Corporate Profile

Lianhua Supermarket first commenced its business in Shanghai, the PRC, in 1991. Within thirteen years, it has developed into a retail chain operator with retail outlets covering the whole nation through direct operations, joint ventures, franchises, mergers and acquisitions. As of 2003, Lianhua Supermarket has become the largest retail chain operator in terms of turnover in China for seven consecutive years.

The Group operates three major retail formats, namely hypermarkets, supermarkets and convenience stores, which cater to the needs of different consumers. The three retail formats continue to expand and develop under the brand names of "Century mart", "Lianhua Supermarket" and "Lianhua Quik" respectively. From 2001 to 2003, Lianhua Supermarket and Lianhua Quik were awarded one of the most prestigious and distinctive brand names awards in China by the PRC Retail Chain Operations Association.

Mr. Wang Zong-nan, the Chairman of the Company, was named one of the "Top Ten Influential Persons of the PRC Retail Industry in 2003".

CORPORATE INFORMATION

Executive Directors

Mr. Wang Zong-nan
Mr. Liang Wei
Ms. Xu Ling-ling

Non-Executive Directors

Mr. Lu Ming-fang
Mr. Hua Guo-ping
Mr. Tsunao Kijima
Mr. Wong Tak Hung
Mr. Zhu Jia-liu

Independent Non-Executive Directors

Mr. Lee Kwok Ming, Don
Mr. Zhang Hui-ming

Supervisors

Mr. Wang Long-sheng
Mr. Shi Zu-qi
Mr. Zhang Zeng-yong

Joint Company Secretaries

Mr. Wang Jian
Mr. Chung Ying Jye, Andrew

Audit Committee

Mr. Lee Kwok Ming, Don
Mr. Zhang Hui-ming
Mr. Zhu Jia-liu

Authorised Representatives

Ms. Xu Ling-ling
Mr. Wang Jian

Registered Office

11th to 15th Floors
1666 Sichuan (North) Road
Shanghai
The PRC

Place of Business in Hong Kong

26th to 27th Floors
Harcourt Building
39 Gloucester Road
Wanchai
Hong Kong

Sponsor

BNP Paribas Peregrine Capital Limited

International Auditors and Reporting Accountants

PricewaterhouseCoopers

Legal Advisers to the Company

as to Hong Kong law
Simmons & Simmons

as to PRC law
Grandall Legal Group

Hong Kong Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

CORPORATE INFORMATION

Advisor on Relations with Investors and Media

iPR ASIA LTD

Principal Bankers

Industrial and Commercial Bank of China
Pudong Development Bank
China Merchants Bank

Telephone

86 (21) 6393 7700

Fax

86 (21) 6393 1318

Company's Website

www.lhok.com.cn

Listing Place of H Shares

The Stock Exchange of Hong Kong Limited

Listing Date

27 June 2003

Number of H Shares Issued

172,500,000 H Shares

Board Lot

1,000 Shares

SEHK Stock Code

980

Year-end Date

31 December

RESULTS HIGHLIGHTS

- Successfully listed on the Main Board SEHK by way of placing and public offer of H Shares on 27 June 2003, being the first PRC retail chain operator listed in Hong Kong.

- Continued to sustain market position as a leading retail chain store operator in the PRC with turnover amounted to approximately RMB9,282,000,000 for the year under review. Lianhua Supermarket has continued to be the largest retail chain store operator in terms of turnover in the PRC for seven consecutive years as of 2003.

  - As at 31 December 2003, the number of retail outlets increased to 2,503 (excluding those operated by the Company's associated companies), spanning across 22 provinces and municipalities in the PRC.

  - Lianhua Supermarket continued to pursue its regional development strategy and remained as the largest retail chain operator in terms of turnover in the Eastern Region of the PRC.

- Actively explored stratagic alliances opportunities with internationally well-known retail chain store operators. As at 31 December 2003, Shanghai Carhua operated and managed six hypermarkets under the brandname of "Carrefour" in Shanghai. In July 2003, the Company jointly developed discount store business with Distribuidora Internacional De Alimentacion S.A. During the year under review, the Group opened a total of 40 discount stores in Shanghai. Century Lianhua, under the management of the Company, operated 19 hypermarkets under the brand name of "Centurymart".

FINANCIAL HIGHLIGHTS

	Year ended 31 December		
		(As restated)	(As restated)
	2003	2002	2001
	RMB'000	RMB'000	RMB'000
Turnover	**9,282,248**	5,821,231	4,517,722
Gross profit	**1,172,731**	788,177	572,222
Gross profit margin (note 1)	**12.63%**	13.54%	12.67%
Earnings rate (consolidated) (note 2)	**19.44%**	19.57%	17.26%
Operating profit	**210,856**	121,610	51,522
Operating profit margin	**2.27%**	2.09%	1.14%
Profit attributable to shareholders	**163,623**	126,598	85,475
Earnings per share (note 3)	**RMB0.33**	RMB0.31	RMB0.23

	Year ended 31 December		
		(As restated)	(As restated)
	2003	2002	2001
	RMB'000	RMB'000	RMB'000
Net assets	**1,279,190**	587,108	464,974
Total assets	**4,061,904**	2,873,484	1,682,235
Total liabilities	**2,562,978**	2,017,936	1,170,407
Cash flow	**452,419**	119,943	(71,808)
Gearing ratio (%) (note 4)	**5.12**	5.92	8.32
Current ratio (times)	**0.78**	0.54	0.59
Creditors' turnover days	**59**	57	54
Inventory turnover days	**30**	33	34

Note 1. Excluding the sales of merchandise to an associated company to Century Lianhua, the associated company, at cost, the profit margin of the Company in 2003 was 13.81%.

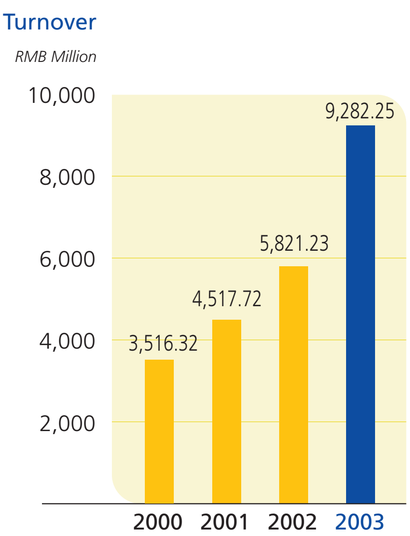
2. Earnings rate (consolidated) is calculated at (gross profit + other revenues + other income)/turnover. Excluding the sales of merchandise to an associated company to Century Lianhua, the associated company, at cost price, the earnings rate (consolidated) of the Company in 2003 was 21.25%.

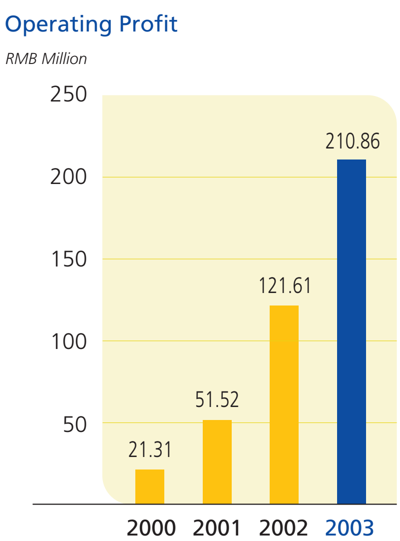
3. Earnings per share has been arrived at on the basis of the weighted average of the total ordinary shares in issue during the year.

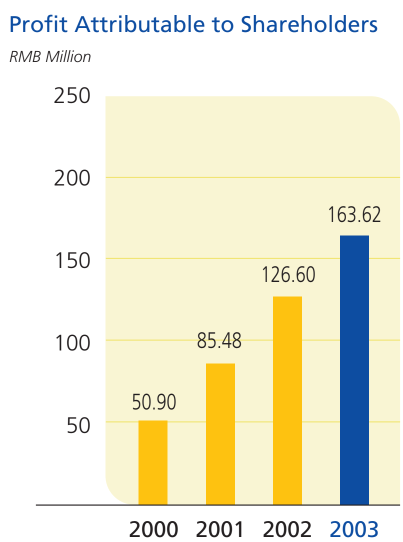
4. Gearing ratio (%) = Loans/total assets

FINANCIAL HIGHLIGHTS

	2003 RMB'000	As restated 2002 RMB'000	As restated 2001 RMB'000	As restated 2000 RMB'000
Turnover	**9,282,248**	5,821,231	4,517,222	3,516,320
Cost of sales	**(8,109,517)**	(5,033,054)	(3,945,500)	(2,941,889)
Gross profit	**1,172,731**	788,177	572,222	574,431
Other revenues	**614,946**	341,962	194,810	73,549
Other income	**17,182**	8,833	12,778	5,700
Distribution costs	**(1,383,200)**	(857,282)	(623,712)	(535,310)
Administrative expenses	**(200,530)**	(144,371)	(96,998)	(89,866)
Other operating expenses	**(10,253)**	(15,709)	(7,577)	(7,198)
Operating profit	**210,856**	121,610	51,523	21,306
Finance costs	**(11,024)**	(8,454)	(9,911)	(1,850)
Share of results of associates	**94,265**	85,189	82,076	50,839
Profit before taxation	**294,097**	198,345	123,688	70,295
Taxation	**(91,335)**	(54,659)	(35,468)	(23,285)
Profit after taxation	**202,762**	143,686	88,220	47,010
Minority interests	**(39,139)**	(17,088)	(2,745)	3,890
Profit attributable to shareholders	**163,623**	126,598	85,475	50,900
Dividends	**47,000**	128,651	52,007	30,617
Basic earnings per share	**RMB0.33**	RMB0.31	RMB0.23	RMB0.16







Dear shareholders,

On behalf of the board of directors ("the Board") of Lianhua Supermarket Holdings Co., Ltd. ("Lianhua Supermarket" or the "Company", together with its subsidiaries referred to as the "Group"), I am delighted to present the first annual results reports for the year ended 31 December 2003 following listing of the Group on The Stock Exchange of Hong Kong Limited ("SEHK").

The year 2003 was important to Lianhua Supermarket. During the year, the Group successfully listed its H shares on the SEHK, being the first PRC retail chain operator listed in Hong Kong. For both the placing and the public offer, it was well over-subscribed by investors, in particular being supported by internationally well-known institutional investors. A total proceeds of approximately HK$668,000,000 was successfully raised by the Group. The success in such fund raising exercise has laid a solid foundation for our development, and has further strengthened our financial capabilities and continued to promote the development of Lianhua Supermarket ahead.

During the year, China's economy continued to grow robustly. GDP growth of China and Shanghai increased by 9.1% and 11.8% respectively when compared with last year. Economic growth together with improving living standards of its people contributed to the synchronous expansion of the retail market in the PRC. The growth in total sales of consumer products in the PRC reached 9.1% while the growth in total sales of consumer products in Shanghai amounted to 9.1%. Developing under the highest growth segment of the China retail industry, Lianhua Supermarket was able to fully utilize its competitive advantages by leveraging on its solid foundation and to grow alongside with the national development. As of 2003, Lianhua Supermarket became the largest retail chain operator in terms of turnover in the PRC for seven consecutive years. The Company completed its retail network expansion nationwide and accelerated its expansion in target regions by speeding up the opening of new outlets. As at 31 December, 2003, the number of outlets increased to 2,503 (excluding those operated by associated companies), spanning across 22 provinces and municipalities, including Shanghai, Zhejiang, Jiangsu, Beijing and Guangzhou. The directors are confident in staying ahead in the retail chain operations industry in the PRC in future.

During the year under review, the Group continued to expand its operations scale. In 2003, the Group entered into a joint venture agreement with Distribuidora Internacional De Alimentacion S.A. of Spain to introduce a new format of discount store business into the retail market in the PRC. Within only a half year, a total of 40 discount store outlets were established in Shanghai. At the same time, Century Lianhua, under the management of the Company, operated 19 hypermarkets under the brand name of "Centurymart". Together with the six hypermarkets operated by Shanghai Carhua, the total number of outlets of the Group's major retail formats amounted to 2,568, which further strengthened the national retail network of the Group.

By adopting the operation principles of "development, transformation and improvement" set in early 2003, the Company continued to expand its operations scale while achieving profit growth which was attributable to its stringent operations mode and scientific management

CHAIRMAN'S STATEMENT

style. During the year, the Company applied modern technologies of the retail industry and further enhanced its supply chain management standard. During the year under review, turnover of the Group increased by 59.46% from approximately RMB5,821,000,000 in 2002 to approximately RMB9,282,000,000 in 2003. Profit attributable to shareholders amounted to approximately RMB163,620,000, representing an increase of 29.25% when compared to last year. Earnings per share was RMB0.33. Such an encouraging results and the business progress achieved demonstrated that the direction and strategies of the Group's development as a whole has been in the right track. In return to the support of the shareholders, the board of directors proposed to pay a final dividend of approximately RMB0.08 per share for the year ended 31 December, 2003.

Looking forward, the directors believe that the PRC's economy will sustain its robust growth, which will continue to propel the development of the retail industry in particular the development of the retail chain industry in the PRC. Being the leading player in the industry, Lianhua Supermarket will grasp any development opportunity in the market. In 2004, the Group will implement its focused development strategy. Through direct operations, collaboration, franchise, mergers and acquisitions, the Group will continue to pursue its network expansion in the fast growing areas. Meanwhile, the Group will be dedicated in enhancing its supply chain management, information systems and further strengthen cost control for the purposes of increasing operations efficiency and profitability. All these will help the Group to embrace the opening up of the PRC's supermarket industry.

Capitalizing the brand's competitive advantages and wide network coverage, together with the dedicated employees, visionary management team as well as their high recognition and adoption of the corporate culture, I believe that the Group will continue to maintain its edges in leading the national development of the retail industry. We will continue to pursue with our development strategies of regional concentration, solidify our leading position in local markets, and strengthen Lianhua Supermarket's brand awareness and market share with an aim of consolidating the Group's position as the most premiere retail chain operator in the PRC.

Appreciation

On behalf of the board, I would like to take this opportunity to express my gratitude to our business partners, customers and shareholders for their continuous support, and to our employees for their concerted efforts, dedication and contribution to the long-term development of the Group during the past year. I wish that all of you will continue to join hands with Lianhua Supermarket to devote our efforts in establishing the Group as the most premiere and strongest retail chain operator in China.

By order of the board
Wang Zong-nan
Chairman

1 April 2004
Shanghai, The PRC

MANAGEMENT DISCUSSION AND ANALYSIS

Operating environment

During the year under review, GDP in the PRC rose 9.1% from that in 2002 despite the Severe Acute Respiratory Syndrome ("SARS") outbreak. Due to effective measures implemented by relevant PRC authorities for the control of SARS, the PRC economy revived and promptly regained its momentum. The retail sales of consumer products in the PRC in 2003 increased by 9.1% as compared to 2002.

At the same time, the retail industry of the PRC maintained its rapid growth. For the year ended 31 December 2003, the sales of consumer products in China reached approximately RMB4,584.2 billion, an increase of 9.1% from 2002 while the sales of consumer products in Shanghai reached approximately RMB222.1 billion, an increase of approximately 9.1% from the same period of last year. There has been huge potential in the development of fast moving consumer goods in China. Consumer price level of the PRC increased by approximately 1.2% in 2003 from that in 2002. Disposable income per capita of urban residents in the PRC amounted to approximately RMB8,472, a year-on-year increase of approximately 9.0%. Net income per capita of rural residents was approximately RMB2,622, a year-on-year increase of approximately 4.3%. The stable development in the state economy and a sustainable and prosperous retail industry contributed to a favourable environment for retail chain enterprises in the PRC.

In the mean time, competition of the domestic retail market has been more intense, especially ahead of the complete opening up of the retail industry to foreign enterprises in 2005. Therefore, in order to develop the PRC's retail industry rapaidly and effectively performance of individual outlets and corporate management should be enhanced. In addition, capitalizing on the established and large chain network, measures for resources sharing like unified sales and marketing, unified distribution and unified operation management should be implemented to reduce operation cost of merchandise and to attain economies of scale. In the next few years, expansion, mergers & acquisitions, restructuring and integration will be the major ways for accelerating the expansion in scale and cross-regional development in the retail industry, which in turn will become the future trend for the development of the PRC's retail operators.

Operating review

During the year under review, Lianhua Supermarket achieved remarkable and satisfactory development. The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited ("SEHK") in June (the "Listing") and tapped into the international capital market. Through its listing, the Company has raised approximately HK$668,000,000 which has provided sufficient financial resources for its future development.

	2003 RMB	As restated 2002 RMB	Change (%)
Turnover	**9,282,250,000**	5,821,230,000	59.46
Operating profit	**210,860,000**	121,610,000	73.39
Profit attributable to shareholders	**163,620,000**	126,600,000	29.24

Turnover and net profit recorded remarkable increases, which represented the Company's prudent and stringent operating practice and scientific management style. The increase was also due to the Group's dedicated efforts in enhancing its brand awareness by adopting measures which included the establishment of a comprehensive membership system to strengthen customer loyalty to Lianhua Supermarket as well as the efforts to strengthen and centralize the development and management of the Group's own brand.

The Group successfully expanded its operations scale and adopted modern retail operational technology to further promote the standard of its supply chain management. During 2003, through the optimization of the integrated supplier service system, the quality of supplier services to the Group's outlets was further enhanced. The delivery cycle was expedited and the satisfaction rate of goods delivery was enhanced.

In 2003 the Group adopted the "management by benchmark" which was based on major operating indicators of leading retail operators in the world. This new measure significantly enhanced the Group's management and enabled the Group to implement more scientific analysis on sales and inventory level. This played a pivotal role in the management, control and planning capabilities of the Group.

