

Report of the Directors

The Board is pleased to present to the shareholders the working report of the Company for the year ended 31 December 2006.

Principal activities

The principal activities of the Company are operation of hypermarkets, supermarkets and convenience stores in the PRC, mainly under three major brands of "Century Mart", "Lianhua Supermarket" and "Lianhua Quik".

Percentages of purchases and sales attributable to major suppliers and customers of the Company during the year are as follows:

	2006 Percentage	2005 Percentage
Purchases		
Largest supplier	4.29	4.8
Five largest suppliers	9.18	11.65
Sales		
Largest customer	5.60	9.18
Five largest customers	5.84	14.32

During the year ended 31 December 2006, to the best knowledge of the Directors, apart from Lianhua E-Business (for details of the Company's acquisition of the equity interests in Lianhua E-Commerce during the year, which consequently became a non wholly-owned subsidiary of the Company, please refer to pages 25 to 26 of this annual report), neither the Directors, the supervisors of the Company (the "Supervisors"), their respective associates, nor any shareholders holding 5% or more in the Company's share capital held any direct or indirect interest in the share capital of the Company's suppliers and customers mentioned above.

Subsidiaries and associated companies

As at 31 December 2006, the Company's principal subsidiaries are Century Lianhua, Lianhua Quik, Lianhua Huashang, Lianhua Supermarket (Jiangsu) Co., Ltd, and Lianhua E-Commerce.

As at 31 December 2006, the Company's principal associated company is Shanghai Carhua.

Please refer to note 43 to the financial statements in this annual report for the particulars of certain principal subsidiaries and associated companies of the Company.

Accounts

The audited results of the Company for the year ended 31 December 2006 are set out in the profit and loss account on page 59 of the annual report.

The financial condition of the Company as at 31 December 2006 is set out in the balance sheet on pages 60 to 61 of the annual report.

The cash flow of the Company for the year ended 31 December 2006 is set out in the cash flow statement on page 65 of the annual report.

Dividend Distribution

Pursuant to the financial statements of the Company for the year 2006 prepared in accordance with the Hong Kong Financial Reporting Standards (the "HKFRS") and audited by PricewaterhouseCoopers, profit distributable to shareholders of the Company was RMB430,786,000. Pursuant to the financial statements of the Company for the year 2006 prepared in accordance with Accounting Standards of the PRC and audited by Shanghai Certified Public Accountants, profit distributable to shareholders of the Company was RMB391,820,000.

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Pursuant to the articles of association of the company (hereinafter "Articles of Association"), the profit after tax of the Company available for distribution shall be the lower of the two amounts of profit distributable to shareholders of the Company mentioned above. Accordingly, the distributable profit of the Company for the year 2006 was RMB391,820,000.

The Board recommends to distribute a final dividend of RMB0.07 per ordinary share of the Company in cash for the year ended 31 December 2006. The distribution proposal will be implemented subject to consideration and approval at the Company's annual general meeting of 2006.

The general meeting held on 15 August 2006 approved the distribution of an interim dividend of RMB0.06 per ordinary share of the Company as of 30 June 2006. Such interim dividend to shareholders of the Company has been fully paid.

If the proposed distribution of final dividend is approved at the annual general meeting of 2006, the total amount of dividends distributed by the Company in 2006 would be RMB 0.13.

The final dividend will be distributed to shareholders of the Company whose names appear on the Company's Register of Members on Tuesday, 29 May 2007. The H shares share register of the Company will be closed from Tuesday, 29 May 2007 to Thursday, 28 June 2007 (both days inclusive), during which no transfer of H shares will be effected. In order to qualify for the final dividend, holders of H shares must lodge their share certificates together with the relevant share transfer documents with Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m., Monday, 28 May 2007.

The dividends to be distributed will be denominated and declared in Renminbi. Distribution to domestic shareholders of the Company will be made in Renminbi, while distribution to holders of non-listed foreign shares of the Company will be in relevant foreign currencies and to holders of H shares of the Company in Hong Kong dollars. The dividends to be distributed in Hong Kong dollars will be converted into Hong Kong dollars at the average exchange rate of Renminbi to Hong Kong dollars announced by the People's Bank of China in the week prior to the dividend distribution date.

