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 2012

FINANCIAL HIGHLIGHTS

Due to pressures from unfavourable business environment, fierce market competition and rising costs, as at 31 December 2012, the Group recorded the following:

- Turnover amounted to approximately RMB28.99 billion, representing a growth of approximately 5.33% over 2011. The same store sales of the Group decreased by approximately 0.72% over 2011, in which hypermarket segment decreased by approximately 2.77%, supermarket segment grew by approximately 2.38% and convenience store segment grew by approximately 5.8%.

- Gross profit amounted to approximately RMB3.93 billion, representing a slight decrease of 0.68% over 2011. Gross profit margin was approximately 13.55%, recording a narrowing down.

- Distribution expenses and administrative expenses totalled RMB6.60 billion, and overall cost ratio increased by 0.35 percentage point over 2011, showing rigid uptrend.

- Consolidated income amounted to RMB7.15 billion, representing an increase of approximately 1.13% over 2011. Consolidated income margin reached 24.68%, representing a decrease of 1.03 percentage points over 2011.

- Due to decreasing gross profit and rising costs, operating profit amounted to approximately RMB512 million, representing a decrease of approximately 38.24% over 2011. Profit attributable to shareholders of the Company amounted to approximately RMB340 million. Basic earnings per share amounted to RMB0.30.

- The total number of outlets reached 4,698. During the period under review, the Group opened 394 new outlets, including 12 newly-opened hypermarkets, 156 newly-opened supermarkets (including 21 directly-operated stores and 135 franchised stores), 226 newly-opened convenience stores (including 78 directly-operated stores and 148 franchised stores).

- The total dividend to be distributed for the year is RMB0.15 (tax included) per share, of which the interim dividend of RMB0.08 (tax included) per share was paid and the proposed final dividend is RMB0.07 (tax included) per share. Payout ratio for the year would reach 50%.

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 2012

	NOTES	**2012** **RMB'000**	2011 RMB'000
Turnover	*2*	**28,987,545**	27,520,176
Cost of sales		**(25,058,481)**	(23,563,736)
Gross profit		**3,929,064**	3,956,440
Other revenue	*2*	**2,530,285**	2,523,310
Other income and gains	*4*	**695,563**	595,704
Selling and distribution expenses		**(5,886,383)**	(5,498,318)
Administrative expenses		**(716,065)**	(672,614)
Other operating expenses		**(39,602)**	(75,100)
Interest on bank borrowings wholly repayable within five years		**(375)**	(49)
Operating profit		**512,487**	829,373
Share of profits of associates		**153,967**	142,578
Profit before taxation	*5*	**666,454**	971,951
Income tax expenses	*6*	**(214,302)**	(258,258)
Profit and total comprehensive income for the year		**452,152**	713,693
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		**339,947**	626,726
Non-controlling interests		**112,205**	86,967
		452,152	713,693
Earnings per share – basic and diluted	*8*	**RMB0.30**	RMB0.56

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2012

	NOTES	31/12/2012 RMB'000	31/12/2011 RMB'000
Non-current assets			
Property, plant and equipment		**3,309,928**	3,337,975
Construction in progress		**254,650**	67,765
Land use rights		**305,906**	304,559
Intangible assets		**187,130**	186,863
Deposit for acquisition of properties		**–**	300,000
Interests in associates		**567,973**	517,087
Available-for-sale financial assets		**36,358**	252,808
Held-to-maturity financial assets		**239,622**	238,365
Term deposits			
– restricted		**1,036,000**	1,893,500
– unrestricted		**3,200,000**	850,000
Prepaid rental		**106,451**	134,750
Deferred tax assets		**200,951**	142,213
Other non-current assets		**21,608**	23,131
		9,466,577	8,249,016
Current assets			
Inventories		**3,055,623**	3,420,822
Trade receivables	*9*	**113,707**	86,056
Deposits, prepayments and other receivables		**1,180,816**	884,861
Amounts due from fellow subsidiaries		**10,921**	10,810
Amounts due from associates		**136**	129
Available-for-sale financial assets		**641,252**	237,975
Held-to-maturity financial assets		**–**	145,191
Term deposits			
– restricted		**3,345,000**	1,087,700
– unrestricted		**401,000**	625,000
Cash and cash equivalents		**2,589,154**	5,566,371
		11,337,609	12,064,915
Total assets		**20,804,186**	20,313,931

(Continued)

