联华超市股份有限公司
LIANHUA SUPERMARKET HOLDINGS CO., LTD.

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

(Stock Code: 00980)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2009

FINANCIAL HIGHLIGHTS

As at 31 December 2009, the Group's turnover amounted to RMB24,018 million, representing a growth of approximately 16.01% as compared with that of 2008. Gross profit amounted to RMB3,136 million, representing an increase of 11.77% over 2008. Gross profit margin was 13.06%, representing a year-on-year decrease of 0.49%. Operating profit amounted to RMB648 million, a growth of 45.98% over 2008. Consolidated revenue amounted to RMB5,789 million, representing an increase of 15.22% over 2008. Consolidated revenue margin reached 24.1%, representing a year-on-year decrease of 0.17%. Profit attributable to shareholders of the Company amounted to RMB507 million, a growth of approximately 30.50% over 2008. The Group's remarkable performance is mainly attributable to the continual improvement in operation and the effective merger and acquisition move. The year-on-year decrease in gross profit margin and consolidated revenue margin were mainly attributable to the lower gross profit margin and consolidated revenue margin resulted from the higher weight in wholesales of Hualian Supermarket, which we acquired in 2009.

The Group completed the acquisition of Hualian Supermarket in 2009. As both Hualian Supermarket and the Group are under the control of Bailian Group, the annual results 2008 of Hualian Supermarket was included in the consolidated financial statement of the Group with reference to guidance from relevant accounting standards for preparation of consolidated financial statement. The results are restated as below:

- Turnover amounted to RMB24,018 million, representing an increase of 3.29% as compared to the corresponding period last year. Gross profit amounted to RMB3,136 million, representing a growth of 3.81% over 2008. Gross profit margin reached 13.06%, representing an increase of 0.07 percentage point over 2008.
- Consolidated revenue maintained a steady growth and reached RMB5,789 million, representing an increase of 6.04% over 2008, and the consolidated revenues margin reached 24.10%.
- Profit attributable to shareholders of the Company amounted to RMB507 million, representing a remarkable growth of 22.86% over 2008. Net profit margin reached 2.11%, representing an increase of 0.34 percentage point over 2008. Basic earnings per share amounted to RMB0.81.
- As at 31 December 2009, the total number of outlets of the Group was 4,930, representing a growth of 1,058 outlets compared to that of 2008. During the year, the Group opened 558 new outlets, including 11 hypermarkets (among which three were transformed from supermarket outlets), 314 supermarkets (183 and 131 for Lianhua Supermarket and Hualian Supermarket, respectively) and 230 convenience stores, 73% of which were located in Yangtze River Delta. As at 31 December 2009, Hualian Supermarket had a total of 1,150 supermarket outlets.
- The same store sales of the Group slightly dropped by 0.24% compared with that of 2008 and that of hypermarkets recorded a growth of 0.44% while supermarkets and convenience stores declined by 1.02% and 2.08% respectively.
- The total dividend to be distributed for the year was RMB0.28 (tax included) per share, of which, the interim dividend of RMB0.12 per share had been paid and the proposed final dividend is RMB0.16 per share.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2009

	NOTES	**2009** **RMB'000**	2008 *RMB'000* (restated)
Turnover	*4*	**24,017,720**	23,253,764
Cost of sales		**(20,881,677)**	(20,232,932)
Gross profit		**3,136,043**	3,020,832
Other revenues	*4*	**2,280,322**	2,083,763
Other income	*5*	**372,517**	354,319
Selling and distribution expenses		**(4,558,202)**	(4,316,946)
Administrative expenses		**(560,117)**	(548,806)
Other operating expenses		**(16,667)**	(94,933)
Finance costs		**(6,323)**	(13,588)
Operating profit		**647,573**	484,641
Share of profits of associates		**150,240**	149,482
Profit before taxation		**797,813**	634,123
Taxation	*6*	**(208,430)**	(145,646)
Profit and total comprehensive income for the year		**589,383**	488,477
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		**506,802**	412,489
Minority interests		**82,581**	75,988
		589,383	488,477
Dividend			
– interim dividend	*7*	**74,640**	62,200
– final dividend	*7*	**99,520**	93,300
Earnings per share – Basic	*8*	**RMB0.81**	RMB0.66

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2009

	NOTES	31/12/2009 RMB'000	31/12/2008 RMB'000 (restated)	1/1/2008 RMB'000 (restated)
Non-current assets				
Property, plant and equipment		**3,031,153**	2,771,683	2,834,407
Construction in progress		**86,921**	153,963	171,561
Land use rights		**254,717**	204,847	208,339
Intangible assets		**183,917**	196,895	207,698
Investments in associates		**449,885**	437,223	394,051
Available-for-sale financial assets		**31,271**	31,271	29,243
Held-to-maturity financial assets		**377,615**	8,800	–
Term deposits – unrestricted		**480,000**	230,000	–
Prepaid lease payment		**138,481**	134,905	99,826
Deferred tax assets		**104,661**	84,189	67,035
Other non-current assets		**25,839**	26,697	28,220
		5,164,460	4,280,473	4,040,380
Current assets				
Inventories		**2,459,506**	2,567,898	2,204,342
Trade receivables	9	**74,302**	80,562	67,939
Deposits, prepayments and other receivables		**487,723**	555,754	558,453
Amount due from ultimate holding company		**–**	156,110	89,609
Amounts due from fellow subsidiaries		**–**	116,156	102,979
Amounts due from associates		**34**	532	34
Available-for-sale financial assets		**610,900**	215,000	120,000
Held-to-maturity financial assets		**97,873**	–	–
Financial assets at fair value through profit or loss		**1,874**	27,706	116,420
Term deposits				
– Restricted		**1,219,800**	649,000	–
– Unrestricted		**1,110,000**	2,584,500	–
Cash and cash equivalents		**4,191,924**	3,459,178	5,098,635
		10,253,936	10,412,396	8,358,411
Total assets		**15,418,396**	14,692,869	12,398,791

	NOTES	**31/12/2009**	31/12/2008	1/1/2008
		RMB'000	*RMB'000*	*RMB'000*
			(restated)	(restated)
Capital and reserves				
Share capital		**622,000**	622,000	622,000
Reserves		**1,841,284**	2,010,481	1,734,832
Equity attributable to owners of the Company		**2,463,284**	2,632,481	2,356,832
Minority interests		**464,790**	411,513	358,592
Total equity		**2,928,074**	3,043,994	2,715,424
Non-current liabilities				
Deferred tax liabilities		**51,375**	53,432	70,057
Current liabilities				
Trade payables	*10*	**3,490,098**	3,505,261	3,158,662
Bank borrowings		**–**	190,000	180,000
Other payables and accruals		**1,773,257**	1,688,682	1,270,873
Coupon liabilities		**6,944,234**	6,056,335	4,832,979
Deferred income		**30,388**	24,583	11,808
Amounts due to associates		**4,791**	24,681	7,865
Amount due to immediate holding company		**–**	39,000	39,000
Amount due to ultimate holding company		**10,023**	–	–
Amounts due to fellow subsidiaries		**93,696**	5,154	31,626
Taxation payable		**92,460**	61,747	80,497
		12,438,947	11,595,443	9,613,310
Total liabilities		**12,490,322**	11,648,875	9,683,367
Total equity and liabilities		**15,418,396**	14,692,869	12,398,791
Net current liabilities		**(2,185,011)**	(1,183,047)	(1,254,899)
Total assets less current liabilities		**2,979,449**	3,097,426	2,785,481

