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 2007

The board of directors (the "Board") of Lianhua Supermarket Holdings Company Limited ("Lianhua Supermarket" or the "Company") is pleased to announce the unaudited results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2007, together with the comparative figures for the corresponding period in 2006.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2007

		Unaudited Six months ended 30 June	
		2007	2006
	Note	***RMB'000***	*RMB'000*
Turnover	*4*	**8,980,572**	8,350,616
Cost of sales	*6*	**(7,826,802)**	(7,377,415)
Gross profit		**1,153,770**	973,201
Other revenues	*4*	**799,458**	839,220
Other income	*5*	**219,928**	49,000
Distribution costs	*6*	**(1,635,131)**	(1,589,093)
Administrative expenses	*6*	**(158,883)**	(132,885)
Other operating expenses	*6*	**(156,254)**	(3,832)
Operating profit		**222,888**	135,611
Finance income		**19,340**	11,988
Finance costs		**(563)**	(2,593)
Finance income – net	*7*	**18,777**	9,395
Share of results of associates		**64,916**	55,046
Profit before taxation		**306,581**	200,052
Taxation	*8*	**(125,144)**	(48,539)
Profit for the period		**181,437**	151,513
Attributable to:			
Company's shareholders		**140,257**	138,367
Minority interests		**41,180**	13,146
		181,437	151,513
Dividends	*9*	**37,320**	37,320
Basic and diluted earnings per share for profit attributable to Company's shareholders	*10*	**RMB 0.23**	RMB 0.22

Note: For comparative figures, certain amounts originally recorded under other revenues have been reclassified to other income and the finance income has been separately disclosed from other income so as to conform to the current period presentation.

CONDENSED CONSOLIDATED BALANCE SHEET
As at 30 June 2007

	Note	**Unaudited 30 June 2007** *RMB'000*	Audited 31 December 2006 *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**2,737,785**	2,724,568
Construction in progress		**168,627**	353,155
Land use rights		**214,290**	198,316
Intangible assets		**219,762**	198,622
Investments in associates		**393,245**	328,622
Available-for-sale financial assets		**29,187**	9,446
Deferred tax assets		**30,459**	38,448
Other non-current assets		**35,480**	43,285
		3,828,835	3,894,462
Current assets			
Inventories		**1,335,809**	1,616,371
Trade receivables	*11*	**80,702**	45,242
Deposits, prepayments and other receivables		**647,178**	735,229
Amounts due from associates		**53**	945
Available-for-sale financial assets		**–**	30,000
Financial assets at fair value through profit or loss		**251,862**	78,252
Non-current assets classified as held for sale	*5(a)*	**–**	27,861
Bank balances and cash		**2,987,218**	2,472,519
		5,302,822	5,006,419
Total assets		**9,131,657**	8,900,881

	Note	Unaudited 30 June 2007 RMB'000	Audited 31 December 2006 RMB'000
EQUITY			
Equity attributable to Company's shareholders			
Share capital		**622,000**	622,000
Reserves		**1,526,217**	1,429,500
		2,148,217	2,051,500
Minority interests		**287,585**	273,319
Total equity		**2,435,802**	2,324,819
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		**62,756**	77,604
Current liabilities			
Trade payables	*12*	**2,377,721**	2,564,728
Other payables, accruals and coupon liabilities		**4,086,945**	3,827,064
Amounts due to associates		**–**	2,007
Amount due to holding company		**39,000**	39,000
Taxation payable		**84,840**	40,507
Dividends payable		**44,593**	1,053
Liabilities directly associated with non-current assets classified as held for sale	*5(a)*	**–**	24,099
		6,633,099	6,498,458
Total liabilities		**6,695,855**	6,576,062
Total equity and liabilities		**9,131,657**	8,900,881
Net current liabilities		**(1,330,277)**	(1,492,039)
Total assets less current liabilities		**2,498,558**	2,402,423

SELECTED NOTES TO THE CONDENSED INTERIM ACCOUNTS

For the six months ended 30 June 2007

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 2007 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 5th to 14th Floors, 1285 Zhenguang 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 2006.

2. Accounting policies

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 2006.

Certain new accounting and financial reporting standards, amendments to existing standards and interpretations have been published and are effective for financial year ending 31 December 2007. Those that are relevant to the Group's operations are as follows:

- HKFRS 7 "Financial Instruments: Disclosures", and a complementary amendment to HKAS 1 "Presentation of Financial Statements – Capital Disclosures". HKFRS 7 introduces new disclosures to improve the information about financial instruments. The amendment to HKAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures are the sensitivity analysis to market risk and the capital disclosures required by the amendment of HKAS 1. Full disclosures as required will be disclosed in the annual accounts.

- HK(IFRIC)-Int 10 "Interim Financial Reporting and Impairment". HK(IFRIC)-Int 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. This interpretation does not have material impact on the Group's condensed interim accounts.

Other new accounting and financial reporting standards, amendments to existing standards and interpretations which have been published and effective for financial year ending 31 December 2007 as set out below are currently not relevant to the Group's operations:

- HK(IFRIC)-Int 7 "Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies"

- HK(IFRIC)-Int 8 "Scope of HKFRS 2 Share – based payment"

- HK(IFRIC)-Int 9 "Reassessment of Embedded Derivatives"

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 2007.

