

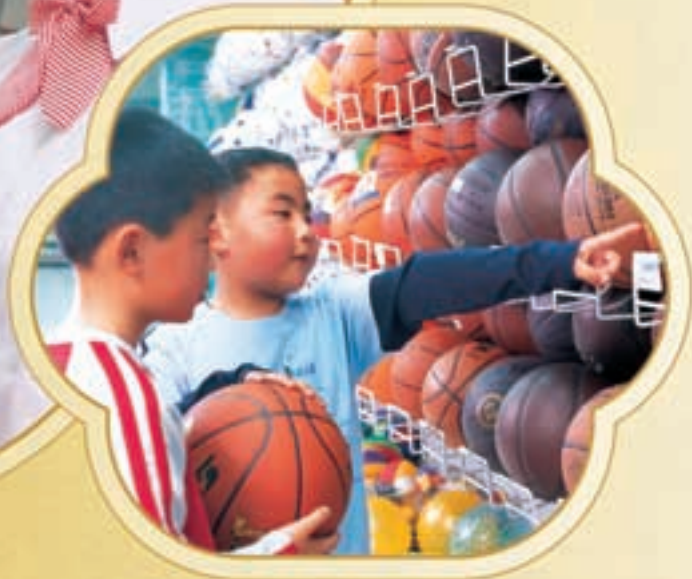




Enhance

Service Quality

The Group places high emphasis on its brand image and management. By implementing a stringent operation model and advanced management system, the Group was able to significantly enhance service quality, allowing customers to enjoy a premium shopping experience.



Report of the Supervisory Committee

The period under review was the first whole financial year of Lianhua Supermarket since its listing on the Stock Exchange. In addition, Lianhua Supermarket has to fulfill the new requirements of the amended Listing Rules on corporate governance structure. As such, this session of the Supervisory Committee focused its duties on three aspects: First, it further improved the corporate governance structure. In addition, it urged the Company and the Board to provide an open, fair, impartial and transparent environment for its investors strictly in compliance with the Listing Rules. Last, it monitored the major operating activities of the Company and reminded the Board and the Company to avoid significant operational risks.

1. The major tasks of the Supervisory Committee in 2004

The Supervisory Committee held meetings in respect of the operations of 2003 on 1 April 2004. The Supervisory Committee fully recognized the tasks accomplished by Lianhua Supermarket after its listing, including establishment of the Board system, establishment of various special committees and improvement of internal information disclosure system. At the same time, Supervisory Committee would like to enhance the transparency of the operations and standardization, and establish the Company's image of integrity in the capital market, in particular, to adopt effective measures to protect the interests of investors, especially the minority shareholders. Corporate governance structure of the Company will be further upgraded. This session of Supervisory Committee required the Board and the Company to enhance learning, improve information disclosure and increase transparency. During the first half and the second half of 2004, the Supervisory Committee held two meetings respectively. It adjusted and analyzed the development plans, prevailing sales network expansion and certain aspects of the internal control system. It focused attention on Lianhua Supermarket's investment

management system and financial management system. It also proposed a "workflow modification" based on the actual situations of Lianhua Supermarket.

2. Assessment on the principal work of Lianhua Supermarket in 2004 by this session of the Supervisory Committee

This session of 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 accountants are objective and fair.

This session of the Supervisory Committee has conducted supervision on the operating activities of the Lianhua Supermarket. The Supervisory Committee considered that the Lianhua Supermarket 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. Lianhua Supermarket has performed its activities in accordance with the laws and regulations of the State, the Articles of Association and the work-flow procedures.

This session of 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. None of the Directors and other management of Lianhua Supermarket 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 shareholders during the execution of their duties.

This session of the Supervisory Committee has conducted a review on the projects of Lianhua Supermarket which require additional funding after the listing. The Supervisory Committee considered that, as at the date hereof, the funding application has been in line with the commitment disclosed by the Company. Those projects have given great support for the sales network construction, establishment of the supply chain, improvement of the information system and acquisitions and mergers.

This session of the Supervisory Committee has conducted review on the operating activities of the Lianhua Supermarket 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.

This session of the Supervisory Committee has conducted review on Lianhua Supermarket's connected transactions, which were granted waivers subject to conditions. It confirmed that such connected transactions have been approved by the Board. The transactions were entered into based on fair commercial terms. They complied with the accounting policies of Lianhua Supermarket. The transaction amounts did not exceed the cap of the waivers granted.

3. Overall assessment on the performance of the Board

Since the Company's first Board was inaugurated, it 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 meetings. 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 and actively expanded. During the period under review, the Board complied with the requirements of the Listing Rules. There were three independent directors appointed in the Board. The Board required Lianhua Supermarket to prepare the Reports on Capital Market, the Media Reports and the Reports of the Board based on regulations and the changing market. It also required Lianhua Supermarket to learn and received training in respect with new rules. The Supervisory Committee considered that each director in the Board have performed their duties diligently and responsibly. The Supervisory Committee also praised the Board for their requirements of Lianhua Supermarket on the continuous improvement on internal management systems based on provisions of the public companies.

We believed that upon the listing of Lianhua Supermarket on the Stock Exchange, its shareholding structure has been diversified and internationalized. At the same time, the Board members of Lianhua Supermarket have extensive experience in corporate governance. As a result, the internal duties and systems of Lianhua Supermarket will be improved furtherly. During the new year, the Supervisory Committee will perform their duties and protect interests of the Company and the shareholders in order to maximize the interests of the Company and the shareholders.