SELECTED NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2009

1. PRINCIPAL ACTIVITIES

The principal activities of Lianhua Supermarket Holdings Co., Ltd. (the "Company") and its subsidiaries (collectively, the "Group") and its associates are the operation of chain stores including supermarkets, hypermarkets and convenience stores, primarily in the Eastern Region of the People's Republic of China (the "PRC"). All the operating assets of the Group and its associates are located in the PRC.

The Company is a limited liability company incorporated in the PRC. The address of its registered office is Room 713, 7th Floor, 1258 Zhen Guang Road, Putuo District, Shanghai, the PRC. The Company is listed on the main board of The Stock Exchange of Hong Kong Limited.

The Company's immediate holding company is Shanghai Friendship Group Incorporated Company, a company incorporated and listed on the Shanghai Stock Exchange. The Company's ultimate holding company is Bailian Group Co., Ltd (the "Bailian Group"), a stated owned enterprise established in the PRC.

The consolidated financial statements are presented in Renminbi (the "RMB"), which is the same as the functional currency of the Company and its subsidiaries.

2. BASIS OF PRESENTATION

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

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

In 2009, the Group adopted the following new standards, amendments and interpretation of HKFRS, which are effective in 2009 and relevant to the Group's operations.

HKAS 1 (Revised 2007) Presentation of Financial Statements

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

In addition, the adoption of HKAS 1 (Revised 2007) has resulted in the presentation of a third consolidated statement of financial position as at 1 January 2008 as the Group has made a retrospective restatement of items in its financial statements during the current financial year.

HKFRS 7 (Amendment) Improving Disclosures about Financial Instruments

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

HKFRS 8 Operating Segments

HKFRS 8 is a disclosure standard that has not resulted in a redesignation of the Group's reportable segments (see note 3).

HK(IFRIC)-Int 13 Customer Loyalty Programmes

The adoption of HK(IFRIC)-Int 13 clarifies that where goods or services are sold together with a customer loyalty incentive (loyalty points), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between sale of goods or services in the initial sale and the loyalty points. The fair value of the customer loyalty points generated from the initial sales transaction is measured by reference to fair value and recorded in "deferred income" in current liability. As the Group's existing accounting policy on customer loyalty programme is identical to HK(IFRIC)-Int 13, the adoption of HK(IFRIC)-Int 13 has had no impact on the reported results and financial position of the Group. Accordingly, no prior period adjustment is required.

3. SEGMENT INFORMATION

The Group has adopted HKFRS 8 Operating Segments with effect from 1 January 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor Standard (HKAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's system of internal financial reporting to key management personnel serving only as the starting point for the identification of such segments.

The identification of the Group's reportable segments under HKFRS 8 is consistent with the prior years' presentation of business segments as primary reporting format under HKAS 14. Information reported to the Group's general manager, who is the chief operating decision maker of the Group for the purposes of resource allocation and assessment of performance is focused on three main operations as follows:

- Hypermarkets chain operation
- Supermarkets chain operation
- Convenience stores chain operation

There are no significant sales or other transactions between the segments. Other operations of the Group mainly comprise sales of merchandise to wholesalers; provision of logistic services for wholesale business; and sales through internet.

For the comparative purpose, the financial information of Hualian Group has been included in the segment information for the year ended 31 December 2008.

The following is an analysis of the Group's revenue (include turnover and other revenues) and results by operating segment for the years under review:

	Segment revenue		Segment results	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(restated)		(restated)
Hypermarkets	**14,414,598**	13,159,777	**243,857**	125,150
Supermarkets	**10,040,750**	10,270,813	**327,889**	317,111
Convenience stores	**1,676,987**	1,710,918	**25,128**	26,850
Other operations	**165,707**	196,019	**99,890**	85,933
	26,298,042	25,337,527	**696,764**	555,044

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

	2009	2008
	RMB'000	*RMB'000*
		(restated)
Segment results	**696,764**	555,044
Unallocated income	**52,533**	32,851
Unallocated expenses	**(101,724)**	(103,254)
Share of profits of associates	**150,240**	149,482
Consolidated profit before taxation	**797,813**	634,123

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

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

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

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

	31/12/2009	31/12/2008
	RMB'000	*RMB'000*
		(restated)
Segment assets		
– Hypermarkets	**8,077,369**	7,537,454
– Supermarkets	**4,539,038**	4,904,622
– Convenience Stores	**333,052**	364,494
– Other operations	**89,760**	73,542
Total segment assets	**13,039,219**	12,880,112
Investments in associates	**449,885**	437,223
Other unallocated assets	**1,929,292**	1,375,534
Total assets	**15,418,396**	14,692,869

Other unallocated assets mainly comprise deferred tax assets and cash and cash equivalents managed centrally by headquarter.

Other segment information

2009

	Hypermarkets	**Supermarkets**	**Convenience stores**	**Other operations**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Amounts included in the measure of segment results or segment assets:					
Addition to non-current assets *(note)*	**460,981**	**224,089**	**27,914**	**77,425**	**790,409**
Depreciation	**306,577**	**133,026**	**20,933**	**15,809**	**476,345**
Amortisation	**18,210**	**7,044**	**841**	**3,218**	**29,313**
Impairment losses on property, plant and equipment	**–**	**9,056**	**–**	**–**	**9,056**
Loss on disposal of property, plant and equipment	**2,554**	**3,314**	**121**	**(66)**	**5,923**

Note: Non-current assets include property, plant and equipment, construction in progress, land use rights and intangible assets.

2008

	Hypermarkets *RMB'000*	Supermarkets *RMB'000*	Convenience stores *RMB'000*	Other operations *RMB'000*	Total *RMB'000*
Amounts included in the measure of segment results or segment assets:					
Addition to non-current assets	351,648	165,862	12,517	5,198	535,225
Depreciation	308,040	164,832	22,921	26,060	521,853
Amortisation	15,696	4,732	1,660	4,702	26,790
Impairment losses on property, plant and equipment	21,584	4,372	–	–	25,956
Loss on disposal of property, plant and equipment	12,039	20,090	–	6,608	38,737

Geographical information

The Group's operations are substantially located in the PRC and significantly all of non-current assets of the Group are located in the PRC. Therefore, no further analysis of geographical information is presented.