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; logistic services for wholesale business; and sales through internet.

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					
– an associate at retail price less 1%	**–**	**–**	**–**	**–**	**–**
– 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**

The segment results for the six months ended 30 June 2006 are as follows:

	Unaudited Six months ended 30 June 2006				
	Supermarkets *RMB'000*	Hypermarkets *RMB'000*	Convenience stores *RMB'000*	Other operations *RMB'000*	Group *RMB'000*
Segment revenue	3,396,600	4,956,585	814,047	22,604	9,189,836
Including sales of merchandise to					
– an associate at retail price less 1%	258,316	326,308	–	–	584,624
– franchised stores at cost	195,200	–	159,910	–	355,110
Segment results	106,245	19,025	15,724	88	141,082
Other income					9,657
Unallocated costs					(15,128)
Operating profit					135,611
Finance income					11,988
Finance costs					(2,593)
Finance income – net					9,395
Share of results of associates					55,046
Profit before taxation					200,052
Taxation					(48,539)
Profit for the period					151,513

Other segment items are as follows:

	Unaudited Six months ended 30 June 2006				
	Supermarkets *RMB'000*	Hypermarkets *RMB'000*	Convenience stores *RMB'000*	Other operations *RMB'000*	Group *RMB'000*
Capital expenditure	242,401	188,471	9,379	389	440,640
Depreciation charge	71,302	132,978	18,269	8,983	231,532
Amortisation charge	5,530	4,411	753	1,583	12,277

The unaudited segment assets and liabilities at 30 June 2007 are as follows:

	Supermarkets *RMB'000*	**Hypermarkets** *RMB'000*	**Convenience stores** *RMB'000*	**Other operations** *RMB'000*	**Group** *RMB'000*
Segment assets	**1,694,530**	**5,381,723**	**313,466**	**39,366**	**7,429,085**
Investments in associates					**393,245**
Unallocated assets					**1,309,327**
Total assets					**9,131,657**
Segment liabilities	**1,447,185**	**4,849,188**	**243,853**	**31,542**	**6,571,768**
Unallocated liabilities					**124,087**
Total liabilities					**6,695,855**

The audited segment assets and liabilities at 31 December 2006 are as follows:

	Supermarkets *RMB'000*	Hypermarkets *RMB'000*	Convenience stores *RMB'000*	Other operations *RMB'000*	Group *RMB'000*
Segment assets	2,062,353	4,820,727	373,049	26,499	7,282,628
Investments in associates					328,622
Unallocated assets					1,289,631
Total assets					8,900,881
Segment liabilities	1,826,238	4,328,916	309,917	24,632	6,489,703
Unallocated liabilities					86,359
Total liabilities					6,576,062

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 corporate 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	
	2007	2006
	RMB'000	*RMB'000*
Turnover		
Sales of merchandise	**8,980,572**	8,350,616
Other revenues		
Income from suppliers		
– Promotion and store display income	**612,164**	638,135
– Merchandise storage and delivery income	**17,220**	15,375
– Information system service income	**2,977**	2,933
Gross rental income from leasing of shop premises	**142,870**	158,968
Royalty income from franchised stores	**24,227**	23,809
	799,458	839,220
Total revenues	**9,780,030**	9,189,836

5. Other income

	Unaudited Six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
Government subsidies	**13,501**	9,308
Fair value gain (realised and unrealised) on financial assets at fair value through profit or loss	**133,585**	4,898
Gain on disposal of available-for-sale financial assets	**10,068**	–
Gain on disposal of a subsidiary *(Note a)*	**19,781**	–
Gain on disposal of land use right	**8,930**	–
Compensation on store relocation and lease termination	**–**	7,784
Salvage sales	**19,478**	15,090
Others	**14,585**	11,920
	219,928	49,000

Note:

(a) On 22 December 2006, the Group entered into an agreement with Guangdong Sai Yi Convenience Stores Ltd. to sell its entire equity interest in Guangzhou Lianhua Quik Stores Co., Ltd. at a final consideration of RMB27,000,000 which was completed in March 2007. The disposal resulted in a gain of RMB19,781,000. The assets and liabilities of the subsidiary as at 31 December 2006 had been included as non-current assets classified as held for sale and liabilities directly associated with non-current assets classified as held for sale respectively in the consolidated balance sheet as at 31 December 2006.

