

## CHAIRMAN'S STATEMENT



Dear shareholders,

On behalf of the board of directors ("the Board") of Lianhua Supermarket Holdings Co., Ltd. ("Lianhua Supermarket" or the "Company", together with its subsidiaries referred to as the "Group"), I am delighted to present the first annual results reports for the year ended 31 December 2003 following listing of the Group on The Stock Exchange of Hong Kong Limited ("SEHK").

The year 2003 was important to Lianhua Supermarket. During the year, the Group successfully listed its H shares on the SEHK, being the first PRC retail chain operator listed in Hong Kong. For both the placing and the public offer, it was well over-subscribed by investors, in particular being supported by internationally well-known institutional investors. A total proceeds of approximately HK\$668,000,000 was successfully raised by the Group. The success in such fund raising exercise has laid a solid foundation for our development, and has further strengthened our financial capabilities and continued to promote the development of Lianhua Supermarket ahead.

During the year, China's economy continued to grow robustly. GDP growth of China and Shanghai increased by 9.1% and 11.8% respectively when compared with last year. Economic growth together with improving living standards of its people contributed to the synchronous expansion of the retail market in the PRC. The growth in total sales of consumer products in the PRC reached 9.1% while the growth in total sales of consumer products in Shanghai amounted to 9.1%. Developing under the highest growth segment of the China retail industry, Lianhua Supermarket was able to fully utilize its competitive advantages by leveraging on its solid foundation and to grow alongside with the national development. As of 2003, Lianhua Supermarket became the largest retail chain operator in terms of turnover in the PRC for seven consecutive years. The Company completed its retail network expansion nationwide and accelerated its expansion in target regions by speeding up the opening of new outlets. As at 31 December, 2003, the number of outlets increased to 2,503 (excluding those operated by associated companies), spanning across 22 provinces and municipalities, including Shanghai, Zhejiang, Jiangsu, Beijing and Guangzhou. The directors are confident in staying ahead in the retail chain operations industry in the PRC in future.

During the year under review, the Group continued to expand its operations scale. In 2003, the Group entered into a joint venture agreement with Distribuidora Internacional De Alimentacion S.A. of Spain to introduce a new format of discount store business into the retail market in the PRC. Within only a half year, a total of 40 discount store outlets were established in Shanghai. At the same time, Century Lianhua, under the management of the Company, operated 19 hypermarkets under the brand name of "Centurymart". Together with the six hypermarkets operated by Shanghai Carhua, the total number of outlets of the Group's major retail formats amounted to 2,568, which further strengthened the national retail network of the Group.

By adopting the operation principles of "development, transformation and improvement" set in early 2003, the Company continued to expand its operations scale while achieving profit growth which was attributable to its stringent operations mode and scientific management

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style. During the year, the Company applied modern technologies of the retail industry and further enhanced its supply chain management standard. During the year under review, turnover of the Group increased by 59.46% from approximately RMB5,821,000,000 in 2002 to approximately RMB9,282,000,000 in 2003. Profit attributable to shareholders amounted to approximately RMB163,620,000, representing an increase of 29.25% when compared to last year. Earnings per share was RMB0.33. Such an encouraging results and the business progress achieved demonstrated that the direction and strategies of the Group's development as a whole has been in the right track. In return to the support of the shareholders, the board of directors proposed to pay a final dividend of approximately RMB0.08 per share for the year ended 31 December, 2003.

Looking forward, the directors believe that the PRC's economy will sustain its robust growth, which will continue to propel the development of the retail industry in particular the development of the retail chain industry in the PRC. Being the leading player in the industry, Lianhua Supermarket will grasp any development opportunity in the market. In 2004, the Group will implement its focused development strategy. Through direct operations, collaboration, franchise, mergers and acquisitions, the Group will continue to pursue its network expansion in the fast growing areas. Meanwhile, the Group will be dedicated in enhancing its supply chain management, information systems and further strengthen cost control for the purposes of increasing operations efficiency and profitability. All these will help the Group to embrace the opening up of the PRC's supermarket industry.

Capitalizing the brand's competitive advantages and wide network coverage, together with the dedicated employees, visionary management team as well as their high recognition and adoption of the corporate culture, I believe that the Group will continue to maintain its edges in leading the national development of the retail industry. We will continue to pursue with our development strategies of regional concentration, solidify our leading position in local markets, and strengthen Lianhua Supermarket's brand awareness and market share with an aim of consolidating the Group's position as the most premiere retail chain operator in the PRC.

### Appreciation

On behalf of the board, I would like to take this opportunity to express my gratitude to our business partners, customers and shareholders for their continuous support, and to our employees for their concerted efforts, dedication and contribution to the long-term development of the Group during the past year. I wish that all of you will continue to join hands with Lianhua Supermarket to devote our efforts in establishing the Group as the most premiere and strongest retail chain operator in China.



By order of the board  
**Wang Zong-nan**  
*Chairman*

1 April 2004  
Shanghai, The PRC