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

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 00980)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2008

Financial Highlights

As at 30 June 2008, the Group's:

- turnover amounted to approximately RMB10,739,000,000, representing an increase of 19.8% as compared to the corresponding period of last year. The gross profit margin continued to maintain a steady growth of 0.7 percentage point to 13.4%.

- profit for the period amounted to RMB262,000,000, representing an increase of 44.2% as compared to the corresponding period of last year. Profit for the period attributable to shareholders was approximately RMB227,000,000, representing an increase of 61.8% as compared to the corresponding period of last year. Basic earnings per share was RMB0.36.

- total number of outlets reached 3,848, of which hypermarket business accounted for 121, supermarket business accounted for 1,768, convenience stores business accounted for 1,959. The total franchised outlets reached 2,228, representing 57.90% of the Group's total outlets.

- overall sales of the same store increased substantially, representing an increase of 13% as compared to 2007, 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 the listing of the Company.

- hypermarket business recorded a sharp increase in operating profit of RMB80,733,000.

- the result of increase in sales amount and stringent cost control effectively set off the pressure of increasing operating cost. The proportion of the cost (the sum of distribution costs and administrative expenses) to the sales amount decreased 0.4 percentage point as compared to the corresponding period of last year.

- interim dividend per share is RMB0.10, representing an increase of 66.7% as compared to the corresponding period of last year.

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		**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

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		**2,550,256**	2,583,134
Construction in progress		**164,370**	171,561
Land use rights		**317,163**	284,429
Intangible assets		**190,869**	193,941
Investments in associates		**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	*11*	**76,653**	34,633
Deposits, prepayments and other receivables		**591,699**	596,462
Amounts due from associates		**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		**4,443,069**	5,022,277
– Restricted cash		**649,000**	–
		7,637,816	7,816,288
Total assets		**11,324,550**	11,542,454

	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		**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	*12*	**2,404,981**	2,815,286
Other payables and accruals		**1,167,839**	1,113,454
Coupon liabilities		**4,721,338**	4,782,538
Amounts due to associates		**17,309**	7,865
Amount due to holding company		**39,000**	39,000
Amounts due to other related parties		**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

SELECTED 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 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 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 15 th 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.

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.

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	**72,916**	**128,961**	**11,530**	**9,386**	**222,793**
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**

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

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

	Supermarkets	**Hypermarkets**	**Convenience stores**	**Other operations**	**Group**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*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	Hypermarkets	Convenience stores	Other operations	Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*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

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	2007
	RMB'000	*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

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 RMB'000	2007 RMB'000
Cost of merchandise	**9,304,747**	7,826,802
Amortisation of other non-current assets	**887**	1,299
Amortisation of software	**9,752**	10,271
Amortisation of land use rights	**3,447**	3,566
Depreciation of property, plant and equipment	**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	**10,618**	34,297
Impairment of intangible assets	**–**	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

7. Finance income and costs

	Unaudited Six months ended 30 June 2008 RMB'000	2007 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.

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. 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.

11. 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

12. 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	**2,176,550**	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
	2,443,214	2,815,286

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 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 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 non-performing retail network in recent years, 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 approximately 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

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 approximately 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 approximately 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 approximately 6.6% as compared to last year of approximately RMB739.74 million. The operating profit of this segment was approximately 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 achievement of "Strong Outlet" strategy did not only 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.

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 logistic 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 a 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 operating costs, 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 operating costs was offset by the effective strategy of increasing revenue. Meanwhile, the Group made every effort to lower the costs. 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 management cost 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 rate 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.

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 associated companies 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 RMB 31,544,000 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

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.

Strategies and Plans

During the second half of 2008, the Group will continue to implement the strategies and plans 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 facilitating the further enhancement of the overall operation efficiency of the Company in achieving 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 retaining 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.

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.

Purchase, sale or redemption of shares

Since the listing of the Company's shares on 27 June 2003 at The Stock Exchange of Hong Kong Limited (the "Stock Exchange") to the date of this announcement, 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.

Further details relating to the payment of the interim dividend and the relevant book closure period for the entitlement of the interim dividend will be announced by the Company by way of publishing an announcement in accordance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Audit Committee

The audit committee of the Company has reviewed the interim results of the Company for the six months ended 30 June 2008 and considered that such results are in compliance with the applicable accounting standards, laws and regulations and appropriate disclosures have been made.

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in Appendix 10 of the Listing Rules 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 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
Lianhua Supermarket Holdings Co., Ltd.

12 August 2008, Shanghai

As at the date of this announcement, the directors are:

Executive Directors:
Wang Zhi-gang, Liang Wei, Xu Ling-ling, Cai Lan-ying

Non-executive Directors:
Lu Ming-fang, Yao Fang, Koichi Narita, Wong Tak Hung, Hua Guo-ping

Independent non-executive Directors:
Lee Kwok Ming, Don, Zhang Hui-ming and Xia Da-wei