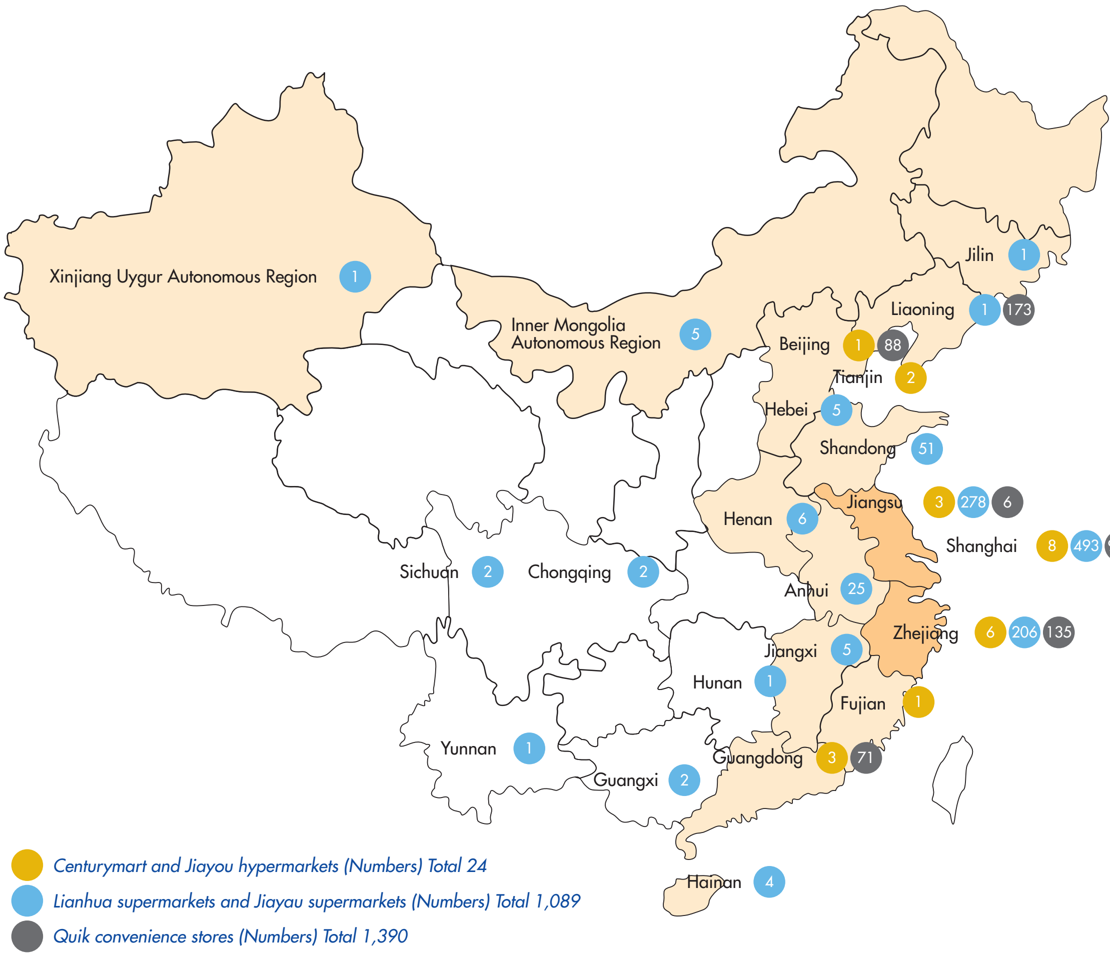
Segment Results

For the year ended 31 December 2003, an analysis of the Group's turnover in terms of segments was as follows:

	For the year ended 31 December				
Type of business	2003		2002		Change
	RMB	%	RMB	%	%
Hypermarkets	**3,375,410,000**	**36.36**	947,720,000	16.28	256.16
Supermarkets	**4,929,510,000**	**53.11**	4,085,420,000	70.18	20.66
Convenience stores	**899,850,000**	**9.69**	702,440,000	12.07	28.10
Other businesses	**77,480,000**	**0.84**	85,650,000	1.47	-9.54

As at 31 December 2003, the total number of the Group's outlets reached 2,503 (excluding those operated by the Company's associated companies) (2002: 1,884), representing an increase of approximately 32.86% from that in 2002. Among the 619 new opened stores, the number of hypermarkets, supermarkets and convenience stores opened were 13, 261 and 345 respectively.

In view of the development features of the Group in the year of 2003, all retail formats recorded growth in turnover, of which hypermarkets posted the most remarkable growth in turnover. Turnover contribution of hypermarket to the Group significantly increased from approximately 16.28% in 2002 to approximately 36.36%, which was attributable to the rapid expansion of hypermarket together with the improving profitability of its outlets.



Hypermarkets

The operation of hypermarkets plays an important role to the core business of the Group. Growth and development potential of hypermarket increase as the consumption pattern of the PRC evolved. During the year under review, high growth rate was recorded for its turnover as the Group opened 13 new outlets and focused on enhancing the operations of existing oultets. During the year under review, gross profit margin and operating profit margin of the segment were approximately 8.41% and 1.54% respectively. Excluding the wholesales to Century Lianhua, the associated company at cost price, gross profit margin and operating profit margin were approximately 10.98% and 2.01% respectively.

As at 31 December 2003, the Group directly operated 24 hypermarkets. Together with the 6 hypermarkets operated by Shanghai Carhua and 19 hypermarkets operated by Shanghai Century Lianhua Supermarket Co., Ltd. ("Century Lianhua"), the Group has a total of 49 hypermarkets.

Supermarkets

Among these three retail operating formats, supermarket remained as the most mature operating format and the major profit contributor of the Group. Gross profit margin and operating profit margin for the year under review were approximately 15.12% and 3.15% respectively. The turnover growth in this segment was mainly due to the Group's efforts on enhancing the operational continuity of existing outlets, and the adjustment on product mix to cater for the needs of target customer groups in the region and the improvement on the operations of live and fresh produce.

As of 31 December 2003, the number of supermarkets of the Group reached 1,089, among which 536 were directly operated supermarkets and 553 stores were operated under franchise arrangement.

Convenience stores

Turnover from convenience stores also recorded remarkable growth during the year under review. This retail format is complementary to the other business formats and inaugurated a comprehensive and regionally focused retail chain outlet network. The turnover growth in this segment was mainly attributable to the Group's increasing concentration of its outlets network so as to attain economies scales. Gross profit margin and operating profit margin for the year ended 31 December 2003 were approximately 16.91% and 2.01% respectively.

As at 31 December 2003, the number of convenience stores of the Group reached 1,390, of which 978 were directly operated by the Group and 412 were operated under franchise arrangement. Among the stores newly opened during the year, 38 convenience stores were opened in gas stations operated under the Sinopec brand name so as to expand the customers reach of this retail format.

Discount stores

The Group entered into an agreement to establish a joint venture named Shanghai Dia-Lianhua Retail Co.,Ltd. ("Shanghai Dia") with Distribuidora Internacional De Alimentacion S.A. of Spain. Shanghai Dia set up its first Shanghai Dia discount store in Shanghai on July 2003, and introduced a new retail format into the booming retail market of the PRC. In total, Shanghai Dia established 40 discount stores in Shanghai during the year.

Recent development of other business

During the year under review, the Company dedicated much efforts in expansion through mergers and acquisitions. In order to obtain controlling stake in Hangzhou Lianhua Huashang which the Company acquired in 2002, the Company further increased its equity interest to 74.5%. Through development, integration and enhancement, turnover and profit attributable to shareholders of Hangzhou Lianhua Huashang were approximately RMB2,476,000,000 and RMB39,482,000 respectively for the year under review. This further strengthened the Group's leading position in the region and also demonstrated the Company's success in mergers and acquisitions, posting promising prospects for future mergers and acquisitions.

Apart from the retail chain business, the Group also proactively pursue for business opportunities that can create synergy with its existing retail business. The Group reached agreement with Japan Izumiya Co., Ltd. in Japan, an integrated retail chain operator based in Japan, to jointly develop products that cater to the consumer needs of each party. These products will be distributed in China and Japan under the brand names of Lianhua and Izumiya respectively. In addition, the Group also cooperated with Trading Zhou (Group) S.R.L. of Italy and Hui Feng Handles G.M.B.H. of Austria to jointly develop distribution business in Europe. As at the end of 2003, the business operation was under the stage of preparation.

Business Analysis

In 2003, the business of the Group achieved satisfactory growth mainly due to the strategical missions "development, transformation and enhancement" set at the beginning of the year. The major measures of the Group on operations include:

- **Increased capability of sustainable development**

  The Group adopted the expansion strategy for sustainable development and successfully completed the framework of a nationwide retail network. It attained leading market position in key regions and made a balance between development pace and profitability.

- **Strengthened integration and achieve economies of scale**

  The Group integrated the resources from suppliers across the nation to reduce procurement cost of products. It also integrated the information management system for sharing data within the Group. In addition, it centralized procurement of assets and reduced the investment cost of its outlets.

- **Reinforced internal management and increased profitability**

  Under a comprehensive budget management, the Group further strengthened its cost control by KPI (key performance indicators). Meanwhile, the Group also enhanced training for staff and managers to meet the demands for Lianhua Supermarket's nationwide expansion.

Liquidity and financial resource

The Group's source of funds in 2003 was mainly derived from operating income in cash and proceeds from its

Listing. As at 31 December 2003, the Group had non-current assets of approximately RMB2,101,200,000. Such non-current assets comprised projects under construction and fixed assets of approximately RMB1,687,410,000, intangible assets of approximately RMB94,970,000, investment in associated companies of approximately RMB279,510,000, long-term investment and other non-current assets of approximately RMB39,310,000. The net proceeds obtained by the Group in the public offer was about HK$615,120,000.

As at 31 December 2003, the Group had net current liabilities of about approximately RMB557,690,000. Current assets of the Group mainly comprised cash and bank deposits of approximately RMB758,150,000, inventory of approximately RMB906,530,000, receivable and prepayment account of approximately RMB155,170,000, the receivable account from associates company was approximately RMB137,450,000. Current liabilities of the Group mainly comprised unsecured short-term bank loan of approximately RMB208,000,000 (including notes payable of approximately RMB138,000,000), account payable and accruals of approximately RMB2,255,340,000 and taxes payable of approximately RMB39,290,000.

Turnover of the Group's payable accounts for the year ended 31 December 2003 was 59 days, which was increased from 57 days for the year ended 31 December 2002. Turnover of inventory for the period reduced from 33 days for the year ended 31 December 2002 to 30 days for the year ended 31 December 2003.

The Company allocated the uncommitted capital for two short-term investments on trust. The amount of each investment was approximately RMB50,000,000. As at 31 December 2003, all investment amounts on trust was recovered, generating gains of approximately RMB1,625,000.

During the year under review, the Group did not use any financial instrument as tool to hedge risk. As at 31 December 2003, there was no financial instrument issued by the Group which was outstanding for value arbitraging.

Capital Structure

As at 31 December 2003, the Group's borrowings were mainly settled in Renminibi, whilst its cash equivalent was mainly held in Renminbi.

It is the Group's plan to maintain a ratio of equity and debt as appropriate to assure that it has an effective capital structure from time to time. As at 31 December 2003, approximately RMB208,000,000 of the Group's short-term borrowings were outstanding and the Group's gearing ratio was 5.12% (total loans/total assets). All bank borrowings bore fixed interest rate. The outstanding banking facility of the Group was approximately RMB1,002,000,000.

During the year under review, the Group's shareholder's equity increased from approximately RMB587,110,000 to approximately RMB1,279,190,000.

Details on the pledge of the Group's assets

As at the date hereof, no assets were pledged by the Group.

Foreign exchange exposure

The Group's revenue and expenditure were mostly denominated in Renminbi. During the year under review, the Group did not suffer from any difficulty as a result of foreign exchange exposure or its operation or working capital and became affected as a consequence. The directors of the Company believe that the Group will have sufficient foreign exchange to meet with its foreign exchange requirements.

Employment, training and development

As at 31 December 2003, the Group had 26,346 employees, representing an increase of 4,584 employees from that of 31 December 2002, and incurred expenses of approximately RMB507,740,000 in total.

Apart from basic salaries, welfare, allowance and performance bonus, the full-time employees are also entitled to dormitory allowance, medical subsidies and other subsidies. In addition, the Group will contribute to retirement plan as prescribed by the government. Contributions to such plan were made by the Group and employees on a monthly basis in accordance with certain percentage of the employee's salary. Furthermore, the Group will continue to provide training for employees so as to improve their retailing skills and product expertise as well as their understanding to quality standard prevailing in the retail industry.

Use of proceeds

The net proceeds raised by the Company from the placing and public offer of H Shares amounted to about HK$615,120,000, after the exercise of the over-allotment option. Net proceeds were applied in accordance with the plans as set out in the prospectus.

Use of proceeds	Actual use in 2003 (RMB million)	Percentage of usage in 2003
Approximately RMB140 million to invest in the network expansion of the hypermarket business of the Group	127.24	90.89
Approximately RMB80 million to invest in the network expansion of the convenience store business of the Group	75.20	94.00
Approximately RMB50 million to establish inter-regional management information system for the Group	35.04	70.08
Approximately RMB180 million to establish logistics and distribution centres to complement the Group's retain chain business	18.99	10.55
Working capital	202.96	100

Major acquisitions and disposals

In January 2003, the Group and the then existing shareholders of Hangzhou Lianhua Huashang entered into an agreement. Pursuant to the agreement, the 24.5% shareholding of Hangzhou Lianhua Huashang was acquired for a consideration of RMB135,240,000. Upon the acquisition, the Company's equity in Hangzhou Lianhua Huashang has increased to 74.5%. This information has been disclosed in the Company's prospectus.

Contingent liabilities

As at 31 December, 2003, the Group did not have any significant contingent liability.

STRATEGIES AND PLANS

After careful and comprehensive discussions, the directors and management of the Company believed that the PRC economy will continue to post steady growth. The directors of the Company believe that the macroeconomic factors will continue to benefit the growth of Lianhua Supermarket. Such factors include accelerating urbanization in the PRC, improving living standard, increasing demand for a convenient, hygienic and comfortable lifestyle by PRC citizens as well as continuous economic growth momentum fuelled by the opening up of the economy.

By capitalizing on its competitive edge in operation, including internationalized management standard, in-depth understanding of the local consumption pattern, state-of-the-art supply chain management system and improving economies of scale, it is expected that the Group will stay at the forefront in the rapidly growing market in the PRC.

Under the PRC market with vast development potentials, the Group will continue to expand its market share in the PRC, and improve the Group's outlets coverage in key areas. Through expansion strategies including collaboration, merger and acquisition, the Group will further consolidate its leading position as the largest and most widely covered retail chain operator to achieve higher returns.

In the coming year, Lianhua Supermarket will outline its plan in nationwide logistics construction, strengthen the logistics and distribution management, improve logistics technology, and optimize its supply chain system in accordance to its business development. The Group will further integrate and improve its management information system. It will also strengthen the functional analysis on business information so as to improve the Group's market responsiveness and to understand the demand of customers accurately.

The Group's successful Listing last year also laid a strong foundation to its business development. In 2004, we aim to "expand sales", "reduce costs" and "increase efficiency" by the adoption of the core strategies of "development, transformation and improvement". We have introduced key performance indicators and will match our standard with that of other international operators. The Group firmly believes that its various operational indicators will improve significantly in future. On the other hand, the Group intends to reduce operational costs by further improving the operation flow.

Upon the completion of basic network expansion in the nation, the Group will improve its nationwide procurement to cater for needs of various investors. At the same time, the Group will leverage on the economies of scale of the existing network of outlets and strengthen the development of its own brand products.

In order to achieve better performance, the Group's management together with a strong team of employees across the country will devote full efforts to achieve success. The Group will proactively implement measures to motivate its staff, and foster an equilibrium between the interests of the management and investors. Faced with the promising prospects as well as challenges, the Group is committed to create maximum value for its staff, business partners and consumers and to bring satisfactory return to its shareholders.

EXECUTIVE DIRECTORS

Wang Zong-nan

Mr. Wang Zong-nan, 49, a senior economist, is the chairman of the Company and the president and executive director of Shanghai Bailian. Mr. Wang is responsible for the overall management of the Group's operations and the formulation of business strategies of the Group. Mr. Wang studied education of politics at Shanghai Teachers' University in 1985, and studied law at East China University of Politics and Law in 1986. Mr. Wang attended a graduate program in international economics at East China Normal University in 1997. Mr. Wang previously worked in the Commercial Committee of Huangpu District of Shanghai（上海市黃浦區商業委員會）, the People's Government of Huangpu District of Shanghai（上海市黃浦區人民政府）and Shanghai D&F Commercial Society. Mr. Wang joined the Group in January 1996. From 1996, he held the position of the chairman of the Company. In 1997, he was appointed as a director and the general manager of Shanghai Friendship Group and in 2000, he was appointed as the chairman of Shanghai Friendship Stock Company. From 1996 to 1997, Mr. Wang received the Eminent Entrepreneur of Shanghai（上海市優秀企業家）award from the Shanghai Commercial Enterprise Management Association for two consecutive years. In 2002, Mr. Wang was also awarded the Outstanding Performance Award in the PRC Retail Industry（中國連鎖業突出成就獎）by China Chainstore & Franchise Association, and the Pioneer Entrepreneur Award in the PRC Commercial Society（中國商業創業企業家）by China Commercial Enterprise Management Association. In 2003, Mr. Wang was awarded the Top Ten Persons for Mergers and Acquisitions Award in China（中國十大併購人物獎）by the Global Mergers and Acquisitions Research Centre. He was named as one of the Top Ten Influential Persons of the Retail Industry in China（中國零售業十大風雲人物）by the PRC Retail Industry Fair in 2003. He was also named as one of the Top Ten Managers Against Difficult Times （十大逆勢而上經理人）by "China Business Post", "World Executives" and "finance.sina.com" and one of the Top Ten Outstanding Business Executive Leaders （中國十位最有價值的卓越商業領袖）by the business sector of "Manager" in the PRC. In 2004, he was awarded the Mundell World Executive Honorable Prize of 2003 / 2004 by the "World Executive Magazine" and the World Executive website.

