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)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

FINANCIAL HIGHLIGHTS

Set out below are the summary of financial information of the Group for the year ended 31 December 2007:

- Turnover of approximately RMB18.09 billion, a growth of 10% over 2006.
- Gross profit of approximately RMB2.35 billion, a growth of 18.52% over 2006.
- Gross profit margin of 12.99%, an increase of 0.94 percentage point over 2006.
- Consolidated income margin of 25.47%, an increase of 1.86 percentage points over 2006.
- Operating profit of approximately RMB0.42 billion, a growth of 81.81% over 2006.
- Operating profit margin of 2.31%, an increase of 0.91 percentage point over 2006.
- Profit before taxation of approximately RMB0.59 billion, a growth of 59.11% over 2006.
- Attributable profit to shareholders of approximately RMB0.27 billion, a growth of 11.05% over 2006.
- Net profit margin of 1.48%, an increase of 0.01 percentage point over 2006.
- Basic earning per share of RMB0.43, an increase of 10.26% over 2006.
- Pursuant to the principle of conservatism, during the year, impairment provisions were made by the Group in respect of its long-term assets based on the accounting principles. Excluding the impairment provisions and the one-off expenditure for closure of certain outlets, the results of hypermarkets and supermarkets had attained satisfactory growth.
- Total number of outlets was 3,722, of which 111 were hypermarkets, 1,731 were supermarkets and 1,880 were convenience stores. Total number of franchised outlets reached 2,084, representing 56% of the total number of outlets of the Group.
- The overall same outlet sales growth of the Group was significant, posting a growth of 10.45% over 2006, of which, the growth for hypermarkets, supermarkets and convenience stores were 10.6%, 10.8% and 7.1% respectively.
- Final dividend per share was RMB0.12, together with the interim dividend of RMB0.06 per share, the total dividend distributed for the year was RMB0.18.

Note: Consolidated income margin = (Gross profit + other gains + other income)/Turnover

During the period under review, Lianhua Supermarket Holdings Co., Ltd. ("Lianhua" or the "Company") and its subsidiaries (collectively the "Group") opened 497 new outlets. For the year end of 2007, the total number of outlets reached 3,722, of which approximately 82% were opened in Jiangsu Province, Zhejiang Province and Shanghai. The outlets in these regions enjoy the advantages of rich merchandising resources, strong supply chain, high bargaining power, reputable brand image and massive membership consumption brought by our economies of scale. Business improvement and network development measures achieved satisfactory results in those regions where Lianhua already had presence. For example, the number of our convenience stores in Dalian, a renowned tourist city, reached 292. We have already established our reputable brand image and increased the share of local convenience stores market steadily. In 2007, same outlet sales growth reached 9.79% in that region.

By adapting to the ever-changing consumer demand, our supermarket business has successfully transformed to high-end outlets in town centers. While establishing a new image, we had also paved a new road for the continuous development of our traditional supermarket business. In 2007, we extended the transformation of our business model to middle-to-low-end outlets and obtained encouraging results. After transformation, average daily sales per outlet grew by 27% over last year. The success in supermarket business transformation has inspired us to develop other businesses within the Group. We continued to carry out in-depth re-structuring and adjustment of certain hypermarket outlets with obvious results improvements. With the improved results in transformed outlets, the active transformation to adapt changing market and consumer needs is the correct approach for Lianhua to achieve its continuous development.

The Group will not leave the enhancement in its basic management capabilities behind. We will continue to strive for enhancing the efficiency of our supply chain, outlet operation and merchandise management. Through strengthening the application of information technology and management techniques in the Company, we will continue to promote internal control and management, workflow re-structuring, and improve our cash flow management capabilities, with the objective of creating a modernized and highly efficient retail enterprise. The Group believes that the enhancement of our basic management capabilities will become one of the driving forces in sustaining the performance growth of the Group.

The seventeen years of development in PRC market has given us valuable experience in operating and managing our business. We also gained in-depth knowledge in understanding the changing needs of retail markets and consumers. We have more than 3,000 outlets, over 40,000 staff, including a massive consumption support by over 6.5 million members, and a sophisticated logistic distribution system. The board ("Board") of directors ("Directors") of the Company believes that such an enormous resources will continue to drive the on-going development of the Group and lay a solid foundation in maximizing the value for our shareholders.

The Board of the Company is pleased to announce the audited consolidated results of the Group for the year ended 31 December 2007, together with the comparative figures for the year ended 31 December 2006.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the Year Ended 31 December 2007

	Note	**2007** *RMB'000*	2006 *RMB'000*
Turnover	*4*	**18,086,857**	16,443,030
Cost of sales	*6*	**(15,738,221)**	(14,461,350)
Gross profit		**2,348,636**	1,981,680
Other revenues	*4*	**1,619,536**	1,710,838
Other income	*5*	**638,132**	189,926
Distribution costs	*6*	**(3,462,317)**	(3,304,704)
Administrative expenses	*6*	**(363,519)**	(287,686)
Other operating expenses	*6*	**(363,174)**	(60,536)
Operating profit		**417,294**	229,518
Finance income		**38,818**	26,781
Finance costs		**(1,133)**	(1,951)
Finance income — net	*7*	**37,685**	24,830
Share of results of associates		**130,475**	113,597
Profit before taxation		**585,454**	367,945
Taxation	*8*	**(204,805)**	(104,221)
Profit for the year		**380,649**	263,724
Attributable to:			
Company's shareholders		**268,301**	241,599
Minority interests		**112,348**	22,125
		380,649	263,724
Dividends			
— Interim	*9*	**37,320**	37,320
— Final	*9*	**74,640**	43,540
Basic and diluted earnings per share for profit attributable to Company's shareholders	*10*	**RMB0.43**	RMB0.39