6. Expenses by nature

	Unaudited Six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
Cost of merchandise	**7,826,802**	7,377,415
Amortisation of other non-current assets	**1,299**	3,886
Amortisation of software	**10,271**	6,620
Amortisation of land use rights	**3,566**	1,771
Depreciation of property, plant and equipment	**215,472**	231,532
Loss on disposal of property, plant and equipment	**36,011**	3,896
Operating lease rental in respect of land and buildings	**497,438**	458,129
Outgoings for income from leasing of shop premises	**52,563**	62,752
Staff costs	**551,297**	530,867
Pre-operating expenses	**5,199**	8,200
Utility expenses	**175,830**	173,030
Advertising and promotion costs	**39,545**	45,907
Other store operating expenses	**174,212**	151,638
Impairment of property, plant and equipment	**34,297**	–
Impairment of intangible assets	**369**	–
Impairment of other non-current assets	**6,506**	–
Store closure expenses *(Note a)*	**70,901**	3,323
Other expenses	**75,492**	44,259
Total cost of sales, distribution costs, administrative expenses and other operating expenses	**9,777,070**	9,103,225

Note:

(a) The store closure expenses consist primarily of the compensation for early termination of lease contract of RMB41,518,000, write-off of non-recoverable assets of RMB21,500,000, staff dismissal compensation of RMB1,068,000 and other miscellaneous items of RMB6,815,000.

7. Finance income and costs

	Unaudited Six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
Interest income	**19,340**	11,988
Interest expenses:		
Bank borrowings wholly repayable within five years	**–**	(1,951)
Others	**(563)**	(642)
Net finance income	**18,777**	9,395

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 is calculated based on the statutory income tax rate of 33% (2006: 33%) of assessable income of the Group except for certain subsidiaries which are taxed at preferential rate of 15% (2006: 0% to 15%) based on the relevant PRC tax rules and regulations.

The amount of taxation charged/(credited) to the consolidated profit and loss account represents:

	Unaudited Six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
PRC income tax		
– Current taxation	**132,003**	53,773
– Deferred taxation	**(6,859)**	(5,234)
	125,144	48,539

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "new CIT Law"). The new CIT Law reduces the corporate income tax rate for domestic enterprises and foreign invested enterprises from 33% to 25% with effect from 1 January 2008. As a result of the new CIT Law, net deferred tax liabilities of approximately RMB7,736,000 has been released and credited to the consolidated profit and loss account in the six-month period ended 30 June 2007.

The new CIT Law provides that further detailed measures and regulations on the determination of taxable profit, tax incentive and grandfathering provisions will be issued by the State Council in due course. As and when the State Council announces the additional regulations, the Company will assess their impact, if any, and this change in accounting estimate will be accounted for prospectively.

9. Dividends

	Unaudited Six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
Interim dividend, declared, of RMB0.06 (2006: RMB0.06) per share	**37,320**	37,320

At a meeting held on 15 August 2007, the Directors declared an interim dividend of RMB0.06 per share. 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 2007.

At a meeting held on 18 April 2007, the Directors proposed a final dividend of RMB 0.07 per share for the year ended 31 December 2006, totalling RMB43,540,000, which was approved by the shareholders on 28 June 2007 and has been reflected as an appropriation of retained earnings for the six months ended 30 June 2007. The amount has not yet been paid as at 30 June 2007.

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	
	2007	2006
Profit attributable to Company's shareholders *(RMB '000)*	**140,257**	138,367
Weighted average number of ordinary shares in issue *(RMB '000)*	**622,000**	622,000
Basic earnings per share (RMB)	**0.23**	0.22

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 analysis of the trade receivables, arising mainly from sales of merchandise to franchised stores and wholesalers and with credit terms ranging from 30 to 45 days, are as follows:

	Unaudited 30 June 2007 *RMB'000*	Audited 31 December 2006 *RMB'000*
Within 30 days	**64,254**	26,160
31-60 days	**7,975**	12,183
61-90 days	**4,076**	4,106
91 days-one year	**4,397**	2,793
	80,702	45,242

12. Trade payables

The ageing analysis of the trade payables are as follows:

	Unaudited 30 June 2007 *RMB'000*	Audited 31 December 2006 *RMB'000*
Within 30 days	**2,104,422**	1,484,922
31-60 days	**194,621**	744,957
61-90 days	**33,081**	189,425
91 days-one year	**45,597**	145,424
	2,377,721	2,564,728

MANAGEMENT DISCUSSION AND ANALYSIS

Operating environment

In the first half of 2007, the total national retail sales of consumer goods in the People's Republic of China (the "PRC") grew by 15.4% to approximately RMB4,204.4 billion, setting a new high since 1997, highlighting the remarkable growth of China's macro-economy. The retail market capacity of the PRC expanded continuously, with consumer expenditure playing a more important role in the economy. The income of urban and rural citizens has grown at rapid pace rarely seen in many years, among which the disposable income per capita of urban citizens grew approximately 14.2%, representing an increase of 4 percentage point in the percentage of growth over the corresponding period of last year, whereas the per capita cash income of farmers increased 13.3%. In the meantime, the Consumer Confidence Index still maintained a growing trend. The total retail sales of consumer goods in the 16 cities of the Yangtze River Delta region amounted to approximately RMB604.6 billion, representing an increase of 14.8% as compared to the corresponding period of last year.

As a domestic retail enterprise in the PRC, the Group is pleased to see the stable growth of the economy in the PRC and the bright future of the market development. The continuous growth in residents' income in the PRC, the booming of the middle income class and the speeding up of urbanization help whetting a strong spending appetite of consumers in the PRC. With the objective of steady development with quality, the Group determines to grasp the opportunities and grow in line with the trend of development. While our development emphasized in the Yangtze River Delta, we also developed across the whole country. The Group enhanced the business growth and created returns for shareholders through implementing the operation strategy of identification, variation and diversification.