Liang Wei

Mr. Liang Wei, 53, a senior economist, is the general manager of the Company. Mr. Liang is responsible for the management of the Group's operations. He graduated from Heilongjiang Business School（黑龍江商學院）in 1982 with a Bachelor's degree in business and economics. From 1982 to 1992, he worked in Shanghai Textile Company（上海紡織品公司）as a section chief and was responsible for business planning. Mr. Liang joined the Group in November 1994. From 1992 to 1994, he worked in United Trading as a manager and was responsible for foreign trade business. From 1994 to 1997, he was the deputy general manager of the Company, and since 2000, he has been the general manager of the Company. Mr. Liang has over 20 years' experience in managing different aspects of commercial enterprises.

Xu Ling-ling

Ms. Xu Ling-ling, 45, a senior certified public accountant and member of the International Institute of Certified Internal Auditors, is the chief financial officer of the Company. She is responsible for the overall financial management of the Group. Ms. Xu graduated from Shanghai Lixin Accounting Institute(上海立信會計學院）in 1987 with a Bachelor's degree in accounting. She graduated from the graduate school of the Shanghai Academy of Social Science in 2001, majoring in business administration. From 1975 to 1983, Ms. Xu was a supervisor in the second branch of Shanghai Huangpu Tobacco and Wines Company Limited（上海黃浦煙酒公司）, and from 1983 to 1996, she was the head of the finance department of Shanghai Wangbaohe Corporation Tongyuan Company(上海王寶和總公司同緣公司). She joined the Company in June 1996 as a manager of the audit division and was promoted to the chief financial officer in 1997, responsible for the Group's finance, auditing, statistics and investment. Ms. Xu has more than 21 years' experience in the finance and management of companies in the consumer industry.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS

Lu Ming-fang

Mr. Lu Ming-fang, 46, a senior economist, is the deputy chairman of the Company. Mr. Lu graduated from Fudan University in 1996 with a Master's degree in economics majoring in enterprise management. Prior to joining the Group in April 1997, Mr. Lu worked in Shanghai Medicine Material Company（上海市藥材公司）, Shanghai Municipal Medicines and Drugs Administrative Bureau(上海市醫藥管理局), Wenhui Daily Newspaper（文滙報社）, and Shanghai Wanguo Securities Company（上海萬國證券公司）(currently known as Shenyin Wanguo Securities Company Limited). In July 1995, he worked in Shanghai Industrial Investment (Holdings) Company Limited in Hong Kong. Between 1995 and 2001, he was the deputy general manager of SIAMCL, managing director of Shanghai Industrial United and assistant president and general manager of planning and finance division of Shanghai Industrial Investment (Holdings) Company Limited. From January 2002, he has held the position of vice president of Shanghai Industrial (Group) Company Limited and executive director and chief executive officer of Shanghai Industrial Holdings Limited and the chairman of SIIC Medical Science and Technology (Group) Ltd.

Hua Guo-ping

Mr. Hua Guo-ping, 41, graduated from Tongji University in 1986 with a Bachelor's degree in electrical appliances automation. In 1989, he graduated from Tongji University with a Master's degree in industrial enterprise engineering management. Mr. Hua is the deputy general manager of Shanghai Industrial United and also the general manager of Shanghai Industrial Commercial Network. Between 1993 and 1997, Mr. Hua worked for Hong Kong Tak Shun Investment Consultancy Company Limited（香港德信投資諮詢公司）, Shanghai Pudong State-owned Assets Investment Management Co. Ltd. （上海浦東國有資產投資管理公司）and Shanghai Dong Shen Economic Development Co. Ltd. （上海東申經濟發展有限公司）. From 1997 to 1999, he worked for SIAMCL as deputy general manager. From 2001, he has been the managing director of Shanghai Industrial Commercial Network. He joined the Group in May 2000. Mr. Hua was appointed as the deputy manager of the Company in August 2003.

Tsunao Kijima

Mr. Tsunao Kijima, 56, graduated from Keio University（慶應義塾大學)in Japan in 1971 with a Bachelor's degree majoring in economics. He joined Mitsubishi Corporation in 1971 and has been working in the food products sector. He is an executive officer of Mitsubishi Corporation and the department head of the food products division. Mr. Kijima joined the Group in April 1997, and he has over 30 years experience in food industry.

Wong Tak Hung

Mr. Wong Tak Hung, 51, is the president of Wong Sun Hing. From 1970 to 1978, Mr. Wong was the manager of Sun Hing Textile Factory（新興毛紡織造廠）, and from 1978 to 1990, Mr. Wong was the managing director of Wong Sun Hing Limited Company（王新興有限公司）. Since 1990, he has been the president of Wong Sun Hing Group. Mr. Wong joined the Group in April 1997, and he has over 30 years of business experience.

Zhu Jia-liu

Mr. Zhu Jia-liu, 58, a senior economist, is a director of Shanghai Friendship Stock Company and deputy general manager of Supermarket Operation Department of Shanghai Bailian (Group) Company Limited. Mr. Zhu completed a part-time postgraduate programme at Shanghai University of Finance & Economics（上海財經大學）in 1996, graduating with a major in business and economics. Between 1962 and 1997, Mr. Zhu worked in Huangpu Textile Company（黃浦區紡織品公司）, Commercial Committee of Huangpu District Government（黃浦區政府商業委員會）, New World Group Holdings Limited（新世界控股（集團）公司）and Shanghai D&F Commercial Society. Mr. Zhu joined the Group in April 1997, and he was appointed general manager of Supermarket Operation Department of Shanghai Bailian (Group) Company Limited in 2003.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Lee Kwok Ming, Don

Mr. Lee Kwok Ming, Don, aged 46, is a consultant to Tom. com Limited (''Tom. com ''), a company listed on the Growth Enterprise Market of the Stock Exchange. Prior to this, Mr. Lee was the chief financial officer and an executive director of Tom. com, and was previously the chief financial officer of T Holdings Limited, an incubator company for technology-related projects, whose shareholders include Cheung Kong (Holdings) Limited, Hutchison Whampoa Limited and Cranwood Company Limited. Prior to joining T Holdings Limited, he was the former chief financial officer, company secretary and executive vice president of Guangdong Kelon Electrical Holdings Company Ltd. He is a fellow of the Hong Kong Society of Accountants, an associate of the Chartered Institute of Management Accountants in the United Kingdom, and an associate of the Institute of Certified Management Accountants in Australia. He holds a Master of Science degree in business administration from the University of Bath. Mr. Lee has more than 21 years of financial management experience and extensive experience in mergers and acquisitions, as well as corporate finance. He joined the Group in May 2003.

Zhang Huiming

Professor Zhang Huiming, 47, is the head of the enterprise research institute at Fudan University and the vice chairman of the Shanghai Economic Restructuring Research Committee. Professor Zhang graduated from Fudan University with a Bachelor's degree in economics in 1982, a master's degree in economics in 1985, and a doctorate in economics in 1995. He began teaching at Fudan University in 1984 and he was promoted to the position of Professor in 1996. Since 1997, he has been a lecturer for the doctorate programme on enterprise theory and practice. Professor Zhang has published six books and over 200 research papers in various national magazines. He is an independent director of Shanghai New Huangpu Property Company Limited（上海新黃浦置業股份有限公司）. He joined the Group in January 2003.

SUPERVISORS

Wang Long-sheng

Mr. Wang Long-sheng, 51, a senior economist, graduated from Shanghai East China Normal University in 1998 in decision-making management. Between 1986 and 2001, Mr. Wang worked in the senior management of Shanghai Friendship Antique & Curio Store（上海友誼古玩商店）, Shanghai Hongqiao Friendship Shopping Centre, Shanghai Friendship Overseas Chinese Joint Stock Company Limited, China Tour Souvenir Head Company, Shanghai Friendship Group Decoration Company（上海友誼集團裝潢總滙）and Homemart Decoration Materials Company Limited. Mr. Wang was appointed as a standing deputy general manager of Shanghai Friendship Stock Company in February 2001. Mr. Wang was then appointed as a director of Shanghai Joint Stock Company and Securities Research Society（上海股份制與證券研究會）in March 2001. He joined the Group in December 2001.

Shi Zu-qi

Mr. Shi Zu-qi, 28, graduated from Fudan University in 1997 with a Bachelor's degree majoring in corporate management. From July 1997 to March 1998, he worked in the asset management department of SIAMCL. Since August 1998, Mr. Shi has been the secretary for the board of directors of Shanghai Industry United, and since June 2002, Mr. Shi has been the assistant general manager of Shanghai Industrial United. He joined the Group in December 2001.

Zhang Zeng-yong

Mr. Zhang Zeng-yong, 54, is a deputy secretary of the party committee and the chairman of the labour union of the Company. Mr. Zhang graduated from China Labour College in 1984, where he majored in labour movement foundation studies. He also graduated from the Graduate School of the Shanghai Academy of Social Sciences with a Master's degree in business administration. Mr. Zheng has been vice president of the labour union of the previous Commerce Second Department of Shanghai Municipal from 1979 to 1992, and then the president of the labour union of Shanghai D&F Commercial Society from 1992 to 1997. Since November 1997, Mr. Zhang has been serving as a deputy secretary of the party committee of the Company.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

JOINT COMPANY SECRETARIES

Wang Jian

Mr. Wang Jian, 36, is a joint company secretary of the Company. Mr. Wang graduated from Shanghai University in 1989 with a Bachelor's degree in laws and was awarded the Enterprise Legal Adviser Practice Certificate of the PRC (全國企業法律顧問職業證書)by the State Economic and Trade Commission of the PRC（中華人民共和國國家經濟貿易委員會）. Mr. Wang has extensive experience in commercial trading and in the retail industry. Mr. Wang joined the Company in October 1996 as a store manager and was appointed as the in-house legal counsel of the Company in October 1998. In December 2001, Mr. Wang was further appointed as the Company Secretary of the Company.

Chung Ying Jye, Andrew

Mr. Chung Ying Jye, Andrew, 39, is a joint company secretary of the Company. He is a qualified solicitor in Hong Kong. He graduated from King's College, University of London with a Bachelor of Laws degree in 1988. In 1994, he obtained his Postgraduate Certificate in Laws from the University of Hong Kong. In 1997, he obtained his practising certificate as a solicitor in Hong Kong and joined the Hong Kong office of Messrs. Simmons & Simmons, an international law firm. He was appointed as the joint company secretary of the Company in May 2003.

SENIOR MANAGEMENT

Zhao A-long

Mr. Zhao A-long, 60, is a deputy general manager of the Company. He is responsible for the planning and development of the Group, and the operation and management of the Group's distribution business. Mr. Zhao has over 31 years' experience in the retail industry. He joined the Group in 1994 and served as an assistant to the general manager of the Company and was later promoted to a deputy general manager in 1995. From 1997 to 2002, he held the position of general manager of Lianhua Quik. From 2002, he has been responsible for operating and management of the distribution business.

Cai Li-ren

Mr. Cai Li-ren, 55, a senior economist, is a deputy general manager of the Company and also general manager of Lianhua Quik. He is responsible for the operation and management of the Group's convenience store business. Mr. Cai graduated from Shanghai Teachers' University Night Division（上海師範大學夜大學）in 1987, with a Bachelor's degree majoring in mathematics management. Mr. Cai has over 31 years' experience in the retail industry. He joined the Company in 1992 as a retail outlet development manager. He has been the general manager of Lianhua Quik since 2002.

Fang Jin-ping

Ms. Fang Jin-ping, 47, is a deputy general manager and the division chief of the asset management division of the Company. She is responsible for the Group's asset management. Ms. Fang graduated from Shanghai Television University（上海電視大學）in 1990, with adegreein corporate management. She also studied at the Graduate School of Shanghai Academy of Social Sciences majoring in business administration. Ms. Fang has over 21 years' experience in commercial trading and retail industry. Ms. Fang joined the Group in 1992 and was promoted as the assistant to the general manager of the sales planning division of the Group in 1996. She was later promoted to a deputy general manager of the Group in 1997, and was responsible for the merchandise management division and live and fresh produce management division. From 1998 to March 2003, Ms. Fang was responsible for the operation and management of the Group's supermarket business. In March 2003, Ms. Fang was appointed the chief of the asset management division of the Company. Ms. Fang has been accredited as Quality Officer of Shanghai(上海市質量標兵)in 1997 and Labour Model of Shanghai（上海市勞動模範）in 1997.

Jin Guang-wei

Mr. Jin Guang-wei, 49, a senior economist, is a deputy general manager of the Company. Mr. Jin has extensive experience in the retail industry. He is responsible for the merchandise management division and the management of live and fresh produce. Mr. Jin graduated from the Graduate School of East China Normal University in 1997, where he majored in international corporate management. He joined the Group in 1998 as a division chief of the live and fresh produce management division of the Group. He was then promoted to a deputy general manager of the Company in 2000.

Shi Wei

Mr. Shi Wei, 49 , is a deputy general manager of the Company and the division chief of the franchise management division of the Group. He is responsible for the management of the Group's franchise stores operations. Mr. Shi graduated from Shanghai Second Polytechnic University in 1993, with a Bachelor's degree majoring in management engineering trading specialisation studies. Mr. Shi has over 1 years' experience in commercial trading. Between 1996 and 1999, he worked for Shanghai Friendship Group as a deputy supervisor of the general manager's office and later as a deputy head of personnel department and the supervisor of information technology centre. Mr. Shi joined the Company in 1999, as an assistant to the general manager. He was later appointed as a deputy general manager of the Company and as a division chief of the franchise management division in 2001.

Zhang Lin-lin

Ms. Zhang Lin-lin, 34, is a deputy general manager of the Company and the general manager of Century Lianhua. She is responsible for the operation and management of the Group's hypermarket business. Ms. Zhang graduated from East China Normal University in 1993 with a Bachelor's degree in French Literature. Ms. Zhang has extensive experience in the retail industry. Between 1994 and 2001, she worked in Carrefour's Shanghai Office as an assistant, and as an assistant to the general manager and development manager of Shanghai Carhua and Carrefour Eastern China Division. She also worked in Carrefour (China) Consultancy Company Limited（家樂福（中國）諮詢有限公司）as a development manager during such period. She joined the Group in 2001 and was as a deputy general manager of the Company.

Cai Lan-ying

Ms. Cai Lan-ying, 51, a senior economist, is a deputy general manager of the Company and the chairman of Hangzhou Lianhua Huashang, fully responsible for the overall management of the Group's operations in Zhejiang province. Ms. Cai graduated from Hangzhou Commerce Technical College（杭州商業技工學校）with a diploma in non-staple goods studies in 1969 and studied economics at Central Party Correspondence School. Ms. Cai has more than 35 years' experience in the retail industry. She was a founding member of Hangzhou Huashang Group Co. Ltd. and assumed the post of general manager. She was appointed as the Chairman of Hangzhou Lianhua Huashang in July 2001. Ms. Cai was awarded the "Zhejiang Outstanding Entrepreneur" in 1990.

Dao Shu-rong

Mr. Dao Shu-rong, 49, a senior economist, is the chief of the human resources management of the Company. He is responsible for the management of the Group's human resources. He graduated from the Shanghai Television University(上海電視大學)in 1986, majoring in corporate management and from the Graduate School of Shanghai Academy of Social Sciences in 2001, where he majored in business administration. Mr. Dao has more than 29 years' experience in business and human resources administration. In 1996, he worked as the deputy manager of the human resources division of (內外聯商社). Mr. Dao joined the Company in 1997 and was later promoted to an assistant to the general manager in 1999. He was appointed as the division chief of the human resources division of the Company in 2001.

Jiang Xiao-fei

Mr. Jiang Xiao-fei, 33, is the assistant to the general manager of the Company. He is responsible for the development of the retail outlets of the Group. Mr. Jiang graduated from Shanghai University of Finance & Economics with a Bachelor's degree in corporate management in 1993 and with a Master's degree in international corporate management in 1996. Between 1996 and 2001, Mr. Jiang worked as the assistant to the chief of the investment division, the supervisor assistant to the General Manager Office of Shanghai Friendship Group and a development manager of Carrefour Eastern China Division. Mr. Jiang joined the Company in 2001 and was appointed as the assistant to the general manager of the Company.

Chen Shuang

Ms. Chen Shuang, 35, is the chief of information technology of the Company. She is responsible for the management of the Group's information system. Ms. Chen graduated from Tsinghua University in 1991 with a Bachelor's degree, double-majoring in automation control and public economic management. Between 1991 and 2001, Ms. Chen worked in Legend Integrated Systems Limited (聯想集團集成系統有限公司) as an engineer and business representative, in IBM China Company Limited (IBM中國公司) as a manager of the merchandise sales department in the PRC, and in Beijing Network Commerce World Technology Company Limited (北京網商世界技術有限公司) as a vice president. She joined the Company in 2001 and was appointed as the chief of the information technology division of the Company.

Zhang Guo-hong

Mr. Zhang Guo-hong, 32, is the assistant to the general manager of the Company and is responsible for the Group's supermarket operations in the Shanghai area. Mr. Zhang graduated from the Shanghai University of Finance & Economics with a Master's degree in international trading management in 1999. Mr. Zhang has extensive experience in commercial trading and in the retail industry. He was appointed as the assistant to the general manager of the Company in October 2002.

The Board presents to the shareholders their report together with the audited financial statements of the Group for the year ended 31 December 2003.

The issue and listing of Shares

The Company listed its H Shares on the main board of the SEHK on 27 June 2003 and offered 172,500,000 H Shares (including the over-allotment option for the issue of 22,500,000 H Shares granted to BNP Paribas Peregrine Capital Limited by the Company) by means of public offer in Hong Kong (the "Public Offer") and international placing (the "Placing") (the "Listing") at an issue price of HK$3.875 per Share.

The performance of H Shares in 2003:

Highest trading price per H Share	HK$8.9
Lowest trading price per H Share	HK$4.05
Total turnover volume of H shares	378,000,000 Shares
Closing price per H Share on 31 December 2003	HK$8.2

Accounts

The audited results of the Company for the year ended 31 December 2003 are set out in the Profit and Loss Accounts on page 36 of this annual report.

The financial conditions of the Company as at 31 December 2003 are set out in the Balance Sheets on page 37 of this annual report.