CONSOLIDATED BALANCE SHEET

As at 31 December 2007

	Note	31 December 2007 RMB'000	31 December 2006 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		**2,583,134**	2,724,568
Construction in progress		**171,561**	353,155
Land use rights		**284,429**	198,316
Intangible assets		**193,941**	198,622
Investments in associates		**394,051**	328,622
Available-for-sale financial assets		**26,158**	9,446
Deferred tax assets		**44,672**	38,448
Other non-current assets		**28,220**	43,285
		3,726,166	3,894,462
Current assets			
Inventories		**1,926,462**	1,616,371
Trade receivables	*11*	**34,633**	45,242
Deposits, prepayments and other receivables		**596,462**	735,229
Amounts due from associates		**34**	945
Available-for-sale financial assets		**120,000**	30,000
Financial assets at fair value through profit or loss		**116,420**	78,252
Non-current assets classified as held for sale	*5(a)*	**—**	27,861
Bank balances and cash		**5,022,277**	2,472,519
		7,816,288	5,006,419
Total assets		**11,542,454**	8,900,881

	Note	31 December 2007 RMB'000	31 December 2006 RMB'000
EQUITY			
Equity attributable to the Company's shareholders			
Share capital		**622,000**	622,000
Reserves			
— Proposed final dividend		**74,640**	43,540
— Others		**1,542,301**	1,385,960
		2,238,941	2,051,500
Minority interests		**351,820**	273,319
Total equity		**2,590,761**	2,324,819
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		**70,097**	77,604
Current liabilities			
Trade payables	*12*	**2,815,286**	2,564,728
Other payables and accruals		**1,113,454**	840,059
Coupon liabilities		**4,782,538**	2,987,005
Amounts due to associates		**7,865**	2,007
Amount due to holding company		**39,000**	39,000
Amounts due to other related parties		**41,632**	—
Taxation payable		**81,821**	40,507
Dividends payable		**—**	1,053
Liabilities directly associated with non-current assets classified as held for sale	*5(a)*	**—**	24,099
		8,881,596	6,498,458
Total liabilities		**8,951,693**	6,576,062
Total equity and liabilities		**11,542,454**	8,900,881
Net current liabilities		**(1,065,308)**	(1,492,039)
Total assets less current liabilities		**2,660,858**	2,402,423

Note: For comparative figures, certain balances and amounts have been separately disclosed so as to conform to the current year presentation.

SELECTED NOTES TO THE ACCOUNTS

For the Year Ended 31 December 2007

1. PRINCIPAL ACTIVITIES

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.

The Company is a limited liability company incorporated in the PRC. The address of its registered office is 11th to 15th Floors, 1666 Sichuan (North) Road, Shanghai, the PRC. The Company is listed on the main board of The Stock Exchange of Hong Kong Limited.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The consolidated accounts have been prepared in accordance with Hong Kong Financial Reporting Standards (the "HKFRS"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, financial assets and financial liabilities are generally stated at fair value.

The preparation of accounts in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

In 2007, the Group adopted the following new standards, amendments and interpretation of HKFRS, which are effective in 2007 and relevant to the Group's operations.

- HKFRS 7 "Financial instruments: Disclosures", and the complementary amendment to HKAS 1 "Presentation of financial statements — Capital disclosures". The new standard and amendment introduce new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments, or the disclosures relating to taxation and trade and other payables.

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

Certain new standards, amendments and interpretations to existing standards of HKFRS have been published but are not yet effective for the annual period beginning on 1 January 2007 and have not been early adopted by the Group. Those that are relevant to the Group's operations are as follows:

- HKAS 1 (Revised) "Presentation of Financial Statements" (effective for annual periods beginning on or after 1 January 2009). HKAS 1 (Revised) requires all owner changes in equity to be presented in a statement of changes in equity. All comprehensive income is presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). It requires presenting a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when there are retrospective adjustments or reclassification adjustments. However, it does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRS. The Group will apply HKAS 1 (Revised) from 1 January 2009, but it is not expected to have any significant impact on the Group's consolidated accounts.

- HKFRS 8 "Operating Segments" (effective for annual periods beginning on or after 1 January 2009). HKFRS 8 replaces HKAS 14 and requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1 January 2009. The adoption of the standard is not expected to have any significant impact on the Group's consolidated accounts.

- HK(IFRIC)-Int 13 "Customer Loyalty Programmes" (effective for annual periods beginning on or after 1 July 2008). HK(IRFIC)-Int 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The Group will apply HK(IFRIC)-Int 13 from 1 January 2009, but it is not expected to have any significant impact on the Group's consolidated accounts.

- HKAS 23 (Amendment) "Borrowing Costs" (effective for annual periods beginning or after 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply HKAS 23 (Amended) from 1 January 2009, but it is not expected to have any significant impact on the Group's consolidated accounts.