Reserves

During the year under review, shareholders' equity of the Group increased from approximately RMB1,890,760,000 to approximately RMB2,051,500,000.

Details of the movements in the reserves during the year under review are set out in note 32 to the financial statements of this annual report.

Fixed assets

Movements of fixed assets during the year are set out in note 16 to the financial statements of the annual report.

Bank loans, overdrafts and other borrowings

As at 31 December 2006, the Group had no bank borrowings.

Interest capitalised

During the year under review, no interest of construction in progress has been capitalised.

Listing of shares and changes

H shares of the Company was listed on the Main Board of the Stock Exchange on 27 June 2003.

The Company offered 34,500,000 new H shares on 4 October 2004. Accordingly, the total number of shares of the Company in issue was increased from 587,500,000 shares to 622,000,000 shares. H shares in issue increased from 172,500,000 shares to 207,000,000 shares, representing approximately 33.28% of the Company's total share capital.

As the Company did not implement any new issue plan during the year under review, there was no change in its share capital.

Information on the performance of H shares of the Group in 2006:

Highest trading price per H share during the year	HK\$10.65
Lowest trading price per H share during the year	HK\$7.20
Total turnover volume of H shares during the year	292,800,000 shares
Closing price per H share as at 31 December 2006	HK\$9.30

Public float

The Company confirms that the Company's public float during the year under review complied with the applicable requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

Share capital

As at 31 December 2006, the classes and number of shares of the Company are as follows:

Class of shares	No. of issued shares ('000 shares)	Percentage (%)
Domestic shares	355,543	57.16
Attributable to:		
Shanghai Friendship Group Incorporated Company	211,640	34.03
SH United Commercial Shanghai Liding Investment Company Limited	131,683	21.17
	12,220	1.96
Unlisted foreign shares	59,457	9.56
Attributable to:		
Mitsubishi Corporation	41,900	6.74
Hong Kong Wong Sun Heng Investment Co., Ltd.	17,557	2.82
H shares	207,000	33.28
Total	622,000	100

Number of shareholders

As at 31 December 2006, details of shareholders as recorded in the Register of Members of the Company are as follows:

Total number of shareholders	34
Holders of domestic shares	3
Holders of unlisted foreign shares	2
Holders of H shares	29

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Legal status of unlisted foreign shares

Set out below is the summary of legal opinions given by Grandall Legal Group on the rights attached to unlisted foreign shares (the "Unlisted Foreign Shares"). Although the Mandatory Provisions for Articles of Association of Companies to be Listed Overseas (the "Mandatory Provisions") provide for 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 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 Company's creation of and the subsistence of 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 Unlisted Foreign Shares. Grandall Legal Group advised that until new laws or regulations are introduced in this aspect, holders of the Unlisted Foreign Shares shall enjoy the same ranking as holders of 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 holders of Domestic Shares), except that the holders of the Unlisted Foreign Shares enjoy the following rights to which the holders of Domestic Shares are not entitled:

- (a) to receive dividends declared by the Company in foreign currencies; and

- (b) in the event of 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 of the PRC.

No provision is made for the settlement of disputes between the holders of Unlisted Foreign Shares and holders of Domestic Shares in the Mandatory Provisions or Articles of Association. According to the PRC laws, in case of disputes between the holders of Unlisted Foreign Shares and holders of Domestic Shares and the parties failed to reach any 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 dispute, either party may bring suit in a competent PRC court.

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 H Shares and holders of Domestic Shares are required to be settled through arbitration. Such dispute resolution requirements are equally applicable to disputes between the holders of H Shares and holders of Unlisted Foreign Shares.