The cash flows of the Company for the year ended 31 December 2003 are set out in the Cash Flow Statements on page 40 of this annual report.

Principal Activities

The principal activities of the Company are operating hypermarkets, supermarkets and convenience stores in the PRC, a majority of which are operated under the brands of "Century mart", "Lianhua supermarkets" and "Lianhua Quik convenience stores" respectively.

Percentages of purchases and sales accounted for by the major customers and suppliers of the Company during the year are as follows:

	2003 %	2002 %
Purchases		
Largest supplier	**3.66**	2.92
Five largest suppliers	**7.70**	6.80
Sales		
The largest customer	**8.51**	3.19
Five largest customers	**12.68**	4.84

To the best of the directors' knowledge, apart from Century Lianhua and Lianhua E-Business, neither the directors, the supervisors, their associates, nor any shareholders owned 5% or more of the share capital of the above customers of the Company of any time within the year ended 31 Decebmer 2003.

Subsidiaries and associates

As at 31 December 2003, the Company's principal subsidiaries are Lianhua Quik convenience stores, Hangzhou Lianhua Huashang, Lianhua Supermarket Jiangsu Co., Ltd, Lianhua Distribution, Shanghai Lianhua Live and Fresh Produce Processing and Distribution Centre Co., Ltd.

As at 31 December 2003, the Company's principal associated companies are Shanghai Carhua, Shanghai Dia, Lianhua Retail Co., Ltd, Lianhua E-Business, Century Lianhua.

Please refer to note 39 to the financial statements in this annual report for the particulars of certain major subsidiaries and associates of the Company.

Profit appropriation

In accordance with the relevant requirements and the Company's actual circumstances, the Board held a meeting on 1 April 2004 to prepare the profit appropriation plan of the Company for 2003 as follows:

In accordance with the statutory financial statements of 2003 audited by Shanghai Certified Public Accountants, the profit after taxation of the Company in 2003 was approximately RMB164,110,000. In the Group's consolidated financial statement statutory common reserve fund of approximately RMB23,537,000 and statutory common welfare fund of RMB12,334,000 were appropriated respectively (in which RMB16,411,000 and RMB8,206,000 were appropriated for parent company and RMB7,126,000 and RMB4,128,000 were appropriated for subsidiaries). With the undistributed profit of RMB9,233,000 at the beginning of the year added, the profit attributable to shareholders was approximately RMB137,473,000 as at 31 December 2003.

Pursuant to the accounts of 2003 audited by PricewaterhouseCoopers in accordance with Hong Kong accounting principles, the profit attributed to shareholders in the Group's consolidated financial statement was approximately RMB163,623,000. The undistributed profit at the beginning of the year was approximately RMB793,500,000. After appropriation of statutory common reserve fund of RMB23,537,000 and statutory common welfare fund of approximately RMB12,334,000, the profit attributable to shareholders was approximately RMB135,687,000.

Pursuant to the relevant regulations, the Company should adopt the lower of the two figures in terms of its distributable profits. Therefore, the distributable profit of the Company for the year 2003 was approximately RMB135,687,000. The Board recommended a final dividend of RMB0.08 per ordinary share. The total dividend distributed will be approximately RMB47,000,000. The balance of unallocated profit of RMB88,687,000 will be brought forward to next year. The profit distribution proposal will be put forward to the shareholders' general meeting of 2003 for approval by way of an ordinary resolution.

Dividend

The Board passed a resolution to distribute a final dividend of RMB0.08 per ordinary share. The distribution proposal will be implemented subject to consideration and approval in the Company's annual general meeting of 2003. The dividend will be distributed to the shareholders whose names appear on the Company's Register of Members on Friday, 16 April 2004. The H Shares register of the Company will be closed from Saturday, 17 April 2004 to Tuesday, 18 May 2004 (both days inclusive), during which no transfer of H Shares will be effected. In order to vote at the Annual General Meeting and to qualify for the final dividend, persons holding the H Shares shall lodge share transfer documents and the relevant share certificates 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 4:00 p.m. on Friday, 16 April 2004.

The dividends to be distributed will be denominated and declared in Renminbi. It will be distributed to the domestic shareholders in terms of Renminbi, to the holders of non-listed foreign shares in terms of relevant foreign currencies and to the holders of H Shares in terms of 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 a week prior to the dividend distribution date.

Reserves

The movements in the reserves during the year are set out in note 33 to the financial statements of this annual report.

Properties and equipment

The movements in the properties, plants and equipment during the year are set out in note 14 to the financial statements of this annual report.

Share Capital

Classes of shares	Number of issued shares	Percentage
Domestic Shares	355,543,000	60.52
Unlisted Foreign Shares	59,457,000	10.12
H Shares	172,500,000	29.36
Total	587,500,000	100.00

The legal status of Unlisted Foreign Shares

The summary on legal opinion given by Grandall Legal Group on the rights attached to Unlisted Foreign Shares is set out as follows:

Although the Mandatory Provisions for Articles of Association of Companies to be Listed Overseas (the "Mandatory Provisions") provide for the definitions of "domestic shares", "foreign shares" and "overseas listed foreign shares" (which definitions have been adopted in the articles of association of the Company (the "Articles of Association")), the rights attached to the Unlisted Foreign Shares (which are subject to certain restrictions on transfer as referred to the Prospectus and may become H Shares upon obtaining the requisite approvals from, among other bodies, the China Securities Regulatory Commission (the "CSRC") and the SEHK) are not expressly provided for under the existing PRC laws or regulations. However, the creation by the Company and the subsistence of the Unlisted Foreign Shares do not contravene any PRC laws or regulations.

At present, there are no clear applicable PRC laws and regulations governing the rights attached to the Unlisted Foreign Shares. The Company's PRC legal counsel advises that until new laws or regulations are introduced in this aspect, the holders of the Unlisted Foreign Shares will be treated as if they are in the same class as the holders of the Domestic Shares (in particular, in respect of the rights to attend and vote at general meetings and class meetings and to receive notice of such meetings in the same manner as the holders of the Domestic Shares), except that the holders of the Unlisted Foreign Shares enjoy the following rights to which the holders of the Domestic Shares are not entitled:

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

(b) in the event of the winding up of the Company, to remit their respective shares of the remaining assets (if any) of the Company out of the PRC in accordance with the applicable foreign exchange control laws and regulations in the PRC.

No provision is made for the settlement of disputes between the holders of the Unlisted Foreign Shares and the holders of the Domestic Shares in the Mandatory Provisions nor in the Articles of Association. According to the PRC laws, in the case of disputes between the holders of the Unlisted Foreign Shares and the holders of the Domestic Shares, if there is no settlement after negotiation or mediation, either party could choose an arbitration commission in the PRC or any other arbitration commission to conduct arbitration for dispute resolution pursuant to a written arbitration agreement; if there is no prior arbitration agreement and the parties are not able to reach an agreement to arbitrate their disputes, either party could bring suit in the PRC courts with competent jurisdiction.

According to the requirements under Clause 163 of the Mandatory Provisions and Clause 194 of the Articles of Association, in general, disputes between the holders of the H Shares and the holders of the Domestic Shares are required to be settled through arbitration. Such dispute resolution requirements are equally applicable to disputes between the holders of the H Shares and the holders of the Unlisted Foreign Shares.

As advised by Grandall Legal Group, the following conditions must be satisfied before the Unlisted Foreign Shares can be converted into new H Shares:

(a) the expiry of a period of three years from the date on which the Company was converted from a limited company into a joint stock limited company;

(b) the approvals from the original approval authority or authorities in the PRC for the establishment of the Company being obtained by the holders of the Unlisted Foreign Shares for the conversion of the Unlisted Foreign Shares into H Shares after the expiry of the three-year restriction period for any transfer of the Unlisted Foreign Shares (in the case of the Company,the three-year restriction period will end on 18 December, 2004 as prescribed by Article 147 of the Company Law of the PRC);

(c) the approval from the CSRC being obtained by the Company for the conversion of the Unlisted Foreign Shares into new H Shares;

(d) approval being granted by the SEHK for listing of and permission to deal in the new H Shares converted from the Unlisted Foreign Shares;

(e) approval being granted by the shareholders of the Company at a general meeting and the holders of the H Shares, the Domestic Shares and the Unlisted Foreign Shares at their respective class meetings to authorise the conversion of the Unlisted Foreign Shares into new H Shares in accordance with the Articles of Association; and

(f) full compliance with relevant PRC laws, rules, regulations and policies governing companies incorporated in the PRC which seek permission to list their shares outside the PRC and with the Articles of Association and any agreement among the shareholders of the Company.

When all of the conditions mentioned above and other conditions as may be imposed from time to time by the SEHK have been satisfied, the Unlisted Foreign Shares may be converted into new H Shares.

Shareholding structure

The total number of Shares as at 31 December 2003 was 587,500,000. The shareholders of the Company are Shanghai Friendship (Group) Joint Stock Company Limited, Shanghai Industrial United (Group) Commercial Network Development Company Limited, Mitsubishi Corporation, Wong Sun Hing (Hong Kong) Investment Company Limited, Shanghai Liding Investment Company Limited and overseas holders of H Shares, holding 211,640,000 Shares, 131,683,000 Shares, 41,900,000 Shares, 17,557,000 Shares, 12,220,000 Shares and 172,500,000 Shares, respectively. They account for 36.03%, 22.41%, 7.13%, 2.99, 2.08% and 29.36% of the total share capital of the Company, respectively.

Number of shareholders

As at 31 December 2003, the details of shareholders recorded in the register of the Company are as follows:

Total number of shareholders	41
Holders of Domestic Shares	3
Holders of Unlisted Foreign Shares	2
Holders of H Shares	36

Shareholding of Substantial Shareholders

As at 31 December 2003, Shanghai Friendship (Group) Joint Stock Company, the largest shareholder of the Company, owns 211,640,000 Domestic Shares, which represent 36.03% of the total share capital of the Company. In addition, Shanghai Industrial United (Group) Commercial Network Development Company Limited owns 131,683,000 Domestic Shares, which represent 22.41% of the total share capital of the Company.

Save as aforesaid, the Company has not been informed of any interest and short positions which are required to be disclosed pursuant to the Securities and Futures Ordinance (the "SFO") as at 31 December 2003.

Ultimate Controlling Shareholder

Shanghai Friendship Group, a state-owned enterprise established in the PRC, is the ultimate controlling shareholder of the Company. On 6 April 2003, the Shanghai Municipal Government announced that it would effect the merger of Shanghai Friendship Group, Yibai Group, Hualian Group and Wuzi Group into Shanghai Bailian (Group) Company Limited ("Shanghai Bailian"). The merger aims to facilitate collaboration among these Shanghai retail enterprises so as to enhance their competitiveness in the PRC retail market. During the period under review, Shanghai Bailian has not made any propositions through Shanghai Friendship Group concerning matters related to business cooperation or organisational restructuring to the Company's Board of directors.

Share capital interests attributable to the directors and supervisors

None of the directors, the supervisors or their associates have any interest in the shares and debt securities of the Company or any associated corporation (within the meaning of SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in shares and debentures) or are required, pursuant to section 352 of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of SFO) , or are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

Directors' service contracts

Each of the directors has entered into a service contract with the Company for a term starting from 27 June 2003 to 17 December 2004.

Directors' and supervisors' interests in contracts

No contracts of significance to which the Company or its fellow subsidiaries were a party and in which a director or supervisor had a material interests were subsisted at the end of the year or at any time during the year.

Interest acquired by the directors and supervisors

During the year, the Company or its fellow subsidiaries have not arranged for the directors or supervisors of the Company to acquire for the shares or bonds of the Company.

Highest paid individuals

The highest paid individuals of the Company during the year included the directors and senior management. Details are set out in note 12 to the financial statements in this annual report.

Purchase, sale or redemption of Shares

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

Bank loans, overdrafts and other borrowings

Besides the short-term loans set out in note 30 to the financial statements in this annual report, the Company and its subsidiaries have not borrowed other loans as at 31 December 2003.

Pre-emptive Rights

There are no provisions under the Company's Articles of Association requiring the Company to offer pre-emptive rights of new Shares to its existing shareholders.

Connected Transactions

	Transactions	Amounts (RMB million)
I.	The sales of merchandise with connected parties	2,136.09
	1. Distribution of merchandise to Century Lianhua	790.08
	2. Sales of merchandise to hypermarkets by certain subsidiaries of the Company	935.91
	3. Sales of merchandise to Lianhua Quik	311.07
	4. Sales of merchandise to supermarkets owned by certain subsidiaries of the Company	99.03
II.	Purchase of merchandise from Lianhua Distribution	1,447.16
III.	Management of Century Lianhua	0.96
IV.	Lease of property by the Company to Lianhua Distribution	4.59

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

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

(2) on normal commercial terms (to the extent that there are comparable transactions) or if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms not less favourable to the Group than terms available to or from (as appropriate) independent third parties; and

(3) in accordance with the arrangement on terms that are fair and reasonable and in the interests of the independent shareholders of the Company as a whole;

The auditors of the Company have reviewed the above transactions and provided a letter to the board of directors confirming that the above transactions:

(1) have received the approval of the board of directors;

(2) have been entered into in accordance with the relevant agreement governing the transactions;

(3) are in accordance with the pricing policies as stated in the Company's accounts;

(4) have not exceeded the respective cap (as appropriate).

Significant litigation

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

Retirement schemes

Employees of the Group participate in various pension plans organised by the relevant municipal and provincial governments, to which the Group needs to make monthly contributions. In accordance with the rules and regulations in the PRC, the employees of the Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries during the relevant periods.

Capitalized interests

During the year, there was no capitalized interests of contruction in progress.

Other events

I. The proposed amendments to the Articles of Association

In view of amendments made to the Rules Governing the Listing of Securities on the Stock Exchange of the Hong Kong Limited (the "Listing Rules") effective on 30 January 2004, the following amendments are proposed by the Board made to the Articles of Association of the Company (the "Articles"):

1. The following words be added at the end of the existing Article 78:

   "Where any shareholder is, under the rules governing the listing of securities at the place of listing of the Company, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted."

2. The existing Article 96 Clause 2 be replaced in its entirety by the following Clause :

   "Article 96 Clause 2: The period for lodgment of notices regarding notice to the Company of the intention to propose a person for election as a director, and during which notice to the Company by such person of his willingness to be elected may be given, will commence no earlier than the day after the despatch of the notice of the meeting appointed for such election and end no later than 7 days prior to the date of such meeting."

3. The existing Article 134 Clause 2 shall be replaced in its entirety by the following Clause:

   "Article 134 Clause 2: A director shall not vote on any board resolution approving any contract, transaction or arrangement in which he or any of his associates has a material interest nor shall he be counted in the quorum present at the same board meeting."

II. The Board has accepted the resignation of Mr. Hua Guo-ping as a non-executive director of the Company, which shall become effective from 17 May 2004. The Board has nominated Mr. Shi Zu-qi to be a non-executive director of the Company. A resolution will be put forward to the general meeting for approval.

III. In accordance with nomination by the general manager of the Company, the Board agreed to appoint Mr. Jiang Xiao-fei as the deputy general manager. The Board also accepted the resignation of Mr. Hua Guo-ping as deputy general manager and the resignation of Mr. Zhang Guo-hong as assistant to the general manager.

IV. A resolution was put forward to the shareholders' general meeting to approve the authorization of the board of directors to determine the annual remuneration package and incentive scheme for the directors and supervisors for the year ended 31 December 2003 and beyond. The Remuneration and Appraisal Committee under the Board of Directors will assess the performance of the directors and supervisors of the Company in accordance with the development pace and standard of operations. The salary adjustment of such persons shall not exceed the profit growth rate of the year and the aggregate salaries shall not exceed the 20% of the remuneration package of last year. The management bonus (including subsidies, bonus, etc) shall not exceed 1% of the audited profit after taxation for the year. The relevant adjustment proportion will be determined by the committee and subject to approval from the Board of Directors.

The Code of Best Practice

The Board of directors of the Company is pleased to confirm that the Company has complied with the Code of Best Practice of the Listing Rules for the period under review.

None of the directors is aware of any information that would reasonably indicate that the Company is not or was not for any part of the period under review in compliance with the Code of Best Practice as set out in appendix 14 to the Rules Governing the Listing of Securities of the SEHK.

Auditors

The 2003 financial statements prepared in accordance with the Hong Kong accounting standards have been audited by PricewaterhouseCoopers, the Company's auditor. A resolution will be submitted to the forthcoming annual general meeting of the Company to reappoint PricewaterhouseCoopers as the international auditor of the Company.

By order of the Board
Chairman
Wang Zong-nan

1 April 2004
Shanghai, The PRC

In strict compliance with the laws and regulations required by domestic or foreign securities regulatory organizations, the Company has devoted much efforts to improve corporate governance of the Company since its listing in 2003.

1. The Company currently has ten directors, including two independent directors. The board members have good knowledge of their own duties and obligations and have treated all shareholders equally. They protect the interests of all investors. The Company held the board meetings twice in 2003, which were all, attended by independent directors. The independent directors performed their duties in compliance with relevant laws and regulations, and safeguarded interests of the Company and overall shareholders. The Company will increase the number of independent directors to at least three on or before 30 September 2004.

2. The Company currently has three supervisors. The supervisors diligently perform their duties. They have carried out supervision on the Company's finance and the performance of duties by the directors, managers and senior management in compliance with the laws and regulations.

3. The Company established an audit committee pursuant to a resolution of the board of directors passed in June 2003 in compliance with the Code of Best Practice as set out in appendix 14 to the Listing Rules. The primary duties of the audit committee are to review the financial reporting procedure of the Company. The Company's audit committee consists of two independent non-executive directors of the Company, namely Mr. Lee Kwok Ming, Don, Mr. Zhang Hui-ming and one non-executive director of the Company, Mr. Zhu Jia-liu.

   During the year, the Company's audit committee held two meetings. It reviewed with the management the accounting principles and practices adopted by the Group and discussed the internal controls and financial reports including a review of the condensed interim accounts and annual accounts of the Company prepared under the accounting principles generally accepted in Hong Kong.