Information about major customers

None of the revenue from customers of the corresponding years contributing over 10% of the total sales of the Group.

4. TURNOVER AND OTHER REVENUES

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

	2009 ***RMB'000***	2008 *RMB'000* (restated)
Turnover		
Sales of merchandise	**24,017,720**	23,253,764
Other revenues		
Income from suppliers	**1,727,035**	1,579,079
Gross rental income from leasing of shop premises	**457,532**	408,255
Royalty income from franchised stores	**63,140**	61,970
Commission income from coupon redemption in other retailers	**32,615**	34,459
	2,280,322	2,083,763

5. OTHER INCOME

	2009	2008
	RMB'000	*RMB'000*
		(restated)
Interest income	**208,758**	170,615
Government subsidies	**20,324**	36,378
Gain on disposal of financial assets at fair value through profit or loss	**18,539**	32,641
Gain on disposal of available-for-sale financial assets	**16,735**	10,956
Interest income on held-to-maturity financial assets	**4,188**	–
Compensation for relocation or rental	**11,910**	28,497
Salvage sales	**19,756**	29,128
Others	**72,307**	46,104
Total	**372,517**	354,319

6. TAXATION

	2009	2008
	RMB'000	*RMB'000*
		(restated)
PRC income tax		
– Current taxation	**230,959**	179,425
– Deferred taxation	**(22,529)**	(33,779)
	208,430	145,646

No provision for Hong Kong profits tax has been made as the Group has no estimated assessable profits subject to Hong Kong profits tax.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

PRC income tax is calculated based on the statutory income tax rate of 25% (2008: 25%) of taxable income of the subsidiaries based on the relevant PRC tax rules and regulations except for certain subsidiaries which are taxed at preferential rate of 15% to 20% (2008: 0% to 18%).

7. DIVIDEND

	2009	2008
	RMB'000	*RMB'000*
Dividend recognised as distribution during the year:		
2009 interim dividend RMB0.12 (2008 interim: RMB0.10) per share	**74,640**	62,200
2008 final dividend RMB0.15 (2007 final: RMB0.12) per share	**93,300**	74,640
	167,940	136,840

An interim dividend in respect of 2009 of RMB0.12 (2008: RMB0.10) per share amounting to a total of RMB74,640,000 (2008: RMB62,200,000) has been declared by the Board on 25 August 2009.

At a meeting held on 30 March 2010, the Directors proposed a final dividend of RMB0.16 (2008: RMB0.15) per share for the year ended 31 December 2009, totalling RMB99,520,000 (2008: RMB93,300,000). The 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 2010 upon approval by the shareholders at the forthcoming Annual General Meeting.

8. EARNINGS PER SHARE

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

	2009	2008
		(restated)
Earnings		
Profit for the year attributable to owners of the Company (RMB'000)	**506,802**	412,489
Number of shares		
Number of ordinary shares in issue during the year	**622,000,000**	622,000,000

9. TRADE RECEIVABLES

The aged analysis of the trade receivables net of allowance for doubtful debts at the end of reporting period arising mainly from sales of merchandise to franchised stores and wholesalers and with credit terms ranging from 30 to 60 days, are as follows:

Group

	31/12/2009	31/12/2008	1/1/2008
	RMB'000	*RMB'000*	*RMB'000*
		(restated)	(restated)
Within 30 days	**59,958**	68,965	62,861
31-60 days	**14,082**	8,294	1,575
61-90 days	**176**	17	3,155
91 days – one year	**86**	3,286	348
	74,302	80,562	67,939

10. TRADE PAYABLES

The ageing analysis of trade payables at the end of the reporting period, arising mainly from purchase of merchandise with credit terms ranging from 30 to 60 days, are as follows:

Group

	31/12/2009	31/12/2008	1/1/2008
	RMB'000	*RMB'000*	*RMB'000*
		(restated)	(restated)
Within 30 days	**2,982,348**	3,078,824	2,712,365
31-60 days	**296,485**	313,875	234,452
61-90 days	**104,145**	75,704	71,520
91 days – one year	**107,120**	36,858	140,325
	3,490,098	3,505,261	3,158,662

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Environment

The Chinese government's timely and forceful macroeconomic control measures enabled the country to take the lead in stepping out of the shadows of global economic recession in 2009. According to the National Bureau of Statistics, the country's GDP increased by 8.7% in 2009, achieving the "8% growth rate target" set at the beginning of the year. Total retail sales of consumer products for the year was RMB12,534.3 billion and the actual growth of retail sales of consumer products (excluding the pricing factor) was 16.9%.

Every single national policy adopted in the year 2009, ranging from consumption policy, circulation policy and financial policy, prompted the development of the retail industry to varying degrees. According to the National Bureau of Statistics, following a series of measures to stimulate consumption growth, consumption at retail level contributed to 4.6 percentage points in GDP growth in 2009, and accounted for 52.5% of the GDP, which is higher than the 45.7% contribution in 2008 and the average of 45% in the years since 1978.

Pursuant to the "Chinese Consumer Confidence Report for the Fourth Quarter of 2009" (《2009年四季度中國消費者信心調查報告》) jointly released by China Economic Monitoring & Analysis Center (CEMAC) of the National Bureau of Statistics and The Nielsen Company, China's consumer confidence continued to build up ever since its optimistic performance in the third quarter. China consumer confidence index for the fourth quarter was 103.9 (range: 0-200), representing an increase of 3.1 points over the previous quarter. The continuous improvement in consumer confidence primarily derives from consumers's optimism on China's present economy, belief in favourable economic development in the future as well as positive expectations on employment and income growth in the coming years.

Global economy, together with China economy, will continue to recover in 2010 but instability and uncertainties are still in the way. China will continue to optimise its economic structure. The country is expected to step up efforts to implement economic stimulus measures which already yielded effect in 2009. The Group believes that positive factors that drove the growth of the economy and domestic consumption of China will persist and prompt transformations and development of the industry continuously.

Financial Review

Growth in turnover and consolidated revenues

The Group completed the acquisition of Hualian Supermarket Holdings Company Limited ("Hualian Supermarket") in 2009. As Hualian Supermarket and the Group are under common control of Bailian Group, the annual results 2008 of Hualian Supermarket was included in the consolidated financial statement of the Group with reference to guidance from relevant accounting standards for preparation of consolidated financial statement. The growth in turnover, operating profit and net profit attributable to the Company's shareholders was compared to that of 2008, respectively, at the convenience of investors.