Business review

Improved operating results and performance indicators

As at 30 June 2007, the turnover of the Group amounted to RMB8,981 million, representing an increase of 7.54% as compared to the corresponding period of last year. The operating profit of the Group amounted to RMB223 million, representing an increase of 64.36% as compared to the corresponding period of last year. The profit attributable to shareholders amounted to RMB140 million, representing an increase of 1.37% as compared to the corresponding period of last year. The earnings per share amounted to RMB0.23. The overall performance indicators have been improved compared to the corresponding period of last year.

Optimized network with stronger regional presence

As at 30 June 2007, the Group had a total of 3,649 directly operated and franchised outlets (not including outlets operated by associated companies). The Group continued to maintain its market leading position in the PRC, details of which are as follows:

	Hypermarkets		**Supermarkets**		**Convenience stores**		**Total**	
	30 June 2007	31 December 2006	**30 June 2007**	31 December 2006	**30 June 2007**	31 December 2006	**30 June 2007**	31 December 2006
The Group	**103**	104	**1,660**	1,652	**1,886**	1,960	**3,649**	3,716
of which:								
Direct operation	**103**	104	**576**	625	**981**	1,114	**1,660**	1,843
Franchise operation	**0**	0	**1,084**	1,027	**905**	846	**1,989**	1,873

During the period under review, while the Group was implementing its whole country development strategy of "Concentration, Stabilization and Quality", the Group focused on the scientific planning, rationalized layout and major breakthroughs in the Yangtze River Delta region and other cities where we have established business. The Group sold 111 convenience stores in Guangzhou through transferring its equity interests therein and, meanwhile, transformed the directly operated supermarkets into franchised stores in certain cities, which has led to an optimized network structure and a stores network with quality. During the period under review, 83% of new outlets were opened in the Eastern China region, which resulted in further increment in percentage of outlets in the Eastern China region to 84%, as a result of which our market position were further enhanced in the said region. The Board believes that an optimized network structure will provide a solid base and confidence for exploring profit-gaining markets.

The Group persisted in its 'two-tier' strategy for developing direct operation of hypermarkets, and both direct operation and franchise operation of supermarkets and convenience stores, which utilized the characteristics of different business formats and different operation models, and the advantages of concentrated, quality and powerful new network. During the period under review, the Group actively promoted the development of franchised outlets. Currently, 55% of our total outlets were franchised outlets, among which the percentage of franchised outlets was increased to 65% and 48% for supermarkets and convenience stores, respectively. The large scale of the market, its good brand image and reputation, and the matured business model were favorable factors driving the growth of franchised outlets.

Transformation boosting the results and facilitating the organic growth

A total of 42 supermarkets were transformed by the Group during the period under review. Accumulatively, the Group had transformed 137 supermarkets in total. The average daily sales and the average daily volume of customers of transformed outlets rose by approximately 19.16% and 12.42%, respectively, as compared to the corresponding period of last year.

Ever since we commenced the transformation of supermarkets in 2005, our modern business models have successfully attracted a group of middle to high-end consumers, which consequently enlarged our market share in the middle to high-end market, explored our market network and attracted customers. At the same time, the Group also implemented our thriving experiences of transforming supermarkets and applied our idea and mechanism of 'transformation' in hypermarkets and convenience stores.

During the period under review, the Group has been actively transforming hypermarkets. By way of choosing a suitable business formats in accordance with different locations and market-positioning in accordance with the needs of consumers, the Group has set up its product structure and operation model in line with the local culture. Currently, the preliminary results of our trial transformed outlets proved our strategy to be successful, for example, the outlet at Fuyang, Zhejiang Province. After the transformation, the Fuyang store satisfied the market demand for local department stores by enhancing its function. With the introduction of more high-end products, the Fuyang store recorded a year-on-year increase of 22.46% in sales, 4.81% in purchase per transaction of customers and 23.78% in volume of customers as compared to the corresponding period of last year.

Enhancing the supply chain system and exploring its additional value

During the period under review, the Group continued to develop and promote the online supply chain management platform project (B2B project) among the suppliers. Currently, over 50% of our suppliers have registered with such management platform.

The Group focused on analyzing the information of its supply chain management platform, managing its process and developing new functions. After applying the B2B system by the Group, its system of online ordering, online account checking, online settlement and online figure consultation enhanced our products satisfaction rate effectively. The turnover of inventory of our outlets and suppliers were both improved, bringing about a win-win situation.

Total number of members exceeded 6,300,000 while the percentage of member spending increased

As at 30 June 2007, the total number of members exceeded 6,300,000. Total member spending as a percentage to the Group's total turnover accounted for 45.60%. The members' average purchase per transaction increased 13.82% as compared to the corresponding period of last year.

During the period under review, the Group continued to optimize, promote and develop the membership management system and to promote alliance business actively. In the meantime, the Group also provided more convenience to its customers through carrying out a series of promotional activities, such as offering discount prices to members and members' lottery. The Group's online shopping platform broadened its functions, hence attracting and retaining high-end consumers for the Group.