- HKAS 27 (Revised) "Consolidated and Separate Financial Statements" (effective from annual periods beginning on or after 1 July 2009). The amendment requires non-controlling interests (i.e. minority interests) to be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity. When control of a subsidiary is lost, the assets and liabilities and related equity components of the former subsidiary are derecognised. Any gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost. The Group will apply HKAS 27 (Revised) from 1 January 2010. The adoption of the standard is not expected to have significant impact on the Group's consolidated accounts as currently no material transaction with minority interest is anticipated.

- HKFRS 3 (Revised) "Business Combination" (effective for business combinations with acquisition date on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The amendment may bring more transactions into acquisition accounting as combinations by contract alone and combinations of mutual entities are brought into the scope of the standard and the definition of a business has been amended slightly. It now states that the elements are "capable of being conducted" rather than "are conducted and managed". It requires considerations (including contingent consideration), each identifiable asset and liability to be measured at its acquisition-date fair value, except leases and insurance contracts, reacquired right, indemnification assets as well as some assets and liabilities required to be measured in accordance with other HKFRS. They are income taxes, employee benefits, share-based payment and non-current assets held for sale and discontinued operations. Any non-controlling interest in an acquiree is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. The Group will apply HKFRS 3 (Revised) from 1 January 2010. The adoption of the standard is not expected to have significant impact on the Group's consolidated accounts as currently no material business combination activities are anticipated.

3. SEGMENT INFORMATION

No geographical segment analysis is presented as all assets and operations of the Group 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; provision of logistic services for wholesale business; and sales through internet.

The segment results for the year ended 31 December 2007 are as follows:

	Supermarkets *RMB'000*	Hypermarkets *RMB'000*	Convenience stores *RMB'000*	Other operations *RMB'000*	Group *RMB'000*
2007					
Segment revenue	**7,017,433**	**10,856,490**	**1,642,917**	**189,553**	**19,706,393**
Including sales of merchandise to franchised stores at cost	**503,434**	**—**	**398,806**	**—**	**902,240**
Segment results	**184,344**	**(242,722)**	**44,729**	**4,024**	**(9,625)**
Other income					**518,225**
Unallocated costs					**(91,306)**
Operating profit					**417,294**
Finance income					**38,818**
Finance costs					**(1,133)**
Finance income — net					**37,685**
Share of results of associates					**130,475**
Profit before taxation					**585,454**
Taxation					**(204,805)**
Profit for the year					**380,649**

Other segment items are as follows:

	Supermarkets *RMB'000*	Hypermarkets *RMB'000*	Convenience stores *RMB'000*	Other operations *RMB'000*	Group *RMB'000*
Capital expenditure	**104,318**	**334,759**	**9,525**	**17,919**	**466,521**
Depreciation charge	**142,700**	**257,665**	**31,779**	**20,227**	**452,371**
Amortisation charge	**8,449**	**15,671**	**1,235**	**6,409**	**31,764**
Impairment charge	**23,539**	**105,729**	**—**	**—**	**129,268**
Loss on disposal of property, plant and equipment	**33,156**	**81,119**	**3,436**	**563**	**118,274**
Loss on disposal of other non-current assets	**1,500**	**8,381**	**—**	**—**	**9,881**
Store closure expenses and provision	**7,269**	**58,270**	**—**	**32,189**	**97,728**

The segment results for the year ended 31 December 2006 are as follows:

	Supermarkets *RMB'000*	Hypermarkets *RMB'000*	Convenience stores *RMB'000*	Other operations *RMB'000*	Group *RMB'000*
2006					
Segment revenue	6,690,088	9,696,195	1,676,675	90,910	18,153,868
Including sales of merchandise to					
— an associate at retail price less 1%	434,595	487,223	—	—	921,818
— franchised stores at cost	404,918	—	347,384	—	752,302
Segment results	209,206	(55,313)	29,741	13,145	196,779
Other income					80,694
Unallocated costs					(47,955)
Operating profit					229,518
Finance income					26,781
Finance costs					(1,951)
Finance income — net					24,830
Share of results of associates					113,597
Profit before taxation					367,945
Taxation					(104,221)
Profit for the year					263,724

Other segment items are as follows:

	Supermarkets *RMB'000*	Hypermarkets *RMB'000*	Convenience stores *RMB'000*	Other operations *RMB'000*	Group *RMB'000*
Capital expenditure	350,867	456,771	17,830	26,887	852,355
Depreciation charge	131,362	279,178	37,972	18,023	466,535
Amortisation charge	9,236	9,810	1,448	3,683	24,177
Loss on disposal of property, plant and equipment	3,984	48,474	196	146	52,800
Store closure expenses and provision	—	3,623	—	—	3,623

The segment assets and liabilities at 31 December 2007 are as follows:

	Supermarkets	**Hypermarkets**	**Convenience stores**	**Other operations**	**Group**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Segment assets	**3,771,095**	**5,408,794**	**326,735**	**67,126**	**9,573,750**
Investments in associates					**394,051**
Unallocated assets					**1,574,653**
Total assets					**11,542,454**
Segment liabilities	**3,333,846**	**5,240,715**	**261,368**	**35,093**	**8,871,022**
Unallocated liabilities					**80,671**
Total liabilities					**8,951,693**

