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)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2011

FINANCIAL HIGHLIGHTS

As at 31 December 2011, the Group recorded the following:

- Turnover amounted to RMB27,520 million, representing a growth of approximately 6.23% as compared with that of 2010. The same store sales of the Group increased by approximately 5.34% over that of 2010, in which hypermarket segment grew by approximately 5.59%, supermarket segment grew by approximately 4.68% and convenience stores segment grew by approximately 6.71%.

- Gross profit amounted to RMB3,956 million, representing an increase of 9.51% over that of 2010. Gross profit margin was approximately 14.38%, representing an increase of 0.43 percentage point over that of 2010. Consolidated income amounted to RMB7,075 million, representing an increase of approximately 9.23% over that of 2010. Consolidated income margin was 25.71%.

- Operating profit amounted to RMB829 million, representing an increase of approximately 6.99% over that of 2010. Profit attributable to shareholders of the Company amounted to approximately RMB627 million, representing a growth of 0.69% over that of 2010. Basic earnings per share amounted to RMB0.56.

- The total number of outlets reached 5,150. During the period under review, the Group opened 390 new outlets, including, 15 hypermarkets, 171 supermarkets (including 32 direct operation stores and 139 franchised stores) and 204 convenience stores (including 61 direct operation stores and 143 franchised stores).

- The total dividend proposed to be distributed for the year is RMB0.20 (tax included) per share, of which the interim dividend of RMB0.08 (tax included) per share was paid and the proposed final dividend is RMB0.12 (tax included) per share.

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

Note 2: Consolidated income margin = (Gross profit + Other revenues + Other income)/Turnover

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2011

	NOTES	**2011** **RMB'000**	2010 RMB'000 (restated) *(note 2)*
Turnover	*3*	**27,520,176**	25,905,344
Cost of sales		**(23,563,736)**	(22,292,378)
Gross profit		**3,956,440**	3,612,966
Other revenue	*3*	**2,523,310**	2,417,087
Other income	*5*	**595,704**	447,601
Selling and distribution expenses		**(5,498,318)**	(4,976,611)
Administrative expenses		**(672,614)**	(648,208)
Other operating expenses		**(75,100)**	(77,633)
Finance costs		**(49)**	–
Operating profit		**829,373**	775,202
Share of profits of associates		**142,578**	178,826
Profit before taxation		**971,951**	954,028
Taxation	*6*	**(258,258)**	(243,596)
Profit and total comprehensive income for the year		**713,693**	710,432
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		**626,726**	622,415
Non-controlling interests		**86,967**	88,017
		713,693	710,432
Earnings per share – basic and diluted		**RMB0.56**	RMB0.56

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2011

	NOTES	**31/12/2011 *RMB'000***	31/12/2010 *RMB'000* (restated) *(note 2)*	1/1/2010 *RMB'000* (restated) *(note 2)*
Non-current assets				
Property, plant and equipment		**3,337,975**	2,883,016	3,031,698
Construction in progress		**67,765**	220,730	86,921
Land use rights		**304,559**	249,419	254,717
Intangible assets		**186,863**	177,615	183,917
Deposit for acquisition of property, plant and equipment		**300,000**	–	–
Interests in associates		**517,087**	503,567	449,885
Available-for-sale financial assets		**252,808**	167,158	31,271
Held-to-maturity financial assets		**238,365**	377,295	377,615
Term deposits				
– restricted		**1,893,500**	293,000	–
– unrestricted		**850,000**	1,200,000	480,000
Prepaid rental		**134,750**	108,193	138,481
Deferred tax assets		**142,213**	121,360	105,224
Other non-current assets		**23,131**	24,654	25,839
		8,249,016	6,326,007	5,165,568
Current assets				
Inventories		**3,420,822**	2,787,111	2,461,484
Trade receivables	*9*	**86,056**	117,672	74,571
Deposits, prepayments and other receivables		**884,861**	601,429	489,749
Amounts due from fellow subsidiaries		**10,810**	8,092	–
Amounts due from associates		**129**	29	34
Available-for-sale financial assets		**237,975**	500,000	610,900
Held-to-maturity financial assets		**145,191**	45,777	97,873
Financial assets at fair value through profit or loss		**–**	204,089	1,874
Term deposits				
– restricted		**1,087,700**	1,621,400	1,219,800
– unrestricted		**625,000**	660,000	1,110,000
Cash and cash equivalents		**5,566,371**	5,581,234	4,192,026
		12,064,915	12,126,833	10,258,311
Total assets		**20,313,931**	18,452,840	15,423,879

(Continued)

	NOTES	31/12/2011 RMB'000	31/12/2010 RMB'000 (restated) (note 2)	1/1/2010 RMB'000 (restated) (note 2)
Capital and reserves				
Share capital		**1,119,600**	622,000	622,000
Reserves		**2,194,309**	2,273,700	1,844,105
Equity attributable to owners of the Company		**3,313,909**	2,895,700	2,466,105
Non-controlling interests		**307,737**	329,101	464,847
Total equity		**3,621,646**	3,224,801	2,930,952
Non-current liabilities				
Deferred tax liabilities		**47,261**	49,318	51,375
Current liabilities				
Trade payables	10	**4,419,446**	4,156,708	3,492,455
Bank borrowing		**2,000**	–	–
Other payables and accruals		**2,204,370**	1,871,658	1,773,505
Dividend payable to non-controlling interest of subsidiaries		**–**	203,569	–
Coupon liabilities		**9,756,029**	8,707,200	6,944,234
Deferred income		**15,517**	21,260	30,388
Amounts due to associates		**13,014**	5,399	4,791
Amount due to ultimate holding company		**–**	–	10,023
Amounts due to fellow subsidiaries		**72,630**	105,172	93,696
Taxation payable		**162,018**	107,755	92,460
		16,645,024	15,178,721	12,441,552
Total liabilities		**16,692,285**	15,228,039	12,492,927
Total equity and liabilities		**20,313,931**	18,452,840	15,423,879
Net current liabilities		**(4,580,109)**	(3,051,888)	(2,183,241)
Total assets less current liabilities		**3,668,907**	3,274,119	2,982,327

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

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 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, No. 1258, Zhen Guang Road, Pu Tuo District, Shanghai, the PRC. The Company is listed on the main board of The Stock Exchange of Hong Kong Limited.

The directors of the Company consider that the Company's immediate holding company is Shanghai Friendship Group Incorporated, a company incorporated and listed on the Shanghai Stock Exchange, and 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

Pursuant to the resolution passed at the Directors' meeting on 15 April 2011, the Group acquired the equity interests in Shanghai Hualian Supermarket Tengzhou Limited (the "Tengzhou") at a cash consideration of RMB4,282,000 (the "Acquisition of Tengzhou"). Tengzhou was previously owned directly by Bailian Group. As the Group and Tengzhou are under the common control of Bailian Group, the Acquisition of Tengzhou has been reflected in the consolidated financial statements using the principle of merger accounting as if they had been combined from the date when the combining entities first came under the control of Bailian Group. Accordingly, the consolidated assets and liabilities of Tengzhou have been accounted for in the consolidated financial statements of the Group at their existing book values from Bailian Group's perspective. No amount is recognised in respect of goodwill nor adjustment made in respect of differences between the fair values of Tengzhou's identifiable assets, liabilities and contingent liabilities and their carrying amounts. The consolidated statement of comprehensive income includes the results of Tengzhou from the earliest date presented or since the date when Tengzhou first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The Acquisition of Tengzhou was completed on 29 September 2011.

