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

Interim Report 2008

LIANHUA

Stock Code: 0980

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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. Koichi Narita
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. Koichi Narita
Mr. Zhang Hui-ming

Nomination Committee

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

Supervisors

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

Joint Company Secretaries

Ms. Xu Ling-ling
Mr. Stephen Mok

Authorised Representatives

Mr. Liang Wei
Ms. Xu Ling-ling

International Auditors

PricewaterhouseCoopers

Legal Advisers to the Company

As to Hong Kong laws

Huen Wong & Co. in association with Fried, Frank, Harris, Shriver & Jacobson LLP

As to PRC laws

Grandall Legal Group (Shanghai)

Investors and Media Relations Consultant

Christensen International Limited

Principal Bankers

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

Registered Office and Place of Business

Registered Office in the PRC

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1666 Sichuan (North) Road
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Place of Business in the PRC

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Shareholder's Enquiries

Contact Information of the Company

Department of Securities Affairs

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Shops 1712-1716
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183 Queen's Road East
Wanchai
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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

According to the report of the National Bureau of Statistics of China, the economic growth in the PRC remained fast during the first half of 2008. In the first half of the year, the gross domestic products ("GDP") in the PRC reached RMB13,061.9 billion, representing a growth of 10.4% as compared to previous year. The sales amount in the PRC market grew rapidly. The total retail sales of consumer goods in the first half of the year were RMB5,104.3 billion, representing a 21.4% growth. The disposable income per capita of urban citizens in the first half of the year amounted to RMB8,065, representing a growth of 14.4% as compared to previous year. Net income per capita of the citizens in rural areas was RMB2,528, a growth of 19.8% as compared to previous year.

Since 2007, inflation mainly driven by the increasing food prices has become the key concern of the macro economy. In the first half of 2008, the overall Consumer Price Index (CPI) increased by 7.9% and remained at a high level despite a drop on a month-to-month basis. Under macro-economic inflation, the Group obtained a steady increase in its operating results, which was attributable to the large scale of retail network and the business model of selling food and daily necessities to consumers. At the same time, the Group was still facing challenges of the increasing operating costs, such as the rise of labour wages, utility prices, rental costs and oil prices. While facing challenges, the Group achieved satisfactory results in the first half of 2008 by persistent improvement in the operation and stringent control over the costs.

Though the macro-economic environment in the second half of 2008 remains uncertain, it is reasonably believed that the trend of continuously expanding consumption will not change, and factors favourable to the long-term growth of consumption remains. The supermarket chain industry will remain promising.

Results Overview

In the first half of 2008, the Group maintained the strategy of "Development, Transformation and Enhancement". We continued to improve our operation capabilities with a satisfactory growth in all income indicators. We recorded a turnover of approximately RMB10.739 billion, representing a growth of 19.8% as compared to the corresponding period of last year. The operating profit amounted to approximately RMB221 million, representing a decrease of 1% as compared to the corresponding period of last year. Profit for the period amounted to RMB262 million, representing an increase of 44.2% as compared to the corresponding period of last year. The profit for the period attributable to shareholders amounted to approximately RMB227 million, representing an increase of 61.8% as compared to the corresponding period of last year. The earnings per share amounted to RMB0.36. During the period under review, the Group's results reflected the notable achievements as follows:

- **A new record high in the same store sales growth**. Benefited from the continuous economic growth in the PRC and increase in resident disposable income as well as the continuous outlet transformation and the further implementation of "Strong Outlet" strategy, there was a significant increase in the same store sales for various segments, which amounted to 13%, of which hypermarket business increased by 12%, supermarket business increased by 15.2% and convenience stores business increased by 11.4%, a new record high since our listing. The trend of rapid growth in sales since 2007 was maintained and enhanced.

- **A steady increase in the gross profit margin**. By upgrading sales quality, optimizing merchandise structure, improving the pricing strategy and strengthening the inventory management, the Group realized a gross profit of approximately RMB1.434 billion and a gross profit margin of approximately 13.4%, representing an increase of 25.9% and 0.7 percentage point respectively as compared to the corresponding period of last year.

- **A decrease in cost ratio as compared to the corresponding period of last year**. While there was an overall increase in costs, the Group was able to mitigate the pressure of increasing cost effectively by an outstanding same store sales growth and stringent control over the expenses on a persistent basis. The distribution cost ratio for the period was approximately 17.7%, representing a decrease of 0.5 percentage point as compared to the corresponding period of last year.

- **A substantial increase in operating profit of hypermarket business**. The hypermarket business recorded a sharp increase in operating profit, which benefited from the resolute elimination of under-performing retail outlets in recent years and the continuous enhancement of the existing outlets in recent years, the new retail network's focus on Yangtze River Delta region and the improving quality of the new retail outlets. The operating profit amounted to RMB80.733 million.

- **An optimization in the earning structure**. During the period under review, the Group's core business reached a robust growth with outstanding contribution. Our earning structure was optimized while we developed in a more stable way. The Group made progressive results with its long-term strategy of "Development, Transformation and Enhancement".

Segment results

Hypermarkets

During the period under review, the hypermarket business of the Group recorded a turnover of approximately RMB6.14338 billion, representing approximately 57.2% of the Group's turnover and a growth of approximately 26.4% as compared to RMB4.86112 billion of last year. The operating profit of this segment was RMB80.73 million, representing a significant increase as compared to 2007.

	2008	2007
Gross profit margin%	**12.0**	10.8
Consolidated income margin% (Note)	**22.1**	22.9
Operating profit margin%	**1.3**	-0.1

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

MANAGEMENT DISCUSSION AND ANALYSIS

Supermarkets

During the period under review, the supermarket business of the Group recorded a turnover of RMB3.71677 billion, representing 34.6% of the Group's turnover and a growth of 13.9% as compared to last year of approximately RMB3.26337 billion. The gross profit margin amounted to 15%, while taking no account of the sales of merchandise to franchised stores at cost, the gross profit margin amounted to 16.2%. The operating profit of this segment was RMB161.39 million, representing a growth of approximately 4.1%, and the operating profit margin dropped slightly as compared to the corresponding period of last year. However, after taking no account of a one-off revenue in the corresponding period, the operating profit margin achieved a steady growth, up to a relatively historical high level.