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

	Supermarkets	Hypermarkets	Convenience stores	Other operations	Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*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 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 operation of chain stores including supermarkets, hypermarkets and convenience stores. Revenues recognised during the year are as follows:

	2007 *RMB'000*	2006 *RMB'000*
Turnover		
Sales of merchandise	**18,086,857**	16,443,030
Other revenues		
Income from suppliers		
— Promotion and store display income	**1,183,600**	1,288,630
— Merchandise storage and delivery income	**37,886**	60,601
— Information system service income	**6,955**	5,948
Gross rental income from leasing of shop premises	**312,905**	317,094
Royalty income from franchised stores	**42,429**	34,628
Commission income from coupon redemption in other retailers	**35,761**	3,937
	1,619,536	1,710,838
Total revenues	**19,706,393**	18,153,868

5. OTHER INCOME

	2007 *RMB'000*	2006 *RMB'000*
Government subsidies	**22,150**	18,631
Gain on trading of financial assets at fair value through profit or loss	**435,976**	20,791
Fair value gain (unrealised) on financial assets at fair value through profit or loss	**72,268**	13,517
Gain on disposal of available-for-sale financial assets	**9,981**	4,498
Gain on disposal of a subsidiary *(Note a)*	**20,309**	—
Gain on disposal of an associate	**—**	41,889
Gain on disposal of land use rights	**8,930**	—
Gain on disposal of other non-current assets	**—**	4,801
Compensation on store relocation and lease termination	**8,316**	26,961
Salvage sales	**37,107**	36,506
Others	**23,095**	22,332
	638,132	189,926

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 consideration of RMB32,000,000 which was completed in March 2007. The disposal resulted in a gain of RMB20,309,000. 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

	2007 *RMB'000*	2006 *RMB'000*
Cost of merchandise	**15,738,221**	14,461,350
Amortisation of other non-current assets	**1,987**	2,646
Amortisation of software	**19,806**	13,938
Amortisation of land use rights	**9,971**	7,593
Auditors' remuneration	**5,950**	4,446
Depreciation of property, plant and equipment	**452,371**	466,535
Loss on disposal of property, plant and equipment	**118,274**	52,800
Loss on disposal of land use rights	**—**	13
Loss on disposal of other non-current assets	**9,881**	—
Operating lease rental in respect of land and buildings	**994,695**	792,676
Outgoings for income from leasing of shop premises	**117,546**	130,851
Staff costs	**1,179,486**	1,057,599
Pre-operating expenses	**8,518**	14,034
Utility expenses	**405,302**	389,300
Advertising and promotion costs	**49,616**	95,749
Other store operating expenses	**380,321**	326,517
Impairment of property, plant and equipment	**106,012**	—
Impairment of other non-current assets	**3,197**	—
Impairment of goodwill	**20,059**	—
Store closure expenses and provision *(Note a)*	**97,728**	3,623
Other expenses	**208,290**	294,606
Total cost of sales, distribution costs, administrative expenses and other operating expenses	**19,927,231**	18,114,276

Note:

(a) The store closure expenses and provision for 2007 consist primarily of the compensation for early termination of lease contract of RMB66,198,000, write-off of non-recoverable assets of RMB21,500,000, staff dismissal compensation of RMB7,854,000 and other miscellaneous items of RMB2,176,000.

7. FINANCE INCOME AND COSTS

	2007 *RMB'000*	2006 *RMB'000*
Interest income	**38,818**	26,781
Interest expenses	**(1,133)**	(1,951)
Net finance income	**37,685**	24,830

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 for 2007 is calculated based on the statutory income tax rate of 33% (2006: 33%) of the assessable income of the Group except for certain subsidiaries which are taxed at preferential rates ranging from 0% to 15% (2006: 0% to 15%) based on the relevant PRC tax rules and regulations.

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the PRC (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. In addition, preferential rates being enjoyed by some subsidiaries will increase to 25%. As a result of the new CIT Law, net deferred tax liabilities of approximately RMB9,098,000 has been released and credited to the consolidated profit and loss account for the year ended 31 December 2007.

Further interpretations may be issued by the State Council, as and when the State Council announces the additional interpretations, the Group will assess their impact, if any, and this change in accounting estimation will be accounted for prospectively.

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

	2007	2006
	RMB'000	*RMB'000*
PRC income tax — current taxation	**218,536**	115,409
Deferred income tax	**(13,731)**	(11,188)
	204,805	104,221

9. DIVIDENDS

	2007	2006
	RMB'000	*RMB'000*
Interim dividend, approved, of RMB0.06 (2006: RMB0.06) per share	**37,320**	37,320
Final dividend, proposed, of RMB0.12 (2006: RMB0.07) per share	**74,640**	43,540
	111,960	80,860

At a meeting held on 15 August 2007, the Directors declared an interim dividend of RMB0.06 per share which was within the limit authorised by the Company's shareholders during the Annual General Meeting for the year 2006 held on 28 June 2007.

At a meeting held on 16 April 2008, the Directors proposed a final dividend of RMB0.12 per share for 2007 (2006: RMB0.07 per share). This proposed 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 2008 upon approval by the shareholders at the forthcoming Annual General Meeting.

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 year.