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

	2011	2010
	RMB'000	*RMB'000*
Increase in turnover	**20,757**	17,912
Increase in cost of sales	**(18,787)**	(15,896)
Increase in other revenues	**1,812**	1,712
Increase in other income	**69**	161
Increase in selling and distribution expenses	**(3,093)**	(2,730)
Increase in administrative expenses	**(515)**	(1,384)
Increase in other operating expenses	**(50)**	–
Increase in (taxation) credit	**(190)**	58
Increase (decrease) in profit and total comprehensive income for the year	**3**	(167)
Increase (decrease) in profit and total comprehensive income for the year attributable to:		
Owners of the Company	**3**	(164)
Non-controlling interests	**–**	(3)
	3	(167)
Increase (decrease) in earnings per share – basic and diluted	**–**	–

The effect of Acquisition of Tengzhou described above on the financial positions of the Group as at 1 January 2010 and 31 December 2010 is as follows:

	As at 1/1/2010 (originally stated)	Adjustments	As at 1/1/2010 (restated)	As at 31/12/2010 (originally stated)	Adjustments	As at 31/12/2010 (restated)
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Property, plant and equipment	3,031,153	545	3,031,698	2,882,638	378	2,883,016
Deferred tax assets	104,661	563	105,224	120,739	621	121,360
Inventories	2,459,506	1,978	2,461,484	2,785,242	1,869	2,787,111
Trade receivables	74,302	269	74,571	117,370	302	117,672
Deposits, prepayments and other receivables	487,723	2,026	489,749	598,851	2,578	601,429
Cash and cash equivalents	4,191,924	102	4,192,026	5,581,005	229	5,581,234
Trade payables	(3,490,098)	(2,357)	(3,492,455)	(4,154,603)	(2,105)	(4,156,708)
Other payables and accruals	(1,773,257)	(248)	(1,773,505)	(1,870,587)	(1,071)	(1,871,658)
Coupon liabilities	(6,944,234)	–	(6,944,234)	(8,707,110)	(90)	(8,707,200)
	(1,858,320)	2,878	(1,855,442)	(2,646,455)	2,711	(2,643,744)
Total effects on equity	2,928,074	2,878	2,930,952	3,222,090	2,711	3,224,801

3. TURNOVER AND OTHER REVENUE

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

	2011	2010
	RMB'000	*RMB'000*
		(restated)
Turnover		
Sales of merchandise	**27,520,176**	25,905,344
Other revenue		
Income from suppliers	**1,913,641**	1,816,097
Gross rental income from leasing of shop premises	**496,966**	480,945
Royalty income from franchised stores	**58,913**	66,526
Commission income from coupon redemption in other retailers	**53,790**	53,519
	2,523,310	2,417,087
Total revenue	**30,043,486**	28,322,431

4. SEGMENT INFORMATION

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 the three main operations of the Group which are identified in accordance with the business nature and the size of the operations. This basis is also consistent with the basis of organisation in the Group, where management has organised the Group surrounding these three main operations. Accordingly the reportable operating segments of the Group are as follows:

- Hypermarkets chain operation
- Supermarkets chain operation
- Convenience stores chain operation
- Other operations

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. All other operations of the Group are aggregated when the information is reported to the Group's General Manager.

For the comparative purpose, the financial information of Tengzhou has been included in the segment information for the year ended 31 December 2010.

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**	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(restated)		(restated)
Hypermarkets	**17,655,962**	16,055,573	**352,728**	330,820
Supermarkets	**10,400,556**	10,190,300	**359,200**	351,088
Convenience stores	**1,866,298**	1,870,978	**14,420**	40,007
Other operations	**120,670**	205,580	**97,094**	102,741
	30,043,486	28,322,431	**823,442**	824,656

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

	2011	2010
	RMB'000	*RMB'000*
		(restated)
Segment results	**823,442**	824,656
Interest income	**74,294**	22,919
Unallocated income	**67,802**	47,779
Unallocated expenses	**(136,165)**	(120,152)
Share of profits of associates	**142,578**	178,826
Consolidated profit before taxation	**971,951**	954,028

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:

	31/12/2011	31/12/2010
	RMB'000	*RMB'000*
		(restated)
Segment assets		
– Hypermarkets	**10,766,439**	9,603,936
– Supermarkets	**6,200,622**	5,642,358
– Convenience Stores	**390,816**	314,422
– Other operations	**269,076**	175,673
Total segment assets	**17,626,953**	15,736,389
Investments in associates	**517,087**	503,567
Other unallocated assets	**2,169,891**	2,212,884
Total assets	**20,313,931**	18,452,840

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

Other segment information

2011

			Convenience	Other	
	Hypermarkets	**Supermarkets**	**stores**	**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)*	**1,002,573**	**254,939**	**23,975**	**473**	**1,281,960**
Depreciation	**252,540**	**243,406**	**19,466**	**14,322**	**529,734**
Amortisation	**2,804**	**8,093**	**772**	**4,900**	**16,569**
Impairment losses on property, plant and equipment	**9,292**	**5,516**	**380**	**–**	**15,188**
Loss (gain) on disposal of property, plant and equipment	**(2,300)**	**8,241**	**(2,645)**	**258**	**3,554**
Interest income	**145,088**	**49,876**	**296**	**32,575**	**227,835**
Finance costs	**–**	**–**	**–**	**49**	**49**

Note: Addition to non-current assets include the additions of property, plant and equipment, construction in progress, land use rights, intangible assets and deposit for acquisition of property, plant and equipment.

2010

		Convenience	Other		
	Hypermarkets	Supermarkets	stores	operations	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(restated)			(restated)
Amounts included in the measure of segment results or segment assets:					
Addition to non-current assets	351,619	202,534	22,239	443	576,835
Depreciation	331,823	149,382	22,621	14,138	517,964
Amortisation	13,458	5,861	929	4,403	24,651
Impairment losses on property, plant and equipment	6,525	7,012	2,950	–	16,487
Loss (gain) on disposal of property, plant and equipment	4,257	690	577	(13)	5,511
Interest income	61,965	66,596	205	42,511	171,277

Geographical information

The Group's operations and non-current assets are substantially located in the PRC. Revenues from external customers are substantially derived from customers located in the PRC. Therefore, no analysis of geographical information is presented.

Information about major customers

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

5. OTHER INCOME

	2011	2010
	RMB'000	*RMB'000*
		(restated)
Interest income on cash and term deposits	**302,129**	194,196
Government subsidies *(note)*	**51,957**	48,118
Gain on disposal of fair value gain on financial assets at fair value through profit or loss	**4,857**	31,250
Interest income from available-for-sale financial assets	**53,629**	22,855
Interest income from held-to-maturity financial assets	**20,217**	26,307
Gain on disposal of a subsidiary	**41,619**	–
Compensation for relocation	**–**	7,941
Dividend from unlisted equity investments	**25,081**	9,136
Salvage sales	**32,890**	27,279
Others	**63,325**	80,519
Total	**595,704**	447,601

Note: The Group received subsidies from the PRC local government to encourage the operations of certain subsidiaries.