	2008	2007
Gross profit margin%	**15.0**	14.6
Consolidated income margin%	**21.3**	22.9
Operating profit margin%	**4.3**	4.8

Convenience stores

During the period under review, the convenience stores business of the Group recorded a turnover of RMB788.56 million, representing approximately 7.3% of the Group's turnover and an increase of 6.6% as compared to last year of approximately RMB739.74 million. The operating profit of this segment was RMB16.91 million. The gross profit margin was 15.5%, while taking no account of the sales of merchandise to franchised stores at cost, the gross profit margin amounted to 21.2%, representing a slight increase as compared to the corresponding period of last year. Taking no account of a one-off income from the transfer of the convenience stores in Guangzhou and the sale of merchandise to franchised stores at cost in the corresponding period of last year, the operating profit margin remained stable as compared to last year and the consolidated income margin had a slight increase this year.

	2008	2007
Gross profit margin%	**15.5**	15.8
Consolidated income margin%	**23.0**	25.9
Operating profit margin%	**2.1**	4.9

Business Review

"Strong Outlet" strategy effectively improves our operation capabilities and promotes a significant increase in sales

In the first half of 2008, the Group continued to promote the "Strong Outlet" strategy to enhance the basic operation capabilities of the retail outlets. The Group identified improvement goals for the selected target outlets after a comprehensive "examination" of their operations, and formulated a complete set of measures. "Strong Outlet" strategy has driven an overall enhancement in the service quality of the outlets, its operation capabilities and supporting system, which was one of the strong driving forces behind the robust increase in the overall results of the Company in the first half of 2008. During the period under review, the sales and customer volume of the sample outlets, being the first batch of strong outlets launched by the Group, surpassed the average level of the Group as compared to the corresponding period of last year.

The success of "Strong Outlet" strategy not only helped improve the Group's existing outlets, but also provided the new outlets with valuable operation experience. Based on our observation, the incubation period of the new outlets opened since 2007 was relatively shorter and their results were better than those outlets launched in previous periods. Some of the new outlets recorded profits in the year of establishment.

Development with innovations and continuous transformation in various formats

During the period under review, the Group continued to promote the transformation of the supermarket business with 36 newly transformed outlets. The total number of transformed outlets reached 212. The average daily sales of the transformed outlets increased by approximately 16.5% as compared to the corresponding period of last year, and the average daily customer volume grew by approximately 2%.

For the hypermarkets, the Group continuously tried to explore the trial operation of the business model of "hypermarket combined with department store" in some of our outlets in the first and second tier cities.

During the period under review, by leveraging on its strong network, the convenience store segment further increased the value-added services of the pilot transforming outlets, and will gradually extend the coverage of the new value-added services with a view to fully utilizing the value of the network resources. Currently, some of the transformed outlets of Quik have introduced the advanced multimedia terminal equipment, providing a variety of services covering payment for utility charges by scanning the bar code, credit card bill payment, mobile value-adding services and ticketing and much more services to be included.

Proactively developing new retail network and showing further advantage of strong regional presence

During the period under review, while implementing its national development strategy of "Concentration, Stabilization and Quality", the Group focused on the scientific planning, rationalized arrangement and targeted breakthroughs in the Yangtze River Delta region and other cities where we have presence, so as to ensure both the concentration level and quality of the development.

During the period under review, the Group opened 256 new outlets, of which 11 were hypermarkets, 94 were supermarkets and 151 were convenience stores, with a faster pace in store expansion as compared to the corresponding period of last year. Among the new outlets, 9 hypermarkets, 81 supermarkets and 123 convenience stores were located in the Yangtze River Delta region. We saw an effective implementation of the strategy to accelerate the development of hypermarkets which further strengthened our advantage of concentration in the Yangtze River Delta. As at 30 June 2008, 3,158 outlets of the Group were located in Yangtze River Delta region, representing 82.1% of the total outlets of the Group. There were approximately 62.0% of 121 hypermarket outlets, approximately 87.5 % of 1,768 supermarket outlets and approximately 78.4% of 1,959 convenience store outlets located in this major developing region.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 30 June 2008, the Group had a total of 3,848 directly operated and franchised outlets (not including the outlets operated by associated companies). The scale of the network continued to be maintained at its market leading position in the PRC, details of which are as follows:

As at 30 June 2008	Hypermarkets	Supermarkets	Convenience stores	Total
Direct operation	121	560	939	1,620
Franchised operation	–	1,208	1,020	2,228
Total of the Group	121	1,768	1,959	3,848

The rapid expansion of franchised stores was continuously sustained by the renowned brand of Lianhua, its strong logistics and merchandise resources and the extensive management experience. Franchised operation was still the primary means for the Group to expand its supermarket and convenience store businesses. During the period, the Group launched 228 new franchised outlets, in which there were 90 supermarkets and 138 convenience stores. Franchised outlets represented 68% and 52% of the segment of supermarkets and the segment of convenience stores respectively.

Strengthening the supporting system of supply chain to advance the operation efficiency

In the first half of 2008, the Group commenced the development of automatic stock replenishment system. With the stable and systematic implementation of the automatic stock replenishment system in various segments of the Group, we expect to see a significant improvement to be made to the optimization of supply chain and reduction of the inventories.

During the period under review, the Group made every effort to ensure that the progress of all preparation would work for the new logistic base project. In respect of the existing logistic centers, the Group made a detailed management to improve the efficiency of departmental management on a continuous basis. In the first half of 2008, the overall satisfaction level of re-ordering by the outlets further increased.

The Group actively endeavors to build closer relationship with the franchisees. In addition to the effective supervision in a timely manner, we established an efficient supporting system for merchandise and logistics distribution meeting the needs of franchisees in order to encourage the franchisees to place more orders with the Group. In the first half of 2008, the wholesales amount of the Group's franchised stores increased substantially by approximately 21.0%.

Stringent cost control by raising revenue and lowering expenditure

During the period under review, in coping with the mounting pressure of our increasing main cost expenses, including rental cost, labour cost and utilities charges, the Group continued to maintain its strategies in raising revenue and lowering expenditure. In the first half of 2008, the strong sales growth was attributable to the external positive factors and the enhancement of internal operation capabilities, and the increase in distribution costs was offset by the effective strategy of increasing revenue. Meanwhile, the Group made every effort to lower the cost expenses. We implemented cost control in all areas through a stringent budget and an examination and approval system. We enhanced our workers' productivity and lowered the labour cost by improving the operating process. We increased equipment utilization by strengthening our supervision on projects, equipment maintenance and remnant assets revitalization. We alleviated the upward pressure on rents through revenue improvement from concessionaire and effective utilization of floor-space. The Group also increased the management efficiency and lowered the administrative expenses through standardized operation. Under the environmental protection policy, we reduced energy costs, such as utility charges, through the promotion of energy saving projects. For example, the outlets in the segment of convenience stores in Shanghai were installed with lighting system with high efficiency and energy saving functions, and such installation was completed in 365 outlets. This reduced energy consumption effectively. During the year under review, the overall cost ratio of the Group reduced by 0.4 percentage point as compared to previous year, which largely offset the increase in costs.