	2007	2006
Profit attributable to Company's shareholders (RMB'000)	**268,301**	241,599
Weighted average number of ordinary shares in issue (thousand)	**622,000**	622,000
Basic earnings per share	**RMB0.43**	RMB0.39

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 60 days, are as follows:

	2007	2006
	RMB'000	*RMB'000*
Within 30 days	**29,555**	26,160
30–60 days	**1,575**	12,183
61–90 days	**3,155**	4,106
91 days–one year	**348**	2,793
	34,633	45,242

12. TRADE PAYABLES

The ageing analysis of the trade payables are as follows:

	2007	2006
	RMB'000	*RMB'000*
Within 30 days	**2,368,989**	1,484,922
30–60 days	**234,452**	744,957
61–90 days	**71,520**	189,425
91 days–one year	**140,325**	145,424
	2,815,286	2,564,728

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Environment

According to the report of the National Bureau of Statistics of China, in 2007, the economic growth in the PRC remained strong. The annual gross domestic product ("GDP") in the PRC reached RMB24,661.9 billion, representing a growth of 11.4% as compared to previous year. The PRC economy had sustained rapid growth of 10% or more for five consecutive years. The annual total retail sales of consumer goods were RMB8,921.0 billion, representing a 16.8% growth as compared to previous year with an increase of 3.1 percentage points. Of an 11.4% growth in GDP in 2007, 4.4 percentage points was attributable to consumer spending which, for the first time in 7 years, surpassed the contributions made by investment spending. In 2007, both the disposable income per capita of urban citizens and cash income per capita of peasants had exceeded the GDP growth rate and the annual disposable income per capita of urban citizens was RMB13,786, representing a growth of 17.2% as compared to previous year. Regardless of the pricing factors, the actual growth rate was 12.2%, an increase of 1.8%. Net income per capita of rural citizens was RMB4,140, a growth of 15.4% as compared to previous year. Regardless of the pricing factors, the actual growth rate was 9.5% with an increase of 2.1 percentage points.

In 2007, a series of macro-economic adjustment policies were introduced to regulate as well as facilitating the development of the retail industry in the PRC: the Outline of the Eleventh-Five-Year Plan promoted the "building up of a resources-saving and environmental-friendly society" slogan. Companies operating in the PRC have shifted their focus on energy saving, rational use of resources, environmental protection and sustainable development. The seventeenth plenary session of the National Congress of the Communist Party of China raised that the State shall foster the supervision on various aspects like environmental protection and food safety. The 2007 Central Economic Working Committee clearly stated that "expanding consumption" would be an important objective for the current and future economic work. Besides, the newly promulgated Law on Employment Contracts, Law on Property Right and the Administrative Measures for Fair Trade by the five ministries of the State Council in 2006 are put into force. All these measures will further regulate corporate operation management activities, and increase the corporate operation management costs indirectly. Distribution industries are undertaking more social responsibilities in various aspects in establishing a harmonious society, mitigating employment pressure, promoting regional co-ordination and development, protecting the safe and healthy consumption of the public.

As stimulated by various factors such as accelerated growth in income per capita, the policy of expanding consumption demand in force and the 2008 Olympics, the Group believes that the factor of consumer spending will play a more important role in driving the economic growth in 2008.

Business Review

Results Overview

In 2007, the Group maintained the strategy of "Development, Transformation and Enhancement". We continued to improve our operation capabilities with a steady growth in all income indicators. In 2007, we recorded a turnover of RMB18.09 billion, representing a growth of 10% as compared to previous year. Gross profit accounted for RMB2.35 billion, representing a growth of 18.52% as compared to previous year. Gross profit margin accounted for at 12.99%, an increase of 0.94 percentage point as compared to previous year. Consolidated income margin reached 25.47%, representing an increase of 1.86 percentage points as compared to previous year. Operating profit accounted for RMB0.42 billion, representing a growth of 81.81% as compared to previous year.

During the period under review, the hypermarket business of the Group recorded a turnover of RMB9,846.16 million, representing approximately 54.44% of the Group's turnover and a growth of approximately 14.91% as compared to approximately RMB8,568.58 million last year. Segment operating profit was approximately RMB5.21 million.

	2007	2006
Gross profit margin (%)	**11.09**	9.25
Consolidated income margin (%)	**24.23**	23.23
Operating profit margin (%)	**0.05**	-0.54

During the period under review, the supermarket business of the Group had recorded a turnover of RMB6,560.47 million, representing approximately 36.27% of the Group's turnover and a growth of approximately 5.15% as compared to last year of approximately RMB6,238.96 million. Segment operating profit was approximately RMB231.22 million.

	2007	2006
Gross profit margin (%)	**15.09**	14.81
Consolidated income margin (%)	**23.51**	22.66
Operating profit margin (%)	**3.52**	3.43

During the period under review, the convenience stores business of the Group had recorded a turnover of RMB1,524.04 million, representing approximately 8.43% of the Group's turnover and a drop of approximately 1.36% as compared to last year of approximately RMB1,545.06 million. Segment operating profit was approximately RMB44.73 million. Year-on-year growth was approximately 50%, which was mainly due to the disposition of all the outlets in Guangzhou region and recorded a one-off income.

