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(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 2010

FINANCIAL HIGHLIGHTS

As at 30 June 2010, the Group's turnover amounted to RMB13,009 million, representing a growth of approximately 18.5% as compared with that of 2009. Gross profit amounted to RMB1,753 million, representing an increase of 22.4% over 2009. Gross profit margin was 13.48%, representing a year-on-year increase of 0.43 percentage point. Consolidated revenue amounted to RMB3,094 million, representing an increase of 19.7% over 2009. Consolidated revenue margin reached 23.78%, representing a year-on-year increase of 0.23 percentage point. Operating profit amounted to RMB401 million, representing a growth of 26.2% over 2009. Operating profit margin reached a historic high at 3.08%. Profit attributable to shareholders of the Company amounted to RMB326 million, representing a growth of approximately 30.7% over 2009. The Group's remarkable performance is mainly attributable to the continual improvement in operational transformation, the effective consolidation move, centralized resources advantages and business opportunities arising from World Expo.

The Group completed the acquisition of Hualian Supermarket Holdings Company Limited ("Hualian Supermarket") in 2009. As both Hualian Supermarket and the Group are under the control of Bailian Group Co., Ltd ("Bailian Group"), the interim results of Hualian Supermarket was included in the 2009 interim results of the consolidated financial statement of the Group with reference to the guidance from relevant accounting standards for preparation of consolidated financial statement. The results are restated as below:

- Turnover amounted to RMB13,009 million, representing an increase of 5.9% as compared to the corresponding period last year. Gross profit amounted to RMB1,753 million, representing a growth of 13.8% over 2009. Gross profit margin reached 13.48%, representing an increase of 0.94 percentage point over 2009.
- Consolidated revenue maintained a steady growth and reached RMB3,094 million, representing an increase of 10.6% over 2009, and the consolidated revenues margin reached 23.78%.
- Operating profit amounted to RMB401 million, representing a growth of 17.3% over 2009. Operating profit margin reached a historic high at 3.08%.
- Profit attributable to shareholders of the Company amounted to RMB326 million, representing a marked growth of 22.8% over 2009. Basic earnings per share amounted to RMB0.52.
- As at 30 June 2010, the total number of outlets of the Group was 5,040. During the period under review, the Group opened 258 new outlets, including 5 hypermarkets (among which one was transformed from supermarket outlets), 133 supermarkets (10 direct operation stores and 123 franchised stores) and 120 convenience stores.
- The same store sales of the Group increased by 3.5% compared with that of 2009 and hypermarkets recorded a growth of 3.9% while supermarkets and convenience stores increased by 2.6% and 3.8%, respectively.
- The proposed interim dividend is RMB0.15 per share (including tax).

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2010

		Six months ended 30 June	
	<i>NOTES</i>	2010	2009
		(Unaudited)	(Unaudited and restated)
		RMB'000	RMB'000
Turnover	<i>4</i>	13,008,912	12,282,874
Cost of sales		<u>(11,255,493)</u>	<u>(10,742,195)</u>
Gross profit		1,753,419	1,540,679
Other revenues	<i>4</i>	1,145,134	1,080,579
Other income	<i>5</i>	195,494	176,646
Selling and distribution expenses		(2,359,252)	(2,169,143)
Administrative expenses		(323,092)	(268,784)
Other operating expenses		(10,599)	(11,832)
Finance costs		<u>–</u>	<u>(6,097)</u>
Operating profit		401,104	342,048
Share of profits of associates	<i>11</i>	<u>72,644</u>	<u>62,371</u>
Profit before taxation	<i>6</i>	473,748	404,419
Taxation	<i>7</i>	<u>(108,130)</u>	<u>(94,943)</u>
Profit and total comprehensive income for the period		<u>365,618</u>	<u>309,476</u>
Profit and total comprehensive income for the period attributable to:			
Owners of the Company		326,464	265,944
Non-controlling interests		<u>39,154</u>	<u>43,532</u>
		<u>365,618</u>	<u>309,476</u>
Earnings per share – Basic	<i>9</i>	<u>RMB0.52</u>	<u>RMB0.43</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2010

	NOTES	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
Non-current assets			
Property, plant and equipment	10	2,899,843	3,031,153
Construction in progress	10	159,265	86,921
Land use rights	10	252,050	254,717
Intangible assets	10	177,661	183,917
Investments in associates	11	398,908	449,885
Available-for-sale financial assets	15	30,158	31,271
Held-to-maturity financial assets		390,483	377,615
Term deposits – unrestricted	16	1,560,000	480,000
Prepaid lease payment	12	126,142	138,481
Deferred tax assets		110,822	104,661
Other non-current assets		25,417	25,839
		<u>6,130,749</u>	<u>5,164,460</u>
Current assets			
Inventories		2,114,022	2,459,506
Trade receivables	13	97,173	74,302
Deposits, prepayments and other receivables		532,360	487,723
Amount due from fellow subsidiaries	20	130	–
Amounts due from associates	14	42	34
Available-for-sale financial assets	15	800,000	610,900
Held-to-maturity financial assets		134,437	97,873
Financial assets at fair value through profit or loss		1,362	1,874
Term deposits	16		
– restricted		1,657,900	1,219,800
– unrestricted		2,381,095	1,110,000
Cash and cash equivalents		1,989,860	4,191,924
		<u>9,708,381</u>	<u>10,253,936</u>
Total assets		<u><u>15,839,130</u></u>	<u><u>15,418,396</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2010

	NOTES	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
Capital and reserves			
Share capital		622,000	622,000
Reserves		<u>2,068,228</u>	<u>1,841,284</u>
Equity attributable to owners of the Company		2,690,228	2,463,284
Non-controlling interests		<u>493,698</u>	<u>464,790</u>
Total equity		<u>3,183,926</u>	<u>2,928,074</u>
Non-current liabilities			
Deferred tax liabilities		<u>50,347</u>	<u>51,375</u>
Current liabilities			
Trade payables	17	3,392,412	3,490,098
Other payables and accruals	18	1,699,951	1,773,257
Dividend payable		99,520	—
Coupon liabilities	19	7,218,900	6,944,234
Deferred income		23,257	30,388
Amounts due to associates	14	4,546	4,791
Amount due to ultimate holding company	20	—	10,023
Amounts due to fellow subsidiaries	20	90,441	93,696
Taxation payable		<u>75,830</u>	<u>92,460</u>
		<u>12,604,857</u>	<u>12,438,947</u>
Total liabilities		<u>12,655,204</u>	<u>12,490,322</u>
Total equity and liabilities		<u>15,839,130</u>	<u>15,418,396</u>
Net current liabilities		<u>(2,896,476)</u>	<u>(2,185,011)</u>
Total assets less current liabilities		<u>3,234,273</u>	<u>2,979,449</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2010