In 2009, the Group recorded a turnover of RMB24,017,720 thousand, representing a growth of 16.01% as compared with 2008, and a growth of 3.29% as compared with 2008 after taking into account the sales of Hualian Supermarket, and the full-year same store sales growth slightly dropped by 0.24%. The increase in turnover was mainly due to the acquisition of Hualian Supermarket, contribution from new outlets and sales growth in comparable outlets. During the period of economic downturn, the Group continued its effort on outlets structure optimization while an outlet rationalization initiated by the Group among three business segments resulted in a decrease in total number of direct operation stores and in turn exerted a moderate influence on turnover growth of the year. As consumer confidence has been picking up since October 2009, the same store sales improved significantly with a same store sales growth rate returning to a level of 3% in the fourth quarter.

During the period under review, the gross profit grew steadily and reached RMB3,136,043 thousand (representing an increase of 11.77% over 2008 and 3.81% over 2008 after taking into account of Hualian Supermarket) and the gross profit margin increased steadily by 13.06%. The consolidated revenues reached RMB5,788,882 thousand (representing an increase of 15.22% over 2008 and 6.04% over 2008 after taking into account of Hualian Supermarket) with a consolidated income margin of 24.10%, representing an increase of 0.62 percentage point. The constant increase in the consolidated income margin is due to: 1) the continuous expansion in the Group's centralized purchasing scale and procurement from places of origin; 2) the growth in rental income generated by the more reasonable planning and marketing strategies in business solicitation; and 3) the growth in commission income driven by the continuous promotion of membership system. Meanwhile, the Group proactively utilized the sufficient capital and adopted the centralized cash management strategies to realize growth in cash income.

Operating cost and net profit

In 2009, total selling and distribution expenses of the Group amounted to approximately RMB25,439,879 thousand, representing an increase of 15.82% over 2008 and 3.63% over 2008 after taking into account of Hualian Supermarket. Total administrative expenses amounted to RMB560,117 thousand, representing an increase of 2.06% as compared to the corresponding period of previous year and the overall cost ratio increased by approximately 0.39 percentage point as compared to that of the corresponding period of the previous year. Items of major operating costs such as rental, labour and utilities charges amounted to RMB1,330,294 thousand, RMB1,825,653 thousand and RMB475,995 thousand, respectively. Some of the operating costs increased inevitably. The Group proactively prompted internal charge control practices with an aim to improve management system and realize reasonable control over costs. Meanwhile, the Group strengthened consolidated revenues to offset cost increase and reasonably control the growth in cost ratio through constant exploration of revenue sources.

As at 31 December 2009, the Group recorded an operating profit of RMB647,573 thousand, representing a growth of 45.98% as compared with 2008, and a growth of 33.62% in operating profit as compared with the corresponding period of 2008 after taking into account Hualian Supermarket. The operating profit margin increased by 0.56 percentage point to 2.70% when compared with the corresponding period of 2008, and represented a growth of 0.62 percentage point as compared with 2008 (after taking into account Hualian Supermarket).

During the period, the Group's share of revenue of associated companies was RMB150,240 thousand, representing a slight increase of 0.51%. Shanghai Carhua Supermarket recorded a decrease in profit as the 7 new outlets opened last year were still in the initial development stage, coupled with the impact of financial crisis.

During the period under review, the Group recorded a total profit attributable to the Company's shareholders of RMB506,802 thousand, representing an increase of 30.50% over that in 2008, and a growth of 22.86% over 2008 after taking into account the net profit of Hualian Supermarket. In 2009, the net profit margin of the Group was 2.11% and earnings per share were RMB0.81.

Cash flow

In 2009, the Group's net cash inflow reached RMB732,746 thousand, cash and miscellaneous bank balances as at the period-end amounted to RMB7,001,724 thousand.

For the year ended 31 December 2009, the turnover period of the Group's trade payables was 59 days, inventory turnover period was approximately 37 days.

During the year under review, the Group did not use any financial instrument for hedging purposes and the Group did not issue any hedging instrument as at 31 December 2009.

Growth in retail businesses

Hypermarkets

During the period under review, the turnover of the Group's hypermarkets increased by approximately 9.48% when compared with the corresponding period of 2008 to RMB13,039,537 thousand, which accounted for approximately 54.29% of the Group's turnover, and the gross profit margin increased by 0.45 percentage points to 12.29%. The same store sales increased by 0.44%. The segment's operating profit was RMB243,857 thousand, representing an increase of RMB118,707 thousand over that in the corresponding period of 2008. The operating profit margin increased by 0.82 percentage point when compared with that of 2008. So far as hypermarkets are concerned, the Group will continue to implement the strategy of procurement from places of origin to reduce purchase cost, optimize the composition of suppliers and enhance the performance of its commodities with an aim to achieve a significant growth in consolidated revenues margin and operating profit margin.

As at 31 December	2009	2008
Gross Profit Margin (%)	**12.29**	11.83
Consolidated Revenues Margin (%)	**23.82**	23.11
Operating Profit Margin (%)	**1.87**	1.05

Supermarkets

During the period under review, the Group further expanded its market share in Shanghai with the successful acquisition of Hualian Supermarket. At the same time, the Group initiated resources consolidation and capital management, outlets transformation and commodities improvement within Hualian Supermarket, which resulted in a sustainable growth in operating profit.

During the period under review, the turnover of the Group's supermarkets increased by approximately 32.25% when compared with the corresponding period of 2008 to RMB9,318,539 thousand, which accounted for approximately 38.80% of the Group's turnover. The gross profit margin was 13.61%. Segment operating profit was RMB327,889 thousand, representing an increase of RMB51,827 thousand, or a growth of approximately 18.77% over that in the corresponding period of 2008. Operating profit margin decreased by 0.4 percentage point when compared with that of 2008 as a result of the increase in wholesale franchise stores.

In 2009, the turnover of the Group's supermarkets decreased by 2.9% when compared with 2008 after taking into account the turnover of Hualian Supermarket and the same store sales also declined by 1.02%, primarily attributable to the decrease in the number of direct operation stores in the supermarket business segments due to closure of some stores upon expiry of the leases and transformation of three stores into hypermarkets through store expansion. Segment operating profit increased by 3.4% over that in the corresponding period of 2008. Operating profit margin increased by 0.22 percentage point when compared with that of 2008 upon the implementation of acquisition and reorganization of Hualian Supermarket.

Hualian Supermarket recorded a turnover of RMB2,661,580 thousand in 2009, representing a growth of 4.32% as compared with the corresponding period of 2008. Gross profit margin was 8.27% and same store sales growth reached 2.87%. Consolidation of Hualian Supermarket initiated during the year effectively enhanced its resource consolidation and led to a decrease in cost ratio. Operating profit margin increased by 1.01 percentage point in 2009.