	NOTES	31/12/2012 RMB'000	31/12/2011 RMB'000
Capital and reserves			
Share capital		**1,119,600**	1,119,600
Reserves		**2,284,180**	2,194,309
Equity attributable to owners of the Company		**3,403,780**	3,313,909
Non-controlling interests		**364,900**	307,737
Total equity		**3,768,680**	3,621,646
Non-current liabilities			
Deferred tax liabilities		**84,619**	47,261
Current liabilities			
Trade payables	*10*	**4,295,654**	4,419,446
Other payables and accruals		**2,213,756**	2,204,370
Coupon liabilities		**10,259,260**	9,756,029
Deferred income		**17,741**	15,517
Amounts due to fellow subsidiaries		**35,802**	72,630
Amounts due to associates		**8,904**	13,014
Bank borrowings		**2,000**	2,000
Tax payable		**117,770**	162,018
		16,950,887	16,645,024
Total liabilities		**17,035,506**	16,692,285
Total equity and liabilities		**20,804,186**	20,313,931
Net current liabilities		**(5,613,278)**	(4,580,109)
Total assets less current liabilities		**3,853,299**	3,668,907

SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

1. PRINCIPAL ACTIVITIES

Lianhua Supermarket Holdings Co., Ltd. (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 "Stock Exchange").

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

The principal activities of the Company, together with its subsidiaries (the Company and its subsidiaries are collectively referred to as the "Group" thereafter) and its associates, are operation of chain stores including supermarkets, hypermarkets and convenience stores primarily in the eastern region of 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. 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:

	2012	2011
	RMB'000	*RMB'000*
Turnover		
Sales of merchandise	**28,987,545**	27,520,176
Other revenue		
Income from suppliers	**1,936,934**	1,913,641
Gross rental income from leasing of shop premises	**517,913**	496,966
Royalty income from franchised stores	**57,506**	58,913
Commission income from coupon redemption in other retailers	**17,932**	53,790
	2,530,285	2,523,310
Total revenue	**31,517,830**	30,043,486

3. 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 three main operations of the Group identified in accordance with the business nature and the size of the operations.

The reportable operating segments of the Group are as follows:

- Hypermarket chain operation
- Supermarket chain operation
- Convenience store chain operation
- Other operations

There are no significant sales or other transactions between the segments. Other operations of the Group principally comprise sales of merchandise to wholesalers, provision of logistic services for wholesale business, and sales through internet. Other operations of the Group are aggregated when the information is reported to the Group's general manager.

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

	Segment revenue		**Segment results**	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Hypermarkets	**18,883,020**	17,655,962	**233,788**	352,728
Supermarkets	**10,572,139**	10,400,556	**284,621**	359,200
Convenience stores	**1,963,173**	1,866,298	**(24,123)**	14,420
Other operations	**99,498**	120,670	**27,721**	97,094
	31,517,830	30,043,486	**522,007**	823,442

A reconciliation of the total segment results to the consolidated profit before taxation is as follows:

	2012	2011
	RMB'000	*RMB'000*
Segment results	**522,007**	823,442
Interest income	**63,980**	74,294
Unallocated income	**54,943**	67,802
Unallocated expenses	**(128,443)**	(136,165)
Share of profits of associates	**153,967**	142,578
Consolidated profit before taxation	**666,454**	971,951

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 centrally managed). 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 segments:

	31/12/2012	31/12/2011
	RMB'000	*RMB'000*
Segment assets		
– Hypermarkets	**11,639,101**	10,766,439
– Supermarkets	**6,611,410**	6,200,622
– Convenience Stores	**531,960**	390,816
– Other operations	**371,930**	269,076
Total segment assets	**19,154,401**	17,626,953
Investments in associates	**567,973**	517,087
Other unallocated assets	**1,081,812**	2,169,891
Total assets	**20,804,186**	20,313,931

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

Other segment information

2012

	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)*	**487,828**	**218,502**	**63,756**	**574**	**770,660**
Depreciation	**346,285**	**156,092**	**22,067**	**14,422**	**538,866**
Amortisation	**5,005**	**6,482**	**803**	**5,308**	**17,598**
Impairment losses on property, plant and equipment	**23,872**	**2,521**	**223**	**–**	**26,616**
Loss (gain) on disposal of property, plant and equipment	**830**	**(765)**	**(63)**	**115**	**117**
Interest income	**245,430**	**74,482**	**4,325**	**81,556**	**405,793**
Finance costs	**–**	**–**	**–**	**375**	**375**

2011

	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 *(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.

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 any customer contributed over 10% of the total sales of the Group during the two years.

4. OTHER INCOME AND GAINS

	2012 *RMB'000*	2011 *RMB'000*
Interest income on bank balances and term deposits	**405,793**	302,129
Government subsidies *(note)*	**65,640**	51,957
Fair value change on financial assets at fair value through profit or loss	**3,938**	4,857
Interest income from available-for-sale financial assets	**52,709**	53,629
Interest income from held-to-maturity financial assets	**18,149**	20,217
Gain on disposal of a subsidiary	**–**	41,619
Dividend from unlisted equity investments	**10,011**	25,081
Salvage sales	**31,013**	32,890
Others	**108,310**	63,325
Total	**695,563**	595,704

note: The Group received unconditional subsidies from PRC local government as an encouragement for the operation of certain subsidiary companies in certain areas.