	Attributable to owners of the Company							
	Share capital	Capital reserve	Other reserve	Statutory common reserve fund	Retained profits	Total attributable to owners of the Company	Non-controlling interests	Total
	RMB'000	RMB'000 (note a)	RMB'000 (note b)	RMB'000 (note c)	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2009 (audited and restated)	622,000	755,953	303,595	173,755	777,178	2,632,481	411,513	3,043,994
Profit for the period	-	-	-	-	265,944	265,944	43,532	309,476
2008 final dividend	-	-	-	-	(93,300)	(93,300)	-	(93,300)
Dividends paid to non-controlling interests	-	-	-	-	-	-	(23,430)	(23,430)
At 30 June 2009 (unaudited and restated)	<u>622,000</u>	<u>755,953</u>	<u>303,595</u>	<u>173,755</u>	<u>949,822</u>	<u>2,805,125</u>	<u>431,615</u>	<u>3,236,740</u>
At 1 January 2010 (audited)	<u>622,000</u>	<u>755,953</u>	<u>(204,464)</u>	<u>214,711</u>	<u>1,075,084</u>	<u>2,463,284</u>	<u>464,790</u>	<u>2,928,074</u>
Profit for the period	-	-	-	-	326,464	326,464	39,154	365,618
2009 final dividend	-	-	-	-	(99,520)	(99,520)	(99,520)	-
Dividends paid to non-controlling interests	-	-	-	-	-	-	(10,246)	(10,246)
At 30 June 2010 (unaudited)	<u>622,000</u>	<u>755,953</u>	<u>(204,464)</u>	<u>214,711</u>	<u>1,302,028</u>	<u>2,690,228</u>	<u>493,698</u>	<u>3,183,926</u>

Notes:

- Capital reserve of the Group mainly represents premium arising from issue of H shares net of share issuance expenses.
- Other reserve of the Group mainly represents the financial impact of adopting merger accounting to account for acquisition of Hualian Supermarket Holdings Company Limited and its subsidiaries (the "Hualian Group") in the year ended 31 December 2009 and of the fair value difference of a subsidiary's net assets arising from a business combination in the year ended 31 December 2005 in relation to the Company's original equity interest of the subsidiary.
- Pursuant to the relevant regulations of the People's Republic of China ("PRC") and the Articles of Association of the companies within the Group, each of the companies within the Group is required to transfer 10% of its profit, as determined under the PRC accounting regulations, to statutory common reserve fund until the fund aggregates to 50% of its registered capital. The transfer to this reserve must be made before distribution of dividends to shareholders.

The statutory common reserve fund shall only be used to offset previous years' losses, to expand its operations, or to increase its capital. The statutory common reserve fund may be converted into the capital, provided the balance of the reserve fund after such conversion is not less than 25% of the registered capital.

No transfer has been made to the statutory common reserve fund in respect of the net profit for the six months ended 30 June 2010 (six months ended 30 June 2009: Nil). The transfer will be made at the year end based on the annual profit and upon Directors' approval.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2010

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited and restated)
	RMB'000	RMB'000
Net cash from (used in) operating activities	503,361	(78,513)
Net cash used in investing activities	(2,685,737)	(1,159,429)
Net cash (used in) from financing activities	(19,688)	104,226
Net decrease in cash and cash equivalents	(2,202,064)	(1,133,716)
Cash and cash equivalents at 1 January	4,191,924	3,459,178
Cash and cash equivalents at 30 June	1,989,860	2,325,462

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2010

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) and with Hong Kong Accounting Standard 34 “Interim Financial Reporting”.

Pursuant to the resolution passed at the Directors’ meeting on 26 June 2009, the Group acquired the equity interests in Hualian Supermarket Holdings Company Limited and its subsidiaries (the “Hualian Group”) for cash of RMB508,059,000 (the “Acquisition of Hualian Group”). Hualian Group was previously owned by Bailian Group Company Limited (the “Bailian Group”). As the Group and Hualian Group are under the common control of Bailian Group, the Acquisition of Hualian Group has been reflected in the consolidated financial statements using the principles of merger accounting as if they had been combined from the date when the combining entities first came under the control of Bailian Group. Accordingly, the consolidated assets and liabilities of Hualian Group have been accounted for in the consolidated financial statements of the Group at their existing book values from Bailian Group’s perspective. No amount is recognised in respect of goodwill nor adjustment made in respect of differences between the fair values of Hualian Group’s identifiable assets, liabilities and contingent liabilities and their carrying amounts. The consolidated statement of comprehensive income includes the results of Hualian Group from the earliest date presented or since the date when Hualian Group first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The Acquisition of Hualian Group was completed on 15 October 2009.

The effects of adopting merger accounting to account for the Acquisition of Hualian Group described above on the results of the Group for the prior period by line items presented in the condensed consolidated statement of comprehensive income is as follows:

	Six months ended 30 June 2009 RMB'000
Increase in turnover	1,306,774
Increase in cost of sales	(1,198,489)
Increase in other revenues	83,885
Increase in other income	20,071
Increase in selling and distribution expenses	(126,067)
Increase in administrative expenses	(57,843)
Increase in other operating expenses	(1,409)
Increase in finance costs	(2,618)
Increase in taxation	(6,760)
	<u>17,544</u>
Increase in profit and total comprehensive income for the period	<u>17,544</u>
Increase in profit and total comprehensive income for the period attributable to:	
Owners of the Company	16,244
Non-controlling interests	<u>1,300</u>
	<u>17,544</u>
Increase in earnings per share – Basic	<u>RMB0.03</u>

The effect of Acquisition of Hualian Group described above on the financial positions of the Group as at 1 January 2009 has been disclosed in the Group's annual financial statements for the year ended 31 December 2009.

2. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention, except for financial instruments that are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2009 except as described below.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners

As part of Improvements to HKFRSs issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. Before the amendment to HKAS 17, leasees were required to classify leasehold land as operating leases and presented as land use rights in the consolidated statement of financial position. The amendment has removed such a requirement. Instead, the amendment requires the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which substantially all the risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee.