As at 31 December	2009	2008
Gross Profit Margin (%)	**13.61**	13.86
Consolidated Revenues Margin (%)	**22.67**	22.39
Operating Profit Margin (%)	**3.52**	3.30

Convenience Stores

During the period under review, some of the direct operation stores in convenience stores business segment went through transformation. During the period, the Group's convenience stores recorded a turnover of RMB1,552,902 thousand, which accounted for approximately 6.47% of the Group's turnover, and the same store sales decreased by 2.08%. The decrease in same store sales of the Group's convenience stores is mainly due to: 1) the decrease in market demand due to financial crisis; 2) abnormality in the weather of major sales seasons during the year under review, which affected full-year sales performance; and 3) the shut-down of a number of well established stores owing to give way to frequent reconstructions in major cities. During the year, a total of 121 convenience stores were transformed. The merchandise mix of the transformed stores was further optimized while the value-added services effectively expanded the income sources. During the period, consolidated revenues margin increased by 0.89 percentage point.

As at 31 December	**2009**	2008
Gross Profit Margin (%)	**15.27**	15.58
Consolidated Revenues Margin (%)	**24.12**	23.24
Operating Profit Margin (%)	**1.62**	1.69

Capital structure

As at 31 December 2009, the Group's cash and bank balances were mainly held in Renminbi, and the Group had no bank borrowings.

During the period under review, equity attributable to shareholders of the Group decreased from RMB2,632,481 thousand to RMB2,463,284 thousand, which was mainly due to the increase in profit amounting to RMB506,802 thousand and dividends distribution amounting to RMB167,940 thousand as well as RMB508,059 thousand arising from the acquisition of Hualian Supermarket under the same controlling entity, representing an aggregate decrease of RMB675,999 thousand during the period.

Details of the Group's pledged assets

As at 31 December 2009, the Group did not pledge any assets.

Exposure to foreign exchange risk

Most of the income and expenditures of the Group are denominated in Renminbi. During the period under review, the Group did not experience any material difficulties or negative effects on its operations or liquidity as a result of fluctuation in currency exchange rates. The Group has not entered into any agreements or purchased any financial instruments to hedge the foreign exchange risks of the Group. The Directors believe that the Group is able to meet its foreign exchange requirements.

Share capital

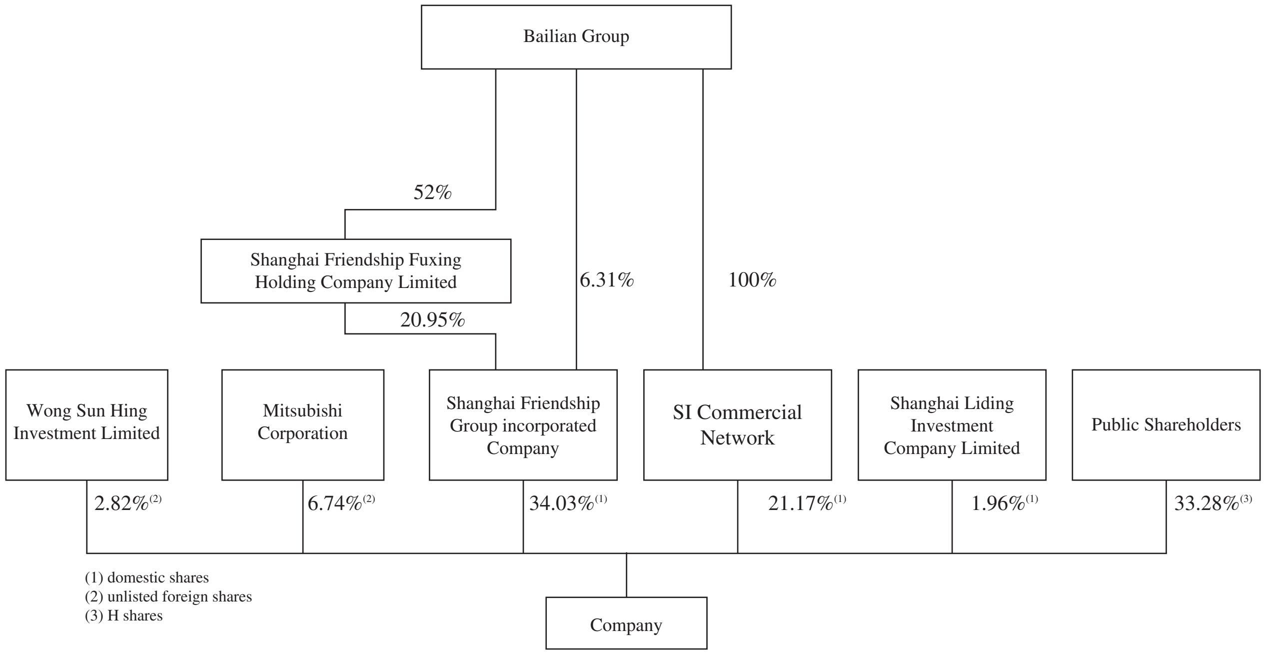
As at 31 December 2009, the issued share capital of the Company was as follows:

Class of shares	**Number of shares in issue**	**Percentage**
Domestic shares	355,543,000	57.16
Unlisted foreign shares	59,457,000	9.56
H shares	207,000,000	33.28
Total	622,000,000	100.00

On 21 January 2009, the Company was informed that two shareholders of Shanghai Industrial United (Group) Commercial Network Development Company Limited ("SI Commercial Network"), namely Shanghai Industrial Pharmaceutical Investment Co., Ltd. ("Shanghai Industrial Pharmaceutical") and Shanghai Hua Rui Investment Co., Ltd. ("Shanghai Hua Rui"), entered into an equity transfer agreement (the "Equity Transfer Agreement") with Bailian Group Co., Ltd. ("Bailian Group").

As at the date of the Equity Transfer Agreement, SI Commercial Network owned 131,683,000 domestic shares of the Company, representing approximately 21.17% of the equity interest in the Company. Pursuant to the Equity Transfer Agreement, Shanghai Industrial Pharmaceutical and Shanghai Hua Rui conditionally agreed to transfer approximately 72.62% and 27.38% equity interests in SI Commercial Network to Bailian Group at a consideration of RMB766.75 million and RMB289.10 million, respectively. The Company was informed that the equity transfer was completed as at the date of this announcement. Please refer to the announcement of the Company dated 21 January 2009 for details.

Shareholding structure of the Company immediately after completion of the Equity Transfer Agreement



Contingent liabilities

As at 31 December 2009, the Group did not have any material contingent liabilities.

Operating Review

The global financial crisis in 2008 put China's retailing sector under immense pressure since early 2009. Although there was no apparent decrease in real merchandise demand, the sharp decrease in food price index posed a significant impact on the Group's sales. The Group promptly sized up the situation timely to secure healthy growth with an aim to capture business opportunities and to improve its sustainable development capability. Noticeable progresses were seen in healthy market expansion, outlet layout optimization, merchandise mix improvement and internal management enhancement in 2009. Despite under the pressure of slightly increase in turnover with continuous cost hikes, a desirable growth was recorded in consolidated merchandise revenue, thus securing a further substantial growth in profitability.