   The Company's board has decided to establish professional committees under the board, including (i) a remuneration and appraisal committee to further improve the Company's reward and appraisal system; (ii) a strategic committee to conduct consultation, survey, research and assessment on the Company's future investment strategies, and enhance the Company's core competitiveness; and (iii) a director nomination committee to optimize the composition of the board and the operational management of the Company.

4. The Company places much emphasises on communication with shareholders and investors and improvement in the Company's transparency. The Company has established a website in which investors can enquire about various information including company profile, statutory announcement, management and recent operations. The Company has set up a special department and designated persons to be responsible for the Company's relations with investors and analysts. Since its listing, the Company has met nearly a hundred fund managers and analysts and has handled their inquiries. In compliance with the relevant laws and regulations, the Articles of Association and the Listing Rules, the Company disclosed information in serious, true, accurate, complete and timely manner. At the same time, the Company placed much emphasis in collection and analysis of various comments and recommendations of analysts and investors on the Company's operations, which will be adopted selectively in its operations. For the year 2003, the Company continued to adhere its pragmatic and practical policies in information disclosure to initiate communications with various parties. It particularly held corporate presentation, press conference and one-on-one investor meetings after its interim and annual results announcements and major investment events. To foster better understanding by the fund managers and analysts on the Company's business, the Company also organized reverse roadshow.

CORPORATE GOVERNANCE

The Company commits to implement proper and healthy corporate governance. It was awarded various prizes from internationally renowned institutions in 2003, including:

- two awards including the "Best Small Cap Company" and the "Best Newly Listed Company" under the 12 Annual Best Managed Companies Award issued by the authoritative magazine, "Asia Money"

- the third runners-up of "Best Investor Relations for IPO" in Asia awarded by IR Magazine.

Report of the Supervisory Committee of Lianhua Supermarket Holdings Co., Ltd. for 2003

The Supervisory Committee of this year (the "Supervisory Committee") aims at maximizing the interests of shareholders and achieving a steady and sustained development of the Company. The Supervisory Committee has fully performed its duties upon the resolutions of general meetings, which are in line with the works of the Board and the management. Through the committed efforts of the three Supervisors, the Supervisory Committee has strictly performed its duties, safeguarded the integrity of the Company's properties and finance, and protected the interests of the Company and shareholders.

1. The major tasks of the Supervisory Committee in 2003

Operating results of the Company as a whole continued to increase. All the Company's operating indicators achieved substantial growth. Turnover increased from approximately RMB5,821,000,000 in 2002 to approximately RMB9,282,000,000 in 2003. The profit attributable to shareholders increased from approximately RMB126,600,000 in 2002 to approximately RMB163,620,000 in 2003. On 27 June 2003, the Company successfully listed in Hong Kong. Rapid development in the Company posed new requirements to the Supervisory Committee.

Subject to the continuous development and evolution of the Company, the Supervisory Committee has focused its attention on how to enhance the transparency of the Company's operations and level of standardisation, how to establish the Company's image of integrity in the capital market, in particular, how to adopt effective measures to protect the interests of investors, especially the minority shareholders. Corporate governance structure of the Company will be further upgraded so as to facilitate the conduct of activities and the performance of duties,

The Supervisory Committee has reviewed the financial system, financial reporting and internal auditing systems of the Company, and considered that the information as included in the Company's financial budget, final accounts, annual report, and interim report are true and reliable, and the audit opinion as issued by the Company's accountants are objective and fair.

The Supervisory Committee has conducted supervision on the operating activities of the Company. The Supervisory Committee considered that the Company has established an improved internal control system, and has achieved significant progress in formulating and implementing internal work-flow, effectively contained the various operating risks the enterprise has been subjected to. The Company has performed its activities in accordance with the laws and regulation of the State, the Articles of Association and the work-flow procedures.

The Supervisory Committee has conducted supervision on the due diligence of the Directors, managers and the execution of resolutions in general meetings. The Supervisory Committee considers that the Directors and the management have duly performed their duties in accordance with the resolutions of general meetings, and achieved the operating indicators ahead of schedule every year. None of the Directors and other management of the Company have been found to be in violation of the laws and regulations and the Articles of Association and harming the interests of the Company and the shareholders during the execution of their duties.

The Supervisory Committee has conducted a review on the projects of the Company which require additional funding after the listing. The Supervisory Committee considered that, as at the date hereof, the projects, amount, and progress have been in line with the commitment of the Company. Those projects have brought revenue and contributed to profits of the Company.

The Supervisory Committee has conducted review on the operating activities of the Company such as acquisitions and mergers, disposal of assets. The Supervisory Committee considers that the consideration for the Company's acquisition and merger activities and asset disposal activities were fair and reasonable. It is not aware of any insider transaction or events which had hampered the interests of shareholders, in particular the interests of the minorities.

The Supervisory Committee has conducted review on the connected transactions of the Company. The Supervisory Committee considered that the conditions of the connected transactions were fair and reasonable. It is not aware of any circumstances which may hamper the interests of the Company and the shareholders.

2. Overall assessment on the performance of the Board

The Company's First Board of Directors was inaugurated in December 2001. During the past two years, the Board has set out and implemented the operating strategies for the development of the Company in accordance with the operating targets as determined in the general meeting. Subject to the keen competitive market environment of the domestic retail industry, the Board had made the right judgement as to the trends in business development, conducted operations steadily and correctly, actively expanded, and achieved economic development as a whole. The shareholders were provided with steady and positive returns on their investments. During the course of performing their duties, the Board actively listened to the opinions and proposals of the Supervisory Committee, and worked together in their respective posts with the Supervisory Committee to safeguard the interests of the Company and the shareholders.

We believe that under the leadership of the Board and the concerted efforts of the Company, the various economic indicators and duties of the Company can certainly be smoothly achieved and completed. At the same time, in the year to come, the Supervisory Committee will continue to become accountable to the shareholders, and strictly perform its duties with respect to the safeguard of the interests in the Company as well as the shareholders, so as to ensure the value maximization for of the Company and its shareholders.

3. Change of supervisors

As at 1 April 2004, the Supervisory Committee of this session held three meetings. It approved the resignation of Mr. Shi Zu-qi as the supervisor of the Company and nominated Mr. Shen Bo to be the supervisor of the Company. It agreed to put forward an ordinary resolution for approval of the appointment of Mr. Shen Bo as the supervisor.

The Supervisory Committee of
Lianhua Supermarket Holdings Co., Ltd.

1 April, 2004
Shanghai, The PRC

AUDITORS' REPORT TO THE SHAREHOLDERS OF LIANHUA SUPERMARKET HOLDINGS COMPANY LIMITED

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

We have audited the accounts on pages 36 to 84 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of Directors and auditors

The Company's Directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2003 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 1 April 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2003

	Note	2003 RMB'000	As restated 2002 RMB'000
Turnover	4	9,282,248	5,821,231
Cost of sales		(8,109,517)	(5,033,054)
Gross profit		1,172,731	788,177
Other revenues	4	614,946	341,962
Other income		17,182	8,833
Distribution costs		(1,383,220)	(857,282)
Administrative expenses		(200,530)	(144,371)
Other operating expenses		(10,253)	(15,709)
Operating profit	5	210,856	121,610
Finance costs	6	(11,024)	(8,454)
Share of results of associates		94,265	85,189
Profit before taxation		294,097	198,345
Taxation	8	(91,335)	(54,659)
Profit after taxation		202,762	143,686
Minority interests		(39,139)	(17,088)
Profit attributable to shareholders	9	163,623	126,598
Dividends	10	47,000	128,651
Basic earnings per share	11	RMB0.33	RMB0.31

CONSOLIDATED BALANCE SHEET

As at 31 December 2003

	Note	2003 RMB'000	As restated 2002 RMB'000
Non-current assets			
Intangible assets	13	94,972	49,581
Fixed assets	14	1,662,555	1,461,126
Construction in progress	15	24,852	5,825
Investments in associates	17	279,507	252,924
Long-term investments	18	10,397	11,776
Deferred tax assets	31	7,114	3,215
Other non-current assets	19	21,800	23,197
		2,101,197	1,807,644
Current assets			
Inventories	20	906,531	662,941
Trade receivables	21	21,820	11,750
Deposits, prepayments and other receivables	22	133,351	83,429
Amounts due from associates	23	137,453	209
Amounts due from other related parties	24	—	55
Investments in trading securities	25	3,406	1,729
Bank balances and cash	26	758,146	305,727
		1,960,707	1,065,840
Current liabilities			
Trade payables	27	1,858,132	1,143,850
Other payables, accruals and coupon liabilities	28	397,207	593,334
Amounts due to associates	23	15,771	16,031
Amounts due to other related parties	24	—	11,055
Taxes payable	29	39,289	37,930
Unsecured short-term borrowings	30	208,000	170,000
		2,518,399	1,972,200
Net current liabilities		(557,692)	(906,360)
Total assets less current liabilities		1,543,505	901,284
Non-current liabilities			
Deferred tax liabilities	31	(44,579)	(45,736)
Minority interests		(219,736)	(268,440)
Net assets		1,279,190	587,108
Capital and reserves			
Share capital	32	587,500	415,000
Reserves	33	644,690	47,608
Proposed final dividend	33	47,000	124,500
		1,279,190	587,108

Approved by the Board of Directors on 1st April, 2004 and signed on behalf of the Board by:

Wang Zong-nan	Liang Wei	Xu Ling-ling
Director	*Director*	*Director*

BALANCE SHEET

As at 31 December 2003

	Note	2003 RMB'000	As restated 2002 RMB'000
Non-current assets			
Intangible assets	13	1,482	—
Fixed assets	14	265,243	302,174
Construction in progress	15	7,194	3,521
Investments in subsidiaries	16	550,145	376,745
Investments in associates	17	128,907	105,827
Long-term investments	18	2,112	3,492
Deferred tax assets	31	1,738	—
Other non-current assets	19	8,050	8,669
		964,871	800,428
Current assets			
Inventories	20	155,415	145,850
Trade receivables	21	3,788	2,883
Deposits, prepayments and other receivables	22	18,597	18,894
Amounts due from subsidiaries	16	546,023	499,718
Amounts due from associates	23	133,349	209
Amounts due from other related parties	24	—	55
Investments in trading securities	25	3,344	1,667
Bank balances and cash	26	564,298	148,194
		1,424,814	817,470
Current liabilities			
Trade payables	27	523,221	222,416
Other payables, accruals and coupon liabilities	28	40,855	346,377
Amounts due to subsidiaries	16	438,756	437,209
Amounts due to associates	23	15,771	—
Taxes payable	29	16,237	11,147
Unsecured short-term borrowings	30	208,000	170,000
		1,242,840	1,187,149
Net current assets/(liabilities)		181,974	(369,679)
Total assets less current liabilities		1,146,845	430,749
Capital and reserves			
Share capital	32	587,500	415,000
Reserves/(deficit)	33	512,345	(108,751)
Proposed final dividend	33	47,000	124,500
		1,146,845	430,749

Approved by the Board of Directors on 1st April, 2004 and signed on behalf of the Board by:

Wang Zong-nan
Director

Liang Wei
Director

Xu Ling-ling
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2003

	Note	2003 RMB'000	2002 RMB'000
Total equity at 1 January, as previously reported		**584,762**	460,776
Adjustments arising from adoption of the revised SSAP 12			
— provision for deferred tax assets	3(m)	**3,215**	3,885
— provision for deferred tax liabilities	3(m)	**579**	—
— additional goodwill amortisation	3(m)	**(1,158)**	—
— increase in minority interests' share of profit for year 2002	3(m)	**(290)**	—
Total equity at 1 January, as restated		**587,108**	464,661
Profit for the year, as previously reported		**163,623**	128,137
Adjustments arising from adoption of the revised SSAP 12 (Note 3(m))			
— Provision for net deferred tax liabilities	33	**—**	(91)
— Additional goodwill amortisation	33	**—**	(1,158)
— Increase in minority interests' share of profit for year 2002	33	**—**	(290)
Profit for the year, as restated		**163,623**	126,598
Issue of H shares	32	**172,500**	—
Premium arising from issue of H shares	33	**536,762**	—
Share issuance expenses	33	**(56,303)**	—
Dividends	33	**(124,500)**	(4,151)
Total equity at 31 December		**1,279,190**	587,108

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2003

	Note	2003 RMB'000	As restated 2002 RMB'000
Operating activities			
Cash generated from operations	34(a)	510,994	657,012
Interest paid		(11,024)	(8,453)
PRC income tax paid		(47,731)	(15,092)
Net cash inflow from operating activities		452,239	633,467
Investing activities			
Payments for fixed assets and construction in progress		(457,887)	(454,338)
Sale of fixed assets		12,882	3,573
Payments for intangible assets		(15,402)	(11,884)
Payments for other non-current assets		—	(2,335)
Interest received		3,879	2,341
Acquisition of subsidiaries	35(a) & (b)	—	83,722
Acquisition of additional equity interests in subsidiaries	35(c)	(138,624)	(4,167)
Disposal of equity interests in subsidiaries		—	5,626
Sale of long-term investments		1,379	1,500
Dividends received from associates		50,974	25,263
Increase in investments in associates		(18,752)	(188)
Net cash outflow from investing activities		(561,551)	(350,887)
Financing activities	34(b)		
New bank borrowings		752,000	759,000
Repayment of bank borrowings		(714,000)	(881,310)
Proceeds from issue of shares		709,262	—
Share issuance expenses		(56,303)	—
Capital contribution from minority shareholders		29,570	12,657
Dividends paid to minority shareholders		(24,798)	(2,141)
Repayment of amounts due to shareholders		(9,500)	(40,442)
Dividends paid		(124,500)	(10,401)
Net cash inflow/(outflow) from financing activities		561,731	(162,637)
Increase in cash and cash equivalents		452,419	119,943
Cash and cash equivalents at beginning of the year		305,727	185,784
Cash and cash equivalents at end of the year		758,146	305,727
Comprising:			
Bank balances and cash at end of the year		758,146	305,727

1. Principal activities

The principal activities of the Group and its associates are the operation of a chain of supermarkets, hypermarkets and convenience stores in East 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.

2. Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, investments in trading securities are stated at fair value.

In the current year, the Group adopted Statement of Standard Accounting Practice ("SSAP") Number 35 "Government Grants and Disclosure of Government Assistance" ("SSAP 35") and SSAP Number 12 (revised) "Income Taxes" ("revised SSAP 12") issued by the HKSA which are effective for accounting periods commencing on or after 1 July 2002 and 1 January 2003, respectively.

The adoption of SSAP35 did not have a material financial effect on the Group. The changes to the Group's accounting policies on deferred taxation pursuant to the revised SSAP12 and the effect of adopting these new policies are set out in Note 3(m) below.

3. Principal accounting policies

(a) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the Board of Directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill.

3. Principal accounting policies (continued)

(a) Group accounting (continued)

(i) Consolidation (continued)

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) Associates

An associate is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the post-acquisition results of associates for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associates and goodwill/ negative goodwill (net of accumulated amortisation) on acquisition, if any.

Equity accounting is discontinued when the carrying amount of the investment in an associate reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Company's balance sheet the investments in associates are stated at cost less provision for impairment losses. The results of associates are accounted for by the Company on the basis of dividends received and receivable.

(b) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary or associate at the date of acquisition.

Goodwill on acquisitions is included in intangible assets and is amortised using the straight-line method over its estimated useful life. Goodwill arising on major strategic acquisitions of the Group to expand its product or geographical market coverage is amortised over a period of 10 years.

3. Principal accounting policies (continued)

(b) Intangible assets (continued)

(ii) Software

Expenditure on acquired software is capitalised and amortised using the straight-line method over a period of 3 to 5 years which represents the expected useful life of the software.

(iii) Impairment

Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and written down immediately to its recoverable amount.

(c) Fixed assets

Fixed assets, comprising leasehold land and buildings, leasehold improvements, transportation vehicles and operating and office equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses to their estimated residual values over their estimated useful lives on a straight-line basis. The estimated useful lives and residual values, as a percentage of the cost, are as follows:

	Estimated useful lives	Estimated residual values
Leasehold land	Unexpired period of the lease	—
Buildings	25 to 40 years	5 to 10%
Leasehold improvements	5 to 8 years or the remaining term of any non-renewable lease, whichever is shorter	—
Transportation vehicles	5 to 8 years	5 to 10%
Operating and office equipment	5 to 8 years	5 to 10%

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

3. Principal accounting policies (continued)

(d) Construction in progress

Construction in progress represents stores and storage facilities under construction, computer networks and equipment being installed or renovation works in progress and is stated at cost. Cost comprises development and construction expenditure incurred and interest and other direct costs attributable to the development less any accumulated impairment losses. No depreciation is provided on construction in progress. On completion, the relevant assets are transferred to fixed assets at cost less accumulated impairment losses.

(e) Investments

(i) Long-term investments

Long-term investments are equity investments held for strategic purposes and are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed by the Directors at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to the profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(ii) Investments in trading securities

Investments in trading securities are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of investments in trading securities are recognised in the profit and loss account. Profits or losses on disposal of investments in trading securities, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(f) Inventories

Inventories comprise merchandise purchased for resale and are stated at the lower of cost and net realisable value. Cost of merchandise, representing its purchase cost, is calculated either on the first-in, first-out basis for hypermarkets or on the weighted average basis for supermarkets and convenience stores. Net realisable value of merchandise is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(g) Receivables

Provision is made against receivables to the extent they are considered to be doubtful. Receivables in the balance sheet are stated net of such provision.

3. Principal accounting policies (continued)

(h) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

(i) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(j) Coupon liabilities

Coupon liabilities are recorded as liabilities when coupons are sold. Coupons surrendered in exchange for products during the year are recognised as sales and transferred to the profit and loss account using the coupon sales value. Coupons liabilities are classified as current liabilities at the end of the year.