In accordance with the transitional provisions of HKAS 17 Lease, the Group reassessed the classification of land elements of unexpired leases at 1 January 2010 based on information which existed at the inception of these leases, the directors of the Company considered the application of the amendment had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

The Group applies HKFRS 3 (Revised) *Business Combinations* prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (Revised) *Consolidated and Separate Financial Statements* in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

As there was no transaction during the current interim period in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

The adoption of the other new and revised HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

The Group has not early applied the following new or revised standards, amendments or interpretations that have been issued but are not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs 2010 ¹
HKAS 24 (Revised)	Related Party Disclosures ⁴
HKAS 32 (Amendment)	Classification of Rights Issues ²
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters ³
HKFRS 9	Financial Instruments ⁵
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement ⁴
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments ³

¹ Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

² Effective for annual periods beginning on or after 1 February 2010

³ Effective for annual periods beginning on or after 1 July 2010

⁴ Effective for annual periods beginning on or after 1 January 2011

⁵ Effective for annual periods beginning on or after 1 January 2013

HKFRS 9 *Financial Instruments* introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

Information reported to the Group's general manager who is the chief operating decision maker for the purposes of resource allocation and assessment of performance is focused on three main operations as follows:

- Hypermarkets chain operation
- Supermarkets 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 following is an analysis of the Group's revenue (include turnover and other revenue) and results by operating segment for the periods under review:

	Segment revenue		Segment results	
	Six months ended 30 June		Six months ended 30 June	
	2010	2009	2010	2009
	(Unaudited)	(Unaudited and restated)	(Unaudited)	(Unaudited and restated)
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Hypermarkets	7,951,059	7,290,768	172,795	114,089
Supermarkets	5,188,638	5,177,844	187,292	174,956
Convenience Stores	910,907	820,983	27,705	15,973
Other operations	103,442	73,858	25,281	58,115
	<u>14,154,046</u>	<u>13,363,453</u>	<u>413,073</u>	<u>363,133</u>

A reconciliation of total segments results to consolidated profit before taxation is provided as follows:

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited and restated)
	<i>RMB'000</i>	<i>RMB'000</i>
Segment results	413,073	363,133
Interest income	10,749	17,746
Other unallocated corporate income	20,527	–
Unallocated corporate expenses	(43,245)	(38,831)
Share of profits of associates	72,644	62,371
Consolidated profit before taxation	<u>473,748</u>	<u>404,419</u>

All of the segment revenue reported above is from external customers.

All of the Group's revenue and segment results is attributable to customers in the PRC.

Segment results did not include share of results of associates, allocation of headquarter income and expenses (including certain interest income relating to funds managed centrally). This is the measure reported to the Group's general manager for the purposes of resource allocation and assessment of segment performance.

The following is an analysis of the Group's assets by operating segment:

	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
Segment assets		
– Hypermarkets	8,163,664	8,077,369
– Supermarkets	4,634,555	4,539,038
– Convenience Stores	354,625	333,052
– Other operations	168,898	89,760
Total segment assets	13,321,742	13,039,219
Investments in associates	398,908	449,885
Other unallocated assets	2,118,480	1,929,292
Total assets	<u>15,839,130</u>	<u>15,418,396</u>

Other unallocated assets mainly comprise certain financial assets, cash and cash equivalents managed centrally by head quarter and deferred tax assets.

4. TURNOVER AND OTHER REVENUES

The Group is principally engaged in the operation of chain stores including hypermarkets, supermarkets and convenience stores. Revenues recognised during the period are as follows:

	Six months ended 30 June 2010 (Unaudited) RMB'000	2009 (Unaudited and restated) RMB'000
Turnover		
– Sales of merchandise	13,008,912	12,282,874
Incomes from suppliers	839,288	801,583
Gross rental income from leasing of shop premises	252,543	227,432
Royalty income from franchised stores	32,623	32,069
Commission income from coupon redemption in other retailers	20,680	19,495
	<u>1,145,134</u>	<u>1,080,579</u>
Total revenues	<u>14,154,046</u>	<u>13,363,453</u>

5. OTHER INCOME

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited and restated)
	RMB'000	RMB'000
Interest income	98,947	122,852
Government subsidies	8,913	7,920
Gain on disposal of financial assets at fair value through profit or loss	12,973	203
Gain on disposal of available-for-sale financial assets	8,408	1,258
Interest income on held-to-maturity financial assets	14,432	—
Salvage sales	11,911	13,063
Others	39,910	31,350
	<u>195,494</u>	<u>176,646</u>
Total	<u>195,494</u>	<u>176,646</u>

6. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging (crediting):

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited and restated)
	RMB'000	RMB'000
Amortisation and depreciation		
Amortisation of other non-current assets	422	761
Amortisation of intangible assets – software (included in selling and distribution expenses/administrative expense) (Note 10)	8,918	9,377
Amortisation of land use rights (Note 10)	2,631	4,044
Depreciation of property, plant and equipment (Note 10)	255,547	254,483
	<u>267,518</u>	<u>268,665</u>
Loss on disposal of property, plant and equipment (included in other operating expenses)	2,535	1,788
Share of profits of associates		
Profit before taxation	(99,197)	(86,954)
Taxation	26,553	24,583
	<u>72,644</u>	<u>(62,371)</u>
Operating lease rental in respect of land and buildings	710,184	663,237
Staff costs	971,230	864,618
Store closure expenses and provision	760	1,166
	<u>711,944</u>	<u>864,618</u>

7. TAXATION

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited and restated)
	RMB'000	RMB'000
PRC income tax		
– Current taxation	115,319	104,233
– Deferred taxation	(7,189)	(9,290)
	<u>108,130</u>	<u>94,943</u>

No provision for Hong Kong profits tax has been made 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 25% (six months ended 30 June 2009: 25%) of taxable income of the subsidiaries based on the relevant PRC tax rules and regulations except for certain subsidiaries which are taxed at preferential rates ranging from 15% to 22% (six months ended 30 June 2009: 15% to 20%).

8. DIVIDEND

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Interim dividend, declared, of RMB0.15 (2009: RMB0.12 for 2009) per share	<u>93,300</u>	<u>74,640</u>

An interim dividend in respect of 2010 of RMB0.15 (six months ended 30 June 2009: RMB0.12 for 2009) per share amounting to a total of RMB93,300,000 (six months ended 30 June 2009: RMB74,640,000) has been declared by the Board on 30 August 2010. This interim dividend has not been included as a liability in these condensed consolidated financial statements as it was declared after the end of the reporting period.

At a meeting held on 30 March 2010, the Directors proposed a final dividend of RMB0.16 per share for the year ended 31 December 2009, totalling RMB99,520,000 (RMB0.15 per share and totaling RMB93,300,000 for the year ended 31 December 2008), which was approved by the shareholders on 23 June 2010 and has been reflected as an appropriation of retained profits for the six months ended 30 June 2010. The amount has not yet been paid as at 30 June 2010.

9. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the following data:

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
<i>Earnings</i>		
Earnings for the purposes of basic earnings per share (profit for the period attributable to owners of the Company, RMB'000, restated)	<u>326,464</u>	<u>265,944</u>
<i>Number of shares</i>		
Number of ordinary shares for the purpose of basic earnings per share	<u>622,000,000</u>	<u>622,000,000</u>

10. MAJOR CAPITAL EXPENDITURE

	Intangible assets					
	Property, plant and equipment	Construction in progress	Land use rights	Goodwill	Software	Subtotal
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			<i>(note)</i>			
Opening carrying amount as at 1 January 2009 (audited)	2,771,683	153,963	208,339	151,941	44,954	196,895
Additions	126,530	33,885	90,440	–	1,225	1,225
Acquisition of a subsidiary	144,899	–	–	–	–	–
Transfers	8,945	(9,415)	–	–	470	470
Disposals	(4,387)	–	(36,359)	–	–	–
Depreciation/amortisation charge (Note 6)	<u>(254,483)</u>	<u>–</u>	<u>(4,044)</u>	<u>–</u>	<u>(9,377)</u>	<u>(9,377)</u>
Closing carrying amount as at 30 June 2009 (unaudited and restated)	<u>2,793,187</u>	<u>178,433</u>	<u>258,376</u>	<u>151,941</u>	<u>37,272</u>	<u>189,213</u>
Opening carrying amount as at 1 January 2010 (audited)	3,031,153	86,921	259,173	151,941	31,976	183,917
Additions	117,843	85,395	770	–	2,293	2,293
Transfers	12,682	(13,051)	–	–	369	369
Disposals	(6,288)	–	–	–	–	–
Depreciation/amortisation charge (Note 6)	<u>(255,547)</u>	<u>–</u>	<u>(2,631)</u>	<u>–</u>	<u>(8,918)</u>	<u>(8,918)</u>
Closing carrying amount as at 30 June 2010 (unaudited)	<u>2,899,843</u>	<u>159,265</u>	<u>257,312</u>	<u>151,941</u>	<u>25,720</u>	<u>177,661</u>

Note: Land use rights analysed for reporting purposes as:

	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
Non-current assets	252,050	254,717
Current assets (included in deposits, prepayments and other receivables)	<u>5,262</u>	<u>4,456</u>
	<u>257,312</u>	<u>259,173</u>

11. INVESTMENTS IN ASSOCIATES

	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
Share of net assets other than goodwill	392,121	443,098
Goodwill	<u>6,787</u>	<u>6,787</u>
	<u>398,908</u>	<u>449,885</u>

The aggregated amounts of the Group's share of interests in the assets, liabilities, turnover and profit of its associates, all of which are unlisted, were as follows:

	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
Assets	4,109,644	4,187,981
Liabilities	<u>(2,990,869)</u>	<u>(2,979,044)</u>
Net assets	<u>1,118,775</u>	<u>1,208,937</u>
Group's share of net assets of associates	<u>392,121</u>	<u>443,098</u>

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Turnover	<u>4,165,271</u>	<u>3,082,810</u>
Profit for the period	<u>180,914</u>	<u>152,817</u>
Group's share of profits of associates for the period	<u>72,644</u>	<u>62,371</u>

12. PREPAID LEASE PAYMENTS

Prepaid lease payments represent prepaid rental for store premises which will be charged to income statement after 1 year.

13. TRADE RECEIVABLES

The aged analysis of the trade receivables at the reporting date arising mainly from sales of merchandise to franchised stores and wholesalers and with credit terms ranging from 30 to 60 days, are as follows:

	30 June	31 December
	2010	2009
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Within 30 days	66,856	59,958
31-60 days	15,799	14,082
61-90 days	8,668	176
91 days – one year	<u>5,850</u>	<u>86</u>
	<u>97,173</u>	<u>74,302</u>

14. AMOUNTS DUE FROM/TO ASSOCIATES

Amounts due from/to associates represent balances arising from expenses paid on behalf of certain associates and purchase of merchandise from associates respectively. Balances are all aged within 90 days and the credit terms range from 30 to 90 days. Such balances with associates are unsecured and interest free.

15. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
<i>Non-current</i>		
Legal person shares (<i>note a</i>)	1,112	1,112
Unlisted equity investments (<i>note b</i>)	29,046	30,159
	30,158	31,271
<i>Current</i>		
Unlisted money market investments (<i>note c</i>)	800,000	610,900
Total	830,158	642,171

Notes:

- a) These represent investments in legal person shares of certain PRC listed companies.
- b) These represent investments in certain unlisted companies in the PRC.
- c) The effective interest rate of the money market investments were ranged from 2.9% to 7.8% (31 December 2009: 1.9% to 4.14%) per annum. Based on the terms, the investments will be repaid within 1 year. The net cash paid to acquire unlisted money market investment during the period and included in the investing activities of condensed consolidated statement of cash flows amounted to RMB189,100,000 (six months ended 30 June 2009: RMB185,000,000).

16. TERM DEPOSITS

All term deposits, which are denominated in Renminbi, are placed with banks in the PRC. The deposits in current assets are the deposits with maturity over 3 months but within 1 year. The deposits in non-current assets are those with maturity over 1 year but not exceeding 5 years. The net increase in term deposits during the period amounted to RMB2,789,195,000 (six months ended 30 June 2009: RMB1,102,100,000), of which balance of RMB2,351,095,000 (six months ended 30 June 2009, RMB649,500,000) is included in the investing activities of the condensed consolidated statement of cash flows.

As at 30 June 2010, term deposits included restricted cash amounting to RMB1,657,900,000 (31 December 2009: RMB1,219,800,000). The restricted cash represents deposits placed by a subsidiary to various banks which are held as security for coupon issued to customers and are not available for other use by the Group. The effective interest rate on time deposits was ranged from 1.98% to 5.13% (31 December 2009: 2.25% to 5.40%) per annum. The carrying amounts of the term deposits of the Group approximate their fair value.

17. TRADE PAYABLES

The following is an aged analysis of trade payables at the reporting date:

	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
Within 30 days	2,228,355	2,982,348
31-60 days	947,253	296,485
61-90 days	110,589	104,145
91 days – one year	106,215	107,120
	<u>3,392,412</u>	<u>3,490,098</u>

18. OTHER PAYABLES AND ACCRUALS

	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
Other payables	1,339,133	1,445,863
Payables for acquisition of property, plant and equipment	130,217	171,353
Store closure provision	38,066	58,162
Accruals	130,839	41,543
Advance from customers	61,696	56,336
	<u>1,699,951</u>	<u>1,773,257</u>

19. COUPON LIABILITIES

Coupon liabilities are recorded as liabilities when coupons are sold. Coupons redeemed in exchange for products of the Group during the period are recognised as sales and transferred to the consolidated statement of comprehensive income using the coupon sales value. Certain coupons redeemed in exchange for products or services of other retailers which have agreements with the Group are settled and paid to these retailers after deducting the Group's commission based on the agreements.