Promoting sales as well as economizing on expenditures to tackle cost pressure

In order to tackle the problems caused by increasing rental cost, labour cost and operating cost, the Group persisted in its strategy of controlling cost through enhancing its sales on the one hand and controlling the cost on the other hand, so that the Group could grow and develop healthily. While putting great efforts in achieving better results, the Group took cost control as one of its key focuses, conducted researches and implemented the measures with focus. Cost control measures were implemented in assets engineering management, labour force management, rental management, marketing cost management and utilities cost management. Through maximizing the rate of store area usage, improving the labour efficiency, advancing the operation efficiency and improving the operation process, the overall cost control of the Group was maintained at a reasonable, appropriate and efficient level. During the period under review, the Group had a great achievement in cost control, with a decrease of 1 percentage point recorded in its cost rate as compared to the corresponding period of last year.

Improving the standard of employees through accumulation of experiences

While the Group was celebrating its 16th anniversary, it compiled a series of management manuals *"The road of Lianhua"* regarding the management of human resources, management of supermarkets, management of finance, management of convenience stores and management of franchise operation. These series of manuals concluded the retail business experiences of the Group. These manuals were textbooks for staff training and toolkits for business operation, which played an active role in enhancing the standard of the whole team and the ability of implementation and operation of the Group.

Segment results

Segment turnover

	For the six months ended 30 June				
			RMB million		
	2007		2006		
	Turnover	**Percentage of total turnover**	Turnover	Percentage of total turnover	Change
		%		%	%
Hypermarkets	**4,861.12**	**54.13**	4,402.57	52.72	10.42
Supermarkets	**3,263.37**	**36.34**	3,174.33	38.01	2.81
Convenience stores	**739.74**	**8.24**	748.02	8.96	(1.11)
Other operations	**116.34**	**1.29**	25.70	0.31	352.68
Total	**8,980.57**	**100.00**	8,350.62	100.00	7.54

Segment operating profit

	For the six months ended 30 June *RMB million*				
	2007		2006		
	Operating profit	**Percentage of operating profit %**	Operating profit	Percentage of operating profit %	Change %
Hypermarkets	**(7.06)**	**(3.17)**	21.71	16.01	(132.52)
Supermarkets	**155.07**	**69.57**	112.67	83.08	37.63
Convenience stores	**36.37**	**16.32**	16.01	11.81	127.17
Other operations	**38.51**	**17.28**	(14.78)	(10.90)	(360.55)
Total	**222.89**	**100**	135.61	100.00	64.36

Hypermarkets

Results overview

Directly operated stores 103

For the six months ended 30 June 2007, segment turnover of the Group's hypermarket business was approximately RMB4,861.12 million, accounting for 54.13% of the turnover of the Group and representing an increase of approximately 10.42% when comparing with approximately RMB4,402.57 million in the corresponding period of last year. Operating loss amounted to approximately RMB7.06 million, representing a decrease of RMB28.77 million from operating profit of approximately RMB21.71 million in the corresponding period of the previous year.

	As at 30 June 2007	As at 30 June 2006
Gross profit margin (%)	**10.8**	8.8
Consolidated income margin (%) *(Note)*	**22.9**	21.9
Operating (loss)/profit margin (%)	**(0.1)**	0.5

Note: Consolidated income margin = (Gross profit + Other revenues + Other income) / Turnover

Business development

During the period under review, the Group implemented a strategy of "promoting stores" for hypermarket business, which aimed at improving the performance of the existing hypermarkets. With its focus on promoting the volume of customers and improvements in its basic operation, the Group accomplished its goal in further enhancing the sales of its hypermarkets by improving product display, advancing the shopping environment, strengthening its management of orders, matching the product structure in different regions and avoiding the shortage of high sales volume products. The sales growth for individual stores of the hypermarket business increased approximately 6.96% in the first six months of 2007. During the period under review, the Group opened 4 new hypermarkets, which are located in Shanghai, Zhejiang Province and Jiangsu Province in the Eastern China region. The scientifically-selected locations, clear-cut operational directions, reasonable and appropriate product mix, combined application of marketing strategies and stringent cost control have led to the remarkable improvement in the quality of these newly opened stores, as well as the increase in turnover and gross profit.

During the period under review, the Group began to implement proactive and prudent streamlining on five hypermarkets which operated under a negative environment and had a longer expected period of development. Long-term assets impairment was also provided by the Group for certain stores with a longer expected period of development. Due to the one-off loss for the hypermarket business triggered by the two factors mentioned above, together with the decrease in profit resulting from the closing of three prime stores in the second half of 2006, the results of the hypermarket business were affected during the reporting period. Without taking into account the above factors, the segment operating profit of the hypermarket business recorded significant growth as compared to the corresponding period of last year. From now on, given the increase of the profitability of existing stores and the outstanding performance of newly opened stores together with the optimization of sales network, the Group remains optimistic for the prospect of the hypermarket business.

During the period under review, the hypermarket business implemented creative marketing models. The Group introduced a target-oriented marketing system "perceive and go", giving out coupons to customers for their next purchase. Through implementing our target-oriented marketing models, the Group attempted to change the shopping pattern of customers, to increase their frequency of re-visiting the store, to increase the purchase volume per transaction and to consolidate their loyalty to the Group. At present, the Group had implemented such marketing system in its hypermarkets locateds in the Shanghai region.