Concerning food safety, committing to the corporate social responsibility

As a main channel of food retail sales, the Group understands that it shall commit itself to the social responsibility, as a retail chain operator, to safeguard the food safety. The Group established a strict food quality control process and standard in the outlets in various business segments, in which stringent control was implemented. Our concern for food safety has not only built a good corporate image for the Group, but also helped retain a loyal customer base for the outlets. During the period under review, the Group responded actively to the government's request for the establishment of a traceability system for meat quality control. Currently, 25 hypermarkets and certain supermarket outlets in Shanghai have commenced the traceability system for pork. The customers can enter the trace code shown on the labels of the pork products into the system via the internet. In doing so, the details of the farm, slaughter house and marketplace are available for checking. The system was established to ensure an effective control over each process for meat quality, and therefore the customers can buy and eat the meat products with confidence.

Immediately after the Sichuan Wenchuan Earthquake on 12 May 2008, the Group launched a donation activity among all staff. Our hypermarkets in Sichuan made a quick and active response to the local rescue arrangement by undertaking the allocation of necessities for quake assistance. Our hypermarket in Deyang, the disaster area, was the first local food retail chain outlet re-opened after recovering from the tragedy and it undertook the social responsibility of organizing merchandise sources and satisfying the market demand on a timely basis. The "Lianhua" brand, which works for the convenience and benefits of the people, was highly honored by the local government and citizens, resulting in a significant increase in the cohesion among employees.

MANAGEMENT DISCUSSION AND ANALYSIS

Promoting labour competition to improve employees' calibre

During the period under review, the Group held the nationwide competitions of "Lianhua Cup" for the operation skills of workers in order to enhance the comprehensive abilities of employees. Awards were given to the individual winners who were then engaged as the part-time lecturers to train other employees about professional skills. These competitions and the subsequent training helped to improve the overall quality of the Group's employees, as well as the ability and the skills of each individual. The Group will keep organizing competitions for the professional skills of various positions so as to facilitate the continuous improvement of the operation skill and quality of employees at all levels.

Business of Associated Companies

As at 30 June 2008, Shanghai Carhua Supermarket Company Limited ("Shanghai Carhua") operated a total of 14 hypermarkets in Shanghai.

For the six months ended 30 June 2008, the Group's share of results of associated companies amounted to RMB64,757,000. The associated companies were in stable development.

Financial review

Analysis of financial results

	For the six months ended 30 June RMB million		
	2008	2007	Change to the corresponding period of last year (%)
Turnover	**10,738.58**	8,965.91	19.8
Gross profit	**1,433.83**	1,139.11	25.9
Consolidated income	**2,381.05**	2,173.16	9.6
Operating profit	**220.69**	222.89	-1.0
Taxation	**55.82**	125.14	-55.4
Profit for the period attributable to Company's shareholders	**226.95**	140.26	61.8
Earnings per share (RMB)	**0.36**	0.23	56.5
Interim dividend per share (RMB)	**0.10**	0.06	66.7

Liquidity and financial resources

During the first half of 2008, the source of funding of the Group was mainly from cash inflow from operations. As at 30 June 2008, the Group had non-current assets of RMB3,686,734,000. The non-current assets mainly comprised construction in progress, property, plant and equipment and land use rights of approximately RMB3,031,789,000, intangible assets of approximately RMB190,869,000, investments in associates of approximately RMB346,099,000, available-for-sale financial assets, deferred tax assets and other non-current assets of approximately RMB117,977,000.

As at 30 June 2008, the Group had net current liabilities of approximately RMB875,518,000. Current assets mainly comprised bank balances and cash of approximately RMB5,092,069,000, inventories of approximately RMB1,677,288,000, trade receivables, deposits, prepayments and other receivables of approximately RMB668,352,000, available-for-sale financial assets of RMB200,000,000, and amounts due from associates of approximately RMB107,000. Current liabilities mainly comprised dividends payable of RMB74,640,000, trade payables, other payables and accruals and coupon liabilities of approximately RMB8,294,158,000, amount due to holding company of RMB39,000,000, amounts due to associates of RMB17,309,000, amounts due to other related parties of RMB31,544,000 and taxation payable of approximately RMB56,683,000.

For the six months ended 30 June 2008, the accounts payable turnover days of the Group was 57 days. Inventory turnover days 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 for the six months ended 30 June 2008.

Capital structure

As at 30 June 2008, the Group's cash equivalents were mainly held in Renminbi, and the Group did not have any borrowings.

During the period under review, equity attributable to shareholders of the Group increased from approximately RMB2,238,941,000 to approximately RMB2,391,248,000, which was mainly due to the increase in profit amounting to RMB226,947,000 and dividends distribution amounting to RMB74,640,000 during the period under review.

Details of the Group's pledged assets

As at 30 June 2008, the Group did not have any pledged assets.

Exposure to 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 2008, 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

MANAGEMENT DISCUSSION AND ANALYSIS

Contingent liabilities

As at 30 June 2008, the Group did not have any material contingent liabilities.

Employment, Training and Development

As at 30 June 2008, the Group had a total of 46,792 employees, representing an increase of 267 employees during the period under review. Total staff costs amounted to RMB729,196,000. Remuneration for the Group's employees was determined on the basis of their performance, experience and practice in the industry. Besides basic salary, welfare allowances and performance bonus, the Group also provides its full-time employees with housing welfare, medical allowance, periodic medical checkup 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. The Group increased salaries of selective staff during the period under review.

While actively responding to market changes and maintaining 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. During the period under review, in order to enhance the operational skills of the frontline employees, nationwide competitions for operational skills were held and an allowance incentive system was implemented for the skilled workers. In addition, a mentorship system was established primarily for skilled workers. The position capacity quality model of shop managers, managers of headquarter and management trainees for the hypermarket segment was formulated during the first quarter, which was then applied to the recruitment, training and assessment of the relevant positions. The Group has established talents cultivation and retaining funds as well as the Provisional Regulation on Human Resources Development and Cultivation and Retaining of Talents. It also 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

During the second half of 2008, the Group will continue to implement the strategies and plans set for the year:

Adhere to the development strategy of regional centralization with high quality. The Group will continue the development strategy of regional centralization with high quality. We will continue to promote the dual development of direct operation and franchising, and implement the synchronized development strategy of the three business segments in hypermarkets, supermarkets and convenience stores.