5. PROFIT BEFORE TAXATION

	2012	2011
	RMB'000	*RMB'000*
Profit before taxation has been arrived at after charging (crediting):		
Amortisation and depreciation		
Amortisation of other non-current assets	**1,523**	1,523
Amortisation of intangible assets	**10,808**	10,232
Amortisation of land use rights	**5,267**	4,814
Depreciation of property, plant and equipment	**538,866**	529,734
Total amortisation and depreciation	**556,464**	546,303
Share of profits of associates		
Share of profit before taxation	**(202,003)**	(190,990)
Share of taxation	**48,036**	48,412
	(153,967)	(142,578)
Auditors' remuneration	**5,101**	5,154
Loss on disposal of property, plant and equipment	**117**	3,554
Impairment loss on property, plant and equipment recognised (included in other operating expenses)	**26,616**	15,188
Director's remuneration	**11,139**	13,217
Salaries, wages and other employee benefits of other staff	**2,415,765**	2,212,354
Retirement benefit scheme contribution of other staff	**258,661**	222,574
Total staff costs	**2,685,565**	2,448,145
Reversal of allowance for doubtful debts	**(978)**	(2,612)
Allowance for (reversal of) write-down of inventories	**2,328**	(2,230)
Cost of inventories recognised as expenses	**25,058,481**	23,563,736

6. INCOME TAX EXPENSE

	2012 *RMB'000*	2011 *RMB'000*
Current tax on PRC Enterprise Income Tax ("EIT")	**235,682**	281,168
Deferred taxation	**(21,380)**	(22,910)
	214,302	258,258

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 PRC on EIT and Implementation Regulation of the EIT Law, the EIT tax rate of the PRC subsidiaries is 25%. During the year, certain subsidiaries are taxed at preferential rate of 15% (2011: 15% to 24%).

	2012 *RMB'000*	2011 *RMB'000*
Profit before tax	**666,454**	971,951
Tax at PRC EIT tax rate of 25% (2011: 25%)	**166,614**	242,988
Tax effect of share of profit of associates	**(38,492)**	(35,645)
Tax effect of expenses not deductible for tax purpose	**9,259**	9,853
Tax effect of income not taxable for tax purpose	**(7,236)**	(18,030)
Tax effect of tax losses not recognised	**154,946**	67,195
Utilisation of tax losses previously not recognised	**(70,608)**	(7,671)
Effect of tax exemptions and preferential tax rates granted to certain PRC subsidiaries	**(181)**	(432)
Tax charge for the year	**214,302**	258,258

7. DIVIDEND

	2012	2011
	RMB'000	*RMB'000*
Dividend recognised as distribution during the year:		
2012 interim dividend RMB0.08 (2011: 2011 interim dividend RMB0.08) per share	**89,568**	89,568
2011 final dividend RMB0.12 (2011: 2010 final dividend RMB0.18) per share	**134,352**	111,960
	223,920	201,528

For the year ended 31 December 2012, a final dividend of RMB0.07 (2011: RMB0.12) per share has been proposed by the directors and is subject to approval by the shareholders of the Company in the upcoming annual general meeting.

8. EARNINGS PER SHARE

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

	2012	2011
	RMB'000	*RMB'000*
Earnings		
Profit for the year attributable to owners of the Company	**339,947**	626,726
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**1,119,600**	1,119,600

Diluted earnings per share are the same as basic earnings per share as no potential ordinary shares were outstanding during the two years.

9. TRADE RECEIVABLES

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

Group	**31/12/2012**	31/12/2011
	RMB'000	*RMB'000*
Within 30 days	**104,915**	81,582
31-60 days	**5,922**	698
61-90 days	**2,177**	114
91 days – one year	**693**	3,662
	113,707	86,056

Movement in allowance for doubtful debts is as follows:

	2012	2011
	RMB'000	*RMB'000*
1 January	**9,693**	12,162
Impairment losses recognised	**500**	–
Amounts reversed during the year	**–**	(2,469)
31 December	**10,193**	9,693

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, is as follows:

Group	**31/12/2012**	31/12/2011
	RMB'000	*RMB'000*
Within 30 days	**2,370,670**	2,547,329
31-60 days	**822,974**	839,162
61-90 days	**332,375**	365,848
91 days – one year	**769,635**	667,107
	4,295,654	4,419,446

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Environment

In 2012, the global and domestic economic environment in the People's Republic of China ("PRC" or "China") was extremely complex. With respect to the international environment, the foundation of the global economic recovery was fragile, and a number of instabilities and uncertainties remained. In term of domestic environment, although the Chinese economy achieved steady but declining growth, there were still a number of serious economic structural problems. Economic growth was weak while environmental constraints on resources and inflationary pressure were still intense. Consumer confidence was hit hard, consequently bringing challenges to the consumer goods market.