6. TAXATION

	2011	2010
	RMB'000	*RMB'000*
		(restated)
PRC income tax		
– Current taxation	**281,168**	261,789
– Deferred taxation	**(22,910)**	(18,193)
	258,258	243,596

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 EIT tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards. During the year, certain subsidiaries are taxed at preferential rate of 15% to 24% (2010: 15% to 22%).

	2011		2010	
	RMB'000	%	*RMB'000*	%
			(restated)	
Profit before tax	**971,951**		954,028	
Tax at the PRC statutory income tax rate of 25% (2010: 25%)	**242,988**	**25.0**	238,507	25.0
Tax effect of share of profit of associates	**(35,645)**	**(3.7)**	(44,707)	(4.7)
Tax effect of expenses not deductible for tax purpose	**9,853**	**1.0**	12,885	1.4
Tax effect of income not taxable for tax purpose	**(18,030)**	**(1.9)**	(18,596)	(1.9)
Tax effect of tax losses not recognised	**92,943**	**9.6**	76,760	8.0
(Utilisation of) previously unrecognised deductible temporary differences	**(25,748)**	**(2.6)**	5,216	0.5
Utilisation of tax losses previously not recognised	**(7,671)**	**(0.8)**	(18,988)	(2.0)
Effect of tax exemptions and preferential tax rates granted to certain PRC subsidiaries	**(432)**	**–**	(7,481)	(0.8)
Tax charge and effective tax rate for the year	**258,258**	**26.6**	243,596	25.5

7. DIVIDEND

	2011	2010
	RMB'000	*RMB'000*
Dividend recognised as distribution during the year:		
2011 interim dividend RMB0.08 (2010: 2010 interim dividend RMB0.15) per share paid	**89,568**	93,300
2010 final dividend RMB0.18 (2010: 2009 final dividend RMB0.16) per share paid	**111,960**	99,520
	201,528	192,820

At a meeting held on 21 March 2012, the Directors proposed a final dividend of RMB0.12 (2010: RMB0.18) per share with the share number of 1,119,600,000 (2010: 622,000,000) for the year ended 31 December 2011, totalling RMB134,352,000 (2010: RMB111,960,000). The proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings in the year ending 31 December 2012 upon approval by the shareholders at the forthcoming Annual General Meeting.

8. EARNING PER SHARE

The calculation of the basic and diluted earning per share is based on the following data:

	2011	2010
	RMB	*RMB*
		(restated)
Earnings		
Profit for the year attributable to owners of the Company *(RMB'000)*	**626,726**	622,415
		(restated)
Number of shares *(note)*		
Weighted average number of ordinary shares for the purpose of calculation of basic and diluted earnings per share	**1,119,600,000**	1,119,600,000

Note: For the year ended 31 December 2010, the number of ordinary shares for purpose of basic and diluted earning per share has been adjusted retrospectively for the Bonus Issue completed in September 2011.

9. TRADE RECEIVABLES

The aging 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

	31/12/2011	31/12/2010	1/1/2010
	RMB'000	*RMB'000*	*RMB'000*
		(restated)	(restated)
Within 30 days	**81,582**	105,500	60,227
31-60 days	**698**	1,196	14,082
61-90 days	**114**	3,254	176
91 days – one year	**3,662**	7,722	86
	86,056	117,672	74,571

Movement in the allowance for doubtful debts is as the follows:

	2011	2010
	RMB'000	*RMB'000*
		(restated)
1 January	**12,162**	12,275
Amounts reversed during the year	**(2,469)**	(113)
31 December	**9,693**	12,162

10. TRADE PAYABLES

The aged 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

	31/12/2011	31/12/2010	1/1/2010
	RMB'000	*RMB'000*	*RMB'000*
		(restated)	(restated)
Within 30 days	**2,547,329**	2,345,761	2,984,705
31-60 days	**839,162**	804,083	296,485
61-90 days	**365,848**	370,184	104,145
91 days – one year	**667,107**	636,680	107,120
	4,419,446	4,156,708	3,492,455

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Environment

In 2011, the international situation was complicated and challenging and the domestic economy encountered more difficulties and challenges. The macro-economic control implemented by the PRC government based on the theme of scientific development by way of transformation of the economic development focused on structural adjustment, methodological change, market price control and livelihood benefits so as to facilitate an orderly shift of the national economy from policy-stimulated to organic growth. The economy maintained a stable and relatively rapid growth as a whole and resulted in a good opening of the "Twelfth Five-Year Plan".

In 2011, gross domestic product (GDP) in the PRC reached RMB47,156.4 billion, representing an increase of 9.2% over 2010 at comparable prices according to the National Bureau of Statistics. The government continued to launch various measures to stimulate consumption, which played a more important role in economic growth and fostered further development of the retail industry. In 2011, the contribution of internal demand to GDP growth amounted to 105.8%, among which the contribution of final consumption amounted to 51.6%, representing an increase of 14.8 percentage points over 2010. Total retail sales of consumer products grew by 17.1% to RMB18,391.9 billion when compared with 2010, or by 11.6% in real terms excluding price factor. Consumers' Price Index (CPI) reached a high of 6.5% in July 2011 before retreating but was still at a high level for the year with an increase by 5.4% over 2010.

In 2011, the income of urban and rural residents grew steadily. Total annual income per capita of urban resident amounted to RMB23,979, among which disposable income per capita amounted to RMB21,810, representing an increase of 14.1% as compared with 2010 and an increase of 8.4% in real terms excluding price factor. Income of rural residents grew faster than that of urban residents with net annual income per capita amounting to RMB6,977, representing an increase of 17.9% over 2010 and an increase of 11.4% in real terms excluding price factor. The growth in national income per capita is a driving force set for the sustainable development of retail enterprises.

However, it is worth mentioning that although the CPI waxed and waned, the food price persistently grew at the high level and, in turn, consumer demand shrank to a certain extent. Various costs, in particular with unusual labour cost increase, depressed the earnings of the retail industry. The emergence of counterfeit and inferior food products rocked consumer confidence. These factors all posed great challenges to the development of the retail industry in 2011.

The domestic and international environment have become more complicated with rising uncertainties and a higher level of instability since the beginning of 2012. The economy of China is under pressure as growth is slowing down. However, the Group believes that the fundamentals for stable and rapid growth of the economy of China in the medium-to-long term still remain unchanged, thanks to the great potential of internal demand, which will be driven by the factors of sustained urbanization, the improvement of personal income tax reform, increased subsidies to low-to-middle income groups, the rising income level of the residents and the enhancement of the social security system. Stable growth of consumers' consumption will provide substantial room for dynamic development of the retail industry.