Emphasis on quality and centralized development to achieve economy of scale

During the year under review, the Group made steady progress in the peripherals areas of developed cities in Yangtze River Delta by adhering to its strategy of emphasizing quality and centralized development. Fine tunings were made to the business structure to optimize the existing outlets for an overall improvement in quality. During the year, the Group opened 558 new outlets, including 11 hypermarkets (among which three were transformed from supermarkets outlets), 314 supermarkets (183 and 131 for Lianhua Supermarket and Hualian Supermarket, respectively), and 230 convenience stores.

During the year, the Company has completed the acquisition of Hualian Supermarket. As at 31 December 2009, Hualian Supermarket had a total of 1,150 outlets, including 214 directly operated stores and 936 franchised outlets, mainly covering the Eastern China region. The acquisition of Hualian Supermarket has further strengthened the advantages of the Group's operation in the Yangtze River Delta region, which leads to a substantial enhancement of the competitive edge of the Group's supermarket business.

To enhance the advantage of economy of scale in the regions of existing operations and potential growth, the Group capitalized on its hypermarket and supermarket operations, its two major business segments, to expand scale. Meanwhile, it set the pace of different retail segments and planned the market layout to secure the advantages of economy of scale in existing markets. During the year under review, the Group further extended its hypermarket segment in existing regions, including Qingpu District of Shanghai, Yangzhou and Zhenjiang cities of Jiangsu province, and Hangzhou and Jinhua districts of Zhejiang province, to consolidate its local market advantages. Moreover, the first outlet in Ningbo, Zhejiang province has been set up, its outstanding results laid a solid foundation for further development in that region.

Facing unfavourable macro economic situation and uncertain economic outlook, the Group also promptly optimized its existing outlet network by streamlining certain underperforming outlets. It also expanded and upgraded three supermarkets to hypermarkets. Such streamlining during economic downturn period will help the Group to seize opportunities during economic recovery.

As at 31 December 2009, the Group (including Hualian Supermarket) had a total of 4,930 retail outlets, covering 22 provinces and municipalities across the country. Details of the retail outlets are as follows:

	Hypermarkets	**Supermarkets**		**Convenience Stores**	**Total**
		Lianhua Supermarkets	**Hualian Supermarkets**		
Direct operation	132	495	214	921	1,762
Franchised operation	–	1,173	936	1,059	3,168
Total	132	1,668	1,150	1,980	4,930

Acquisition and Consolidation

In early 2009, Bailian Group increased its shareholding in the Group and became the single largest shareholder of the Group. As a result, the Group established its role as a platform for Bailian's supermarket business consolidation. The Group acquired the entire equity interests in Hualian Supermarket in June 2009, and completed all legal procedures for the acquisition of Hualian Supermarket during the year. The acquisition allowed the Group to further increase the market share of its supermarket segment in Shanghai and Yangtze River Delta. Meanwhile, the merger of Lianhua and Hualian will create a better platform for the development of the Group's franchised operation under the most influential supermarket brand in the region. More importantly, the merger of the two supermarket conglomerates in the same region is expected to generate synergy in scale advantages and resources sharing.

Following the acquisition, the Group launched a series of marketing activities to deliver a message to consumers that Lianhua and Hualian have been "integrated". A business consolidation scheme was also developed. Major tasks accomplished as at the end of 2009 included: comparing the merchandise trading terms between the two supermarket groups to formulate the most favourable terms; comparing their outlet operations to acquire the best management experience; preparing and implementing proposals about integrating the two companies in terms of finance, information, franchising and corporate governance; and initiating consolidation schemes for merchandise systems and organizational frameworks.

Optimized procurement model

During the period under review, the Group set up outlets in prime business areas, improved layouts of hypermarkets, optimized merchandise mix, enhanced capability for fresh product operation, pushed ahead with outlet transformation and refined its business model.

The Group expanded its bulk purchase scale, so as to further boost its consolidated revenues generated from commodities. Consolidation of resources from suppliers to the greatest extent to facilitate the implementation of bulk purchase has proven to be the most effective means for further transformation and increasing consolidated revenues. Against the backdrop of financial crisis in the first half of 2009, the Group actively deepened its existing reform of procurement system, optimized centralized procurement procedures among various business segments, rationalized proactively its supplier structure, increased the proportion of suppliers from different places of origin, explored actively operational mode for buy-up procurement and strengthened commodity competitiveness.

The Group strived to strengthen its differentiated fresh products, so as to enhance competitive edges of its outlets. Fresh products were the major focus of the Group's differentiated operation. With the adoption of its personalized operating strategies, under which priority was given to fresh products, the Group set up a procurement division to handle fresh products during the year under review. Apart from the major category of chilled and frozen food, pure fresh products have all been assigned to the handling of such newly-formed fresh products procurement division, which connected the processes of product procurement, inspection and acceptance, and distribution directly to fresh product bases, so as to ensure the purchase of high quality fresh products at low prices and to develop the Group's fresh product operation in a more comprehensive and professional manner.

The Group has also further developed and promoted commodities under its own brand. While introducing highly cost-effective goods, the Group gradually converted the development and selling functions of specific brands into the mode of "internal suppliers" and actively promoted the selling of self-owned brands at its outlets. The Group also appointed staff to trace and assess growth performance of new commodities under its own brand on a regular basis. In addition, the Group examined outlet display and compared consolidated revenue contribution of self-owned brand commodities with other similar branded commodities. Leading position of self-owned brands have already emerged in some categories.

The Group actively explored changes in procurement mode of imported commodities, adopted outbound direct procurement on a gradual basis, and optimized its procurement flow. In July, the Group held the "European Retailer-Supplier Trade Matchmaking Conferrence" at its headquarters. The conference was attended by almost 127 manufacturers from 18 European countries which were showcasing over 3,000 commodities at Lianhua's headquarters. Through co-operation with these outstanding suppliers, the Group selected 110 items from 12 suppliers in six nations as the first batch of European imported goods displayed and sold at its outlets. Thus, consumers in China are now able to buy inexpensive high quality European commodities at their home towns.

Optimized workflow and strengthened supervision to raise operational efficiency

The Group strengthened its classification management and optimized its profit structure. During 2009, the Group placed greater emphasis on the level of details and standardization in commodity management, aiming to attain breakthrough in both quality and order volume. First, the Group conducted market study on consumption trends, so as to speed up the introduction of anticipated best-selling items. Second, by using price segment analysis, the Group formulated different tiers for classification purpose. Third, the Group sources differentiated commodities to optimize our earning structure. Fourth, the Group removed less popular commodities to reserve more outlet space for best-selling items. Fifth, the Group rationalized the overall layout to highlight outstanding features of our commodities.