Supermarket

Results overview

Directly operated stores	576
Franchised stores	1,084

For the six months ended 30 June 2007, segment turnover of the Group's supermarket business was approximately RMB3,263.37 million, accounting for approximately 36.34% of the Group's turnover and representing an increase of approximately 2.81% from approximately RMB3,174.33 million in the corresponding period of last year. Operating profit amounted to approximately RMB155.07 million, representing an increase of approximately RMB42.4 million from approximately RMB112.67 million in the corresponding period of the previous year.

During the period under review, the Group opened 114 new supermarkets, of which 5 are directly-operated supermarkets and 109 are franchised supermarkets. As at 30 June 2007, the number of supermarkets of the Group amounted to 1,660 stores.

	As at 30 June 2007	As at 30 June 2006
Gross profit margin (%)	**14.6**	14.6
Consolidated income margin (%)	**22.9**	22.3
Operating profit margin (%)	**4.8**	3.6

Business development

The Group continued to proceed with the transformation of its supermarket business. During the period under review, a total of 42 directly operated supermarkets have been transformed, and the aggregate number of supermarkets that have been transformed amounted to 137. For those successfully transformed outlets, the Group will further explore their growth potential through optimizing and enhancing the variety of product structure. For example, sales contribution of industrial goods in the Grand Gateway store in Xujiahui District has kept increasing after the post-transformation adjustment of the categories of merchandises. In accordance with the analysis on the operation of middle to high-end industrial goods cater to the demands of customers in this business district. Accordingly, the Group therefore further restructured this category and displayed them in the way that department stores display their goods. The products without clear positioning were taken out while suppliers with reputable brand names were introduced. The establishment of middle to high-end position of industrial goods in the market offered a valuable experience for other outlets with middle- to high-end position.

After the transformation of our supermarkets, the age range of customers tends to be younger and most of them are white-collar workers who aspire for a better quality of life. In response to such demands, the transformed supermarkets have launched a series of exciting programs on the themes of imported products, high-end fresh produces and leisure activities, such as the "American Food Festival", "Japanese Fish Exhibition" and "Norway Salmon Festival". Such activities offered younger target customers, who aspire for quality life, an unique and interesting supermarket shopping experience and helped increasing sales after such transformation.

During the period under review, the Group actively explored the establishment of the product procurement and delivery systems for serving franchised stores directly. We also held special trade fairs for franchisees and developed custom-made products that cater to the demands of franchised stores. The Group also provided franchise operators with the mature operational skills and management in an effort to increase their profitability. The development of franchise operations of supermarkets will be focused on the Yangtze River Delta region, and a pilot operation was initiated in Changxing county, Zhejiang Province, where the township economy is booming. There are currently 19 "Nongcun Fangxin Chain" stores (農村放心連鎖店) in the region. Such stores have been operating smoothly due to their well-established brand image and insights into the local market.

Convenience stores

Results overview

Directly operated stores	981
Franchised stores	905

For the six months ended 30 June 2007, segment turnover of the Group's convenience store business was approximately RMB739.74 million, accounting for approximately 8.24% of the Group's turnover and representing a decrease of approximately 1.11% from approximately RMB748.02 million of the corresponding period of last year. Operating profit was approximately RMB36.37 million, representing an increase of RMB20.36 million from approximately RMB16.01 million in the corresponding period of last year.

Our convenience stores are currently located in five cities, namely Shanghai, Beijing, Dalian, Hangzhou and Ningbo. During the period under review, the Group opened 130 new convenience stores, of which 5 are directly-operated and 125 are franchised stores. As at 30 June 2007, the Group had 1,886 convenience stores in total.

	As at 30 June 2007	As at 30 June 2006
Gross profit margin (%)	**15.8**	16.2
Consolidated income margin (%)	**25.9**	25.2
Operating profit margin (%)	**4.9**	2.1

Business development

Given the well-established sales networks of the Group in these five major cities, together with the matured management model and positive market image, the Group is well equipped with the technology and management capabilities to proactively develop the franchised convenience stores. With our in-depth development of management and technological resources, and fully utilizing the social resources of the franchise operators, the unique development advantage of franchise operation will be further demonstrated. In the development of directly operated stores, the Group is focused on the effectiveness of regional advantage of middle to high-end locations and opened new quality stores in efficient order.

With a strategic foresight of its convenience store business and alertness of market developments, the Group strives to extend its scope of service, to enhance its functions and standard of service, with an aim at attracting customers. For example, in order to meet the demands of foreign tourists who may visit Beijing before and during the Olympics Games in 2008, the Company had organized trainings on daily English conversations for managers and employees of stores which are located in scenic spots and city centers of Beijing. The Company has also added English graphics to the main categories of our products in order to enhance communications and increase sales.

During the period under review, based on the strategy of optimizing the allocation of resources and strengthening the development in the Yangtze River Delta region, the Group had optimized the locations of its stores by transferring equity interest in the Guangzhou convenience store business. Meanwhile, the Group has strengthened the expansion in the market of the Yangtze River Delta region and started to conduct thorough market research in the major cities of Jiangsu Province.