Continue to promote the business strategies of transformation and "Strong outlets". The Group will maintain the implementation of the transformation process in full gear by improving the quality of development, operation and management. We also aim at further enhancing the overall operation efficiency of the Company to achieve sound and fast development of our business. Under the current macro-economic environment with soaring prices and keen competition in the industry, the Group will continue to maintain its market segmentation and promote the "Strong Outlet" strategy. In addition, the existing outlets will be incessantly adjusted, consolidated and upgraded. We will also emphasize on reviewing our experience in successful operations and the application of such experience in order to further secure the traffic volume and overcome the market challenges.

Further upgrade basic operational capability supported by supply chain technology. The Group will improve its commodity strategy and strengthen the operation capabilities for commodity as well as its merchandising strategy. We will strive for establishing a commodity management model with the ability to continuously optimize merchandise structure and to meet the requirements of the transformation business model. The Group will continue to focus on enhancing its basic management capability, promoting the establishment of standardized operation and management system and the improvement of workflow, setting up a large-scale logistics hub in Shanghai as soon as possible and promoting the application of automatic stock replenishment technology.

Promote business culture as "Treating People as Valuable Resources" and "Performance-and Efficiency-oriented". The Group pursues the strategy of "Treating People as Valuable Resources" and shall continue to maintain our "performance-and efficiency-oriented" corporate culture. We will establish an open and impartial talent assessment and retention system, strengthen the training and retaining of talents, and establish a scientific remuneration and assessment system based on the staff capability quality model. We will further perfect our training program, combining both internal and external trainings. At the same time, we will pay extra attention to our training and establish an assessment mechanism to evaluate its quality.

During the period under review, there were changes in the marco-economic condition and the corporate operating environment in China. In the second half of 2008, the Group will pay close attention to the factors of such internal and external developments in order to develop its strengths, capture any opportunities and adjust its strategy to the market:

Effective management for cash asset appreciation. Under the macro-economic environment of tight monetary policy, we will apply our ample cash flow to strengthen the scientific wealth management and fully use our cash assets to generate low-risk income from appreciation in a reasonable manner. We will also strengthen support from capital to outlets development and merchandise.

MANAGEMENT DISCUSSION AND ANALYSIS

Monitoring the change in consumption behaviour and its development. We will monitor and study the possible change in consumers' behaviour by the implementation of the policy "Free Plastic Bags Ban" and its development, and try to meet the changing needs of consumers by improving our services.

Monitoring the impact of economic growth upon the industry development. We will monitor the macro-economic growth and its impact upon the price index, research into the substitution effect of "quantity - price" in the food consumption, and capitalize on our advantage of scale to achieve a continuous sales growth.

Enhancement of ability to continuously offset the effect of cost increase. In the second half year, the trend of cost inflation will continue to persist. The Group will keep an eye on the change of all operation costs and further implement various measures to raise revenue and lower expenditure.

OTHER INFORMATION

Disclosure of interests

Directors, Chief Executive and Supervisors of the Company

As at 30 June 2008, 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 2008, 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 2008 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 2008, 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% (notes 1, 4 and 5)	31.73%	–

OTHER INFORMATION

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 YKB Limited	domestic	131,683,000	21.17% (note 1)	31.73%	–
SIHL	domestic	131,683,000	21.17% (notes 1, 2, 4 and 5)	31.73%	–
Shanghai Investment Holdings Limited	domestic	131,683,000	21.17% (note 2)	31.73%	–
SIIC Capital (B.V.I.) Limited	domestic	131,683,000	21.17% (note 2)	31.73%	–
SIIC Asset Management Company Limited	domestic	131,683,000	21.17% (note 2)	31.73%	–
Billion More Investments 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% (notes 2 and 4)	31.73%	–
Mitsubishi Corporation	unlisted foreign shares	41,900,000	6.74%	10.10%	–
Arisaig Greater China Fund Limited	H shares	43,610,000(L)	7.01%(L) (note 6)	–	21.07%(L)
Arisaig Partners (Mauritius) Limited	H shares	43,610,000(L)	7.01%(L) (note 6)	–	21.07%(L)
Cooper Lindsay William Ernest	H shares	43,610,000(L)	7.01%(L) (note 6)	–	21.07%(L)

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 (%)
The Hamon Investment Group Pte Limited	H shares	18,830,000(L)	3.03%(L)	–	9.10%(L)
Mellon Financial Corporation	H shares	14,499,000(L)	2.33%(L)	–	7.00%(L)
Citigroup Inc.	H shares	12,892,670(L) 0(S) 12,408,670(P)	2.07%(L) 0.00%(S) 1.99%(P)	–	6.23%(L) 0.00%(S) 5.99%(P)
Government of Singapore Investment Corporation Pte Ltd	H shares	12,535,300(L)	2.02%(L)	–	6.06%(L)
Matthews International Capital Management, LLC	H shares	12,451,000(L)	2.00%(L)	–	6.01%(L)
Schroder Investment Management (Hong Kong) Limited	H shares	11,093,000(L)	1.78%(L)	–	5.36%(L)
Genesis Asset Managers, LLP	H shares	10,529,869(L)	1.69%(L)	–	5.09%(L)

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

OTHER INFORMATION

Notes:

1. As at 30 June 2008, 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 100% 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 the shares of the Company above.

2. As at 30 June 2008, SIIC, through its wholly-owned subsidiaries, namely Shanghai Investment Holdings Limited ("Shanghai Investment"), SIIC Capital (B.V.I.) Limited ("SIIC Capital"), SIIC Trading Company Limited, ("SIIC Trading"), SIIC Asset Management Company Limited ("SIIC Asset Management"), Billion More Investments Limited ("Billion More Investments"), SIIC Treasury (B.V.I.) Limited ("SIIC Treasury") and SIIC CM Development Ltd. ("SIIC CM Development"), directly owns an aggregate of 50.82% interests in SIHL. Thus, SIIC, Shanghai Investment, SIIC Capital, SIIC Trading, SIIC Asset Management, Billion More Investments, SIIC Treasury and SIIC CM Development are deemed to have the discloseable interests in the shares of the Company above.