	2007	2006
Gross profit margin (%)	**15.47**	16.32
Consolidated income margin (%)	**24.84**	25.06
Operating profit margin (%)	**2.93**	1.92

Substantial increase in same outlet sales growth, robust performance in new outlets

During the period under review, benefiting from the "Strong Outlet" strategy implemented by the Group, i.e. revamping the existing outlets, optimizing merchandise structure and improving store operation and management standard, the same outlet sales had recorded substantial growth. The overall same outlet sales growth of the Group was 10.45%, of which hypermarket business was 10.6%, supermarket business 10.84% and convenience stores business 7.14%, hitting record high since our listing.

During the period under review, the new outlets achieved robust performance. Learning from the past experience in opening new outlets, we simplified the outlet opening process, imposed stringent control on site selection, conducted in-depth analysis and study of consumption condition and purchasing power in the commercial area in determining the market position of our merchandise, conducting follow up analysis of the operating results of newly-opened outlets and implanted adjustment and optimization measures according to operating conditions. During the period under review, the operating results of most of our newly-opened hypermarket stores outperformed than the expected. It is expected that certain stores will generate profits in the first year of operation.

Accelerating the transformation, expanding the scope of transformation

Based on the experience of the transformation of supermarket outlets over last few years, the scope of transformation was expanding vigorously at faster pace by differentiating the operating position, aiming at satisfying the demand of the target customers. During the period under review, the transformation of middle-end outlets which are positioned to serve the community continued to achieve fabulous results. The daily average sales of 82 transformed stores achieved a growth of approximately 27%. As at 31 December 2007, the 176 outlets in our supermarkets business that had already been transformed, and together with the newly opened outlets since 2006, representing approximately 40% of the directly operated stores in such business segment, had brought steady growth to that business segment.

During the period under review, the Group used the transformed outlets as pilot testing platform to promote our category management concept, which provides objective data analysis for transformed outlets. Category management is a customer-oriented concept, under which, based on an analysis of the target customers' awareness and satisfaction of the environment, merchandise and services of the outlets, we will give advices to the outlets on the customers' most favorable category of merchandise, the display of goods and the environment of the outlets. With respect to the category management of the Group's Shijiaqiao Pilot Outlet, through understanding the proportion of the number of male to that of female customers, their income level and occupation, we obtained the important information regarding the living standard, preferences and needs of the target customers of that outlet. We then stocked up certain categories of merchandise and revamped the outlet based on such information. Even for the design of DM that are distributed to customers, we also run into details in selecting DM paper thickness, merchandise selection and typesetting. With such transformation, the daily average sales of the Shijiaqiao Outlet was increased by 62% as compared to previous year.

Steady expansion of retail network, increase in market share in the Yangtze River Delta region

As at 31 December 2007	Hypermarkets	Supermarkets	Convenience stores	Total
Direct operation	111	572	955	1,638
Franchise operation	—	1,159	925	2,084
Total for the Group	111	1,731	1,880	3,722

During the period under review, the Group maintained a steady pace in expanding its retail and commercial network. We opened up large number of new outlets in the Yangtze River Delta where the market scale has been established and was ready for business operation. We opened 497 outlets during the year and the network has a total of 3,722 outlets, among which the new hypermarket outlets are all located in Eastern China. As at 31 December 2007, 3,050 outlets of the Group, are located in the Yangtze River Delta, representing 82% of the total outlets of the Group, of which approximately 59% of 111 hypermarket outlets, approximately 88% of 1,731 supermarket outlets and approximately 78% of 1,880 convenience store outlets are located in this key developing region.

Geographic Locations

	No. of outlets	Percentage
Yangtze River Delta: Shanghai, Zhejiang, Jiangsu	3,050	82%
Eastern China: Shanghai, Zhejiang, Jiangsu, Shandong, Anhui, Jiangxi, Fujian	3,114	84%
Northern China: Beijing, Tianjin, Henan, Hebei, Inner Mongolia	156	4%
North-eastern China: Liaoning, Heilongjiang	302	8%
Southern China: Guangdong, Guangxi	140	3.7%
Other regions: Sichuan, Chongqing, Xinjiang, Hunan	10	0.3%

During the period under review, the Group opened 446 franchised outlets. As at 31 December 2007, the number of franchised outlets had reached 2,084, representing approximately 56% of the total outlets of the Group. About 88% of the franchised outlets are located in the Yangtze River Delta, sharing much more operating, logistic and distribution and information resources in this region.

During the period under review, due to the expiration of the tenancy of some outlets, urban redevelopment and relocation and expiration of franchise contracts, the number of franchised outlets reduced. In order to enhance the competitiveness of the existing outlets, the Group conducted a review on the outlets with unsatisfactory results of operation. The franchise contracts were eliminated for those franchised stores which failed to fulfill the term and conditions of franchise.

Continue to promote membership development

As at 31 December 2007, the total number of members exceeded 6.5 million. Members are an important resource of the Group as they are the most loyal customer group of the Group. During the period under review, the members' consumption represented 48.65% of the sales of the Group, a growth of 31.3% as compared to 2006.

Continuous improvement, on-going enhancement in supply chain efficiency

During the period under review, the Group actively promoted the local procurement of fresh merchandise. Our merchandisers closely monitored the categories of merchandise and the plantation and procurement process accordingly to the standards on fresh merchandise procurement of the Company. We also utilized our own distribution capability or entered into production and distribution co-operation contracts with the local agricultural by-product distribution centers to distribute agricultural products directly to the markets from the farms. Such measures not only maintained the merchandise quality, but also improved the distribution efficiency of fresh merchandise and reduced its costs. For example, in Zhejiang region, there were 92 co-operative bases in 2007, covering 476 types of merchandise. The total purchase volume of merchandise from local bases was 43,335 tonnes.