Also, the Group strengthened operational management and enhanced operational quality. Affected by keener competition in the retail sector and the onset of the financial crisis, enterprises experienced significant decline in their revenues. Facing such circumstances, the Group kept strengthening its supervision over operational matters and improving its price management mechanism, so as to further increase its margins. Meanwhile, the Group assisted outlets in improving its performance by carrying out various classification studies and commodity structure fine-tuning. Moreover, the Group actively promoted and improved its automatic replenishment system and strengthened its out-of-stock management at outlet levels, in order to build up a sound inventory structure with scientific basis.

The Group maintained cost control and reduced expenses. Facing with impacts which emerged in the aftermath of the financial crisis, the Group imposed stringent budget control, and implemented cost control and reduction plans. The Group conducted specific researches and studies on key expenditure items which would have significant impact on results, resulting in the formulation of cost control initiatives. The Group set cost control targets and strived to find room for further cost reduction.

Focused on content enrichment to reinforce transformation of outlets

In 2009, major directions for outlet transformation were to set up outlets in prime business areas, optimize layouts of outlets, improve merchandise mix and strengthen self-owned fresh product operation.

In 2009, the Group's hypermarkets business started to speed up its transformation. Its various models, such as "department store + supermarket", "community supermarket", "fresh food hypermarket", were well-received by the market.

During 2009, the Group's supermarket business continued to be engaged in "Lianhua Food Market". The opening of "LianHua Jinmao" in the second half of 2009 was well-received by the market. Currently, transformed outlets accounted for 70% of the supermarkets of Lianhua and Hualian in Shanghai.

Quik Convenience proactively sought breakthrough through the launch of value-added services, such as financial and multimedia services, transforming itself gradually into the "Q+e" newly transformed outlet, which is the combination of the Quik mark with the virtual network. It won "2009 Innovation Award" on the 11th China Chain Stores Conference 2009. Leading national media groups, such as the People's Daily and CCTV, covered the Group's innovative achievement as their key stories about people's livelihoods and how China fought against the financial crisis. As at 31 December 2009, there are 121 newly transformed stores in the Group's convenient stores business.

Promoting corporate culture

In view of pressures brought by the financial crisis and the need to achieve outstanding corporate results, building a brilliant management team to motivate and stimulate the passion of staff to tackle challenges ahead became an important mission. During the year, it was the Group's most important priority to enhance staff competitiveness as a kind of protection of their interest amid such unprecedented market situation. The Group strategically devised all-rounded development programmes with intent to train up staff with different expertises, such as developing their knowledge, know-how and strengths in some other combined aspects. Through the organization of corporate activities, such as "Practice and Competition", and technique campaigns, such as "Competition on service etiquette and knowledge" under the theme of "Welcome to World Expo", the Group further enhanced the operational techniques and service standards of its staff.

Consolidating key outlets to prepare for World Expo and Enhancing integrated competitive advantages

To get prepared for the grand opening of the World Expo 2010 Shanghai, the Group, which is one of the key enterprises in Shanghai to receive foreign guests, has made preparation work for the World Expo as its key task in 2009. The task was completed through training of staff at all levels, consolidation of key outlets, large scale implementation and overall upgrading. First, the Group improved both indoor and outdoor environment of its outlets to enhance the atmosphere of festivities in the community in the run-up to the World Expo. Second, the Group strengthened its operational check and established long-term effective management system. Third, the Group perfected a range of convenient facilities and optimized the layout of hypermarkets to build up its image to represent Shanghai during the World Expo. Fourth, the Group provided more training programmes to its staff, so as to enhance their service quality. Fifth, the Group organized competition campaigns among staff to improve their service techniques. The Group's campaignes to promote the World Expo has earn it a good reputation. Some outlets, such as the Xianxia outlet of Century Mart and the Tianlin outlet in the supermarket segment gained recognitions from the governments in their respective districts. All these helped enhance the overall image of Lianhua. Moreover, the Group has been granted a franchise for operation within the World Expo Park area and entered into the "Retail Service Contract" with Shanghai Expo Affairs Co-ordination Office in early 2010. Lianhua Supermarket will have six outlets in World Expo Park selling the event's franchised products.

Business of Associated Companies

During the year under review, Shanghai Carhua Supermarket Company Limited ("Shanghai Carhua") did not open any new outlets. As at 31 December 2009, Shanghai Carhua operated a total of 19 hypermarkets in Shanghai.

For the twelve months ended 31 December 2009, the Group's share of results of associated companies was approximately RMB150,240 thousand. The associated companies developed their businesses steadily.

Material Acquisitions and Disposals

On 26 June 2009, the Company and its subsidiary, Shanghai Lianhua Supermarket Development Co. Ltd (hereinafter referred to as ("Lianhua Supermarket Development")), entered into an equity transfer agreement with Bailian Group and its subsidiary, Bailian Group Real Estate Co., Ltd (hereinafter referred to as "Balian Real Estate"), whereby the Company will acquire a 99.4% equity interest in Hualian Supermarket from Bailian Group; and Lianhua Supermarket Development will acquire 0.6% equity interest in Hualian Supermarket from Bailian Real Estate. Upon completion of the abovementioned equity transfer agreement, Hualian Supermarket will become a wholly-owned subsidiary of the Company. Please refer to the announcement of the Company dated 26 June 2009 for details of the equity transfers.

As at the date of this announcement, the above-mentioned equity transfers were completed.

Employment and Training

As at 31 December 2009, the Group had a total of 53,169 employees, representing an increase of 3,529 employees during the period under review. Total staff costs were RMB1,825,653 thousand. Remuneration for the Group's employees was determined on the basis of their performance, experience and the then practice in the industry. Apart from basic salary, welfare allowances and performance bonus, the Group also provides its full-time employees with housing welfare, medical allowance and other subsidies and periodic medical check-up. The Group also contributes to the retirement benefit schemes organized by the government and makes monthly contributions for its employees to these schemes in accordance with the policies of the PRC.

During the period under review, the Group actively reacted to the market changes, rationalized and adjusted the organizational structure as well as position structure of headquarters, and amended the departmental functions and responsibilities of different positions, so as to enhance the working efficiency of staff and departments. The Group formulated the cultivation scheme of middle and senior management personnel pursuant to the "Administrative Regulation on Human Resources Development and Cultivation and Retaining of Talents" of the Group. In addition, based on its human resources strategic planning, the Group formulated and implemented the training plan for fundamental management personnel, which covered the subjects of occupational norms, skills and developments. Also, in accordance with Group's performance assessment management system, the Group devised the performance assessment proposal for the year. During the period under review, in order to further enhance the operational skills of frontline employees, the Group organized the nationwide competition for operational skills and national occupational skills and quality assessment, and accredited and awarded the skilled employees who improved significantly in skills under the mentorship system of last year. During the period under review, 98 staffs with excellent operational skills obtained the national occupational qualification as senior workers.