3. As at 30 June 2008, 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. As at 30 June 2008, 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 a vice president of SIIC, an executive director of SIHL and a director and president of Shanghai Industrial Pharmaceutical.

5. As at 30 June 2008, 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 1,467,000 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 248,000 ordinary shares in SIHL.

6. Arisaig Partners (Mauritius) Ltd is a fund managing institute of Arisaig Greater China Fund Limited. Arisaig Partners (Mauritius) Ltd. is indirectly held by Cooper Lindsay William Ernest.

Save as disclosed above, the directors are not aware of any persons holding any interests or short positions in the 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 2008.

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 arbitration 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.

OTHER INFORMATION

Purchase, sale or redemption of shares

Since the listing of the Company's shares on 27 June 2003 at the Stock Exchange to the date of this interim report, the Company and its subsidiaries have not purchased, sold or redeemed any of the Company's listed securities.

Interim dividend

On 12 August 2008, the Board has declared the payment of an interim dividend of RMB0.10 per share for the six months ended 30 June 2008.

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. Continuing connected transactions – 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 Rules 14A.45 to 14A.47 of the Listing Rules and are exempt from the independent shareholders' approval requirement.

2. Continuing connected transactions – 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 2008 is RMB817,140,000.

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 the matters in relation to internal control and financial reporting with the management, including the review of the unaudited condensed interim accounts for 2008 of the Company. The Audit Committee considered that the interim accounts for the six months ended 30 June 2008 is in compliance with the relevant accounting standards, the 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 making 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 under Appendix 14 of the Listing Rules

The Board is pleased to confirm that save and except for the Company's practice relating to the directors' retirement by 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 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, thus deviating from the aforementioned provision of the Code.

By Order of the Board
Wang Zhi-gang
Chairman

12 August 2008, Shanghai, The PRC

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE SIX MONTHS ENDED 30 JUNE 2008

		Unaudited	
		Six months ended 30 June	
		2008	2007
	Note	**RMB'000**	RMB'000
Turnover	4	**10,738,581**	8,965,914
Cost of sales	6	**(9,304,747)**	(7,826,802)
Gross profit		**1,433,834**	1,139,112
Other revenues	4	**868,864**	814,116
Other income	5	**78,347**	219,928
Distribution costs	6	**(1,897,337)**	(1,635,131)
Administrative expenses	6	**(211,618)**	(158,883)
Other operating expenses	6	**(51,398)**	(156,254)
Operating profit		**220,692**	222,888
Finance income		**32,577**	19,340
Finance costs		**(660)**	(563)
Finance income – net	7	**31,917**	18,777
Share of results of associates	12	**64,757**	64,916
Profit before taxation		**317,366**	306,581
Taxation	8	**(55,824)**	(125,144)
Profit for the period		**261,542**	181,437
Attributable to:			
Company's shareholders		**226,947**	140,257
Minority interests		**34,595**	41,180
		261,542	181,437
Dividend	9	**62,200**	37,320
Basic and diluted earnings per share for profit attributable to Company's shareholders	10	**RMB0.36**	RMB0.23

The notes on pages 27 to 44 are an integral part of these condensed interim accounts.

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2008

	Note	Unaudited 30 June 2008 RMB'000	Audited 31 December 2007 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	11	**2,550,256**	2,583,134
Construction in progress	11	**164,370**	171,561
Land use rights	11	**317,163**	284,429
Intangible assets	11	**190,869**	193,941
Investments in associates	12	**346,099**	394,051
Available-for-sale financial assets		**30,207**	26,158
Deferred tax assets		**60,437**	44,672
Other non-current assets		**27,333**	28,220
		3,686,734	3,726,166
Current assets			
Inventories		**1,677,288**	1,926,462
Trade receivables	13	**76,653**	34,633
Deposits, prepayments and other receivables		**591,699**	596,462
Amounts due from associates	14	**107**	34
Available-for-sale financial assets		**200,000**	120,000
Financial assets at fair value through profit or loss		**–**	116,420
Bank balances and cash			
– Cash and cash equivalents	15	**4,443,069**	5,022,277
– Restricted cash	15	**649,000**	–
		7,637,816	7,816,288
Total assets		**11,324,550**	11,542,454

CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

AS AT 30 JUNE 2008

	Note	**Unaudited 30 June 2008 RMB'000**	Audited 31 December 2007 RMB'000
EQUITY			
Equity attributable to Company's shareholders			
Share capital		**622,000**	622,000
Reserves	17	**1,769,248**	1,616,941
		2,391,248	2,238,941
Minority interests		**365,508**	351,820
Total equity		**2,756,756**	2,590,761
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		**54,460**	70,097
Current liabilities			
Trade payables	18	**2,404,981**	2,815,286
Other payables and accruals	19	**1,167,839**	1,113,454
Coupon liabilities		**4,721,338**	4,782,538
Amounts due to associates	14	**17,309**	7,865
Amount due to holding company	16	**39,000**	39,000
Amounts due to other related parties	16	**31,544**	41,632
Taxation payable		**56,683**	81,821
Dividends payable		**74,640**	–
		8,513,334	8,881,596
Total liabilities		**8,567,794**	8,951,693
Total equity and liabilities		**11,324,550**	11,542,454
Net current liabilities		**(875,518)**	(1,065,308)
Total assets less current liabilities		**2,811,216**	2,660,858

Wang Zhi-gang	**Liang Wei**	**Xu Ling-ling**
Director	*Director*	*Director*

The notes on pages 27 to 44 are an integral part of these condensed interim accounts.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2008

	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 2008	622,000	911,447	705,494	2,238,941	351,820	2,590,761
Profit for the period	–	–	226,947	226,947	34,595	261,542
Closure of a subsidiary	–	–	–	–	(4,000)	(4,000)
Dividend relating to 2007	–	–	(74,640)	(74,640)	(16,907)	(91,547)
	–	–	152,307	152,307	13,688	165,995
Balance at 30 June 2008	622,000	911,447	857,801	2,391,248	365,508	2,756,756
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

The notes on pages 27 to 44 are an integral part of these condensed interim accounts.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2008

		Unaudited	
		Six months ended 30 June	
	Note	**2008** **RMB'000**	2007 RMB'000
Net cash (outflow)/inflow from operating activities		**(382,745)**	646,905
Net cash outflow from investing activities		**(175,556)**	(107,292)
Net cash outflow from financing activities		**(20,907)**	(24,914)
(Decrease)/increase in cash and cash equivalents		**(579,208)**	514,699
Cash and cash equivalents at 1 January	15	**5,022,277**	2,472,519
Cash and cash equivalents at 30 June	15	**4,443,069**	2,987,218

The notes on pages 27 to 44 are an integral part of these condensed interim accounts.