The Group understands the importance of logistic distribution in the establishment of its supply chain. In order to cope with the needs of different business segments and the in-depth development in the Yangtze River Delta, during the period under review, the Group stepped up its effort to plan the establishment of our logistic distribution center to serve our outlets both in the Yangtze River Delta and Eastern China. Currently, we have already completed the procedures of site selection and signing of letter of intent.

Increasing income and lowering expenditure, stringent cost control

During the period under review, in coping with the mounting pressure of our main operating costs, including leasing cost, labor cost and utilities, the Group maintained its strategies in increasing income and lowering expenditure with stringent cost control. Besides striving for performance improvement, we also devoted our efforts to further strengthening our ability in controlling cost, and conducted the research on expenditure control as a specific important project which was implemented in all areas. We enhanced our labor productivity by improving workflow and increasing equipment utilization by strengthening our supervision on projects, equipment maintenance and adequate utilization of existing assets; we also reduced the management costs and take precautions against operating risks by strengthening our internal control.

Reasonable of cash, obtaining sound profitability

During the period under review, leveraging on the sufficient cash flow from operating activities, the Group planned the cash management appropriately. We selected those financial products with low risks and high liquidity and obtained satisfactory returns under the guidance of stringent risk control.

Treating People as Valuable Resources, promoting human resources management and development

While pursuing on-going development, the Group also aimed at achieving its objective of "Treating People as Valuable Resources", allowing our dedicated and highly efficient staff to share the success of the Company. During the period under review, we increased the salaries of front-line employees, actively promoting the pro-active culture of the Group. Meanwhile, the Group devoted its efforts to the development and management of human resources, continued to improving our remuneration system and promoted new measures in professional position management. For example, for skilled labors responsible for handling fresh food, the requirement on skills is high and there is a shortage in supply of such labours in the market. Therefore, the Group adopted technical grading assessment programs for positions in meat category, cooked food and roasting and baking functions. By establishing 9 technical grades with clear standards in each level, we carried out assessments for technical staff under this position and salaries are determined in accordance with the assessment results in respective grades. This program had effectively revealed the impartiality of our remuneration system, which is encouraging to our employees.

Business of Associated Companies

During the year under review, Shanghai Carhua Supermarket Company Limited ("Shanghai Carhua") opened 1 new hypermarket. As at 31 December 2007, Shanghai Carhua operated a total of 12 hypermarkets in Shanghai.

For the year ended 31 December 2007, the Group's share of results of associates was approximately RMB130.48 million, accounting for approximately 48.6% of the Group' s profit attributable to the Company's shareholders.

Financial Review

Liquidity and financial resources

For 2007, the capital source of the Group were mainly cash inflow generated from operations. As at 31 December 2007, the Group had non-current assets of approximately RMB3,726.17 million. Such non-current assets mainly comprised of construction in progress, property, plant and equipment and land use rights of approximately RMB3,039.12 million, intangible assets of approximately RMB193.94 million investments in associates of approximately RMB394.05 million and available-for-sale financial assets, deferred tax assets and other non-current assets of approximately RMB99.05 million.

As at 31 December 2007, the Group had net current liabilities of approximately RMB1,065.31 million. Current assets mainly comprised of bank balances and cash of approximately RMB5,022.28 million, inventories of approximately RMB1,926.46 million, trade receivables, deposits, prepayments and other receivables of approximately RMB631.1 million, available-for-sale financial assets of RMB120 million financial assets at fair value through profit or loss of RMB116.42 million and amounts due from associates of approximately RMB0.03 million. Current liabilities mainly comprised of trade payables, other payables, accruals and coupon liabilities of approximately RMB8,711.28 million, amount due to holding company of RMB39 million, amounts due to associates of RMB7.87 million, amounts due to other related parties of RMB41.63 million and taxation payable of approximately RMB81.82 million.

For the year ended 31 December 2007, the turnover period of the Group's accounts payable was 60 days. Inventory turnover period was 35 days for the period.

During the year under review, the Group did not use any financial instrument for hedging purposes and the Group did not have any hedging instrument outstanding as at 31 December 2007.

Capital structure

As at 31 December 2007, the Group's cash and cash equivalents were mainly held in Renminbi and the Group had no bank borrowings.

During the year under review, the Group had been in a net cash inflow status. The Group is engaged in retail chain business. Since the sales peak season for the Group is the fourth quarter of the year, the cash flow at year end is relatively sufficient. The Group considers that the reasonable management of the cash flow will enable reduction in capital costs.

Details of pledged assets of the Group

As at 31 December 2007, the Group did not pledge any of its assets.

Exposure to foreign exchange risk

Most of the income and expenditures of the Group are denominated in Renminbi. During the year 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 Directors believe that the Group would have sufficient foreign exchange resources to meet its foreign exchange requirements.

Contingent liabilities

As at 31 December 2007, the Group did not have any significant contingent liabilities.

Material acquisitions and disposals

For the year ended 31 December 2007, the Group did not have any material acquisitions and disposals.