Associated companies

As at 30 June 2007, Shanghai Carhua Supermarket Company Limited operated a total of 11 hypermarkets in Shanghai.

For the six months ended 30 June 2007, the Group's share of results of associated companies amounted to RMB64.916 million, representing an increase of 17.93% as compared to the corresponding period of last year. The associated companies were in stable development and sustained continuous growth.

Financial review

Analysis of financial results

	For the six months ended 30 June		
	RMB million		
	2007	2006	Change (%)
Turnover	**8,980.57**	8,350.62	7.54
Gross profit	**1,153.77**	973.20	18.55
Consolidated income *(note 1)*	**2,173.16**	1,861.42	16.75
Operating profit	**222.89**	135.61	64.36
Taxation *(note 2)*	**125.14**	48.54	157.81
Profit attributable to Company's shareholders	**140.26**	138.37	1.37
Basic Earnings per share *(RMB)*	**0.23**	0.22	4.55
Interim dividend per share *(RMB)*	**0.06**	0.06	0

Note 1: Consolidated income = Gross profit + Other income + Other revenues

Note 2: The increase of taxation was attributable to (i) the increase of operating profit; and (ii) the income taxes of the Group has not been reduced by the loss arising from the closing of certain stores and the provision for long-term assets impairment.

Liquidity and financial resources

During the first half of 2007, the capital resource of the Group was mainly from cash inflow from operations. As at 30 June 2007, the Group had non-current assets of approximately RMB3,828.835 million. The non-current assets were mainly comprised of construction in progress, property, plant, equipment and land use rights of approximately RMB3,120.702 million, intangible assets of approximately RMB219.762 million, investments in associates of approximately RMB393.245 million, available-for-sale financial assets, deferred tax assets and other non-current assets of approximately RMB95.126 million.

As at 30 June 2007, the Group had net current liabilities of approximately RMB1,330.277 million. Current assets were mainly comprised of bank balances and cash of approximately RMB2,987.218 million, inventories of approximately RMB1,335.809 million, trade receivables, deposits, prepayments and other receivables of approximately RMB727.88 million, financial assets at fair value through profit or loss of RMB251.862 million, and amount due from associates of approximately RMB53,000. Current liabilities were mainly comprised of dividends payable of approximately RMB44.593 million, trade payables, other payables, accruals and coupon liabilities of approximately RMB6,464.666 million, amount due to holding company of RMB39 million and taxation payable of approximately RMB84.84 million.

For the six months ended 30 June 2007, turnover period of the Group's accounts payable was 60 days. Inventory turnover 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 in the six months ended 30 June 2007.

Capital structure

As at 30 June 2007, the Group's cash and cash equivalents were mainly held in Renminbi, and the Group did not have any bank borrowings.

During the period under review, equity attributable to shareholders increased from approximately RMB2,051.5 million to approximately RMB2,148.22 million, which was mainly due to the increase in profit amounting to RMB140.26 million and dividends distribution amounting to RMB43.54 million during the period under review.

Details of the Group's pledged assets

As at 30 June 2007, the Group did not have any pledged assets.

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 2007, 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 2007, the Group did not have any material contingent liabilities.

Employment, training and development

As at 30 June 2007, the Group had a total of 44,957 employees, representing a decrease of 1,852 employees during the period under review. Total staff costs amounted to RMB551.297 million. Remuneration for the Group's employees was determined on the basis of their performance, experience and the then practice in the industry. Apart from basic salary, welfare allowances and performance bonus, the Group also provides its fulltime employees with housing welfare, medical allowance and other subsidies. The Group also contributes to the retirement benefit schemes organized by the government and makes monthly contributions for its employees to these schemes in accordance with the policies of the PRC.

In accordance with its operational performance, the Group further optimized the remuneration package for its employees and established the normal salary increment mechanism in line with market rate so as to share the Group's achievement on its development and operation with the employees.

While actively responding to market changes and maintaining the positive growth of the results of the Group, the Group also focuses on the continuous optimization of its manpower resources system. The Group promotes the cultivation of talented personnel through the establishment of talents cultivation system, performance assessment management system, personnel training and development system, and salary and distribution incentive mechanism. The Group further defined the requirements and responsibilities of management executives at various levels for the cultivation and retaining of talents. The Group has established talents cultivation and retaining funds and strengthened the efforts in cultivating and retaining talents to respond to market competitions and meet the demands for talents arising from the development of the Group.

Strategies and plans

Capturing opportunities to accelerate development

The Group will reinforce its leading position in the fast moving consumer goods market on a centralized and efficient basis. The Group will standardize the process of network development and continue to set up new quality stores in the Yangtze River Delta region and the other major cities where the Group has market presence.

The Group will continue to implement the strategy that focuses on the balanced development of directly operated and franchised stores and the synchronized development of hypermarkets, supermarkets and convenience stores. The Group will further improve the quality of its new stores and maintain the momentum of sustainable development by summarizing and applying the successful experience of store operations and studying the essentials that lead to the success of stores with outstanding performance.