(k) Employee retirement benefits

The Group contributes on a monthly basis to various retirement benefit plans organised by relevant municipal and provincial governments in the PRC. The municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

(l) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

3. Principal accounting policies (continued)

(m) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior years, deferred taxation was accounted for at the current taxation rates in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the revised SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

The adjustments made by the Group on adoption of the revised SSAP 12 are summarised as follows:

	As at 1 January 2002 RMB'000	As at 31 December 2002 RMB'000	For the year ended 31 December 2002 RMB'000
		Increase/(Decrease)	
Retained earnings	3,885	2,346	—
Deferred tax assets	3,885	3,215	(670)
Deferred tax liabilities	—	45,736	579
Goodwill	—	21,999	(1,158)
Minority interests	—	(22,868)	—
Minority interests' share of profit	—	—	290
Profit attributable to shareholders	—	—	(1,539)

The adjustments on deferred taxation mainly relate to the acquisition of a major subsidiary in July 2002. Pursuant to the revised SSAP 12, when the carrying amount of an asset is increased to its fair value upon acquisition of a subsidiary but the tax base of the asset remains at cost to the previous owner, a taxable temporary difference arises which results in a deferred tax liability. The resulting deferred tax liability arising from the acquisition in July 2002, amounting to RMB46,315,000 (Note 31), has the effect of increasing the Group's goodwill upon acquisition by RMB23,157,000 (Note 13), after excluding the minority interests' share of RMB23,158,000.

3. Principal accounting policies (continued)

(n) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made or received under operating leases are charged or credited to the profit and loss account on a straight-line basis over the lease periods.

(o) Pre-opening costs

The cost of start-up activities, including organisational costs and new store openings, are expensed as incurred.

(p) Government subsidy

A government subsidy is recognised when there is a reasonable assurance that the Group will comply with the conditions attaching with it and that the grant will be received.

Grants relating to income are deferred and recognised in the profit and loss account over the period necessary to match them with the costs they are intended to compensate.

(q) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(r) Revenue recognition

Provided it is probable that the economic benefits associated with a transaction will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised on the following bases:

(i) Revenue from the sale of merchandise is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the merchandise are delivered to customers and title has passed.

(ii) Promotion and store display income, income from leasing of merchandise storage space and delivery income from suppliers are recognised according to contract terms and as services are provided.

(iii) Income from leasing of shop premises is recognised on a straight-line basis over the lease periods.

(iv) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(v) Royalty income from franchise stores is recognised on an accrual basis.

3. Principal accounting policies (continued)

(s) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format.

Unallocated revenue of the Group comprises interest income.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash, and mainly exclude certain corporate bank balances and cash, investments in associates, deferred tax assets, amounts due from other related parties and investments in trading securities. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to fixed assets and construction in progress and intangible assets, including additions resulting from acquisitions through purchases of subsidiaries.

No geographical segment information by location of assets is presented as all of the Group's assets are located in the PRC. No analysis of turnover by location of customers is presented as the Group sells merchandise to customers in the PRC.

4. Turnover, other revenues and segment information

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

	2003 RMB'000	2002 RMB'000
Turnover		
Sales of merchandise	**9,282,248**	5,821,231
Other revenues		
Income from suppliers		
— Promotion and store display income	**390,930**	237,436
— Merchandise storage and delivery income	**76,921**	58,531
Gross rental income from leasing of shop premises	**84,119**	19,966
Interest income	**3,879**	2,341
Royalty income from franchised stores	**26,381**	10,766
Others	**32,716**	12,922
	614,946	341,962
Total revenues	**9,897,194**	6,163,193

4. Turnover, other revenues and segment information (continued)

Segment information

No geographical segment analysis is presented as all assets and operations of the Group during the year 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 logistic services for wholesale business.

4. Turnover, other revenues and segment information (continued)

Segment information (continued)

	Supermarkets RMB'000	Hypermarkets RMB'000	Convenience stores RMB'000	Other operations RMB'000	Group RMB'000
2003					
Segment revenue	5,205,418	3,578,311	1,019,385	90,201	9,893,315
Including sales of merchandise to					
— an associate at cost	—	790,076	—	—	790,076
— an associate at retail price less 2%	346,803	—	—	—	346,803
— franchised stores at cost	253,958	—	98,100	—	352,058
Interest income					3,879
Total revenues					9,897,194
Segment results	151,083	49,414	17,901	974	219,372
Interest income					3,879
Other income					17,182
Unallocated costs					(29,577)
Operating profit					210,856
Finance costs					(11,024)
Share of results of associates					94,265
Profit before taxation					294,097
Taxation					(91,335)
Profit after taxation					202,762
Minority interests					(39,139)
Profit attributable to shareholders					163,623
Segment assets	1,419,893	1,265,200	288,081	33,563	3,006,737
Investments in associates					279,507
Unallocated assets					775,660
Total assets					4,061,904
Segment liabilities	1,156,547	1,173,550	157,779	26,904	2,514,780
Unallocated liabilities					48,198
Total liabilities					2,562,978
Capital expenditure	133,291	273,563	64,788	1,647	473,289
Depreciation	126,025	52,614	28,608	16,235	223,482
Amortisation charges	1,026	1,750	537	185	3,498

4. Turnover, other revenues and segment information (continued)

Segment information (continued)

	Supermarkets RMB'000	Hypermarkets RMB'000	Convenience stores RMB'000	Other operations RMB'000	Group RMB'000
2002					
Segment revenue	4,327,618	1,019,040	725,764	88,430	6,160,852
Including sales of merchandise to					
— an associate at cost	82,506	—	—	—	82,506
— an associate at retail price less 2%	185,832	—	—	—	185,832
— franchised stores at cost	192,239	—	89,907	—	282,146
Interest income					2,341
Total revenues					6,163,193
Segment results	96,777	15,197	11,730	1,719	125,423
Interest income					2,341
Other income					8,833
Unallocated costs					(14,987)
Operating profit					121,610
Finance costs					(8,454)
Share of results of associates					85,189
Profit before taxation					198,345
Taxation					(54,659)
Profit after taxation					143,686
Minority interests					(17,088)
Profit attributable to shareholders					126,598
Segment assets	1,630,951	520,717	256,677	32,222	2,440,567
Investments in associates					252,924
Unallocated assets					179,993
Total assets					2,873,484
Segment liabilities	1,238,869	383,606	290,539	21,190	1,934,204
Unallocated liabilities					83,732
Total liabilities					2,017,936
Capital expenditure	697,697	236,035	118,068	3,154	1,054,954
Depreciation	97,392	20,669	19,005	11,981	149,047
Amortisation charge	4,061	726	770	1,465	7,022

5. Operating profit

Operating profit is stated after crediting and charging the following:

	2003 RMB'000	2002 RMB'000
Crediting:		
Government subsidies	13,953	4,088
Gross income from leasing of shop premises	84,119	19,966
Net income from investments		
— Net gain on disposal of trading securities	1,604	2,885
— Net income from designated deposits	1,625	1,860
Reversal of provision for doubtful debts	—	2,709
Unrealised gains on trading securities	535	—
Charging:		
Amortisation of goodwill	8,943	2,623
Amortisation of non-current assets	1,397	1,131
Amortisation of software	3,498	4,426
Auditors' remuneration	2,663	464
Depreciation of fixed assets	223,482	149,047
Loss on disposal of fixed assets	418	7,801
Operating lease rental in respect of land and buildings	354,774	196,138
Outgoings related to leasing of shop premises	26,449	3,502
Provision for obsolescence of inventories	333	1,104
Staff costs excluding directors' emoluments (Note 7)	507,742	331,351
Provision for doubtful debts	2,421	—
Loss on disposal of intangible assets	3,579	—
Loss on disposal of equity interests in subsidiaries	—	535
Unrealised losses on trading securities	—	195

6. Finance costs

Financial costs represent interest expense on bank loans.

7. Staff costs excluding directors' emoluments

	2003 RMB'000	2002 RMB'000
Salaries and wages	363,355	235,186
Retirement benefit costs - defined contribution plans (Note)	42,527	26,283
Medical benefits	20,401	13,205
Other welfare expenses	81,459	56,677
	507,742	331,351

Note

In accordance with the rules and regulations in the PRC, the employees of the Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries during the year.

The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired employees payable under the plans described above. Contributions to these plans are expensed as incurred and other than these monthly contributions, the Group has no further obligation for the payment of retirement and other post retirement benefits of its employees. The assets of these plans are held separately from those of the Group in independently administered funds managed by the PRC government.

8. Taxation

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

	2003 RMB'000	2002 RMB'000
PRC income tax		
Company and subsidiaries		
— Current taxation	60,931	26,285
— Deferred taxation	(5,056)	91
Share of taxation of associates	35,460	28,283
	91,335	54,659

PRC income tax is calculated based on the statutory income tax rate of 33% (2002: 33%) of the assessable income of the Group, as determined in accordance with the relevant PRC income tax rules and regulations except for certain subsidiaries and associates which are taxed at preferential rates ranging from 0% to 15% (2002: 0% to 15%) based on the relevant PRC tax laws and regulations.

8. Taxation (continued)

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the statutory taxation rate as follows:

	2003 RMB'000	2002 RMB'000
Profit before taxation	**294,097**	198,345
Calculated at a taxation rate of 33%	**97,052**	65,454
Effect of preferential tax rates on the income of certain subsidiaries and associates	**(16,063)**	(14,269)
Expenses not deductible for taxation purpose	**4,517**	760
Utilisation of previously unrecognised tax losses	**(403)**	(103)
Tax effect of losses from certain subsidiaries and associates not deductible	**6,232**	2,817
Taxation charges	**91,335**	54,659

As at 31 December 2003, an associate of the Group which is subject to PRC income tax at a rate of 15% had tax losses carried forward of approximately RMB21,861,000. These tax losses can only be carried forward for 5 years. No deferred tax asset has been recognised for these tax losses which would have amounted to approximately RMB1,476,000 as it is uncertain that the associate will have sufficient future taxable profits to utilise these tax losses before they expire.

9. Profit attributable to shareholders

The profit attributable to shareholders for the year ended 31 December 2003 is dealt with in the Company's accounts to the extent of RMB187,637,000 (2002: RMB75,751,000).

10. Dividends

	2003 RMB'000	2002 RMB'000
Interim, paid, of Nil (2002: RMB0.01) per share	**—**	4,151
Final, proposed, of RMB0.08 (2002: RMB0.31) per share	**47,000**	124,500
	47,000	128,651

At a meeting held on 1 April 2004, the Directors proposed a final dividend of RMB0.08 (2002: RMB0.31) 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 2004.

11. Earnings per share

The calculation of basic earnings per share for the year ended 31 December 2003 is based on the profit attributable to shareholders of RMB163,623,000 (2002: RMB126,598,000) and the weighted average number of 503,200,000 (2002: 415,000,000) shares in issue during the year.

Diluted earnings per share has not been calculated as there were no dilutive options and other dilutive potential shares in issue during both years presented.

12. Directors' and senior management's emoluments

(a) Directors' emoluments

The aggregate amount of emoluments paid and payable to the Directors of the Company during the year are as follows:

	2003 RMB'000	2002 RMB'000 Note
Executive/non-executive Directors:		
Fees	—	—
Basic salaries, allowances and benefits in kind	491	—
Discretionary bonuses	114	—
Retirement benefit costs	10	—
Medical benefits	3	—
Independent non-executive Directors:		
Fees	150	—
	768	—

The emoluments fell within the following bands:

	Number of Directors	
	2003	2002
Emolument bands		
Nil – HK$1,000,000	10	—

None of the Directors waived any emoluments during the year.

12. Directors' and senior management's emoluments (continued)

(a) Directors' emoluments (continued)

Note:

Certain Directors of the Company received an aggregate emolument of RMB165,000 for the year ended 31 December 2002 from the Company's controlling shareholder and the ultimate holding company, part of which was in respect of their services to the Company and its subsidiaries. No apportionment had been made as the Directors considered that it was impracticable to apportion this amount between their services to the Group and their services to the Company's controlling shareholder and ultimate holding company. In return, the Company paid management fees of RMB700,000 to the controlling shareholder and the ultimate holding company for the year ended 31 December 2002.

(b) Supervisory committee members' emoluments

The aggregate amounts of emoluments paid and payable to the Supervisors of the Company during the year are as follows:

	2003 RMB'000	2002 RMB'000
Fees	—	—
Basic salaries, allowances and benefits in kind	220	—
Discretionary bonuses	54	—
Retirement benefit costs	5	—
Medical benefits	2	—
	281	—

The emoluments fell within the following bands:

	Number of Supervisors	
	2003	2002
Emolument bands		
Nil – HK$1,000,000	3	—

None of the Supervisors waived any emoluments during the year.

12. Directors' and senior management's emoluments (continued)

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the year were executives of the Group and none of them was a Director or Supervisor of the Company. The emoluments of these five highest paid individuals are as follows:

	2003 RMB'000	2002 RMB'000
Basic salaries, allowances and benefits-in-kind	2,407	1,720
Discretionary bonuses	388	300
Retirement benefit costs	23	79
Medical benefits	6	37
	2,824	2,136

During the year, the emoluments of each of the five highest paid individuals were less than HK$1,000,000.

During the year, no emoluments were paid by the Group to any of the Directors, Supervisors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

13. Intangible assets

Group

	Software RMB'000	Goodwill RMB'000	Total RMB'000
Opening net book value at 1 January 2002	426	9,978	10,404
Acquisition of a subsidiary- Hangzhou Lianhua Huashang Group Co., Ltd.			
— as previously stated	3,077	8,108	11,185
— adjustment arising from adoption of the revised SSAP12 (Note 3(m))	—	23,157	23,157
— as restated	3,077	31,265	34,342
Amortisation charges			
— as previously reported	(4,426)	(1,465)	(5,891)
— adjustment arising from adoption of the revised SSAP12 (Note 3(m))	—	(1,158)	(1,158)
— as restated	(4,426)	(2,623)	(7,049)
Other additions	11,884	—	11,884
Closing net book value at 31 December 2002, as restated	10,961	38,620	49,581
Opening net book value at 1 January 2003			
— as previously reported	10,961	16,621	27,582
— adjustment arising from adoption of the revised SSAP12 (Note 3(m))	—	21,999	21,999
— as restated	10,961	38,620	49,581
Additions	15,402	46,009	61,411
Amortisation charges	(3,498)	(8,943)	(12,441)
Disposals	(3,579)	—	(3,579)
Closing net book value at 31 December 2003	19,286	75,686	94,972
At 31 December 2002			
Cost	15,542	41,861	57,403
Accumulated amortisation	(4,581)	(3,241)	(7,822)
Net book value	10,961	38,620	49,581
At 31 December 2003			
Cost	24,273	87,871	112,144
Accumulated amortisation	(4,987)	(12,185)	(17,172)
Net book value	19,286	75,686	94,972

13. Intangible assets (continued)

The adoption of the revised SSAP12 did not have a material effect on the Group's intangible assets as at 1 January 2002.

Company

	Software RMB'000
Opening net book value at 1 January 2003	—
Additions	1,668
Amortisation charges	(186)
Closing net book value at 31 December 2003	1,482
At 31 December 2003	
Cost	1,668
Accumulated amortisation	(186)
Net book value	1,482

14. Fixed assets

Group	Leasehold land and buildings RMB'000	Leasehold improvements RMB'000	Transportation vehicles RMB'000	Operating and office equipment RMB'000	Total RMB'000
Cost					
At 1 January 2003	727,155	387,724	68,982	687,343	1,871,204
Additions	283	164,833	19,579	194,517	379,212
Transfer from construction in progress (Note 15)	1,298	34,498	4,992	18,860	59,648
Disposals	(4,774)	(11,160)	(2,210)	(11,207)	(29,351)
At 31 December 2003	723,962	575,895	91,343	889,513	2,280,713
Accumulated depreciation					
At 1 January 2003	31,898	139,265	16,423	222,492	410,078
Charge for the year	20,362	85,190	11,044	106,886	223,482
Disposals	(895)	(5,782)	(1,528)	(7,197)	(15,402)
At 31 December 2003	51,365	218,673	25,939	322,181	618,158
Net book value					
At 31 December 2003	672,597	357,222	65,404	567,332	1,662,555
At 31 December 2002	695,257	248,459	52,559	464,851	1,461,126

14. Fixed assets (continued)

Company	Leasehold land and buildings RMB'000	Leasehold improvements RMB'000	Transportation vehicles RMB'000	Operating and office equipment RMB'000	Total RMB'000
Cost					
At 1 January 2003	149,236	126,709	7,615	206,572	490,132
Additions	—	—	775	6,387	7,162
Transfer from construction in progress (Note 15)	—	3,100	300	3,933	7,333
Disposals	—	(3,859)	(343)	(5,773)	(9,975)
At 31 December 2003	149,236	125,950	8,347	211,119	494,652
Accumulated depreciation					
At 1 January 2003	17,896	64,901	2,826	102,335	187,958
Charge for the year	3,993	17,489	904	25,080	47,466
Disposals	—	(2,033)	(248)	(3,734)	(6,015)
At 31 December 2003	21,889	80,357	3,482	123,681	229,409
Net book value					
At 31 December 2003	127,347	45,593	4,865	87,438	265,243
At 31 December 2002	131,340	61,808	4,789	104,237	302,174

Note:

(a) All the land of the Group are held in the PRC on leases with remaining lease periods of between 10 to 50 years.

15. Construction in progress

Group	RMB'000
At 1 January 2002	56,318
Additions	90,316
Transfer to fixed assets	(140,809)
At 31 December 2002	5,825
Additions	78,675
Transfer to fixed assets (Note 14)	(59,648)
At 31 December 2003	24,852

Company	RMB'000
At 1 January 2002	2,581
Additions	18,493
Transfer to fixed assets	(17,553)
At 31 December 2002	3,521
Additions	11,006
Transfer to fixed assets (Note 14)	(7,333)
At 31 December 2003	7,194

16. Investments in subsidiaries

Company	2003 RMB'000	2002 RMB'000
Unlisted equity investments, at cost	552,040	380,590
Less: Provision for impairment losses	(1,895)	(3,845)
	550,145	376,745

Particulars of the major subsidiaries held by the Group are set out in Note 39.