Employment, training and development

As at 31 December 2007, the Group had a total of 46,525 employees, representing a decrease of 284 employees during the year under review. Total staff costs amounted to RMB1,179.49 million.

Strategies and plans

In 2008, with opportunities and challenges, the Group will maintain the planned development strategy to promote the transformation process in full gear. By improving the quality of development, operation and management, we also aim at facilitating the further enhancement of the overall operation efficiency of the Company in achieving sound and fast development of our business.

The Group will continue with the development strategy of regional centralization. We will continue to focus on the development in the area of Yangtze River Delta, paying extea attention to the network resources of different market segments in city center districts, planned new districts and rural districts and town centers; and develop the markets both vertically and horizontally. For other markets where we already have presence, the Group will select well-performed network for further development. We will continue to implement the development workflow of prime network, focus on the research and development of our positioning and network re-assessment so as the ensure our development quality.

The Group will continue to promote the dual development of direct operation and franchising, and implement the synchronized development strategy of the three business segments in hypermarkets, supermarkets and convenience stores. Our main development strategy is to strengthen our direct operation business in supermarkets and convenience stores and expand the scale of franchised operation. We will focus on the development of our franchised supporting system, enhancing the on-going operating capabilities of the franchised business and strengthening our market share.

The Group will continue to maintain its direction of market segmentation, promote the "Strong Outlet" strategy, on-going improvement, consolidation and upgrading of existing outlets. We will continue to focus on customer needs, promote the transformation work in different market segments, and review and conclude the successful transformation experience. With regard to hypermarkets, we shall strengthen the operation of branded merchandise and explore the business model of mini mart. Our standardized supermarket business will establish fresh merchandise under our own brand name with special features and set up a healthy, safe and quality market image. For convenience stores, we will expand the food development and provide faster and more convenient services to our consumers.

The Group will continue to strengthen its operation capabilities for commodity as well as its merchandising strategy. We will strive for establishing a commodity management model with the ability to continue optimizing merchandise structure and to meet the requirements of the transformation business model. We will strengthen our regional centralized procurement and centralized distribution according to the characteristics of the geographic location of merchandise resources for improving the allocation efficiency of merchandise resources. We shall establish a procurement management system on the principle of procurement according to the need and based on the categorizing procurement and bulk procurement. We shall expand the procurement channels and enlarge its original resources. The Group will leverage on the advantages of our widely spreading network to procure superior merchandise from all over the world to enrich the merchandise collection in our outlets. We shall adapt ourselves to the trends of high-end consumption behavior, product diversification, broaden our vision in merchandise operation, expand our product categories, and strengthen the operation by introducing new models of small household electrical appliances, books and magazines, imported food, automobile accessories and branded accessories. We shall also strengthen the development momentum of merchandise under our own brand, improve the quality of new merchandise and develop new selling points. We will establish a pricing indicator and price management system based on product category, positioning and market information, improve gross margin, and enhance the profitability of our principal business. We will maintain a good co-operative relationship with our suppliers as before to enhance the growth of the business.

The Group will continue to devote itself to enhancing its basic management capability. We will promote the establishment of standardized operation and management system and the improvement of workflow. We shall accelerate our logistic network establishment in the Yangtze River Delta according to the Group's strategy and begin to set up a large-scale logistic hub in Shanghai as soon as possible. We shall also promote the application of automatic stock replenishment technology, enhance the accuracy and satisfaction level of outlet re-ordering, improve merchandise turnover, enhance operation quality, strengthen our cash flow management, open up diversified investment channels and improve the capability of our capital appreciation.

The Group pursues the strategy of "Treating People as Valuable Resources" and shall continue to maintain our "performance- and efficiency-oriented" corporate culture. We will establish an open and impartial talent assessment and retaining system, strengthen the training and retaining of talents, and based on the staff capability quality model to establish a scientific remuneration and assessment system. We will further perfect our training program, combining both internal and external trainings. At the same time, we will pay extra attention to our training and establish an assessment mechanism to evaluate the training quality.

Purchase, sale or redemption of shares

From 27 June 2003, being the date of listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), to the date of this announcement, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company.

Final Dividend

The Board recommends payment of a final dividend of RMB0.12 per share.

The final dividend will be distributed to shareholders of H shares of the Company whose names appear on the Company's register of members at 4:30 p.m. on Tuesday, 20 May 2008. The register of H shares members of the Company will be closed from Wednesday, 21 May 2008 to Friday, 20 June 2008 (both days inclusive) during which period 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. on Tuesday, 20 May 2008.

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 unlisted foreign shares of the Company will be made in relevant foreign currencies and distribution to holders of H shares of the Company will be made 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.

Audit Committee

The Audit Committee has reviewed the annual results of the Company for the year ended 31 December 2007 and confirmed that they are prepared in accordance with the applicable accounting standards, laws and regulations and appropriate disclosures have been made.

Compliance with Model Code for Securities Transactions by Directors 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 ("Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities in the Stock Exchange (the "Listing Rules") as code of conduct for securities transactions by all directors of the Company). After specific enquiries to the Directors, the Board is pleased to confirm 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") as set out in Appendix 14 to 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 are 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 for a term of not more than 3 years and is 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
Lianhua Supermarket Holdings Co., Ltd.
Wang Zhi-gang
Chairman

Shanghai, 16 April 2008

As at the date of this announcement, the Directors of the Company 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