20. AMOUNT DUE TO ULTIMATE HOLDING COMPANY/AMOUNTS DUE FROM/TO FELLOW SUBSIDIARIES

Amount due to ultimate holding company for the last year represents the balance due to Bailian Group for the resident consideration of acquisition of Hualian Group, the balances are unsecured, interest free and payable on demand.

Amount due from/to fellow subsidiaries are unsecured, interest free and repayable on demand.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Environment

In the first half of 2010, China's economy maintained a steady growth momentum with the gross domestic product (GDP) grew by 11.1% year on year, according to the National Bureau of Statistics of China. Rapid economic growth and high employment rate were achieved with low inflation. As the macro economy stood firmly to and started to rebound, consumption growth grew steadily. In the first half of 2010, the total retail sales of consumer products grew by 18.2% compared with the corresponding period of last year.

Consumers' sentiment is booming in China in 2010. The World Expo 2010 Shanghai, drawing the world's attention to China, is attracting domestic and overseas tourists to flock in Shanghai and the Yangtze River Delta, which in turn contributes to the bustling consumer market. From April 2010, a pay-rise storm started to affect Chinese enterprises. As published by the Ministry of Finance, the country's personal income tax revenue for the first half of the year posted a year-on-year growth of 22%. The increase in residents' income is one of the factors that drives consumption growth.

Price level picked up since late 2009 and the trend continued in the first half of this year. Consumers' Price Index ("CPI") rose by 2.6% year on year. On a monthly basis, however, growth fluctuations were recorded as also seen in food prices.

In 2010, China faces structural transition in its economy. Urbanization has also helped accelerate the speed of provincial developments. These developments will provide vast markets for retail enterprises in inland and the second and third tier cities. As a result, the growth and competition in the retail sector will co-exist for a long period of time.

Financial Review

Growth in turnover and consolidated revenues

The Group completed the acquisition of Hualian Supermarket in the second half of 2009. As Hualian Supermarket and the Group are under the common control of Bailian Group, the 2009 interim results of Hualian Supermarket was included in the consolidated financial statement of the Group with reference to the guidance from the relevant accounting standards for preparation of consolidated financial statement. For the purpose of providing easy reference to the investors, the Group will explain the growth in turnover, operating profit and net profit attributable to the Company's shareholders when compared to that of the interim period of 2009, respectively.

For the six months ended 30 June 2010, the Group recorded a turnover of RMB13,009,000 thousand, representing a growth of 18.5% as compared with the corresponding period of 2009 and 5.9% as compared with the combined 2009 interim results of Hualian Supermarket with the same store sales increased by 3.5%. Such increase was marked when comparing to that of 2009 which is primarily attributable to the continuous efforts in promoting sales, reviving consumers' sentiment and positive market condition.

During the period under review, gross profit grew steadily and reached RMB1,753,000 thousand, representing a growth of 22.4% as compared with the first half of 2009 and 13.8% as compared to that in the first half of 2009 after the consolidation with Hualian Supermarket, and gross profit margin increased by 0.43 percentage point to 13.48% and increased by 0.94 percentage point as compared to that in the first half of 2009 after the consolidation with Hualian Supermarket. The consolidated revenues reached RMB3,094,000 thousand, representing a growth of 19.7% as compared with the first half of 2009 and 10.6% as compared to those in the first half of 2009 after the consolidation with Hualian Supermarket, with a consolidated revenues margin of 23.78%, representing an increase of 0.23 percentage points and increase of 1.01 percentage point as compared to that in the first half of 2009 after the consolidation with Hualian Supermarket. The sustainable and steady growth in consolidated revenues margin was attributable to the consolidation of merchandise resources and the improving merchandise operations. Furthermore, thanks to enhanced business solicitation, increased available shop space in the Group's outlets and the improvement of the related management, rental income from leasing of shop premises grew steadily by 11%. Meanwhile, the Group has maintained sufficient cash flow during the period, adopting prudent principles and professional management to realise steady growth in capital income of RMB134,760 thousand, representing an increase of 8.4% over the corresponding period last year.

Operating cost and net profit

During the period under review, total selling and distribution expenses of the Group amounted to RMB2,359,000 thousand, representing an increase of 15.5% and 8.8% as compared to those in the first half of 2009 after the consolidation with Hualian Supermarket. Total administrative expenses amounted to RMB323,092 thousand, representing a year-on-year growth of 20.2% as compared to those in the first half of 2009 after the consolidation with Hualian Supermarket, and the overall cost ratio increased by approximately 0.77 percentage point as compared with the corresponding period of 2009. Items of major operating costs such as rental, labour and utilities charges are RMB710,184 thousand, RMB971,230 thousand and RMB216,823 thousand, respectively. The rise in rental charge and labour cost was mainly attributable to opening new outlets. The Group is dedicated to improving its expenditure control system to bring costs under reasonable control, while seeking to increase consolidated revenues to cope with the challenge of rising operating costs.

For the six months ended 30 June 2010, the Group recorded an operating profit of RMB401,000 thousand, representing a growth of 26.2% as compared with the first half of 2009 and 17.3% as compared to that in the first half of 2009 after the consolidation with Hualian Supermarket. The operating profit margin increased by 0.19 percentage point to 3.08% from the corresponding period of 2009 and 0.30 percentage point as compared to that in the first half of 2009 after the consolidation with Hualian Supermarket.

During the period under review, the Group's share of revenue of associated companies was RMB72,644 thousand, representing an increase of 16.5%. Shanghai Carhua recorded steady growth in its results as business environment was recovering and the number of matured outlets increased. No new outlets were opened during the first half of the year.

During the period under review, the Group's tax charge and effective tax rate were 108,130 thousand and 22.82%, respectively. As the new outlets became mature in recent years, profit for the period sufficiently offset the loss recorded in the previous years. Meanwhile, the Group strived for preferential taxation policy, which reduced the tax rate by 0.65 percentage point compared to that of the corresponding period of 2009.

During the period under review, the Group recorded net profit attributable to the Company's shareholders of RMB326,464 thousand, representing an increase of 30.7% over the corresponding period of 2009 and 22.8% as compared to that in 2009 after the consolidation with Hualian Supermarket. For the first half of 2010, the net profit margin attributable to the Company's shareholders was 2.51% and earnings per share were RMB0.52.

Cash flow

During the period under review, the Group's net cash outflow reached RMB2,202,064 thousand, cash and miscellaneous bank balances as at the end of the period amounted to RMB7,588,855 thousand.