As advised by Grandall Legal Group, the conversion of Unlisted Foreign Shares into new H Shares is subject to satisfaction of the following conditions:

- (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) approvals from the original approval authority or authorities in the PRC for the establishment of the Company being obtained by the holders of Unlisted Foreign Shares for the conversion of Unlisted Foreign Shares into H Shares after expiry of the three-year restriction period for the transfer of 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) approval from the CSRC being obtained by the Company for the conversion of Unlisted Foreign Shares into new H Shares;
- (d) 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) approval being granted by the Shareholders at a general meeting and the holders of H Shares, Domestic Shares and Unlisted Foreign Shares at their respective class meetings to authorise the conversion of Unlisted Foreign Shares into new H Shares in accordance with the Articles of Association; and
- (f) full compliance with relevant PRC laws, rules, regulations and policies governing companies incorporated in the PRC and seeking permission for share listing 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, Unlisted Foreign Shares may be converted into new H Shares.

Disclosure of interests

Directors, Chief Executive and Supervisors of the Company

As at 31 December 2006, 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, the "SFO" under Chapter 571 of the Laws of Hong Kong) 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 Companies.

As at 31 December 2006, Mr. Wang Zong-nan, Mr. Liang Wei and Mr. Lu Ming-fang are directors, supervisors or employees of Shanghai Friendship Group Incorporated Company, Shanghai Industrial Pharmaceutical, Shanghai Industrial Holdings Limited and/ or Shanghai Industrial Investment (Holdings) Company Limited respectively. As disclosed below, these companies had interests in the shares of the Company as at the 31 December 2006 which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO.

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Substantial Shareholders of the Company

So far as the Directors are aware, as at 31 December 2006, the following persons (not being a Director, chief executive or Supervisor of the Company) had interests in the shares of the Company which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO:

Name of shareholders	Class of shares	No. of domestic shares/unlisted foreign shares/ H shares	Approximate percentage 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 Group Incorporated Company	domestic	211,640,000	34.03 (Note 3)	51.00	–
SH United Commercial	domestic	131,683,000	21.17	31.73	–
Shanghai Industrial Pharmaceutical	domestic	131,683,000	21.17 (Note 1) (Note 5)	31.73	–
Shanghai Industrial YKB Limited	domestic	131,683,000	21.17 (Note 1)	31.73	–
Shanghai Industrial Holdings Limited	domestic	131,683,000	21.17 (Note 1) (Note 5)	31.73	–
Shanghai Investment Holdings Limited	domestic	131,683,000	21.17 (Note 2)	31.73	–
Shanghai Industrial Investment (Holdings) Company Limited	domestic	131,683,000	21.17 (Note 2) (Note 4)	31.73	–
Shanghai Industrial Investment Treasury Company Limited	domestic	131,683,000	21.17 (Note 2)	31.73	–
SIIC Capital (BVI) Limited	domestic	131,683,000	21.17 (Note 2)	31.73	–
Mitsubishi Corporation	unlisted foreign	41,900,000	6.74	10.10	–
Arisaig Greater China Fund Limited	H Shares	25,455,000(L)	4.09(L)	–	12.30(L)
Arisaig Partners (Mauritius) Limited	H Shares	25,455,000(L)	4.09(L)	–	12.30(L)
Cooper Lindsay William Ernest	H Shares	25,455,000(L)	4.09(L)	–	12.30(L)
Fidelity International Limited	H Shares	20,482,000(L)	3.29(L)	–	9.89(L)
IXIS Asset Management Asia Ltd	H Shares	19,132,000(L)	3.08(L)	–	9.24(L)
The Capital Group Companies, Inc.	H Shares	18,707,000(L)	3.01(L)	–	9.04(L)
Morgan Stanley	H Shares	13,975,738(L)	2.25(L)	–	6.75(L)
		13,975,738(S)	2.25(S)	–	6.75(S)
The Hamon Investment Group Pte Limited	H Shares	11,453,000(L)	1.84(L)	–	5.53(L)
Government of Singapore Investment Corporation Pte Ltd	H Shares	11,151,300(L)	2.25(L)	–	5.39(L)
Matthews International Capital Management, LLC	H Shares	10,354,000(L)	1.66(L)	–	5.00

(L) = Long position

(S) = Short position

Notes:

1. Shanghai Industrial Holdings Limited ("SIHL") owns 100% interests in Shanghai Industrial YKB Limited ("YKB") whilst YKB owns 43.62% interests in Shanghai Industrial Pharmaceutical. Shanghai Industrial Pharmaceutical owns 90% interests in SH United Commercial. Accordingly, SIHL and Shanghai Industrial Pharmaceutical are deemed to have the discloseable interests in shares of the Company above.
2. Shanghai Industrial Investment (Holdings) Company Limited ("SIIC") owns 100% interests in Shanghai Industrial Investment Treasury Company Limited ("STC") and STC owns 100% interests in Shanghai Investment Holdings Limited ("SIH"). SIH through SIIC Capital (BVI) Limited directly owns an aggregate of 56.67% interests in SIHL. Thus, SIIC, STC, SIIC Capital (BVI) Limited and SIH are deemed to have the discloseable interests in shares of the Company above.
3. Mr. Wang Zong-nan, the Chairman of the Board and an executive Director, is also the chairman of the board of directors of Shanghai Friendship Group Incorporated Company. Mr. Liang Wei, an executive Director, is a supervisor of Shanghai Friendship Group Incorporated Company.
4. Mr. Lu Ming-fang, a non-executive Director, is also an executive director and chairman of the board of directors of Shanghai Industrial Pharmaceutical, and an executive Director of SIHL and SIIC.
5. Mr. Lu Ming-fang, a non-executive Director, beneficially owned 19,500 shares in Shanghai Industrial Pharmaceutical. Mr. Lu also beneficially owned 4,200,000 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. Shi Zu-qi, a non-executive Director, beneficially owned 3,900 shares in Shanghai Industrial Pharmaceutical.

Save as disclosed above, the Directors are not aware of any persons holding any interests or short positions in shares or underlying shares of the Company which were required to be disclosed pursuant to Divisions 2 and 3 of Part XV of the SFO as at 31 December 2006.

Ultimate controlling shareholder

On 11 August 2004, Shanghai Friendship Group Incorporated Company, the controlling shareholder of the Company, announced that pursuant to the approval document Guo Zi Chan Quan 【2004】 No.556 of the State Council, the Shanghai Friendship Group Incorporated Company, a State-owned enterprise and former holder of State-owned shares of the company, had transferred the State-owned shares it held in that company, representing 6.08% of the total capital, to Bailian (Group) Company Limited; pursuant to document Hu Guo Zi Wei【2003】 No. 300, the Shanghai Friendship Group Incorporated Company, the State-owned enterprise and former holder of State-owned shares of the company, had transferred 52% of the shares it held in Shanghai Friendship Fuxing (Holdings) Company Limited, the major shareholder of the company, to Bailian (Group) Company Limited. The administrative procedures for the approval stated above had been completed. Bailian (Group) Company Limited became the ultimate controlling shareholder of Shanghai Friendship Group Incorporated Company. Accordingly, Bailian (Group) Company Limited also became the ultimate controlling shareholder of the Company. The Directors consider that this change will not have any material effect on the daily operations of the Company.

During the year, save as disclosed herein, no member of the Group has entered into any material contracts with Balian (Group) Company Limited or its subsidiaries or contracts under which member of the Group provides any service.

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Pre-emptive rights

There are no provisions under the Articles of Association requiring the Company to offer pre-emptive rights of new shares to its existing shareholders in accordance with the proportion of their respective shareholdings.

Purchase, sale or redemption of shares

Since the listing of H Shares on 27 June 2003 to the date of this report, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

Share capital interests attributable to the Directors and Supervisors

As at 31 December 2006, none of the Directors, Supervisors or senior management of the Company had any interests or short positions in the shares, underlying shares or debt securities of the Company or any associated corporation (within the meaning of the SFO) which are required by section 352 of the SFO to be recorded in the register referred to therein, or required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers under the Listing Rules.

Directors and Supervisors

The Directors and Supervisors during the year and up to the date of this report were as follows:

Executive Directors:

Mr. Wang Zong-nan (*Chairman*)
Mr. Liang Wei
Ms. Xu Ling-ling
Ms. Cai Lan-ying

Non-executive Directors:

Mr. Lu Ming-fang
Mr. Shi Zu-qi
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

Supervisors:

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

Details of the profile of the Directors, Supervisors and senior management of the Company are set out on pages 27 to 33.

