

REPORT OF THE SUPERVISORY COMMITTEE

Report of the Supervisory Committee of Lianhua Supermarket Holdings Co., Ltd. for 2003

The Supervisory Committee of this year (the "Supervisory Committee") aims at maximizing the interests of shareholders and achieving a steady and sustained development of the Company. The Supervisory Committee has fully performed its duties upon the resolutions of general meetings, which are in line with the works of the Board and the management. Through the committed efforts of the three Supervisors, the Supervisory Committee has strictly performed its duties, safeguarded the integrity of the Company's properties and finance, and protected the interests of the Company and shareholders.

1. The major tasks of the Supervisory Committee in 2003

Operating results of the Company as a whole continued to increase. All the Company's operating indicators achieved substantial growth. Turnover increased from approximately RMB5,821,000,000 in 2002 to approximately RMB9,282,000,000 in 2003. The profit attributable to shareholders increased from approximately RMB126,600,000 in 2002 to approximately RMB163,620,000 in 2003. On 27 June 2003, the Company successfully listed in Hong Kong. Rapid development in the Company posed new requirements to the Supervisory Committee.

Subject to the continuous development and evolution of the Company, the Supervisory Committee has focused its attention on how to enhance the transparency of the Company's operations and level of standardisation, how to establish the Company's image of integrity in the capital market, in particular, how to adopt effective measures to protect the interests of investors, especially the minority shareholders. Corporate governance structure of the Company will be further upgraded so as to facilitate the conduct of activities and the performance of duties,

The Supervisory Committee has reviewed the financial system, financial reporting and internal auditing systems of the Company, and considered that the information as included in the Company's financial budget, final accounts, annual report, and interim report are true and reliable, and the audit opinion as issued by the Company's accountants are objective and fair.

The Supervisory Committee has conducted supervision on the operating activities of the Company. The Supervisory Committee considered that the Company has established an improved internal control system, and has achieved significant progress in formulating and implementing internal work-flow, effectively contained the various operating risks the enterprise has been subjected to. The Company has performed its activities in accordance with the laws and regulation of the State, the Articles of Association and the work-flow procedures.

The Supervisory Committee has conducted supervision on the due diligence of the Directors, managers and the execution of resolutions in general meetings. The Supervisory Committee considers that the Directors and the management have duly performed their duties in accordance with the resolutions of general meetings, and achieved the operating indicators ahead of schedule every year. None of the Directors and other management of the Company have been found to be in violation of the laws and regulations and the Articles of Association and harming the interests of the Company and the shareholders during the execution of their duties.

The Supervisory Committee has conducted a review on the projects of the Company which require additional funding after the listing. The Supervisory Committee considered that, as at the date hereof, the projects, amount, and progress have been in line with the commitment of the Company. Those projects have brought revenue and contributed to profits of the Company.

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The Supervisory Committee has conducted review on the operating activities of the Company such as acquisitions and mergers, disposal of assets. The Supervisory Committee considers that the consideration for the Company's acquisition and merger activities and asset disposal activities were fair and reasonable. It is not aware of any insider transaction or events which had hampered the interests of shareholders, in particular the interests of the minorities.

The Supervisory Committee has conducted review on the connected transactions of the Company. The Supervisory Committee considered that the conditions of the connected transactions were fair and reasonable. It is not aware of any circumstances which may hamper the interests of the Company and the shareholders.

2. Overall assessment on the performance of the Board

The Company's First Board of Directors was inaugurated in December 2001. During the past two years, the Board has set out and implemented the operating strategies for the development of the Company in accordance with the operating targets as determined in the general meeting. Subject to the keen competitive market environment of the domestic retail industry, the Board had made the right judgement as to the trends in business development, conducted operations steadily and correctly, actively expanded, and achieved economic development as a whole. The shareholders were provided with steady and positive returns on their investments. During the course of performing their duties, the Board actively listened to the opinions and proposals of the Supervisory Committee, and worked together in their respective posts with the Supervisory Committee to safeguard the interests of the Company and the shareholders.

We believe that under the leadership of the Board and the concerted efforts of the Company, the various economic indicators and duties of the Company can certainly be smoothly achieved and completed. At the same time, in the year to come, the Supervisory Committee will continue to become accountable to the shareholders, and strictly perform its duties with respect to the safeguard of the interests in the Company as well as the shareholders, so as to ensure the value maximization for of the Company and its shareholders.

3. Change of supervisors

As at 1 April 2004, the Supervisory Committee of this session held three meetings. It approved the resignation of Mr. Shi Zu-qi as the supervisor of the Company and nominated Mr. Shen Bo to be the supervisor of the Company. It agreed to put forward an ordinary resolution for approval of the appointment of Mr. Shen Bo as the supervisor.

The Supervisory Committee of
Lianhua Supermarket Holdings Co., Ltd.

1 April, 2004
Shanghai, The PRC