Balances with subsidiaries are unsecured, interest free and repayable on demand.

17. Investments in associates

Group	2003 RMB'000	2002 RMB'000
Share of net assets	279,507	252,924
Unlisted equity investments, at cost	130,487	110,542

Company	2003 RMB'000	2002 RMB'000
Unlisted equity investments, at cost	128,907	105,827

The Group's share of net assets of associates mainly represents the Group's share of the net assets of Shanghai Carhua Supermarket Company Limited (''Carhua"). The assets and liabilities of Carhua as at 31 December 2002 and 2003 together with the turnover and profit attributable to shareholders of Carhua during the year ended 31 December 2002 and 2003, as extracted from the accounts of Carhua are as follows:

	2003 RMB'000	2002 RMB'000
Non-current assets	730,166	641,432
Current assets	486,212	450,398
Current liabilities	(747,554)	(671,190)
Turnover	2,794,184	2,624,487
Profit attributable to shareholders	158,108	119,482

18. Long-term investments

Group	2003 RMB'000	2002 RMB'000
At cost		
Legal person shares (i)	1,112	1,112
Unlisted equity investments (ii)	9,285	10,664
	10,397	11,776

Company	2003 RMB'000	2002 RMB'000
At cost		
Legal person shares (i)	1,112	1,112
Unlisted equity investments (ii)	1,000	2,380
	2,112	3,492

(i) These represent investments in legal person shares of certain PRC listed companies which are not freely transferable in the market.

(ii) These represent investments in certain unlisted companies in the PRC.

19. Other non-current assets

Other non-current assets mainly represent payments for obtaining the rights to use certain buildings, which may or may not have a specified period of time limit, and are being amortised over the shorter of the contract period or the estimated useful lives of the buildings.

20. Inventories

Group	2003 RMB'000	2002 RMB'000
Merchandise for resale	885,838	651,398
Provision for obsolescence	(3,450)	(3,117)
	882,388	648,281
Low value consumables	24,143	14,660
	906,531	662,941

Company	2003 RMB'000	2002 RMB'000
Merchandise for resale	153,428	145,658
Provision for obsolescence	(825)	(825)
	152,603	144,833
Low value consumables	2,812	1,017
	155,415	145,850

21. Trade receivables

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

Group	2003 RMB'000	2002 RMB'000
Within 30 days	16,705	10,639
30-60 days	3,582	514
61-90 days	1,309	10
91 days-one year	224	587
	21,820	11,750

Company	2003 RMB'000	2002 RMB'000
Within 30 days	3,194	2,385
30-60 days	394	283
61-90 days	8	8
91 days-one year	192	207
	3,788	2,883

22. Deposits, prepayments and other receivables

Group	2003 RMB'000	2002 RMB'000
Deposits and prepayments	104,236	72,754
Other receivables	29,115	10,675
	133,351	83,429

Company	2003 RMB'000	2002 RMB'000
Deposits and prepayments	7,413	15,117
Other receivables	11,184	3,777
	18,597	18,894

23. Amounts due from/to associates

Amounts due from/to associates represent balances arising from sales of merchandise and advanced payments for merchandise received from associates respectively. Balances are all aged within 60 days and the credit terms range from 30 to 90 days. Such balances with associates are unsecured and interest free.

24. Amounts due from/to other related parties

Group	As at 31 December, 2003 RMB'000	2002 RMB'000
Amount due from a fellow subsidiary	—	55
Amount due to the controlling shareholder	—	9,500
Amounts due to other related parties	—	1,555
	—	11,055

Company	As at 31 December, 2003 RMB'000	2002 RMB'000
Amount due from a fellow subsidiary	—	55

The balances with other related parties were unsecured, interest free and had been fully repaid during the year.

25. Investments in trading securities

Group	2003 RMB'000	2002 RMB'000
Equity securities listed in the PRC, at market value	3,406	1,729

Company	2003 RMB'000	2002 RMB'000
Equity securities listed in the PRC, at market value	3,344	1,667

26. Bank balances and cash

All bank balances, which are denominated in Renminbi and other currencies, are placed with banks in the PRC. The remittance of these funds out of the PRC is subject to the exchange control restrictions imposed by the PRC government.

27. Trade payables

The ageing analyses of the trade payables are as follows:

Group	2003 RMB'000	2002 RMB'000
Within 30 days	968,260	608,926
30-60 days	708,284	294,559
61-90 days	162,957	196,491
91 days-one year	18,631	43,874
	1,858,132	1,143,850

Company	2003 RMB'000	2002 RMB'000
Within 30 days	250,794	89,023
30-60 days	208,204	59,450
61-90 days	59,451	73,443
91 days-one year	4,772	500
	523,221	222,416

28. Other payables, accruals and coupon liabilities

Group	2003 RMB'000	2002 RMB'000
Other payables	319,594	264,266
Coupon liabilities	35,496	299,536
Customers' advances	26,692	24,756
Accruals	15,425	4,776
	397,207	593,334

Company	2003 RMB'000	2002 RMB'000
Other payables	20,737	46,544
Coupon liabilities	16,292	292,890
Customers' advances	3,812	6,770
Accruals	14	173
	40,855	346,377

29. Taxes payable

Group	2003 RMB'000	2002 RMB'000
PRC business tax payable	5,314	4,244
PRC income tax payable	25,187	11,987
PRC value-added tax payable	8,788	21,699
	39,289	37,930

Company	2003 RMB'000	2002 RMB'000
PRC business tax payable	1,111	673
PRC income tax payable	6,632	4,658
PRC value-added tax payable	8,494	5,816
	16,237	11,147

30. Unsecured short-term borrowings

Group and Company	2003 RMB'000	2002 RMB'000
Short-term bank loans	70,000	170,000
Notes payable (Note)	138,000	—
	208,000	170,000

Note:

During the year, the Company issued certain notes payable to a subsidiary for settlement of trade balances which were subsequently discounted by the subsidiary to bank for cash. These notes payable are repayable within a period of 3 to 6 months.

31. Deferred taxation

Deferred taxation are calculated in full on temporary differences under the liability method using the tax rates which are expected to be applied at the time of reversal of the temporary differences.

The following are the major deferred tax liabilities/(assets) recognised and movements thereon during the current and prior year:

Group

	Deferred tax liabilities	Deferred tax assets		
	Fair value adjustments on acquisition of subsidiary	Pre-operating expenses	Bad debt and inventory provisions	Sub-total
	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2002, as previously reported	—	—	—	—
Adjustments arising from adoption of the revised SSAP 12 (Note 3(m))	—	(1,656)	(2,229)	(3,885)
Balance at 1 January 2002, as restated	—	(1,656)	(2,229)	(3,885)
Adjustments for 2002 arising from adoption of the revised SSAP 12 (Note 3(m))				
– Acquisition of a subsidiary	46,315	—	—	—
– (Credited)/charged to consolidated profit and loss account	(579)	249	421	670
Balance at 31 December 2002, as restated	45,736	(1,407)	(1,808)	(3,215)
Credited to consolidated profit and loss account	(1,157)	(3,030)	(869)	(3,899)
At 31 December 2003	44,579	(4,437)	(2,677)	(7,114)

Company

	Deferred tax assets in respect of bad debt and inventory provisions
	RMB'000
Balance at 1 January 2003	—
Charged to profit and loss account	1,738
At 31 December 2003	1,738

32. Share capital

	Number of shares at RMB1.00 each	Nominal value RMB'000
At 1 January 2002 and 2003	415,000,000	415,000
Issue of H shares (Note)	172,500,000	172,500
At 31 December 2003	587,500,000	587,500

Note:

Pursuant to a resolution passed at the shareholders' meeting on 26 January 2003 and approvals from the relevant government authorities, the Company was authorised to increase its registered share capital from RMB415,000,000 to an amount not less than RMB565,000,000 but not exceeding RMB587,500,000.

On 25 June 2003, the Company completed a placing and public offer of 150,000,000 H shares with a par value of RMB1.00 each at a price of HK$3.875 per share in cash for an aggregate consideration of HK$581,250,000 (equivalent to approximately RMB616,730,000). These H shares commenced trading on the Main Board on 27 June 2003. On 7 July 2003, pursuant to the terms of the over-allotment option, the Company issued an additional 22,500,000 H shares with a par value of RMB1.00 each at a price of HK$3.875 per share in cash for an aggregate consideration of HK$87,187,500 (equivalent to approximately RMB92,532,094).

As at 31 December 2003, the share capital of the Company composed of:

	Number of shares at RMB1.00 each	Nominal value RMB'000
Domestic shares	355,543,000	355,543
Unlisted foreign shares	59,457,000	59,457
H shares	172,500,000	172,500
At 31 December 2003	587,500,000	587,500

The H shares rank pari passu in all respects with the domestic shares and the unlisted foreign shares and rank equally for all dividends declared, paid or made except that all dividends in respect of H shares are to be paid by the Company in Hong Kong dollars and H shares may only be subscribed for by, and traded in Hong Kong dollars between, legal or natural persons of Hong Kong, Taiwan, Macau Special Administrative Region of the PRC or any country other than the PRC. The transfer of the domestic and unlisted foreign shares is subject to such restrictions as the PRC laws may impose from time to time.

33. Reserves

Group

	Capital reserve RMB'000	Statutory common reserve fund RMB'000 (note (a))	Statutory common welfare fund RMB'000 (note (b))	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2002, as previously reported	—	13,782	6,443	25,551	45,776
Adjustments arising from adoption of the revised SSAP 12 (Note 3(m))					
— provision for net deferred tax assets	—	—	—	3,885	3,885
Balance at 1 January 2002, as restated	—	13,782	6,443	29,436	49,661
Profit for 2002, as previously reported	—	—	—	128,137	128,137
Adjustments arising from adoption of the revised SSAP 12 (Note 3(m))					
— provision for net deferred tax liabilities	—	—	—	(91)	(91)
— additional goodwill amortisation	—	—	—	(1,158)	(1,158)
— increase in minority interests' share of profit for 2002	—	—	—	(290)	(290)
Profit for 2002, as restated	—	—	—	126,598	126,598
Profit appropriations	—	12,966	6,482	(19,448)	—
Dividends declared and paid	—	—	—	(4,151)	(4,151)
Balance at 31 December 2002, as restated	—	26,748	12,925	132,435	172,108
Representing:					
Final dividend proposed				124,500	124,500
Others (as restated)				7,935	47,608
				132,435	172,108
Balance at 1 January 2003, as restated	—	26,748	12,925	132,435	172,108
Issue of H shares	536,762	—	—	—	536,762
Share issuance expenses	(56,303)	—	—	—	(56,303)
Profit for the year	—	—	—	163,623	163,623
Profit appropriations	—	23,537	12,334	(35,871)	—
2002 final dividend	—	—	—	(124,500)	(124,500)
Balance at 31 December 2003	480,459	50,285	25,259	135,687	691,690
Representing:					
Final dividend proposed				47,000	47,000
Others				88,687	644,690
				135,687	691,690

33. Reserves (continued)

Company

	Capital reserve RMB'000	Statutory common reserve fund RMB'000 (note (a))	Statutory common welfare fund RMB'000 (note (b))	(Accumulated losses)/ retained earnings RMB'000	Total RMB'000
Balance at 1 January 2002	—	4,838	2,419	(63,108)	(55,851)
Profit for the year	—	—	—	75,751	75,751
Profit appropriations	—	12,965	6,483	(19,448)	—
Dividends declared and paid	—	—	—	(4,151)	(4,151)
Balance at 31 December 2002	—	17,803	8,902	(10,956)	15,749
Representing:					
Final dividend proposed				124,500	124,500
Others				(135,456)	(108,751)
				(10,956)	15,749
Balance at 1 January 2003	—	17,803	8,902	(10,956)	15,749
Issue of H shares	536,762	—	—	—	536,762
Share issuance expenses	(56,303)	—	—	—	(56,303)
Profit for the year	—	—	—	187,637	187,637
Profit appropriations	—	16,411	8,205	(24,616)	—
2002 final dividend	—	—	—	(124,500)	(124,500)
Balance at 31 December 2003	480,459	34,214	17,107	27,565	559,345
Representing:					
Final dividend proposed				47,000	47,000
Others				(19,435)	512,345
				27,565	559,345

Note:

(a) Pursuant to the relevant PRC regulations 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 net 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 production operations, or to increase its capital. Upon approval by a resolution of shareholders at a general meeting, each of the companies within the Group may convert its statutory common reserve fund into share capital and issue bonus shares to existing shareholders in proportion to their original shareholdings or to increase the nominal value of each share currently held by them, provided the balance of the reserve fund after such issue is not less than 25% of the registered capital.

(b) Pursuant to the relevant PRC regulations and the Articles of Association of the companies within the Group, each of the companies within the Group is required to transfer 5% to 10% of its net profit, as determined under the PRC accounting regulations, to the statutory common welfare fund. This fund can only be used to provide staff facilities and other collective benefits to its employees. This fund is non-distributable other than upon liquidation of the company.

34. Notes to consolidated cash flow statement

(a) *Reconciliation of profit before taxation to cash generated from operations:*

	2003 RMB'000	As restated 2002 RMB'000
Profit before taxation	294,097	198,345
Adjustments for:		
Amortisation of intangible assets	12,441	7,049
Amortisation of other non-current assets	1,397	1,131
Depreciation of fixed assets	223,482	149,047
Loss on disposal of fixed assets	418	7,801
Loss on disposal of intangible assets	3,579	—
Loss on disposal of equity interests in subsidiaries	—	535
Net income from investment in trading securities and designated deposits	(3,229)	(4,745)
Unrealised (gains)/losses on trading securities	(535)	195
Share of results of associates	(94,265)	(85,189)
Interest income	(3,879)	(2,341)
Interest expense	11,024	8,454
Operating profit before working capital changes	444,530	280,282
Changes in working capital:		
Inventories	(243,590)	(132,998)
Trade and other receivables	(59,343)	4,430
Amounts due from associates	(137,244)	78,234
Amounts due from other related parties	55	600
Trading securities	2,087	4,372
Trade and other payables	518,155	404,394
Amounts due to associates	(260)	6,039
Amounts due to other related parties	(1,555)	7,689
Business tax and value-added tax payable	(11,841)	3,970
Cash generated from operations	510,994	657,012

34. Notes to consolidated cash flow statement (continued)

(b) *Analysis of changes in financing during the year*

	Share capital RMB'000	Capital reserve RMB'000	Amounts due to shareholders RMB'000	Dividend payable RMB'000	Minority interests RMB'000	Bank borrowings RMB'000	Total RMB'000
At 1 January 2002	415,000	—	40,442	6,250	46,855	140,000	648,547
Minority interests' share of profit	—	—	—	—	17,088	—	17,088
Acquisition of additional equity interests in subsidiaries	—	—	—	—	(4,292)	—	(4,292)
Disposal of equity interests in subsidiaries	—	—	—	—	6,161	—	6,161
Acquisition of subsidiaries	—	—	9,500	—	192,112	152,310	353,922
Dividend declared and paid	—	—	—	4,151	—	—	4,151
Cash (outflow)/inflow from financing	—	—	(40,442)	(10,401)	10,516	(122,310)	(162,637)
At 31 December 2002	415,000	—	9,500	—	268,440	170,000	862,940
Minority interests' share of profit	—	—	—	—	39,139	—	39,139
Acquisition of additional equity interests in subsidiaries	—	—	—	—	(92,615)	—	(92,615)
Dividend declared and paid	—	—	—	124,500	—	—	124,500
Cash (outflow)/inflow from financing	172,500	480,459	(9,500)	(124,500)	4,772	38,000	561,731
At 31 December 2003	587,500	480,459	—	—	219,736	208,000	1,495,695

35. Acquisition and disposal of subsidiaries

(a) *Acquisition of Hangzhou Lianhua Huashang Group Co., Ltd.*

In July 2002, the Company entered into an agreement with Hangzhou Lianhua Huashang Group Co., Ltd. (''Lianhua Huashang") to invest RMB210,000,000 in Lianhua Huashang. The capital injection was effective from 4 July 2002 after the approval of the Board of the Company. As a result, the Company effectively held 50% of the equity interest in Lianhua Huashang. In addition, certain owners holding an aggregate interest of 0.74% of Lianhua Huashang have designated their voting power to the Company (see Note 39(iv)). Lianhua Huashang was therefore considered as a subsidiary and consolidated into these accounts.

At the date of acquisition of the 50% equity interest in Lianhua Huashang, the fair value of assets acquired and liabilities assumed by the Group and the resultant goodwill and net cash flow generated were as follows:

	RMB'000
Fixed assets and construction in progress	375,088
Intangible assets	3,077
Long-term investments	12,138
Inventories	84,912
Trade receivables, deposits and prepayments	37,364
Cash and bank balances	68,636
Payables and accruals	(228,204)
Bank loans	(152,310)
Deferred tax liabilities — as restated (note 3(m))	(46,315)
Minority interests	(6,917)
Capital injection	210,000
Total net assets	357,469
Share of net assets by the Group	178,735
Add: Goodwill — as restated (note 3(m))	31,265
Capital injection by cash	210,000
Net cash inflow upon acquisition of Lianhua Huashang	68,636

35. Acquisition and disposal of subsidiaries (continued)

(b) *Acquisition of other subsidiaries*

During the year ended 31 December 2002, the Company entered into an agreement with an associate and a related party to acquire certain subsidiaries. The total consideration for these acquisitions was RMB22,648,000.

The fair value of assets acquired and liabilities assumed by the Group were as follows:

	RMB'000
Fixed assets and construction in progress	166,538
Long-term investment	100
Inventories	65,696
Trade receivables, deposits and prepayments	18,606
Bank balances and cash	15,331
Payables and accruals	(227,452)
Amount due to controlling shareholder	(9,500)
Minority interests	(6,531)
Share of net assets acquired	22,788
Less: Negative goodwill	(140)
Consideration	22,648
Satisfied by:	
Decrease in advance to associate	22,403
Cash consideration paid	245
	22,648
Net cash inflow upon acquisition	
Bank balances and cash acquired	15,331
Cash consideration paid	(245)
	15,086

(c) *Acquisition of additional equity interests in subsidiaries*

On 2 January 2003, the Group acquired an additional equity interest of 24.5% in Lianhua Huashang from the then existing shareholders at a consideration of RMB135,240,000, resulting in goodwill of approximately RMB46,009,000 on acquisition. After this acquisition, the Group holds 74.5% equity interest in Lianhua Huashang. Subsequently a new investor was brought into Lianhua Huashang which diluted the Group's interest to 74.19%.