During the period under review, the Group actively responded to the government's call for improving employment conditions. It participated in various employment policies implemented by the government to stabilize the staff team, and rationalize the staff deployment.

Future Strategy

In 2010, following the economic recovery and the extended implementation of more consumption stimulation policies, the Group believes that retail enterprises in China will enjoy a better environment for growth. However, a more competitive market and adjustments brought about by the macroeconomic regulation and control policy remind the Group of the importance of keeping a clear mind. The Group will proactively secure opportunities from the economic recovery and World Expo 2010 Shanghai in order to achieve better results. In 2010, the Group will further strengthen its overall development, complete the full integration of Lianhua and Hualian and capture the opportunities for merger and acquisition, consolidate its internal resources to improve bargaining power, optimize its internal workflow to enhance the competitive strength of our outlets, actively participate in World Expo 2010 Shanghai to strive for a better brand image and improve its corporate image in the capital market.

The Group will continue to adhere to its strategy of emphasizing quality and focused development. In Eastern China and other markets which the Group has already tapped into, it will open new quality outlets under the dual development models of direct operation and franchises. At the same time, the Group will pay close attention to the merger and acquisition opportunities brought about by industry consolidation. Subject to the premises of benefiting all the shareholders, and by leveraging Bailian Group's extensive business resources and good cooperation relationship with the government, the Group will enlarge its cooperation with Bailian Group in market exploration and merchandise business so as to explore new room for growth.

The Group will implement the consolidation of Hualian's business in an organized manner. In 2010, the Group will implement a full integration with Hualian's business so as to complete the consolidation of financial information, merchandise and franchise. The Group's target is a complete consolidation of business and management by the end of this year.

The Group will enhance its business transformation and optimize its core competitiveness. The Group will optimize the composition of suppliers by expanding procurement from places of origin and buying up to enhance strategic cooperation between retailers and suppliers. The Group will fine-tune its fresh product base development, develop a supply chain of fresh products and enhance the capacity for operating fresh product business in outlets. The Group will optimize the profit structure of its merchandise, improve the work flow for its own brand development and sales and establish an effective communication channel between the staff which are responsible for own brand development and operation. The Group will optimize procurement channels for imported commodities to increase the proportion of merchandise from direct suppliers. The Group will optimize the logistic system construction to satisfy the needs of each business segment and carry out the preliminary business preparation for the full commencement of the establishment of logistics facilities in Jiangqiao.

The Group will continue to implement the key outlet strategy to enhance the overall performance of outlets. The Group will raise the requirement for outlet transformation and formulate different regional transformation plans based on the consumption requirement of different market areas so as to optimize its merchandise mix. The Group will strengthen the franchisee management to benefit from the development of all the partners and optimize the wholesale management for franchise merchandise to improve franchise income. The Group will fully utilize the e-commerce platform to seek new growth drivers.

In 2010, the Group will continue to improve its fundamental management so as to enhance its management capability. The Group will strengthen cost-control consciousness by ways of reinforcing its concept, workflow optimization and assessments. The Group will enhance the headquarter's capability for integrating resources, improving the management and assessment capabilities in respect of merchandise management, investment and capital operation, logistics and distribution and internal control establishment. The Group will improve the evaluation system and ensure smooth communication between different departments and regions, organizational assurance and evaluation with sound recommendations when material business is under implementation in particular. The Group will optimize the assessment and incentive mechanism, establishing a sound staffing mechanism to promote its corporate culture.

The Group will make every effort to grasp the opportunity for improving its capability brought about by World Expo 2010 Shanghai. The work of "Welcome to World Expo" will be its main task. While capitalizing on the opportunities for sales growth and corporate image enhancement, the Group is also committed to fulfilling its social responsibility as a major enterprise in Shanghai.

Purchase, Sale or Redemption of Shares

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

Final Dividend and Closure of Books

The Board of the Company recommends payment of a final dividend of RMB0.16 per share (including tax) for the year ended 31 December 2009.

The register of H shares members of the Company will be closed from Tuesday, 25 May 2010 to Wednesday, 23 June 2010 (both days inclusive) during which period no transfer of H shares will be effected. The final dividend will be distributed to the shareholders of H shares of the Company whose names appear on the Company's register of members at 4:30p.m. on Monday, 24 May 2010. In order to be qualified for the final dividend, holders of H shares must lodge their share certificates together with the relevant share transfer documents with Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Monday, 24 May 2010.

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

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

All investors should consider the preceding contents carefully. If any investor intends to change the identity of the holders in the shareholders' register, please kindly enquire about the relevant procedures with your nominees or trustees. The Company has no responsibility and shall not be held responsible for confirming the identities of the shareholders. The Company will strictly comply with the law, and withhold and pay the corporate income tax on behalf of the relevant shareholders based on the register of H shares members of the Company as at 4:30 p.m. on 24 May 2010. Any requests relating to any delay in confirming the identity of the shareholders or any errors in the identity of the shareholders will not be accepted.

Audit Committee

The audit committee of the Company has reviewed the annual results of the Company for the year ended 31 December 2009 and confirmed that they are prepared in accordance with the applicable accounting standards, laws and regulations and appropriate disclosures have been made.

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

The Company has adopted the Model Code for Securities Transactions by Directors ("Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities in the Stock Exchange (the "Listing Rules") as code of conduct for securities transactions by all directors of the Company. After specific enquiries to the directors, the Board is pleased to confirm that all the directors have fully complied with the provisions under the Model Code during the period under review.

Compliance with the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules

The Board is pleased to confirm that save and except the Company's practice relating to the directors' retirement rotation as set out below, the Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules for the period and, save as set out below, none of the directors is aware of any information that would reasonably indicate that the Company is not or was not for any time of the period in compliance with the Code. Details of the deviation are set out as follows:

Provision A4.2 of the Code requires that every director (including those appointed for a specific term) of a listed issuer shall be subject to retirement by rotation at least once every three years. The articles of association of the Company provides that each director shall be appointed at the general meeting of the Company for a term of not more than 3 years and is eligible for re-election. Having taken into account of the continuity of the implementation of the Company's operation and management policies, the articles of association contains no express provision for the mechanism of directors' retirement by rotation and thus deviating from the aforementioned provision of the Code.

By order of the Board
Lianhua Supermarket Holdings Co., Ltd.
Ma Xin-sheng
Chairman

Shanghai, 30 March 2010

As at the date of this announcement, the Board comprises:

Executive Directors: Wang Zhi-gang, Hua Guo-ping, Liang Wei, Xu Ling-ling and Cai Lan-ying
Non-executive directors: Ma Xin-sheng, Xu Bo, Kazuyasu Misu and Wong Tak Hung
Independent non-executive directors: Lee Kwok Ming, Don, Zhang Hui-ming and Xia Da-wei