Financial Review

Growth in turnover and consolidated income

During the period under review, the Group recorded a turnover of approximately RMB27,520,176 thousand, of which the turnover of hypermarket segment accounted for 58.4%. The Group's turnover recorded in 2011 represented an increase of approximately 6.2% from approximately RMB25,905,344 thousand in 2010, or an increase of approximately 6.7% excluding the effect of the turnover increase from the 2010 Shanghai World Expo. The steady increase in turnover was mainly due to sales growth in comparable outlets driven by CPI where the annual turnover in comparable outlets grew by approximately 5.34% as compared to 2010, and outlet development with both quality and volume, continuous product mix adjustment and creative marketing and promotion activities.

During the period under review, the consolidated income of the Group reached RMB7,075,454 thousand, representing an increase of RMB597,800 thousand or 9.2% as compared with approximately RMB6,477,654 thousand of 2010. The continuous improvement in the consolidated income was mainly due to the fact that: (1) the gross profit of the Group was approximately RMB3,956,440 thousand, representing an increase of RMB343,474 thousand or approximately 9.5% as compared with approximately RMB3,612,966 thousand of 2010 and the stable growth in the gross profit led to a growth in gross margin by 0.43 percentage point to 14.38%; (2) the Group completed the business integration with Hualian Supermarket Holdings Co., Ltd. ("Hualian Supermarkets") to jointly enjoy the advantages of merchandise procurement and distribution resources, facilitate the integration of merchandise resources, enhance the bargaining power with suppliers, effectively improve contract transaction terms, thereby raising the centralisation efficiency, and, during the period under review, the income received from the suppliers amounted to RMB1,913,641 thousand, representing an increase of 5.4% as compared with the previous year;

and (3) the Group maintained sufficient cash flow, adopted prudent principles and carried out professional management, thereby achieving a stable growth in capital gains, and during the period under review, capital gains were approximately RMB405,913 thousand, representing an increase of approximately 43.1% from the previous year. The steady growth in the consolidated income resulted in the consolidated income margin standing at 25.71%, increased by 0.70 percentage point from 2010.

Operating cost and net profit

During the period under review, the distribution expenses and administrative expenses of the Group amounted to RMB5,498,318 thousand and RMB672,614 thousand respectively, representing a cost ratio of distribution expenses and administrative expenses at 22.42%, increased by 0.71 percentage point as compared to the previous year. The year-on-year increase in the cost ratio of distribution expenses and administrative expenses was mainly due to the rigid growth in labour cost, rental costs and utilities charges. During the period under review, the labour cost, rental costs and utilities charges were RMB2,448,145 thousand, RMB1,528,145 thousand and RMB505,853 thousand, respectively. The rise in labour costs was primarily due to the fact that the minimum wage was adjusted upward in 2011: the minimum wage level was adjusted in 24 provinces nationwide with an average growth of 22%, and the higher number of the staff due to newly-opened outlets of the hypermarket segment. The rise in rental costs was primarily due to the rigid increment from renewed outlet rental fees and the rental cost of newly-opened outlets. The Group strived to proactively improve the level of consolidated income to deal with the challenges of the rising distribution expenses and administrative expenses. Meanwhile, the Group continuously improved its human resources system and cost and expense flow management and approval system to realise reasonable control over expenses.

During the period under review, the Group recorded an operating profit of approximately RMB829,373 thousand, representing an increase of approximately 7.0% as compared to 2010. The operating profit margin was 3.01%, representing a slight increase as compared to 2010. Excluding the effect on the operating profit as a result of the 2010 Shanghai Word Expo, the Group's operating profit margin would have increased by approximately 0.1 percentage point as compared to the previous year. The Group's principal business maintained a stable operating profit margin despite the huge pressure from rising costs.

During the period under review, the Group's share of revenue of associated companies was approximately RMB142,578 thousand. As associated companies of the Company were also challenged by the unfavorable market environment, their sales growth was hindered while facing pressure from nurturing the newly-opened outlets of hypermarket business and the rising costs, and their net profit declined as compared to the previous year. As a result, the Group's share of revenue of associated companies decreased by approximately 20.3%. During the period under review, Shanghai Carhua Supermarket Company Limited ("Shanghai Carhua") opened three new outlets. As of the end of 31 December 2011, Shanghai Carhua had 22 outlets in total.

During the period under review, the Group recorded a total profit and consolidated income attributable to the Company's shareholders of approximately RMB626,726 thousand, representing an increase of approximately 0.7% from 2010. Basic earnings per share amounted to RMB0.56, maintaining the same level as compared to 2010.

Cash flow

During the period under review, the Group's net cash outflow was approximately RMB14,863 thousand. Cash and miscellaneous bank balances as at the period end amounted to RMB10,023 million for the year ended 31 December 2011, representing an increase of 7.1% from the previous year. With the Group's continued expansion of outlet resources and continuous growth in turnover as well as consumption by deposits of members, sufficient cash flow was maintained, thereby ensuring a solid foundation for its business growth.

For the year ended 31 December 2011, the turnover period of the Group's trade payables was approximately 62 days, and inventory turnover period was approximately 38 days.

During the year under review, the Group did not use any financial instruments for hedging purposes and the Group did not issue any hedging instruments as at 31 December 2011.

Growth in retail businesses

Hypermarkets

During the period under review, the turnover of the Group's hypermarkets segment increased by approximately 10.3% when compared to that of 2010 to approximately RMB16,082,043 thousand, which accounted for approximately 58.4% of the Group's total turnover, representing an increase of 2.2 percentage points when compared with previous year. The gross profit margin increased by 0.34 percentage point to 13.47%. The same store sales increased by approximately 5.59%. The growth of turnover and same store sales of hypermarket segment were higher than the average level of the Group, which demonstrated its strong growth momentum in recent years as the primary business contributor. The segment's operating profit was approximately RMB352,728 thousand, representing an increase of approximately RMB21,908 thousand from 2010. The operating profit margin was 2.19%, representing a slight decrease when compared to that of 2010. The hypermarket segment took active moves in developing new outlets and increased sales by boosting key and strong outlets. It continued the strategy of procurement from places of origin and optimising the merchandise mix and launched the Group's own logistics delivery system to replace some third party delivery services to improve satisfaction rate of merchandise supply while lowering the logistics costs. Overall operating capabilities were enhanced and the pressure from rising rental and labour costs were effectively removed.

As at 31 December	**2011**	2010
Gross Profit Margin (%)	**13.47**	13.13
Consolidated Income Margin (%)	**24.95**	24.46
Operating Profit Margin (%)	**2.19**	2.27

Supermarkets

During the period under review, the supermarket segment fully completed the business integration for the Hualian Supermarket, and recorded a turnover of approximately RMB9,617,432 thousand, representing an increase of approximately 2.0% as compared to that of 2010 and accounting for approximately 34.9% of the Group's total turnover. The supermarket segment benefited from the strengthening outlet transformation and the enhancement of fresh merchandise operation. The same store sales increased by approximately 4.68%. During the period under review, the gross profit was approximately RMB1,495,593 thousand, representing an increase of 7.8% when compared to corresponding period of 2010, and the gross margin grew by 0.84 percentage point to 15.55%. The consolidated income margin rose by approximately 0.58 percentage point to 24.63%. The increase of gross profit margin and consolidated income margin were due to continuous diversified and flexible marketing and promotion activities as well as the centralisation efficiency from business integration. During the period under review, the operating profit from the supermarket segment was approximately RMB359,200 thousand, slightly increased by 2.3% as compared to that of 2010. The operating profit margin was 3.73%, maintaining the same level as in 2010 and seeing the effects of business integration in releasing the pressure caused by cost increase.