Directors' and Supervisors' service contracts

The Company has entered into a service contract with each of the executive Directors on 8 June 2005, terms of which correspond to their respective term of office as Director for a period of 3 years and renewable subject to the applicable laws.

Directors' and Supervisors' interests in contracts

No contract of significance (as defined in the Listing Rules) to the business of the Company to which the Company or its subsidiaries was a party and in which a Director or Supervisor had material interests subsisted on the balance sheet date or at any time during the year under review.

Interest in shares or bonds acquired by the Directors and Supervisors

During the year, no arrangement was entered by the Company or its subsidiaries which enables the Directors or Supervisors to acquire the shares or bonds of the Company.

Independence of the independent Directors

The Company has received written confirmation from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules concerning their independence. The Company considers that all existing independent non-executive Directors comply with the provisions of Rule 3.13 of the Listing Rules and are independent.

Highest paid individuals

All the five highest paid individuals of the Company during the year were senior management members of the Company. Details of their remuneration are set out in note 15 to the financial statements in this annual report.

Retirement schemes

In accordance with the applicable laws and regulations in the PRC, all employees of the Group participate in various defined contribution retirement schemes organised by the relevant municipal and provincial governments of the PRC, under which the Group and the employees are required to make monthly contributions to these schemes at a particular percentage of the employees' salaries during the relevant periods.

Change of auditors

During the past three years, there had not been any change of the international auditors of the Company. The financial statements for the year 2006, which was compiled by the Company in accordance with the Hong Kong Financial Reporting Standards, was audited by the auditors of the Company, PricewaterhouseCoopers. The Board will propose at the annual general meeting for the re-appointment of PricewaterhouseCoopers as the international auditors of the Company.

Significant litigation

During the year, the Company was not engaged in any significant litigation.

Qualified accountant

Subject to Rule 3.24 of the Listing Rules, the Company is required to employ a qualified accountant on a full-time basis, who must be a fellow or associate of the Hong Kong Institute of Certified Public Accountants ("HKICPA") or a similar body of accountants recognised by it for exemptions from membership examination of the HKICPA. Ms. Xu Ling-ling ("Ms. Xu"), being the chief financial officer of the Company, meets all the requirements set out in Rule 3.24 of the Listing Rules save for the requirement of being a fellow or associate of the HKICPA or a similar body of accountants recognised by it for exemptions from membership examination of the HKICPA. The Company has appointed Mr. Chan Wai Leung ("Mr. Chan"), a Certified Public Accountant of the HKICPA, to assist Ms. Xu in discharging her duties as the Qualified Accountant. The Stock Exchange has granted to the Company a conditional waiver from compliance with Rule 3.24 of the Listing Rules for a period of 3 years commencing from 7 January 2005.

Connected transaction

The following transactions of the Company constitute connected transactions under Chapter 14A of the Listing Rules, mainly concerning:

Continuing acquisition of shareholdings in Central Mart held by SH United Commercial

In order to further expand the operating scale of the Company, achieve synergies and reduce connected transactions, on 27 October 2005, the Company entered into an equity transfer agreement with SI Commerce to acquire the 22.21% interests in Central Mart, a non wholly-owned subsidiary of the Company held by SH United Commercial. The equity transfer agreement lapsed on 21 July 2006. On 21 August 2006, the Company entered into an equity transfer agreement with SH United Commercial, to continue to acquire the 22.21%

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interests in Central Mart held by SH United Commercial. Upon completion of the equity transfer agreement, the Company will hold equity transfer under the 77.91% equity interests in Central Mart and Lianhua Huashang, a non wholly-owned subsidiary of the Company, will hold 22.09% equity interests in Central Mart. The consideration for the above equity transfer agreement was RMB26,900,000. Since SH United Commercial (holding 21.17% equity interests in the Company) is the promoter of the Company, in accordance with the Listing Rules, SH United Commercial is a connected party of the Company, and the transaction contemplated under the equity transfer agreement constitute a connected transaction of the Company. As each of the assets ratio, the revenue ratio and the consideration ratio for the aggregate consideration payable by the Company exceeds 2.5%, the equity transfer agreement is subject to the reporting, announcement and independent shareholders' approval pursuant to the Listing Rules. The Company has complied with the reporting and announcement requirements, and has obtained the unanimous approval of independent shareholders of the equity transfer agreement on the extraordinary general meeting of the Company held on 2 November 2006.