As at 30 June 2010, the turnover of the Group's trade payables was 60 days, and inventory turnover was approximately 38 days.

During the period under review, the Group did not use any financial instrument for hedging purposes and the Group did not issue any financial instrument for hedging as at 30 June 2010.

Growth in various retail businesses

Hypermarkets

During the period under review, the turnover of the Group's hypermarkets reached approximately RMB7,265,257 thousand, which accounted for approximately 55.8% of the Group's turnover and represented a growth of 9.3% when comparing to that of the corresponding period of 2009, and the gross profit margin increased by 1.06 percentage points to 12.90%. Same store sales increased by 3.9%. The segment's operating profit was RMB172,795 thousand, increased by RMB58,707 thousand over the corresponding period of 2009. The operating profit margin increased by 0.66 percentage point to 2.38% when compared with the corresponding period of 2009. The efforts of hypermarkets in recent years to enhance quality of new outlets, to improve operations of individual outlet and to construct supply chains brought fruitful results. The sustainable growth in overall operation capability laid a foundation for long-term development.

As at 30 June	2010	2009
Gross Profit Margin (%)	12.90	11.84
Consolidated Revenues Margin (%)	23.47	22.35
Operating Profit Margin (%)	2.38	1.72

Supermarkets

During the period under review, business consolidation in the supermarket segment led to complementary strengths, continuous transformation and enhancement while growth in same store sales increased by 2.6% from that of 2009. These efforts weathered out the sales growth pressure brought by the closure of Grand Gateway Plaza Store and the suspended operation and transformation of Taopu Store, both of which were major sales contributors, together with the decrease in the number of direct operation stores in supermarket business due to closure of certain stores upon expiry of the leases and active streamlining. During the period under review, the turnover of the Group's supermarket business slightly decreased by 0.3% when compared with the first half of 2009 after the consolidation with Hualian Supermarket to RMB4,814,326 thousand, which accounted for approximately 37% of the Group's turnover. Gross profit of the supermarket segment recorded growth of 6% to RMB664,845 thousand with gross profit margin of 13.81%, representing an increase of 0.82 percentage points as compared with the first half of 2009 after the consolidation with Hualian Supermarket. Consolidated revenues margin was 22.64%, representing a year-on-year increase of 1.25 percentage points as compared with the first half of 2009 after the consolidation with Hualian Supermarket, mainly attributable to the in-depth transformation and the supplier optimisation strategy. The segment's operating profit was RMB187,292 thousand.

As at 30 June	2010	2009
Gross Profit Margin (%)	13.81	12.99
Consolidated Revenues Margin (%)	22.64	21.39
Operating Profit Margin (%)	3.89	3.62

During the period under review, Hualian Supermarket recorded a turnover of RMB1,370,906 thousand, representing a year-on-year increase of 4.9%. The steady increase of consolidated revenues margin of 1.88 percentage points to 18.44% was attributable to the consolidation of merchandise resources. The operating profit margin rose by 0.26 percentage point to 2.07%.

Convenience Stores

During the period under review, the Group's convenience stores recorded a turnover of RMB849,323 thousand, which accounted for approximately 6.5% of the Group's turnover. The World Expo Park stores recorded outstanding sales with highest sales per unit area. More importantly, the success of World Expo Park stores will become treasurable experiences for future expansion of convenience store business. Benefiting from favourable consumer sentiment, same store sales of the convenience store segment increased by 3.8% . In order to obtain the benefits of the network, value-added services were put in convenience stores in recent years, and were well-received by consumers, thereby raising the relevant commission income and the consolidated revenues margin substantially increased to 24.08%. The operating profit margin increased rapidly by 1.17 percentage points to 3.26%.

As at 30 June	2010	2009
Gross Profit Margin (%)	15.73	15.00
Consolidated Revenues Margin (%)	24.08	23.60
Operating Profit Margin (%)	3.26	2.10

Analysis of financial results

	For the six months ended 30 June		
	RMB million		Change to the corresponding period of last year (%)
	2010	2009	
Turnover	13,009	12,283	5.9
Gross profit	1,753	1,541	13.8
Consolidated revenues	3,094	2,798	10.6
Operating profit	401	342	17.3
Taxation	108	95	13.7
Profit for the period attributable to the Company's shareholders	326	266	22.6
Earnings per share (RMB)	0.52	0.43	20.9
Interim dividend per share (RMB)	<u>0.15</u>	<u>0.12</u>	<u>25</u>

Capital structure

As at 30 June 2010, the Group's cash equivalents were mainly held in Renminbi, and the Group did not have any borrowings.

During the period under review, equity attributable to shareholders of the Group increased from approximately RMB2,463,284 thousand to approximately RMB2,690,228 thousand which was mainly due to the increase in profit of RMB326,464 thousand and dividends distribution amounting to RMB99,520 thousand during the period.

Details of the Group's pledged assets

As at 30 June 2010, the Group did not have any pledged assets.

Exposure to foreign exchange risk

Most of the income and expenditures of the Group are denominated in Renminbi. During the period under review, the Group did not experience 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 exposed to the Group. The directors believes that the Group is able to meet its foreign exchange requirements.

Share capital

As at 30 June 2010, 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	<u>207,000,000</u>	<u>33.28</u>
Total	<u><u>622,000,000</u></u>	<u><u>100.00</u></u>

Contingent liabilities

As at 30 June 2010, the Group did not have any material contingent liabilities.

OPERATING REVIEW

Consolidation and Restructuring

The year 2010 marked a milestone for consolidation and restructuring of the Group. During the period under review, the Group embarked on the consolidation with Hualian Supermarket and the business restructuring involving merchandise flows, logistics and information flows.

Consolidation with Hualian Supermarket. Following the successful acquisition of Hualian Supermarket in 2009, the Group initiated an all-around consolidation with it in early 2010.

The consolidation with Hualian Supermarket started with the unification of financial accounting and coding system. In the first half of the year, the Group completed the consolidation of the financial statements and settlement system of Hualian Supermarket, as well as the unification of 160,000 codes for suppliers/organisations/merchandises in the financial information management system.

Meanwhile, the franchising business was consolidated with that of Hualian Supermarket. The consolidation of franchising business under “Lianhua” and “Huanlian”, two supermarket brands with most recognition and strength, resulted in a synergy of merchandise resources, outlet resources, marketing strategies and operation superintendence. The order amount from franchisees at the two joint procurement conferences held after the consolidation achieved a growth of 24.5% year-on-year.