As at 31 December	**2011**	2010 (restated)
Gross Profit Margin (%)	**15.55**	14.71
Consolidated Income Margin (%)	**24.63**	24.05
Operating Profit Margin (%)	**3.73**	3.72

Convenience stores

During the period under review, the Group's convenience store segment recorded a turnover of approximately RMB1,733,631 thousand, accounting for approximately 6.3% of the Group's total turnover, representing a decrease of approximately 0.7% as compared to that of 2010. Excluding the effect of the store closure at 2010 Shanghai World Expo, its turnover grew by 5.9%. Affected by the close of Shanghai World Expo and more intense competition, this segment's turnover growth was once stagnant. However, the Group continuously carried out a differentiated operating strategy, expanded existing store business scope, developed "Little Q" series branded merchandises, and held the unique national commodity exhibition to enhance the overall operating capacities of stores. The convenience store segment also launched unique marketing and promotion activities, and the same store sales increased by approximately 6.71%. During the period under review, the gross profit margin of convenience store segment was 15.41%, representing a decrease of 1.13 percentage points compared to that of 2010 or flat when the gross profit margin was recorded excluding the effect of the store business in 2010 Shanghai World Expo Park. The consolidated income margin was 24.03%, representing a decrease of 0.88 percentage points as compared to that of 2010 or a decrease of 0.3 percentage points as compared to that of 2010 excluding the effect of store business in 2010 Shanghai World Expo Park. Due to the rigid rise in minimum wage, rental costs and utilities charges, the operating profit margin was 0.83%, representing a decrease of 0.91 percentage point when compared with that of 2010 excluding the effect of store business in 2010 Shanghai World Expo Park. In face of the challenging business environment, the segment was now exploring new thoughts and developing new business to enhance store sales in the hope of removing pressure from rising operating cost and effectively increasing operating profit margin.

As at 31 December	**2011**	2010	2010 (excluding the effect of Shanghai World Expo)
Gross Profit Margin (%)	**15.41**	16.54	15.43
Consolidated Income Margin (%)	**24.03**	24.91	24.36
Operating Profit Margin (%)	**0.83**	2.29	1.74

Capital structure

As at 31 December 2011, the Group's cash and bank balances were mainly held in Renminbi, and the Group had no other bank borrowings, except for new borrowings of RMB2,000,000 due within one year from a non-wholly-owned subsidiary of the Group.

During the period under review, equity attributable to shareholders of the Group increased from RMB2,895,700 thousand to RMB3,313,909 thousand, which was mainly due to the increase in profit amounting to RMB626,726 thousand, dividends distribution amounting to RMB201,528 thousand, consideration of RMB4,282 thousand paid for the acquisition of Shanghai Hualian Supermarket Tengzhou Co., Ltd. and the amount of RMB2,707 thousand paid for the increase of the equity interest in the Group's subsidiaries.

Details of the Group's pledged assets

As at 31 December 2011, 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 did not enter 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 2011, the issued share capital of the Company was as follows:

Class of shares	**Number of Shares in issue**	**Percentage**
Domestic shares	639,977,400	57.16
Unlisted foreign shares	107,022,600	9.56
H shares	372,600,000	33.28
Total	1,119,600,000	100.00

Contingent liabilities

As at 31 December 2011, the Group did not have any material contingent liabilities.

Operating Review

Outlet development

During the period under review, the Group focused on achieving growth both in quality and volume and made efforts to reach the goal of "Becoming a Regional Leader and a National Strong Player". The Group executed its strategy of focused development and secured scale advantage, paving the way for a leading position through transformation and upgrade of its franchising model.

During the period under review, the Group continued its in-depth development in the Eastern China area, and 15 new hypermarkets were opened, including three in Shanghai, five in Zhejiang Province, four in Jiangsu Province, two in Anhui Province and one in Sichuan Province. Meanwhile, in other regions, the Group, after careful consideration, closed certain outlets suffering long-term losses and retreated from some markets due to unfavorable operating conditions to avoid prolonged losses. Six outlets were closed, including two in Jiangsu Province, two in Hebei Province, one in Guangdong Province and one in Guangxi Zhuang Autonomous Region. The Group currently operates a total of 125 hypermarkets in Shanghai, Zhejiang Province, Jiangsu Province and Anhui Province, commanding in a leading position in the Eastern China area.

During the period under review, 171 new supermarkets were opened, including 32 directly-operated supermarkets (five were transformed outlets from convenience store segment) and 139 franchised supermarkets. Based on the original double brands of "Lianhua Supermarket" and "Hualian Supermarket", the Group has begun adopting the "Lianhua Supermarket" brand for its newly-opened supermarkets as well as supermarkets under lease renewal. The Group maintained the growth pace of its directly-operated stores, especially in the middle and high-end markets. Meanwhile, during the period under review, the rental increase at supermarket outlets operated under renewed leases reached a historical high. The Group managed to renew the leases of more than 64% of the outlets with expired lease terms through painstaking negotiations. During the period under review, the Group adjusted its franchised stores development strategy for the supermarket segment. The growing number of franchised stores enabled the Group to expand market share and contributed to the standardization of the retail market. However, franchised stores create potential risks for the Group in terms of quality control and management with respect to compliance with policies and rules and regulations. Accordingly, the Group continued to optimize its network of franchised stores to increase consistency and closed some stores which were not strictly consistent with the Group's business principles, and 139 franchised stores were opened while 160 franchised stores were closed during the period under review. This strategic adjustment will have a significant effect on enhancing outlet quality and controlling operational risk.

During the period under review, 204 new convenience stores were opened, including 61 directly-operated stores and 143 franchised stores. The convenience stores carried out periodic development strategies taking into account the regional characteristics in the market already entered into and were keen on promoting successful trials in other regions. The Group concentrated on rapid development in Beijing, thereby continuously expanding its local market share. In Zhejiang Province, the Group focused on the development and enhancement of franchised stores in cities with a presence, further maintaining its leading position in the number of outlets and sales volume. The Group concentrated on outlet development in high-end areas in Shanghai, and actively introduced improvement plans for existing outlets in order to boost sales. It also explored new ideas for outlet development in Dalian City of Liaoning Province, such as cooperating with local business hotels to open stores inside the hotels and cooperating with local authorities to set up a convenience store (free of rent) in a business building as a business practice base for university students.

As at 31 December 2011, the Group had a total of 5,150 outlets, approximately 85% of which were located in the Eastern China area.

	Hypermarkets	Supermarkets	Convenience Stores	Total
Direct operation	152	669	947	1,768
Franchised operation	–	2,315	1,067	3,382
Total	152	2,984	2,014	5,150

Note: The above information was as of 31 December 2011.

