disposed of its equity in this associate to the joint venture partner.

13. 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.

14. 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 2007 RMB'000	Audited 31 December 2006 RMB'000
Within 30 days	**64,254**	26,160
31-60 days	**7,975**	12,183
61-90 days	**4,076**	4,106
91 days-one year	**4,397**	2,793
	80,702	45,242

15. 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 2007

16. 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.

17. 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 2007 (audited)	755,953	3,595	239,166	–	430,786	1,429,500
Profit for the period attributable to Company's shareholders	–	–	–	–	140,257	140,257
2006 final dividend	–	–	–	–	(43,540)	(43,540)
Balance at 30 June 2007 (unaudited)	755,953	3,595	239,166	–	527,503	1,526,217
Representing:						
2007 declared interim dividend					37,320	37,320
Others					490,183	1,488,897
					527,503	1,526,217
Balance at 1 January 2006 (audited)	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 (unaudited)	755,953	3,595	130,265	65,948	407,827	1,363,588
Profit for the period attributable to Company's shareholders	–	–	–	–	103,232	103,232
Profit appropriations	–	–	42,953	–	(42,953)	–
Transfer to statutory common reserve fund	–	–	65,948	(65,948)	–	–
2006 interim dividend	–	–	–	–	(37,320)	(37,320)
Balance at 31 December 2006 (audited)	755,953	3,595	239,166	–	430,786	1,429,500
Representing:						
2006 proposed final dividend					43,540	43,540
Others					387,246	1,385,960
					430,786	1,429,500

NOTES TO THE CONDENSED INTERIM ACCOUNTS

For the six months ended 30 June 2007

17. Reserves (continued)

Notes:

(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. The statutory common reserve fund may be converted into the share capital, provided the balance of the reserve fund after such conversion is not less than 25% of the registered capital.

(c) According to new Company Law of the PRC effective on 1 January 2006, appropriation of statutory common welfare fund was no longer required. Based on the relevant interpretations issued by the Ministry of Finance, the unutilised statutory common welfare fund are transferred to statutory common reserve fund.

No transfer has been made to the statutory common reserve fund in respect of the net profit for the six months ended 30 June 2007 (six months ended 30 June 2006: Nil). The transfer will be made at the year end based on the annual profit and upon Directors' approval.

18. Trade payables

The ageing analysis of the trade payables are as follows:

	Unaudited 30 June 2007 RMB'000	Audited 31 December 2006 RMB'000
Within 30 days	**2,104,422**	1,484,922
31-60 days	**194,621**	744,957
61-90 days	**33,081**	189,425
91 days-one year	**45,597**	145,424
	2,377,721	2,564,728

NOTES TO THE CONDENSED INTERIM ACCOUNTS

For the six months ended 30 June 2007

19. Other payables, accruals and coupon liabilities

	Unaudited 30 June 2007 RMB'000	Audited 31 December 2006 RMB'000
Other payables	**594,122**	754,925
Coupon liabilities	**3,327,343**	2,987,005
Customers' advances	**65,616**	63,662
Accruals	**99,864**	21,472
	4,086,945	3,827,064

20. Commitments

(a) *Capital commitments for property, plant and equipment*

	Unaudited 30 June 2007 RMB'000	Audited 31 December 2006 RMB'000
Contracted but not provided for	**267,863**	250,184

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

(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 2007 RMB'000	Audited 31 December 2006 RMB'000
Not later than one year	**742,433**	837,645
Later than one year and not later than five years	**2,814,451**	3,119,485
Later than five years	**6,367,052**	6,841,330
	9,923,936	10,798,460

NOTES TO THE CONDENSED INTERIM ACCOUNTS

For the six months ended 30 June 2007

20. Commitments (continued)

(c) Commitments for equity investments

As at 30 June 2007, the Group had a commitment to acquire the remaining equity interests of 25.39% (2006: 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 2007 RMB'000	Audited 31 December 2006 RMB'000
Not later than one year	**166,043**	168,323
Later than one year and not later than five years	**277,191**	270,281
Later than five years	**195,784**	184,949
	639,018	623,553

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

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. 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 2007

22. Related party transactions (continued)

Apart from those disclosed under Notes 15 and 16, 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	**2007 RMB'000**	2006 RMB'000
Sales to associates			
– Shanghai Lianhua E-business Co., Ltd. ("Lianhua E-Business")	(i)	**–**	584,624
Purchases from associates			
– Shanghai Lianhua Supermarket Food Co., Ltd. and Shanghai Gude Commercial Trading Co., Ltd.	(ii)	**6,673**	13,235
Decoration cost paid to an associate	(iii)	**–**	19,819
Rental expenses paid to subsidiaries of holding company	(iv)	**16,646**	9,461
Commission income received from related companies controlled by the ultimate holding company	(v)	**8,463**	–

Notes:

(i) Sales to former associate Lianhua E-business were recognised when customers presented coupons issued by Lianhua E-business at the Group's stores in exchange for the Group's merchandises. The sales were set at retail prices less a discount of 1%. Such transactions have been eliminated in the consolidated accounts after the Group's acquisition of Lianhua E-Business since 2 November 2006.

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

(iii) The decoration cost paid to former associate Lianhua E-business was determined with reference to the then prevailing market prices. Such transactions have been eliminated in the consolidated accounts after the Group's acquisition of Lianhua E-Business since 2 November 2006.

(iv) The amount represent rental expenses of certain hypermarkets paid to subsidiaries of Shanghai Friendship Group Incorporated Company, the holding company of the Group, and Bailian Group Company Limited, the ultimate 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.

(v) The commission income was received from the related companies controlled by the ultimate holding company in relation to the sales made through the coupons issued by the Group. The commissions were charged at rates ranging from 1.5% to 2.5% of the sales made through the coupons in the retail outlets of these companies.

NOTES TO THE CONDENSED INTERIM ACCOUNTS

For the six months ended 30 June 2007

22. 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 2007 RMB'000	Audited 31 December 2006 RMB'000
Current assets		
Deposits, prepayments and other receivables		
– entrusted loan	**80,000**	80,053
Current liabilities		
Accounts payable and other liabilities	**235,391**	248,901

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	
	2007 RMB'000	2006 RMB'000
Purchase of goods	**1,522,947**	1,226,112
Interest income received	**19,340**	11,988
Bank charges	**6,974**	4,396
Interest expenses	**563**	2,593

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 2007

22. Related party transactions (continued)

(d) Key management compensation

	Unaudited Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
Salaries and other short-term employee benefits	**3,104**	3,005
Post-employment benefits	**127**	124
Other long-term benefits	**127**	124
	3,358	3,253

23. 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.

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 15 August 2007.

25. Comparative figures

For comparative figures, certain amounts originally recorded under other revenues have been reclassified to other income and the finance income has been separately disclosed from other income so as to conform to the current period presentation.