In June 2010, “Lianhua” supermarkets in Shanghai and “Hualian” supermarkets were merged to form Shanghai Lianhua Supermarket Development Co., Ltd. and the franchising business of the above two brands were also consolidated and merged marking the establishment of a new organisational structure and management team.

Consolidation of merchandise flows. To further consolidate merchandise resources and draw upon its economies of scale in domestic market, the Group resolved to proactively reform its merchandise management system after meticulous argumentation. A centralised procurement department for Shanghai area was established to consolidate the six procurement departments previously under different retail segments there. As Shanghai, being one of the most important markets for the Group, contributes more than 40% to the total sales, the centralised management on merchandise procurement will further highlight the Group's market share which ranks No.1 in Shanghai, thereby making better play of its market influence.

Consolidation of logistics. Hualian Supermarket owns the Taopu distribution centre, which is located in Shanghai and has more than 40,000 square metres of storage area and therefore strengthens the Group's distribution system for Shanghai area after consolidation. Combining the Jiangqiao distribution centre (which is at the planning stage), the Group has preliminarily completed the distribution system consolidation scheme for Shanghai area. Under the scheme, Taopu distribution centre will replace the Caoyang Road distribution centre of Lianhua Supermarket to function as the logistic distributor for the supermarket segment in Shanghai area, thereby releasing Caoyang Road distribution centre to support the distribution work of hypermarkets in Shanghai and Jiangsu Province area. The adoption of centralised distribution of hypermarkets will lay a solid foundation for the opening of the Jiangqiao logistics centre in the future.

Consolidation of information flows. To provide systematic support to the consolidation in light of the long term development strategy, the Group aligned its information system construction with the needs from the consolidation of operations, merchandise flows and logistics under centralised management and deployment of resources. Progresses were made in information system construction during the period, focusing on building centralized headquarter business system, standardized regional business system, unified supply chain platform and unified settlement and contract management platform. Core modules of merchandise management came on-streaming. While establishing standard regional business management system, the accuracy and timeliness of information are enhanced and outlet management systems were streamlined to cut down operating and maintenance costs. The unified settlement platform as well as merchandise, leasing, business solicitation and asset contract platforms were adopted across business segments and areas. The construction and assessment of the unified supply chain platform were completed to facilitate the consolidation of distribution centres in the second half year.

Outlet Development

During the period under review, the Group continued to open new outlets and looked for potential sites for new outlets under its centralised development strategy.

During the period under review, four new hypermarkets were opened and one supermarket store was transformed to hypermarket, of which two were located in Jiangsu Province (Suzhou and Yancheng city respectively) and two in Hangzhou city of Zhejiang Province. The centralised and in-depth development plan in Yangtze River Delta will secure the market share of the existing outlets and establish profound market influence in the long run. Leveraging the suburb shopping mall development plan of Bailian Group in the second half year, the Group will extend its hypermarket arm to Jinshan district and Fengxian district in Shanghai.

During the period under review, 133 new supermarkets were opened, including 10 directly-operated supermarkets and 123 franchised operation supermarkets. The Group was seeking opportunities in opening general merchandise supermarkets in downtown. During the period under review, the Group opened the second “Lianhua Premier Foods Market”, targeting mid to high-end customers in the southwest part of Shanghai.

During the period, 120 new convenience stores were opened, including 30 directly-operated stores and 90 franchised operation stores. The network of convenience stores in all five cities has been expanding steadily. In June 2010, the Group contracted to open its first convenience store in Liuzhou city of Guangxi Province, the city that the Group enjoys the biggest market share, thus expanding the network to cover six cities. During the period under review, proactive preparations were made for the opening of 6 new stores in the World Expo Park to provide convenient services to tourists in the park. These new stores recorded remarkable sales and established a positive enterprise image for the Group.

As at 30 June 2010, the Group had a total of 5,040 outlets, 86% of which were located in the eastern region of China.

	Hypermarkets	Supermarkets		Convenience Stores	Total
		Lianhua Supermarket	Hualian Supermarket		
Direct operation	136	483	210	935	1,764
Franchised operation		1,230	955	1,091	3,276
Total	136	1,713	1,165	2,026	5,040

Note: The above information was as of 30 June 2010

Transformation and Key Outlets

During the period under review, the Group continued to boost business transformation with a view to enhance outlet profitability, explore new business model, optimise supplier structure, improve fresh product operation and optimise merchandise mix.

During the period under review, the Group constantly promoted transformation and re-transformation of outlets and its strong outlet strategy to uplift store image and profitability. The strong outlet strategy aims at the improvement in overall competitiveness by forging flagship and model outlets as well as upgrading outlets.

During the period under review, the Group sped up market study on express store and cosmeceutical shop to seek innovative business model. Two new flagship convenience stores which specialise in refined common merchandises, innovative instant food and in-depth services were opened in Beijing. Of which instant food accounted for over 40% of sales, with daily sales much higher than average level of the region.

Fresh product operation transformation was further strengthened and a scientific assessment system was established. The Group promoted centralised procurement of fresh products, as well as the shift from joint operation to self operation, expanding the scope of procurement from production base and optimising the procurement process. Seeking to identify the key links in fresh product operation, the Group strengthened training and guidance to relevant employees to improve their operating capability. Meanwhile, an assessment system on fresh product operation was developed, including regular monthly tracking system, and the multi-dimension satisfaction scoring on operation, procurement and consumers. Notable progress was made in fresh product operation in an orderly manner. Despite the price fluctuations in the first half of 2010, all business segments recorded a steady growth in gross profit from fresh product operation, with gross profit margin growth to different extents.

The category management concept and techniques were strengthened. Based on regular category analysis, merchandises of the previous year were reviewed and analysed by category to track sales of staples, providing category information for merchandise business strategic decision-making and promotions of outlets. Efficient merchandise portfolio strategy was studied and carried out among major categories. List of staples was generated by pushing ahead category management techniques for major categories. The best practice for display of related merchandise was developed and promoted. Due to its multi-segment operations, cross-region presence and the difference in retail space among various types of store, the Group introduced the shelf management and merchandise allocation table by store clusters to match the positioning of each business segment.

To further improve consolidated revenues, the Group took efforts in optimising suppliers portfolio in the period. While tapping the source to increase direct supply ratio together with buy-out operation, the Group sought mutual growth with key suppliers based on optimised supply channels, aiming to increase its revenue.

During the period under review, the Group increased its efforts in developing private label products to uplift brand value. Series packaging and designs were promoted for private label products to forge the image of private label brand “Lianhua”. Proven performance in display and sales were achieved from the development of series products in the first half year. At the same time, the promotion of private label brand merchandises should be supported by outlet operation, such as specific promotion upon special days and during change of seasons.