The Group will continue to regard mergers and acquisitions activities as one of its development strategies and identify the merger and acquisition targets so as to realize expansions by reasonably leveraging on its mergers and acquisitions strategies.

Further store transformation through the segmentation of markets

The Group will continue to transform its supermarkets with the emphasis shifting from extensiveness to thoroughness. The Group will readjust its product structure and conduct targeted marketing by segmenting the markets and focusing on its target customers. The Group will proactively summarize and apply the successful experiences of transformed stores, in the meantime, explore the breakthrough points for the transformation of middle to low-end stores.

The Group will actively proceed with the transformation of the operation of hypermarkets and convenience stores, and continue to be innovative by reference to the market demands and study the changes in the demands of its customers. The Group will strengthen the operations of fresh produces and brand marketing so as to enhance the performance of our products and attract more customers.

Strengthening of management to promote competitiveness

The Group will further develop its operational supporting system by refining its procurement system, franchise development system training system and the standardization system, so as to increase management efficiency, guarantee product quality and realize the increase of results.

The Group will optimize its procurement system. The Group will analyze the demands for custom-made products and optimize its procurement system based on the characteristics of the cross-region and cross-sector development mode of the Group. The Group will procure products with localization as the starting point, and focus on the characteristics and capabilities of regional procurement. The Group will further improve its prime products, introduce such products into different markets, and explore and develop new suppliers.

With the increasing importance of the franchise development strategy in the Group, the Group will strengthen the development of franchise network and provide franchise operators with timely training to increase their system-application ability. The Group will develop custom-made products that meet the demands of different franchise operators, and reinforce the composition of the supervision team constitution to enhance daily management.

The Group will further enhance the knowledge management system by providing materials and platforms for the study and training of its employees. The Group focused on the composition of a team of trainers and standardizing the acquisition and sharing of information. In the face of the transformation of the industry, the Group will train up store managers with high management capabilities and strengthen the training in the provision of quality fresh produces and services. Through the development of standardized training materials, the Group will stabilize the quality of various training programs and standardize their contents. The Group will further enhance the business standards and working capacities of its employees by organizing targeted and effective management and business training sessions.

With the strengthening of the basic management skills as the core, the Group will proceed with the standardization of operations and management. The Group will also optimize its organizational structures, rebuild the workflow and further enhance the responsibilities and capabilities of the relevant departments so as to respond to the market developments quickly.

Purchase, sale or redemption of shares

Since the listing of H Shares on 27 June 2003 to the date of this announcement, the Group has not purchased, sold or redeemed any of the Company's listed shares.

Interim dividend

On 15 August 2007, the Board of the Company has declared the payment of an interim dividend of RMB0.06 per share for the six months ended 30 June 2007.

Interim dividend will be paid to the shareholders whose names appear on the Company's register of members as at the close of business on 18 September 2007. The H Shares share register of the Company will be closed from 14 September 2007 to 18 September 2007 (both days inclusive) during which period no transfer of H Share will be effected. In order to qualify for the declared interim dividend, all instrument of transfers of H Shares, accompanied by the relevant H share certificates, must be lodged for registration with Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, by no later than 4:30 p.m. on Thursday, 13 September 2007.

Dividends payable to shareholders shall be calculated and declared in RMB. On or before 15 October 2007, dividends payable to the holders of the Company's domestic shares shall be paid in RMB, whereas dividends payable to the holders of the Company's unlisted foreign shares shall be paid in the relevant foreign currencies and dividends payable to the holders of the Company's H Shares shall be paid in Hong Kong dollars. The exchange rate to be adopted shall be the average closing rates of RMB against the HK$ of the week prior to the date of declaration of interim dividend as announced by the People's Bank of China, i.e., HK$103.29 for RMB100. Therefore, in terms of Hong Kong dollars, the interim dividends payable will be HK$0.062 per ordinary share of the Company.

Audit Committee

The audit committee of the Company (the "Audit Committee") has considered and reviewed the accounting principles and practices adopted by the Group and has discussed matters in relation to internal control and financial reporting with the management, including the review of the unaudited condensed interim accounts for 2007 of the Company. The Audit Committee considered that the interim financial report for the six months ended 30 June 2007 is in compliance with the relevant accounting standards, requirements of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Laws of Hong Kong, and the Company has made appropriate disclosures thereof.

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in Appendix 10 of the Rules Governing the Listing of Securities in the Stock Exchange (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 in Appendix 14 of the Listing Rules

The Board is pleased to confirm that save and except the Company's practice relating to the directors' retirement 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 associaton 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 of 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 and thus deviating from the aforementioned provision of the Code.

By Order of the Board
Wang Zhi-gang
Chairman

Shanghai, The PRC, 15 August 2007

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

Executive directors:	*Wang Zhi-gang, Liang Wei, Xu Ling-ling and Cai Lan-ying*
Non-executive directors:	*Lu Ming-fang, Yao Fang, Koichi Narita, Wong Tak Hung and Hua Guo-ping*
Independent non-executive directors:	*Lee Kwok Ming, Don, Zhang Hui-ming and Xia Da-wei*