NOTES TO THE CONDENSED INTERIM ACCOUNTS

FOR THE SIX MONTHS ENDED 30 JUNE 2008

1. Principal activities and basis of preparation

The principal activities of Lianhua Supermarket Holdings Co., Ltd. (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 2008 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 annual accounts for the year ended 31 December 2007.

2. Accounting policies

Except as described below, 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 2007.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

Certain new accounting and financial reporting standards, amendments to existing standards and interpretations which have been published and effective for financial year ending 31 December 2008 as set out below are currently not relevant to the Group's operations:

- HK(IFRIC) – Int 11 "HKFRS 2 – Group and Treasury Share Transactions"
- HK(IFRIC) – Int 12 "Service Concession Arrangements"
- HK(IFRIC) – Int 14 "HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"

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 2008.

NOTES TO THE CONDENSED INTERIM ACCOUNTS
FOR THE SIX MONTHS ENDED 30 JUNE 2008

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

NOTES TO THE CONDENSED INTERIM ACCOUNTS

FOR THE SIX MONTHS ENDED 30 JUNE 2008

3. Segment information (continued)

The segment results for the six months ended 30 June 2008 are as follows:

	Unaudited Six months ended 30 June 2008				
	Supermarkets RMB'000	Hypermarkets RMB'000	Convenience stores RMB'000	Other operations RMB'000	Group RMB'000
Segment revenue	**3,922,981**	**6,724,696**	**846,606**	**113,162**	**11,607,445**
Including sales of merchandise to franchised stores at cost	**265,183**	**–**	**213,586**	**–**	**478,769**
Segment results	**152,507**	**58,034**	**16,913**	**8,229**	**235,683**
Other income					**35,808**
Unallocated costs					**(50,799)**
Operating profit					**220,692**
Finance income					**32,577**
Finance costs					**(660)**
Finance income – net					**31,917**
Share of results of associates					**64,757**
Profit before taxation					**317,366**
Taxation					**(55,824)**
Profit for the period					**261,542**

Other segment items are as follows:

	Unaudited Six months ended 30 June 2008				
	Supermarkets RMB'000	Hypermarkets RMB'000	Convenience stores RMB'000	Other operations RMB'000	Group RMB'000
Capital expenditure	**99,059**	**155,823**	**5,478**	**4,637**	**264,997**
Depreciation charge	**73,096**	**128,961**	**11,530**	**9,386**	**222,973**
Amortisation charge	**4,473**	**6,906**	**421**	**2,286**	**14,086**
Impairment charge	**–**	**10,618**	**–**	**–**	**10,618**
Loss on disposal of property, plant and equipment	**7,653**	**10,543**	**1,816**	**5,123**	**25,135**

NOTES TO THE CONDENSED INTERIM ACCOUNTS

FOR THE SIX MONTHS ENDED 30 JUNE 2008

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 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

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
Loss on disposal of property, plant and equipment	6,593	28,563	39	816	36,011

NOTES TO THE CONDENSED INTERIM ACCOUNTS

FOR THE SIX MONTHS ENDED 30 JUNE 2008

3. Segment information (continued)

The unaudited segment assets and liabilities at 30 June 2008 are as follows:

	Supermarkets RMB'000	Hypermarkets RMB'000	Convenience stores RMB'000	Other operations RMB'000	Group RMB'000
Segment assets	**2,405,906**	**7,546,731**	**288,525**	**46,010**	**10,287,172**
Investments in associates					**346,099**
Unallocated assets					**691,279**
Total assets					**11,324,550**
Segment liabilities	**1,975,788**	**6,245,785**	**195,308**	**21,066**	**8,437,947**
Unallocated liabilities					**129,847**
Total liabilities					**8,567,794**

The audited segment assets and liabilities at 31 December 2007 are as follows:

	Supermarkets RMB'000	Hypermarkets RMB'000	Convenience stores RMB'000	Other operations RMB'000	Group RMB'000
Segment assets	3,771,095	5,408,794	326,735	67,126	9,573,750
Investments in associates					394,051
Unallocated assets					1,574,653
Total assets					11,542,454
Segment liabilities	3,333,846	5,240,715	261,368	35,093	8,871,022
Unallocated liabilities					80,671
Total liabilities					8,951,693

NOTES TO THE CONDENSED INTERIM ACCOUNTS

FOR THE SIX MONTHS ENDED 30 JUNE 2008

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, 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 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	
	2008 RMB'000	2007 RMB'000
Turnover		
Sales of merchandise	**10,738,581**	8,965,914
Other revenues		
Income from suppliers		
– Promotion and store display income	**630,068**	612,164
– Merchandise storage and delivery income	**10,208**	17,220
– Information system service income	**4,256**	2,977
Gross rental income from leasing of shop premises	**178,526**	142,870
Royalty income from franchised stores	**24,022**	24,227
Commission income from coupon redemption in other retailers	**21,784**	14,658
	868,864	814,116
Total revenues	**11,607,445**	9,780,030

NOTES TO THE CONDENSED INTERIM ACCOUNTS

FOR THE SIX MONTHS ENDED 30 JUNE 2008

5. Other income

	Unaudited Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Government subsidies	**15,546**	13,501
Fair value gain (realised and unrealised) on financial assets at fair value through profit or loss	**27,910**	133,585
Gain on disposal of available-for-sale financial assets	**3,898**	10,068
Gain on disposal of a subsidiary	**–**	19,781
Gain on disposal of land use rights	**–**	8,930
Salvage sales	**16,025**	19,478
Others	**14,968**	14,585
	78,347	219,928