During the period under review, imported and specialty merchandises were still the strongholds for the Group to build up its differentiated merchandise mix and improve consolidated revenues. With variegated marketing modes, the Group hosted a range of events for such merchandises including “Food Festival”, “Promo”, “Low Price Storm” and “Trade-in”, which stimulated the desire to buy and contributed to sound growth in sales.

Capturing opportunities arising from World Expo 2010 Shanghai

During the period under review, the Group pressed ahead with all-around staff training and business operations at all levels to prepare for and capture the opportunities arising from World Expo 2010 Shanghai. Efforts were made by the Group in improving inside and outside shopping environment, merchandise mix, service skills and operation management. Franchised World Expo retail counters were set up at the Group's key outlets in Shanghai and east China. As at 30 June 2010, the six Lianhua Quik stores in the Expo park recorded sales of over RMB40 million in total and set a record for the highest sales based on unit area.

Employment, training and development

As at 30 June 2010, the Group had a total of 56,055 employees, representing a decrease of 641 employees during the period under review. Total staff costs were RMB971,230 thousand.

During the period under review, the Group strengthened the training of management staff and the cultivation of human resources. Two training courses were held for young and middle-aged management staff, a "staff capacity and quality upgrade class" was organized for stepping up the training and utilization of young staff as reserve executives.

During the period under review, the Group improved the performance appraisal methods for the year. Based on the Company's long-term development objectives, the Group formulated plans for carrying out key projects during the year, which will serve as major performance indicators for the annual evaluation.

Strategy and planning

The slower GDP growth in the second quarter of 2010 as compared to its first quarter and the 0.3% month-by-month decline in total retail sales growth rate of consumer products in June 2010 as compared to May 2010 indicated a slowdown of growth momentum in the economy. Uncertainties exist in the development of the economy. Given the mixed economic outlook, challenges still exist for retail enterprises which cannot afford to be slack in sale promotion and further development.

Following the overall guideline of "Strategic Development, Transformation and Upgrading, Reform and Consolidation, Breakthrough in Key Business Areas" initiated in the beginning of the year, the Group will promote consolidation and restructuring to boost sales and improve business results in the second half of 2010.

Advancing the intensive development in eastern region of China and other markets where the Group has established a foothold, the Group will make itself well prepared for constructing and opening new outlets. With a view to securing the established market share, the Group will seek potential outlet expansion and acquisition opportunities.

Strategy to further boost the sales. The Group will press ahead with its outlet transformation and strong outlet strategy by optimising merchandise mix, enhancing market promotion, innovating in marketing modes and adopting flexible pricing strategy to attract customers. The outlets in eastern region of China will seize the opportunities from World Expo 2010 Shanghai, Shanghai Shopping Festival, and consolidation of supermarkets segment, logistics and franchising and seasonal holidays to boost sales.

Further optimise and advance the consolidation. Following the first step in the restructuring and consolidation, the Group will carry out reengineering of operation process, alignment of assessment mechanism, optimisation of organisational structure and team building, which will be a long-term mission for the Group. Progress will be made in consolidation and optimisation of merchandise, logistics and information flows in the second half of this year. We will focus on the enhancement of regional centralized procurement and distribution and the optimization of outlet operational management so as to further increase the consolidated income margin level effectively.

Work on the proposals for acquisition and consolidation. The acquisition of business of Hualian Group GMS Shopping Centre Company Limited (“Hualian GMS”) by Bailian Group has been completed, and the Group will perform due diligence and justify the timing and mode of the acquisition and consolidation of Hualian GMS.

Interim dividend

On 30 August 2010, the Board has declared the payment of an interim dividend of RMB0.15 per share (including tax) for the six months ended 30 June 2010.

The register of H shares members of the Company will be closed from 20 September 2010 to 24 September 2010 (both days inclusive) during which period no transfer of H shares will be effected. The interim dividend will be distributed to the shareholders of H shares of the Company whose names appear on the Company’s register of members on 20 September 2010. In order to qualify for the interim dividend, holders of shares must lodge the relevant share transfer documents together with their share certificates with the share registrar of the Company, namely Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Friday, 17 September 2010. 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 on or before 29 October 2010. 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 declaration date, which is RMB100 to HKD114.3432. At such, the interim dividend per ordinary share denominated in HKD is HKD0.1715 (including tax).

In accordance with the Law on Corporate Income Tax of the People's Republic of China and its implementation regulations which came into effect on 1 January 2008, the Company is required to withhold corporate income tax at the rate of 10% on behalf of the non-resident enterprise shareholders whose names appear on the H shares share register of members of the Company when distributing interim dividends to them. Any H shares of the Company registered in the name of the non-individual registered shareholder, including HKSCC Nominees Limited, other nominees, trustees, or other organizations or groups, shall be treated as shares being held by a non-resident enterprise shareholder. As such, the corporate income tax shall be withheld from the dividend payable to such shareholders.

All investors should consider the above contents carefully. If any investor intends to change the identity of the holders in the shareholders register, please kindly enquire about the relevant procedures with your nominees or trustees. The Company has no responsibility and shall not be held responsible for confirming the identities of the shareholders. The Company will strictly comply with the law, and withhold and pay the corporate income tax on behalf of the relevant shareholders based on the H shares share register of members of the Company as at 20 September 2010. The Company will not accept any requests relating to any delay in confirming the identity of the shareholders or any errors in the identity of the shareholders.

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 the matters in relation to internal control and financial reporting with the management, including the review of the unaudited condensed interim accounts for 2010 of the Company. The Audit Committee considered that the interim accounts for the six months ended 30 June 2010 is in compliance with the relevant accounting standards, the requirements of the Stock Exchange and the Laws of Hong Kong, and the Company has made appropriate disclosures thereof.

Purchase, Sales and Redemption of Shares

Since the listing of the Company's shares on 27 June 2003 on The Stock Exchange of Hong Kong Limited to the date of this announcement, the Company and its subsidiaries have not purchased, sold or redeemed any of the Company's listed securities.

Compliance with the Model Code

The Company has adopted "the model code for securities transactions by directors of listed issuers" (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") as the code of conduct for securities transactions by all directors of the Company. After making 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 under Appendix 14 of the Listing Rules

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

By Order of the Board

Ma Xin-sheng

Chairman

Shanghai, the PRC, 30 August 2010

As at the date of this Announcement, the members of the board of directors are:

Executive Directors: Hua Guo-ping, Liang Wei, Xu Ling-ling, Cai Lan-ying, Tang Qi

Non-executive Directors: Ma Xin-sheng, Xu Bo, Kazuyasu Misu, Wong Tak Hung

Independent non-executive Directors: Lee Kwok Ming, Don, Zhang Hui-ming, Xia Da-wei