Achieving higher efficiency through business integration

With the completion of the restructuring focusing on merchandise management and supermarket segment consolidation regarding procurement, distribution, information systems and financial accounting, during the period under review, the Group furthered its integration so as to strengthen the achievements.

Following the restructuring of its merchandise system in Shanghai area in 2010, during the period under review, the Group centralized the procurement for previous Lianhua and Hualian supermarkets during the period under review. Headquarters increased centralized procurement from quality suppliers which were selected after structural analysis of the suppliers of various segments. The Group also leveraged its scale advantage to lower merchandise cost and improve gross profit based on comparative analysis of the contract terms offered by suppliers of both entities.

During the period under review, the Group continued to implement its Two Warehouses Integration project for normal temperature distribution centers. With the direct delivery online procurement platform (B2B platform) of Lianhua supermarkets extended to Hualian supermarkets, Taopu distribution center ("Tao Warehouse") is now responsible for distribution to both Lianhua supermarkets and Hualian supermarkets, while Caoyang distribution center ("Cao Warehouse") was converted from a supermarket distribution center to a hypermarket distribution center for Shanghai, Jiangsu Province and Anhui Province. During the period under review, the number of outlets served by Tao Warehouse increased from 1,122 at the end of 2010 to 1,888 by the end of 2011, with the value of distributed products increased by 60.17%, while cost increased by only 34.88% compared to 2010. As a result of the Two Warehouse Integration project, the efficiency of the distribution centers was improved. Tao Warehouse's distribution fee ratio decreased by 0.37 percentage point, from 2.33% in 2010 to 1.96% in 2011, against continuous increase in various costs. Despite all difficulties in the transformation, Cao Warehouse eventually solved various logistical challenges created by the mismatch between the size of household appliances and transportation equipment. Distribution to hypermarkets in Shanghai area, reaching approximately RMB1.14 billion during the period under review, was carried out smoothly by Cao Warehouse, providing better merchandise support for hypermarkets. In response to the "panic-buying" of salt and household chemical products in 2011, Cao Warehouse took advantage of its abundant reserves to ensure that hypermarkets had sufficient supply. The Group has found an effective way to dig out the utility of existing logistics before the commencement of operations of the Jiangqiao Logistics Center (江橋物流中心) of the Group providing experience for planning the distribution programme of Jiangqiao Logistics Center.

During the period under review, the Group continued the consolidation of its information systems with the construction of a regional office information platform. It upgraded and integrated the OMS (Operation Management System), DMS (Distribution Management System), BMS (Business Management System), and FAS (Financial Assistant System) of the supermarket segment. It also transformed all the OMS used by Hualian Supermarket outlets to facilitate the procurement and receipt of goods, restocking, inventory management and invoice auditing in all directly-operated stores, which were then fully integrated into the regional offices business platform of Shanghai Lianhua Supermarket Development Co., Ltd ("New Supermarket", consolidated from the previous Lianhua supermarkets and Hualian supermarkets, covering directly-operated and franchised stores). Transformation and integration of the franchising system for supermarkets in Shanghai were started by upgrading the franchising business platform systems of previous Hualian supermarkets, such as ordering, capital management and outlets contracting management systems. Information system integration for New Supermarket ensured a unified flow in business, logistics, information and capital, achieving consistency, completeness and accuracy of data, and providing information sharing among headquarters, regional offices and outlets, enhancing its ability of outlet operations and information management and thus laying a solid foundation for further growth.

During the period under review, the above mentioned system consolidation further incorporated the Hualian Supermarket system into that of the Group. The Group acquired Hualian Supermarket in 2009 and all related business integration was completed in 2011, which effectively supported the Group's business model of "Centralizing Regional Resources, Sharing National Resources" and facilitated the implementation of the Group's operating strategy of "Becoming a Regional Leader and a National Strong Player".

Enhancing merchandise competitiveness through operation improvement

During the period under review, after evaluating current stores in respect of their neighbourhood markets and growth potential, the Group selected candidate stores with great potential and categorized them as flagship, model, and training stores with tailored growth targets and growth plans and improved the operation of key outlets through the implementation of a tracking and communication mechanism for monthly, quarterly and semi-annual work progress. With an improved product mix, optimized pricing strategy, better fresh food offering, improved shopping environment and increasing marketing and promotional activities, both sales and profit of the key stores increased significantly despite the increasingly intense competition, laying a foundation for expansion in the number of key outlets in the future.

During the period under review, fresh product operations were further strengthened as the Group raised its quality requirements. Construction for fresh produce production bases progressed well with the development of a number of bases in regions such as Guangxi Zhuang Autonomous Region, Jilin Province, Hainan Province, Fujian Province and Jiangsu Province. As at 31 December 2011, the Group had 332 fresh produce bases. The Group selected certain fresh produces for large scale cultivation to further reduce purchase costs. By facilitating various regions to share the resources of fresh produce bases in various regions, the Group strengthened its procurement scale advantages. Besides, the Group focused on the launch of new fresh products, innovative mechanisms and professional training. New products were introduced continuously, especially for convenience stores where instant cold and hot foods were added to meet customers' needs. In Shanghai, the Group implemented contractual incentives for vendors of several fresh product categories to successfully promote sales in outlets. Furthermore, the Group continued to strengthen training and guidance for fresh produce operators, which further increased operational capacity of fresh products. During the period under review, the Group optimized its corporate fresh product operation review system and strengthened its fresh product supervision system at the levels of the headquarters, regional offices and outlets accordingly.

During the period under review, the Group bought up more merchandise to guarantee adequate supplies in outlets during peak seasons such as festivals, holidays and season shifts, etc. The merchandise management department of the Group set up an operation team responsible for buying up stocks in bulk, determining buying-up plans for popular products and specialty products as prepared for the Spring Festival and other holidays. These concepts were applied to a growing number of product categories. The Group also placed emphasis on inventory of daily necessities and lowered the purchasing costs by buying larger quantities. The Group assured merchandise supply, increased gross margin and kept market prices stable through higher frequency of monitoring product origins, enhanced market price monitoring system, improved overall evaluation and management system for buying-up merchandise, and the establishment of a tracking system for sales and inventory for buying-up merchandises as well.

During the period under review, the Group upgraded the quality and cost performance of its private label merchandise to maintain competitive edges of its brands, resulting in substantial sales increase for these products. During the period under review, sales attributable to the Group's private label merchandise accounted for over 3% of total sales, representing an increase of 42.9% compared with 2010. The convenience store segment's products branded with the cartoon image "Little Q", such as handkerchiefs, wet wipes, magic boxes and umbrellas, were well received by customers and enhanced its brand image.

During the period under review, the Group resorted to price management to enhance the operation level of the outlets. The Group paid attention to the regulated use of the price tags at the outlets. Competitive pricing market research was conducted weekly for different product categories and prices in outlets were adjusted to remain competitive. The Group determined price ranges according to the sensitivity of merchandises, and monitored sales of local competitors to adjust prices on a timely basis.