6. Expenses by nature

	Unaudited Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Cost of merchandise	**9,304,747**	7,826,802
Amortisation of other non-current assets	**887**	1,299
Amortisation of software (Note 11)	**9,752**	10,271
Amortisation of land use rights (Note 11)	**3,447**	3,566
Depreciation of property, plant and equipment (Note 11)	**222,973**	215,472
Loss on disposal of property, plant and equipment	**25,135**	36,011
Operating lease rental in respect of land and buildings	**569,320**	497,438
Outgoings for income from leasing of shop premises	**67,756**	52,563
Staff costs	**729,196**	551,297
Utility expenses	**179,701**	175,830
Advertising and promotion costs	**61,231**	39,545
Other store operating expenses	**182,144**	174,212
Impairment of property, plant and equipment (Note 11)	**10,618**	34,297
Impairment of intangible assets (Note 11)	**–**	369
Impairment of other non-current assets	**–**	6,506
Store closure expenses and provision	**1,410**	70,901
Other expenses	**96,783**	80,691
Total cost of sales, distribution costs, administrative expenses and other operating expenses	**11,465,100**	9,777,070

NOTES TO THE CONDENSED INTERIM ACCOUNTS

FOR THE SIX MONTHS ENDED 30 JUNE 2008

7. Finance income and costs

	Unaudited Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Interest income	**32,577**	19,340
Interest expenses	**(660)**	(563)
Net finance income	**31,917**	18,777

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 for 2008 is calculated based on the statutory income tax rate of 25% of assessable income of the Group based on the relevant PRC tax rules and regulations except for certain subsidiaries which are taxed at preferential rates ranging from 0% to 18%. In 2007, the current taxation was based on a tax rate of 33% while the deferred taxation was primarily based on a tax rate of 25%. This decrease is mainly due to the implementation of the Corporate Income Tax Law (the "CIT Law") of the PRC approved by the National People's Congress on 16 March 2007. The CIT Law reduces the standard PRC corporate income tax rate from 33% to 25% with effect from 1 January 2008.

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

	Unaudited Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
PRC income tax		
– Current taxation	**87,226**	132,003
– Deferred taxation	**(31,402)**	(6,859)
	55,824	125,144

Income tax expense is recognised based on management's best estimate of the annual income tax rate expected for the full financial year.

NOTES TO THE CONDENSED INTERIM ACCOUNTS

FOR THE SIX MONTHS ENDED 30 JUNE 2008

9. Dividend

	Unaudited Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Interim dividend, declared, of RMB0.10 (2007: RMB0.06) per share	**62,200**	37,320

At a meeting held on 12 August 2008, the Directors declared an interim dividend of RMB0.10 per share which was within the limit authorised by the Company's shareholders during the Annual General Meeting for the year 2007 held on 20 June 2008. 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 2008.

At a meeting held on 16 April 2008, the Directors proposed a final dividend of RMB0.12 per share for the year ended 31 December 2007, totalling RMB74,640,000, which was approved by the shareholders on 20 June 2008 and has been reflected as an appropriation of retained earnings for the six months ended 30 June 2008 (Note 17). The amount has not yet been paid as at 30 June 2008.

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	
	2008	2007
Profit attributable to Company's shareholders (RMB'000)	**226,947**	140,257
Weighted average number of ordinary shares in issue (thousands)	**622,000**	622,000
Basic earnings per share	**RMB0.36**	RMB0.23

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 2008

11. Major capital expenditure

	Property, plant and equipment RMB'000	Construction in progress RMB'000	Land use rights RMB'000	Intangible assets: Goodwill RMB'000	Intangible assets: Software RMB'000	Intangible assets: Total RMB'000
Opening net book amount as at 1 January 2008 (audited)	2,583,134	171,561	284,429	144,044	49,897	193,941
Additions	178,018	43,245	36,181	–	7,553	7,553
Transfers	50,436	(50,436)	–	–	–	–
Disposals	(27,741)	–	–	(635)	(238)	(873)
Depreciation/amortisation charge (Note 6)	(222,973)	–	(3,447)	–	(9,752)	(9,752)
Impairment charge (Note 6)	(10,618)	–	–	–	–	–
Closing net book amount as at 30 June 2008 (unaudited)	2,550,256	164,370	317,163	143,409	47,460	190,869
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
Additions	270,520	28,660	291	–	1,728	1,728
Transfers	(52,203)	(25,726)	76,253	–	1,676	1,676
Disposals	(64,354)	–	–	–	–	–
Depreciation/amortisation charge	(236,899)	–	(6,405)	–	(9,535)	(9,535)
Impairment charge	(71,715)	–	–	(20,059)	369	(19,690)
Closing net book amount as at 31 December 2007 (audited)	2,583,134	171,561	284,429	144,044	49,897	193,941

NOTES TO THE CONDENSED INTERIM ACCOUNTS

FOR THE SIX MONTHS ENDED 30 JUNE 2008

12. Investments in associates

	Unaudited Six months ended 30 June		Unaudited From 1 July 2007 to 31 December
	2008	2007	2007
	RMB'000	RMB'000	RMB'000
Balance at beginning of the period	**394,051**	328,622	393,245
Share of results of associates	**64,757**	64,916	65,559
– Profit before taxation	**86,444**	93,965	99,784
– Taxation	**(21,687)**	(29,049)	(34,225)
Dividends received	**(112,709)**	(293)	(64,753)
Balance at end of the period	**346,099**	393,245	394,051

Investments in associates at 30 June 2008 include goodwill of RMB6,787,000 (2007: 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 2008	Unaudited 31 December 2007
	RMB'000	RMB'000
Assets	**1,215,267**	1,188,948
Liabilities	**875,955**	801,684
Net assets	**339,312**	387,264

	Unaudited Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Turnover	**1,380,067**	1,210,342
Profit for the period	**64,757**	64,916

NOTES TO THE CONDENSED INTERIM ACCOUNTS

FOR THE SIX MONTHS ENDED 30 JUNE 2008

13. Trade receivables

The ageing analyses of the trade receivables, arising mainly from sales of merchandise to franchised stores and wholesalers and with credit terms ranging from 30 to 60 days, are as follows:

	Unaudited 30 June 2008 RMB'000	Audited 31 December 2007 RMB'000
Within 30 days	**60,984**	29,555
31-60 days	**5,655**	1,575
61-90 days	**8,606**	3,155
91 days-one year	**1,408**	348
	76,653	34,633

14. Amounts due from/to associates

Amounts due from/to associates represent balances arising from expenses paid on behalf of certain associates and purchase of merchandise from associates respectively. Balances are all aged within 90 days and the credit terms range from 30 to 90 days. Such balances with associates are unsecured and interest free.