Acquisition of shareholdings in Lianhua E-Commerce held by Shanghai Industrial Pharmaceutical

In order to more efficiently utilise the online business to enhance customer relationships, and to enable the Company to expand its market share and finalise overall development strategies, on 21 August 2006, the Company entered into an equity transfer agreement with Shanghai Industrial Pharmaceutical to acquire the 18.18% interests in Lianhua E-Commerce held by Shanghai Industrial Pharmaceutical. Upon completion of the equity transfer under the equity transfer agreement, Lianhua E-Commerce will become a non wholly-owned subsidiary of the Company. The Company

will hold 57.27% equity interests in Lianhua E-Commerce and the consideration for the above equity transfer agreement was RMB17,900,000. Since SH United Commercial is the promoter of the Company, in accordance with the Listing Rules, Shanghai Industrial Pharmaceutical is a connected party of the Company, and the transaction contemplated under the equity transfer agreement constituted a connected transaction of the Company. As each of the assets ratio, the revenue ratio and the consideration ratio for the aggregate consideration payable by the Company exceeds 2.5%, the equity transfer agreement is subject to the reporting, announcement and independent shareholders' approval pursuant to the Listing Rules. The Company has complied with the reporting and announcement requirements, and has obtained the unanimous approval of independent shareholders of the equity transfer agreement on the extraordinary general meeting held on 2 November 2006.

Continuing Connected Transactions – rental agreement

The rental agreement entered into between Century Lianhua as the lessee and Shanghai Friendship Shopping Center Development Co., Ltd. (hereinafter referred to as "SFSC") as the lessor in respect of No. 88, Xian Xia Xi Lu, Chang Ning District, Shanghai, PRC.

The rental agreement entered into between Century Lianhua as the lessee and Homemart Decoration and Materials Co., Ltd. (hereinafter referred to as "Homemart") as the lessor in respect of No. 645, Xie Tu Lu, Lu Wan District, Shanghai, 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, PRC.

Given that each of the 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 Rule 14A.45 to 14A.47 of the Listing Rules and is exempt from the independent shareholder approval requirement.

Continuing Connected Transaction – Merchandise Agreement

The Merchandise agreement between the Company as the vendor and Shanghai Lianhua Quik Convenience Stores Company Limited (hereinafter referred to as "Lianhua Quik") as the purchaser.

Given that each of the assets ratio, revenue ratio and consideration ratio of the estimated aggregate annual amount of sales to Lianhua Quik by the Company under the merchandise agreement for the three quarters 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 2006 is RMB448,400,000. The amount of sales to Lianhua Quik by the Company for the year is RMB366,810,000.

The independent non-executive Directors have reviewed the above transactions and confirmed that the transactions have been entered into:

- (1) in the ordinary and usual course of business of the Group;

- (2) on normal commercial terms (to the extent that there are comparable transactions) or if there are not sufficient comparable transactions to determine whether they are on normal commercial terms, on terms not less favourable to the Group than terms available to or from (as appropriate) independent third parties; and
- (3) in accordance with the respective governing arrangements and on terms that are fair and reasonable and in the interests of the independent shareholders of the Company as a whole.

The auditors of the Company have reviewed the above transactions and confirmed in writing to the Board that the above transactions:

- (1) have been approved by the Board;
- (2) have been entered into in accordance with the relevant governing agreements;
- (3) were in accordance with the pricing policies of the Company; and
- (4) were conducted within the respective cap for each transaction.

By order of the Board

Wang Zong-nan
Chairman

18 April 2007
Shanghai, the PRC