During the period under review, the number of food safety incidents in the supermarket industry outnumbered that of previous years. Reputable brands and suppliers were involved in most cases and consumers started to lose faith in food safety. These had a significant impact on the Group and on the industry as a whole. After careful review of its safety standards, the Group decided not to rely solely on the various legal licenses and quality inspection reports of those food suppliers, and contended that, as a market leader, it should do more than what is required by law to ensure safety and enhance its brand image. The Group raised its quality monitoring requirements on food, especially fresh produce, implemented five significant measures and endeavoured to improve the quality control process, strengthened the management of procurement from places of origin, set up a food safety inspection division, increased outlet inspection and enhanced trainings on food safety topics to ensure stringent food safety. With the establishment and operation of the food safety department of the Company, the long-term food safety supervision mechanism was improved gradually. The food inspection center was established in May 2011. Since then and up to the end of 2011, it had undertook quality safety tests of more than 1,000 items and 1,600 projects applying various methods including laboratory microorganism tests, standard laboratory tests, onsite quick inspection of outlets, onsite quick inspection of suppliers and inspection by professional agencies. The Group pioneered the implementation of the relevant requirements of Attached Documents for Alcohol Circulation issued by the Ministry of Commerce to prevent the adulterated or inferior alcohol merchandises from circulating in the market. The Group also set up a complete pork distribution database to build a thorough and complete pork safety supervision network in all aspects of pork distribution from delivery at a fresh meat processing center, receipt and inspection at outlets and further processing at outlets to point of sales terminals.

Facilitating marketing and innovation through transformation

During the period under review, all segments of the Group continued to undergo transformation. In the hypermarket segment, two outlets, one in Shanghai and one in Zhejiang Province, were closed for renovation. Internal decoration, functional layout, product mix and quality of commercial tenants in the two outlets were totally modified to adapt to the most recent market trends. These two hypermarkets had achieved good sales results since their re-opening. At "Youpin Living Museum" (優品生活館), the flagship outlet situated at Shanghai Stadium, it introduced the international fashion elements with sales of merchandises of world brands and its facilities and services were customer-oriented. In the supermarket segment, the Group not only pushed forward the transformation of the directly-operated supermarket outlets previously owned by Hualian Supermarket, but also continued to bring forward other operation models such as "fresh product supermarket" and "franchised store with strict consistency". In the first half of 2011, the Group opened a high-end supermarket, branded City Life, which was the first in Hangzhou of Zhejiang Province. So far, City Life had been well-received due to audacious introduction of new items, adjustment and optimization of brand structure and specialty and serialization of brand operation. The second City Life was opened at the end of the year. As for the convenience store segment, focus was also put on the development and design of high-end stores. The convenience store segment set up a management head office for high-end stores, and opened two high-end outlets, incorporating more facilities for on-site cooking, such as instant food bar and ground coffee, etc., aiming to expand instant food sales. Meanwhile, the convenience store segment actively explored the electronic shelf pre-sale business model.

During the period under review, the Group celebrated its 20th anniversary. Taking advantage of this opportunity, the Group launched a series of marketing activities across different segments in various areas. For example, five rounds of direct mail (DM) marketing activities with the theme of "Prosperous 20 Years" (綻放20年) were launched by the Group's supermarket segment. The convenience store segment carried out a number of special marketing activities for various festivals, such as baskets for the Spring Festival, flowers for Valentine's Day, Qingtuan rice roll (青團) for Ching Ming Festival, coupons for Labour Day and rice dumplings for Dragon Boat Festival, etc. In addition, thanks to the promotion of product combinations, wholesale and barter, the Group raised its customer traffic and increased brand recognition and client loyalty to build a stable client base. The convenience store segment conducted a three-month sales exhibition covering special merchandises from across the nation starting from May 2011, through which 19 popular local merchandise were selected from Dalian, Beijing, Hangzhou and Ningbo of Zhejiang Province for promotion and sales in outlets across Shanghai. In Shanghai, the Group also organised automobile sweepstakes with the theme of "Driving a Car back Home without Shopping" (無需購物，贏取臻榮座駕) and scratch card marketing activities with the theme of "Winning Shopping Rewards with Surprise Coming out Every Week" (購物贏大獎，周周有驚喜). In Zhejiang Province, sales of general merchandises were promoted through a series of marketing schemes for snack foods like "Free Taste + Recommended Products on Sale" (試吃推廣+促銷推薦). In Guangxi Zhuang Autonomous Region, the Group carried out activities like sweepstakes and gift coupon dispatch for high-spending-per-ticket customers, so as to attract customers and increase overall sales. These 20th anniversary promotional activities further enhanced the brand image among consumers.

During the period under review, the Group further developed its e-business, integrating its online shopping network and developed concrete category strategies accordingly, among which Zhejiang Province's online shopping service executed its strategy of "Quality Image for Imported Merchandise and High Cost Performance for Private Label Brands" (進口商品樹立品質形象，自有品牌樹立高性價比的形象) resulting in average transaction price of approximately RMB117 per transaction during the period under review. The website of Lianhua Mart (聯華易購)

(www.lhmart.com), a shopping website set up in Shanghai by the the Group, was open to the public on 6 December 2011 and achieved an average transaction price of approximately RMB140 per transaction in less than a month through promoting group consumption, scrolling marketing and maternity and children products marketing.

2011 was an eventful year for the Group. Substantial cost increases reduced profit growth of the Group. Greater market competition and shrinking customer demand reduced sales growth of the Group. While the Group continued to achieve sales and profits growth in 2011, the growth rate began to slow down. Externally, the Group was affected by macro-economic circumstances, greater competition and rigid increase in various costs. In particular, the rapid changes in government policies in food safety, retailer-supplier relationships, tax structure, prepaid card and consumer protection, gave rise to new problems for the supermarket industry as a whole, to which the related departments of the government had also paid a lot of attention. Internally, the centralization of the regional resources was basically completed after internal restructuring over the last two years but outlets had not yet completely shared the benefits brought by the restructuring. In particular, inconsistencies continued to exist in terms of operation and procurement, and those inconsistencies undermined the benefits of resources centralization. The Group has reached internal consensus to implement further reforms.

Employment, Training and Development

As at 31 December 2011, the Group had a total of 60,590 employees, representing an increase of 1,024 employees during the period under review. Total staff costs were RMB2,448,145 thousand.

During the period under review, the Group continued to optimize the integration of merchandise distribution and logistics, and completed the restructuring of organizational structure of departments accordingly. The Group formulated reforms based on the analysis and research on management duties, duty system, staff status, remuneration system, performance evaluation plan, and organizational culture, etc, and consolidated human resources to optimize post setting and staff deployment and control costs reasonably. At the same time, the Group analyzed ways to minimize labour costs so as to ensure reasonable and effective implementation of the budget of labour costs.

During the period under review, the Group strengthened the implementation of the post accountability system and improved its performance evaluation methods over different posts and duties. For example, the Group upgraded the performance evaluation of the merchandise procurement staff by closely linking their performance with their remuneration level, thereby enhancing the benefits of the Company. For the 30 major projects the Group implemented in the year, plans were formulated with explicit assignment of responsibility, with the progress of each project serving as the key indicator in individual's annual performance assessment.