On 30 April 2003, the Company entered into agreements with third parties to acquire additional equity interests in certain subsidiaries. The total fair value of net assets acquired was RMB3,384,000 and the total consideration paid was RMB3,384,000.

36. Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Apart from those disclosed under Note 23, the Group entered into significant related party transactions during the year, which were carried out in the normal course of the Group's business, as follows:

	Note	2003 RMB'000	2002 RMB'000
Sales to associates			
— Shanghai Lianhua E-business Co., Ltd.	(a)	**346,803**	185,832
— Subsidiaries of Shanghai Century Lianhua Supermarket Development Co., Ltd.	(b)	**790,076**	82,056
Purchases from associates			
— Shanghai Lianhua Supermarket Food Co., Ltd. and Shanghai Gude Commercial Trading Co., Ltd.	(c)	**24,191**	39,891
Decoration cost paid to an associate	(d)	**9,497**	8,684

Note:

(a) Sales to Shanghai Lianhua E-business Co., Ltd. were recognised when customers presented coupons issued by Shanghai Lianhua E-business Co., Ltd. at the Group's stores in exchange for the Group's merchandises. These sales were set at retail prices less a discount of 2%.

(b) Sales were made at cost and were in accordance with the terms of the underlying agreements.

(c) The purchase price was determined with reference to the then prevailing market prices and the prices charged by those associates to third parties.

(d) The decoration cost paid to an associate was determined with reference to the then prevailing market prices.

37. Commitments

(a) *Capital commitments for fixed assets*

	2003 RMB'000	2002 RMB'000
Contracted but not provided for	**32,090**	60,822

The capital commitments of RMB32,090,000 as at 31 December 2003 represented commitments for leasehold improvements and purchase of machinery and equipment.

37. Commitments (continued)

(b) *Commitments under operating leases*

The Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2003 RMB'000	2002 RMB'000
Not later than one year	**369,089**	327,515
Later than one year and not later than five years	**1,335,328**	1,243,710
Later than five years	**2,203,490**	1,575,820
	3,907,907	3,147,045

(c) *Commitments for equity investments*

(1) As at 31 December 2003, pursuant to an agreement entered into with a third party shareholder of Hangzhou Lianhua Huashang Group Co., Ltd. (''Lianhua Huashang"), the Group had a commitment to acquire the remaining equity interest of 25.39% in Lianhua Huashang at a consideration of not less than RMB140,760,000 , upon the third party shareholder's request.

(2) As at 31 December 2003, The Group had a commitment to contribute capital of approximately RMB19,389,150 in cash to Shanghai Dia-Lianhua Retail Co., Ltd., a joint venture in which the Company holds 45% of the equity interest.

38. Future operating lease arrangements

The Group had future aggregate minimum lease receipts under non-cancellable opearating leases in respect of land and buildings as follows:

	2003 RMB'000	2002 RMB'000
Not later than one year	**84,165**	49,871
Later than one year and not later than five years	**50,924**	74,861
Later than five years	**45,932**	51,822
	181,021	176,554

The minimum lease receipts as set out above mainly relate to leasing of shop premises located at the Group's hypermarkets which are entered primarily on a short-term or medium-term basis.

39. Particulars of major subsidiaries and associates

As at 31 December 2003, the Company held interest in the following major subsidiaries and associates, all of which are private limited liability companies established and operated in the PRC:

Company name	Date of establishment	Registered and fully paid capital RMB'000	Attributable equitable interest held directly	Attributable equitable interest held indirectly	Principal activities
(a) Subsidiaries					
Fuzhou Century Lianhua Supermarket Co., Ltd.	1 July 2002	10,000	80.00%	4.00%	Hypermarket
Guangzhou Century Lianhua Supermarket Co., Ltd.	1 August 2002	16,000	80.00%	4.00%	Hypermarket
Shanghai Century Lianhua Supermarket Baoshan Co., Ltd.	28 June 2001	5,000	15.00%	34.85% (i)	Hypermarket
Shanghai Century Lianhua Supermarket Hongkou Co., Ltd.	19 August 2003	1,000	51.00%	—	Hypermarket
Shanghai Century Lianhua Supermarket Minhang Co., Ltd.	5 September 2002	5,000	80.00% (ii)	4.00%	Hypermarket
Shanghai Century Lianhua Supermarket Qingpu Co., Ltd.	7 August 2003	500	90.00%	—	Hypermarket
Shanghai Lujiazui Lianhua Hypermarket Co., Ltd.	16 August 2000	10,000	55.00%	7.00%	Hypermarket
Shanghai U-Mart Shopping Mall Co., Ltd.	1 June 2001	500	100.00% (iii)	—	Hypermarket

39. Particulars of major subsidiaries and associates (continued)

Company name	Date of establishment	Registered and fully paid capital RMB'000	Attributable equitable interest held directly	Attributable equitable interest held indirectly	Principal activities
(a) Subsidiaries (continued)					
Tianjin Yishang Lianhua Supermarket Co., Ltd.	1 September 2002	30,000	80.00%	—	Hypermarket
Hangzhou Lianhua Huashang Group Co., Ltd.	1 June 2001	120,500	74.19% (iv)	—	Supermarket and hypermarket
Shanghai Century Lianhua Western Commercial Co., Ltd.	7 November 2001	5,000	15.00%	51.00%	Supermarket and hypermarket
Lianhua Supermarket Jiangsu Co., Ltd.	21 March 2003	50,000	85.00%	7.20%	Supermarket
Nanjing Lianhua Changjiang Supermarket Co., Ltd.	15 December 1999	5,000	—	52.80%	Supermarket
Shanghai Lianhua Supermarket Fengxian Co., Ltd.	4 March 1997	3,000	55.00%	—	Supermarket
Shanghai Lianhua Supermarket Jiading Co., Ltd.	9 October 1996	3,290	81.76%	3.65%	Supermarket
Shanghai Lianhua Supermarket Jinshan Co., Ltd.	21 October 1996	10,410	80.79%	—	Supermarket
Shanghai Lianhua Supermarket Nanhui Co., Ltd.	28 November 1996	5,000	60.00%	—	Supermarket

39. Particulars of major subsidiaries and associates (continued)

Company name	Date of establishment	Registered and fully paid capital RMB'000	Attributable equitable interest held directly	Attributable equitable interest held indirectly	Principal activities
(a) Subsidiaries (continued)					
Shanghai Lianhua Supermarket Qingpu Co., Ltd.	13 January 1997	3,000	60.00%	—	Supermarket
Shanghai Lianhua Xinxin Supermarket Co., Ltd.	22 April 1997	13,300	55.00%	—	Supermarket
Shanghai Lianhua Yongchang Supermarket Co., Ltd.	5 July 1999	35,000	60.00%	—	Supermarket
Shanghai Pudong Lianhua Supermarket Co., Ltd.	29 September 1997	5,000	60.00%	—	Supermarket
Shanghai Songjiang Lianhua Supermarket Co., Ltd.	1 September 1998	5,350	63.00%	—	Supermarket
Suzhou Lianhua Supermarket Co., Ltd.	11 May 2000	10,000	75.00%	5.00%	Supermarket
Yangzhou Lianhua Supermarket Commercial Co., Ltd.	29 August 1996	3,000	65.00%	7.00%	Supermarket
Lianhua Quik Stores Co., Ltd.	25 November 1997	63,000	70.00%	—	Convenience store
Shanghai Lianhua Commercial Trading Co., Ltd.	27 June 2001	3,000	30.00%	53.60%	Wholesaling

39. Particulars of major subsidiaries and associates (continued)

Company name	Date of establishment	Registered and fully paid capital RMB'000	Attributable equitable interest held directly	Attributable equitable interest held indirectly	Principal activities
(a) Subsidiaries (continued)					
Shanghai Lianhua Supermarket Distribution Co., Ltd.	29 October 1998	1,000	70.00%	2.00%	Purchase and distribution
Shanghai Lianhua Supermarket Jilin Purchase and Distribution Co., Ltd.	9 August 2000	1,000	51.00%	—	Purchase and distribution
Shanghai Lianhua Live and Fresh Food Processing and Distribution Co., Ltd.	29 December 1999	5,000	90.00%	—	Fresh food processing and distribution
(b) Associates					
Shanghai Carhua Supermarket Co., Ltd.	8 February 1995	US$14,542,190	45.00%	—	Hypermarket
Shanghai Century Lianhua Supermarket Development Co., Ltd.	24 November 1997	100,000	20.00%	—	Hypermarket
Shanghai Lianhua E-business Co., Ltd.	4 October 1995	5,000	43.00%	—	Trading
Shanghai Dia-Lianhua Retail Co., Ltd.	20 June 2003	22,500	45.00%	—	Discount store

39. Particulars of major subsidiaries and associates (continued)

(i) This is a subsidiary as the Group's interest in the company is held through a subsidiary which in turn holds more than 50% of its registered capital and has control over the company.

(ii) The Group directly holds 29% of equity interest in the company while another owner holding an interest of 51% in this company has given up its rights and obligations to govern the financial and operating policies of the company and its share of profit and loss of the company to the Group with effect from 24 December 2002.

(iii) The Group directly holds 49% of equity interest in the company while the other owner holding the remaining 51% equity interest in this company has given up its rights and obligations to govern the financial and operating policies of the company and its share of profit and loss of the company to the Group with effect from 28 June 2002.

(iv) The Group directly holds 74.19% of equity interest in the company (note 35(c)) while certain owners holding an aggregate interest of 0.74% in the company have designated their voting power to the Group with effect from 4 July 2002.

40. Controlling shareholder and ultimate holding company

The Directors regard Shanghai Friendship Group Incorporated Company (formerly known as Shanghai Friendship & Overseas Chinese Co., Ltd.), a company incorporated and listed in the PRC, as being the controlling shareholder.

The Directors regard Shanghai Friendship (Group) Co., Ltd., a State-owned enterprise established in the PRC, as being the ultimate holding company.

41. Approval of accounts

The accounts were approved by the Board of Directors on 1 April 2004.

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Lianhua Supermarket Holdings Co., Ltd. (the "Company") for the year 2003 will be held at 2:00 p.m. on 18 May 2004 at the Conference Room, 15th Floor, 1666 Sichuan (North) Road, Shanghai, the PRC, to consider and, if thought fit, pass the following ordinary resolutions and special resolutions:

ORDINARY RESOLUTIONS

1. To approve the report of the board of directors of the Company for the year ended 31 December 2003;

2. To approve the report of the supervisory committee of the Company of the Company for the year ended 31 December 2003;

3. To approve the consolidated audited financial statements of the Company and the report of the international auditors for the year ended 31 December 2003;

4. To approve the profit distribution proposal of the Company and the relevant declaration and payment of a final dividend of RMB0.08 per ordinary share of the Company for the year ended 31 December 2003;

5. To approve the re-appointment of Shanghai Certified Public Accountants as the Company's PRC auditors and PricewaterhouseCoopers as the Company's international auditors for the period from the conclusion of the Annual General Meeting for the year 2003 to the conclusion of the Annual General Meeting for the year 2004 and to authorise the board of directors of the Company to determine their remuneration;

6. To approve the appointment of Mr. Shi Zu-qi as a non-executive director of the Company;

7. To approve the appointment of Mr. Shen Bo as a supervisor of the Company;

8. To approve the authorisation of the board of directors of the Company to determine the annual remuneration package and incentive scheme for the directors and supervisors of the Company for the year ended 31 December 2003 and beyond; and

9. To consider and approve other matters, if any.

And as special business, to consider and, if thought fit, to pass the following as special resolutions:

SPECIAL RESOLUTIONS

1. "**THAT** there be granted to the directors of the Company (the "Directors") an unconditional general mandate to issue, allot and deal with additional overseas listed foreign shares in the share capital of the Company with a Renminbi-denominated par value of RMB1.00 each which shares are subscribed for and traded in HK dollars (the "H Shares"), and to make or grant offers, agreements and options in respect thereof, subject to the following conditions:-

   (A) such mandate shall not extend beyond the Relevant Period (as defined below) save that the Directors may during the Relevant Period make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;

   (B) the aggregate nominal amount of shares allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors otherwise than pursuant to (i) a Rights Issue (as defined below); (ii) the exercise of rights of subscription or conversion under the terms of any warrants issued by the

Company, or any securities which are convertible into ordinary shares of the Company; and (iii) any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company, shall not exceed the aggregate of 20% of the aggregate nominal amount of the H Shares in issue at the date of passing of this Resolution; and

(C) for the purposes of this Resolution:-

"Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:-

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable law to be held; and

(iii) the revocation or variation of this Resolution by an ordinary resolution of the shareholders of the Company in general meeting.

"Rights Issue" means an offer of shares open for a period fixed by the Directors made to holders of shares of the Company or any class thereof on the register of members on a fixed record date in proportion to their then holdings of such shares or class thereof (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in, or in any territory outside, the Hong Kong Special Administrative Region of the PRC)."

2. "**THAT** the following amendments shall be made to the articles of association of the Company in order to reflect the provisions of Appendix 3 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited:

1. The following words shall be added at the end of the existing Article 78:

   "Where any shareholder is, under the rules governing the listing of securities at the place of listing of the Company, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted."

2. The existing Article 96 Clause 2 shall be replaced in its entirety by the following clause:

   "Article 96 Clause 2: The period for lodgment of notices regarding notice to the Company of the intention to propose a person for election as a director, and during which notice to the Company by such person of his willingness to be elected may be given, will commence no earlier than the day after the despatch of the notice of the meeting appointed for such election and end no later than 7 days prior to the date of such meeting."

3. The existing Article 134 Clause 2 shall be replaced in its entirety by the following clause:

"Article 134(2): A director shall not vote on any board resolution approving any contract, transaction or arrangement in which he or any of his associates has a material interest nor shall he be counted in the quorum present at the same board meeting."

By Order of the Board
Wang Jian Chung Ying Jye
Company Secretary

Shanghai, the PRC, 1 April 2004

Notes:

(A) The H Shares register of the Company will be closed from Saturday, 17 April 2004 to Tuesday, 18 May 2004 (both days inclusive), during which no transfer of H Shares will be effected. Any holders of H Shares of the Company, whose names appear on the Company's Register of Members at the close of business on Friday, 16 April 2004, are entitled to attend and vote at the Annual General Meeting after completing the registration procedures for attending the meeting. In order to be entitled to attend and vote at the Annual General Meeting and to qualify for the final dividend, persons holding the H Shares shall lodge share transfer documents and the relevant share certificates with the H Shares share registrar not later than 4:00 p.m. on Friday, 16 April 2004.

The address of the Company's share registrar in Hong Kong is as follows:

Computershare Hong Kong Investor Services Limited
Rooms 1712-1716
17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

(B) Holders of H Shares and Domestic Shares, who intend to attend the Annual General Meeting, must complete the reply slips for attending the Annual General Meeting and return them to the Office of the secretary to the board of directors of the Company not later than 20 days before the date of the Annual General Meeting, i.e. no later than Tuesday, 27 April 2004.

Details of the Office of the secretary to the board of directors of the Company are as follows:

11th to 15th Floors
1666 Sichuan (North) Road
Shanghai
The PRC

Tel: (8621) 6357 9324
Fax: (8621) 6393 1318

(C) Each holder of H Shares who has the right to attend and vote at the Annual General Meeting is entitled to appoint in writing one or more proxies, whether a shareholder or not, to attend and vote on his behalf at the Annual General Meeting. A proxy of a shareholder who has appointed more than one proxy may only vote on a poll. Each shareholder who wishes to appoint one or more proxies should first review the annual report of the Company for the year ended 31 December 2003.

(D) The instrument appointing a proxy must be in writing under the hand of the appointor or his attorney duly authorised in writing. If that instrument is signed by an attorney of the appointor, the power of attorney authorising that attorney to sign, or other documents of authorisation, must be notarially certified.

(E) To be valid, the form of proxy, and if the form of proxy is signed by a person under a power of attorney or other authority on behalf of the appointor, a notarially certified copy of that power of attorney or other authority, must be delivered to the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 24 hours before the time for holding the Annual General Meeting or any adjournment thereof in order for such documents to be valid.

(F) Each holder of domestic shares of nominal value of RMB1.00 each in the share capital of the Company which are subscribed for or credited as paid up in Renminbi (the "Domestic Shares") and of unlisted foreign shares of nominal value of RMB1.00 each in the share capital of the Company which are subscribed for or credited as paid up in foreign currency (the "Unlisted Foreign Shares") is entitled to appoint in writing one or more proxies, whether a shareholder or not, to attend and vote on its behalf at the Annual General Meeting. Notes (C) to (D) also apply to holders of Domestic Shares and Unlisted Foreign Shares, except that the proxy form or other documents of authority must be delivered to the Office of the secretary to the board of directors of the Company, the address of which is set out in Note (B) above, not less than 24 hours before the time for holding the Annual General Meeting or any adjournment, thereof in order for such documents to be valid.

(G) If a proxy attends the Annual General Meeting on behalf of a shareholder, he should produce his ID card and the instrument signed by the proxy or his legal representative, which specifies the date of its issuance. If the legal representative of a legal person share shareholder attends the Annual General Meeting, such legal representative should produce his ID card and valid documents evidencing his capacity as such legal representative. If a legal person share shareholder appoints a representative of the company other than its legal representative to attend the Annual General Meeting, such representative should produce his ID card and an authorization instrument affixed with the seal of the legal person share shareholder and duly signed by its legal representative.

(H) The Annual General Meeting is expected to last for half a day. Shareholders attending the Annual General Meeting are responsible for their own transportation and accommodation expenses.