15. Bank balances and cash

	Unaudited 30 June 2008 RMB'000	Audited 31 December 2007 RMB'000
Cash and cash equivalents	**4,443,069**	5,022,277
Restricted cash	**649,000**	–
	5,092,069	5,022,277

Restricted cash represented cash placed as security for coupon liabilities balance, which were deposits with banks held by a subsidiary for the purpose of issuing coupons in a province, which are not available for use by the Group.

16. Amount due to holding company/Amounts due to other related parties

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.

Amounts due to other related parties represent the balances due to the related companies controlled by the ultimate holding company in relation to the redemption of the coupons issued by the Group in retail outlets of these related parties. The balances are unsecured and interest free.

NOTES TO THE CONDENSED INTERIM ACCOUNTS

FOR THE SIX MONTHS ENDED 30 JUNE 2008

17. Reserves

	Capital reserve RMB'000 (note (a))	Other reserves RMB'000	Statutory common reserve fund RMB'000 (note (b))	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2008 (audited)	755,953	3,595	151,899	705,494	1,616,941
Profit for the period attributable to Company's shareholders	–	–	–	226,947	226,947
2007 final dividend	–	–	–	(74,640)	(74,640)
Balance at 30 June 2008 (unaudited)	755,953	3,595	151,899	857,801	1,769,248
Representing:					
2008 declared interim dividend				62,200	62,200
Others				795,601	1,707,048
				857,801	1,769,248
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
Profit for the period attributable to Company's shareholders	–	–	–	128,044	128,044
Profit appropriations	–	–	30,461	(30,461)	–
Transfer back to retained earnings	–	–	(117,728)	117,728	–
2007 interim dividend	–	–	–	(37,320)	(37,320)
Balance at 31 December 2007 (audited)	755,953	3,595	151,899	705,494	1,616,941
Representing:					
2007 proposed final dividend				74,640	74,640
Others				630,854	1,542,301
				705,494	1,616,941

NOTES TO THE CONDENSED INTERIM ACCOUNTS

FOR THE SIX MONTHS ENDED 30 JUNE 2008

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 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.

The Group adopted the Accounting Standards for Business Enterprises promulgated by the Ministry of Finance of PRC on 15 February 2006 (the "new PRC GAAP") since 1 January 2007. According to the relevant requirements under the new PRC GAAP, certain adjustments were made to the retained earnings in previous years for the preparation of the Group's statutory accounts for the year ended 31 December 2007 upon first-time adoption which also affected the previous 10% appropriations from retained earnings to the statutory common reserve fund. In addition, the new PRC GAAP no longer permits further appropriation to the statutory common reserve fund relating to the Group's share of subsidiaries' profits at the consolidated level and requires all such previous appropriations be reversed back to retained earnings. As such, an additional transfer has been made in the year 2007 in order to correspond with the aforementioned changes made to the statutory common reserve fund in the statutory accounts.

No transfer has been made to the statutory common reserve fund in respect of the net profit for the six months ended 30 June 2008 (six months ended 30 June 2007: Nil). The transfer will be made at the year end based on the annual profit and upon Directors' approval.

18. Trade payables

The ageing analyses of the trade payables are as follows:

	Unaudited 30 June 2008 RMB'000	Audited 31 December 2007 RMB'000
Within 30 days	**2,138,317**	2,368,989
31-60 days	**198,794**	234,452
61-90 days	**20,506**	71,520
91 days-one year	**47,364**	140,325
	2,404,981	2,815,286

NOTES TO THE CONDENSED INTERIM ACCOUNTS

FOR THE SIX MONTHS ENDED 30 JUNE 2008

19. Other payables and accruals

	Unaudited 30 June 2008 RMB'000	Audited 31 December 2007 RMB'000
Other payables	**956,359**	912,973
Store closure provision	**42,728**	42,728
Customers' advances	**67,531**	117,354
Accruals	**101,221**	40,399
	1,167,839	1,113,454

20. Commitments

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

	Unaudited 30 June 2008 RMB'000	Audited 31 December 2007 RMB'000
Contracted but not provided for	**276,952**	305,769

The capital commitments mainly represent commitments for construction of buildings, 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 2008 RMB'000	Audited 31 December 2007 RMB'000
Not later than one year	**997,090**	976,363
Later than one year and not later than five years	**3,610,468**	3,445,007
Later than five years	**7,269,162**	7,242,237
	11,876,720	11,663,607

NOTES TO THE CONDENSED INTERIM ACCOUNTS

FOR THE SIX MONTHS ENDED 30 JUNE 2008

20. Commitments (continued)

(c) Commitments for equity investments

As at 30 June 2008, the Group had a commitment to acquire the remaining equity interests of 25.39% (2007: 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 2008 RMB'000	Audited 31 December 2007 RMB'000
Not later than one year	**233,569**	211,132
Later than one year and not later than five years	**357,382**	366,494
Later than five years	**173,452**	247,778
	764,403	825,404

The minimum lease receipts as set out above mainly relate to 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 enterprises"). 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 2008

22. Related party transactions (continued)

Apart from those disclosed under Notes 14 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	**2008 RMB'000**	2007 RMB'000
Purchases from associates – Shanghai Lianhua Supermarket Food Co., Ltd. and Shanghai Gude Commercial Trading Co., Ltd.	(i)	**11,342**	6,673
Rental expenses paid to subsidiaries of holding company and ultimate holding company	(ii)	**17,358**	16,646
Commission income received from related companies controlled by the ultimate holding company	(iii)	**9,573**	8,463

Notes:

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

(ii) These represent rental expenses of certain hypermarkets paid to subsidiaries of Shanghai Friendship Group Incorporated Company, the holding company of the Group, and subsidiaries of 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.

(iii) The commission income was received from the related companies controlled by the ultimate holding company in relation to the redemption of the coupons issued by the Group in retail outlets of these related companies. 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.

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

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

	Unaudited 30 June 2008 RMB'000	Audited 31 December 2007 RMB'000
Current liabilities		
Accounts payable and other liabilities	**201,464**	234,882

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.

NOTES TO THE CONDENSED INTERIM ACCOUNTS

FOR THE SIX MONTHS ENDED 30 JUNE 2008

22. Related party transactions (continued)

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

	Unaudited Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Purchase of goods	**1,281,154**	1,522,947
Interest income received	**32,577**	19,340
Bank charges	**10,224**	6,974
Interest expenses	**660**	563

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

(d) Key management compensation

	Unaudited Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Salaries and other short-term employee benefits	**4,915**	3,104
Post-employment benefits	**149**	127
Other long-term benefits	**149**	127
	5,213	3,358

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 12 August 2008.