During the period under review, the Group also formulated the talent team cultivation plan and the career planning of fresh graduates and held seminars for management trainees and young managers, in an effort to support the development of its future management team. During the period under review, the Group continued to provide training services for staff of all management levels to effectively enhance personal and team performance. In order to support the development and motivation of front-line personnel, the Group set out the development of highly skilled personnel as annual performance criterion of various subsidiaries and established five staff skill development associations. It also held several trainings and labour competitions to address weakness in employees' operating skills and enhance their operating and management skills.

Strategy and Plan

2012 is the foundation year of the "Twelfth Five-Year Plan" of the Ministry of Commerce which calls for increasing consumption under the guiding principle of "Increase Consumption for the Sake of Development and People's Livelihood". It is also a year when macro-economic growth is expected to slow down and various economic structural conflicts are becoming more serious. 2012 will see the Group execute its strategic ideas of "Becoming A Regional Leader and National Strong Player with Innovation and Transformation-motivated under way". The overall working objectives of the Group are: insisting on reform, implementing in full scale, strengthening the foundation, developing with innovation, and rebuilding sales momentum, enhancing the sales energy level, reforming the business model and consolidating the results of the restructuring and undertaking various tasks.

Minimum wage in major cities of China will continue to have a double digit growth in 2012. At the same time, workers will be granted much more benefits and better working conditions. Moreover, expected rises in rent for outlets that need to renew their lease and relentless outlet openings by competitors near our own outlets will create great pressure on the Group. All these will pose great pressure on the Group. However, the Group has strengthened its leading position in the areas including Shanghai and Zhejiang Province through adjustment of its procurement model, restructuring of the logistics systems, continuous improvement of the systems and constant transformation of the outlets over the past two years. Notwithstanding the great market pressure, the Group and its competitors are under the same pressure. Therefore, 2012 will still be a year of development, optimization and enhancement, as long as the Group insists on its development strategy of "Becoming a Regional Leader and a National Strong Player". In 2012, the Group will focus on enhancing its development quality and reversing the downward trend in customer traffic flow, undertake standardized management to improve its operations and optimize transformation so as to overcome the unfavorable operating environment.

The Group will continue its geographical concentration development strategy and consolidate its market share in the Eastern China area and other markets in which the Group has gained a foothold, based on the premise of ensuring development quality. The Group's planning on opening a total of 350 new outlets throughout the year, among which 12 to 15 will be hypermarkets while the Company will rationalize and optimize existing hypermarkets, 160 will be supermarkets and 180 will be convenience stores. The supermarket segment shall focus on the development in cities such as Shanghai, Hangzhou, Suzhou of Jiangsu Province and Liuzhou of Guangxi Zhuang Autonomous Region to consolidate existing market scale and explore the development for franchised stores with strict consistency. The convenience store segment will continue to accelerate its development in Beijing, Hangzhou and Ningbo, consolidate its market position and seek business growth by transforming and upgrading outlets in Shanghai and Dalian of Liaoning Province. Meanwhile, the Group will pay attention to the success rate of new outlets and sub-new outlets, improve the outlet cultivation mechanism by giving priority to customer traffic flow and sales growth in the operations of a new outlet and place great emphasis on the opening of new outlets and the optimization of sub-new outlets.

The Group will take increase in sales capacity and consolidated income as its most important work objectives, raising customer traffic flow and same store sales. While emphasizing the growth of mature outlets, the Group will pay particular attentions to the growth of sub-new outlets. The Group will review the advantages and disadvantages of the existing operation and procurement systems and apply reforms if necessary. A series of new rules and standards will be established in terms of outlet items management, merchandise display, price supervision and order management to take advantage of the scale purchase and outlet sales.

The enhancement of consolidated income is most important to the consolidation of the profit of the Group. As a result, insistence on focus on pricing strategy, traffic growth, synergy cooperation and procurement optimisation will be of great importance to the Group. “Focus on pricing strategy” requires the Group to determine its pricing policy through “outlet segregation” based on “the sake of livelihood” according to the special economic circumstances in 2012. “Focus on traffic growth” requires the Group to enhance its sale energy level to be capable of achieving traffic growth through a reasonable pricing strategy and product mix to attract more customers. “Focus on synergy creation” requires the Group to coordinate operations and procurement to fully rely on the established regional scale advantage and increase item procurement and sale, thus gaining stronger bargaining power. “Focus on procurement optimisation” requires the Group to further develop procurement at source, procurement of buying-up merchandises, construction of fresh produce bases, privately labelled products and product importing, which will be supplemented by supply chain information system optimisation, higher distribution satisfaction rate of its own logistics system and direct distribution by suppliers, thus increasing its consolidated income.

The Group will further consolidate the results of its restructuring. For merchandise flow, the Group will build a unified procurement center with a centralized procurement system serving different segments and further secure its regional procurement advantages. For logistics restructuring, the Group will continue to enhance the operating efficiency of Tao Warehouse and Cao Warehouse to enhance the distribution satisfaction rate, complement and improve the logistics system outside Shanghai, build the Jiangqiao Logistics Center on schedule and project new logistic systems to support the business model of different segments in various regions.

In 2012, the government will introduce a series of rules and regulations and policies to control ever-rising prices, increasing food safety issues, more intense market competition and higher consumer protection. In the long run, these rules and regulations and policies will be supportive for the development of the industry. The Group, as a major player in the retail industry in China, will actively take up its social responsibilities, to explore, to become a pioneer and to face the challenges. In the long run, these attempts will have a significant effect on the buildup of the brand of the Group.

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 directors (the “Board”) of the Company recommends payment of a final dividend of RMB0.12 per share (including tax) for the year ended 31 December 2011.

The arrangements for the closure of the register of H shares members of the Company will be announced after the above proposal has been approved by the shareholders at the annual general meeting for the year of 2011 of the Company.

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 to be 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 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 the relevant record day. 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.

Pursuant to the rules of exemption to individual foreigners from individual income tax on dividend from foreign-invested enterprises, which are set out in the "Notice of the Ministry of Finance and the State Administration of Taxation on Certain Policies Regarding Individual Income Tax (Caishui [1994]20) (《財政部國家稅務總局關於個人所得稅若干政策問題的通知》(財稅"1994"20號)) dated 13 May 1994, when the Company distributes the 2011 final dividend to its individual shareholders whose names appear on the register of members of H shares of the Company as at the relevant record day, the Company will distribute in full the 2011 final dividend to its individual shareholders of H shares.

Shareholders are recommended to consult their taxation advisors regarding PRC, Hong Kong and other tax implications arising from their holding and disposal of H shares of the Company.

Audit Committee

The audit committee of the Company has reviewed the annual results of the Company for the year ended 31 December 2011 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 Listing Rules

The Company has adopted the Model Code for Securities Transactions by Directors ("Model Code") as set out in Appendix 10 to 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 year ended 31 December 2011 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 during the year ended 31 December 2011 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 deviate from the aforementioned provision of the Code.

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

Shanghai, 21 March 2012

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

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

Non-executive directors: Ma Xin-sheng, Wang Zhi-gang, Kazuyasu Misu and Wong Tak Hung

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