As for the macro economic statistics of 2012, China's GDP (gross domestic product) increased by 7.8% over 2011, representing a decline of 1.5 percentage points in growth rate over 2011. Total retail sales of social consumer goods increased by 14.3% over 2011, representing a decline of 6.8 percentage points in growth rate over 2011. The sales amount of 3,000 key retailers nationwide monitored by the Ministry of Commerce of the PRC ("Ministry of Commerce") increased by 8.3% over 2011, representing a decline of 7.6 percentage points in growth rate over 2011.

In 2012, the income of urban and rural residents continued to grow relatively fast. Per capita income of urban residents reached RMB26,959 and per capita disposable income of urban residents was RMB24,565, representing nominal year-on-year growth of 12.6% and real growth of 9.6% net of inflation. Real growth was 1.2 percentage points higher than in 2011. Per capita cash income of rural residents reached RMB7,917, representing nominal year-on-year growth of 13.5% and real growth of 10.7% net of inflation. With the incomes of both urban and rural residents growing faster than GDP and the real growth rate of income of rural residents outpacing that of urban residents, the fundamental environment for consumption growth remains favorable.

The year 2012 was pivotal for the "Twelfth Five-Year Plan" of the PRC. After more than 30 years of rapid growth, the Chinese economy has entered a critical period of structural adjustment, where the strong momentum in demand resulted from loose money supply and real estate development has become more consumption-driven. In 2012, the contribution of consumption to GDP growth reached 51.8%, representing an increase of 0.2 percentage point over 2011. Investment contributed 50.4%, while net exports of goods and services contributed negative 2.2%. According to the data released by the National Bureau of Statistics of China, total retail sales of social consumer goods in 2012 reached RMB20,716.7 billion, representing a nominal year-on-year growth of 14.3% and a real growth of 12.1% net of inflation. Although higher than the GDP growth over the same period, the consumption growth rate showed an obvious downward trend. Meanwhile, the government adopted strict measures to restore market order, ensure food safety, rationalize the relationship between retailers and suppliers, and tighten regulations on the fees that suppliers have to pay retail enterprises for product positioning. Growth in China's chain supermarket retailers was sluggish.

In 2012, "Guiding Opinions on Promoting the Development of Retail Industry during the Twelfth Five-Year Plan Period" of the Ministry of Commerce put forward a goal for the "Twelfth Five-Year Period" to maintain a steady and relatively rapid growth of retail sales of goods, aiming for the total retail sales of social consumer goods to achieve an average annual growth of 15% and reach RMB32 trillion by 2015. The "18th Party Congress" held in November 2012 drew up a blueprint for the future: doubling the GDP and per capita income of urban and rural residents by 2020 as compared with 2010. The Group believes that with the introduction of a series of policies to accelerate urbanization, lift residents' income and expand public investment, the consumer spending will become the main pulling power of economic growth during the "Twelfth Five-Year Plan" period. Amidst these strategic opportunities and challenges, the retail industry should be promising.

Financial Review

Growth in turnover and consolidated income

During the period under review, the Group recorded a turnover of approximately RMB28.99 billion, representing a growth of 5.33% over 2011, mainly benefiting from development of new hypermarkets as well as effective promotions in stores that resulted in higher sales. Same store sales decreased by 0.72%, primarily caused by: (1) a slow-down in macro economic growth which dragged down sales in the retail chain industry, and more importantly, prices remained high despite lower Consumer Price Index(“CPI”). Consumer’s expectations and behavior were affected by the high costs, leading to a weak retail sales growth; (2) the elimination of certain suppliers who were disqualified under the Group’s improved merchandise qualification operations and the restructuring of sales of certain traditional but popular operation models due to stricter regulations; and (3) the rapid development of Business to Consumer (“B2C”) e-commerce business also had an impact on supermarkets network, seizing a larger market share. Thus, the whole industry, including the Group, experienced a downward trend in sales growth.

During the period under review, the gross profit was approximately RMB3.93 billion, representing a slight decrease of 0.68% over 2011, while the gross profit margin decreased by 0.83 percentage point to 13.55%. The main reasons were: (1) Price inflation. CPI increased by approximately 2.64% during the period under review, leading to increasing purchase cost of merchandise; and (2) fierce competition with continuous challenges from peer competitors. In order to keep customer traffics, the Group adjusted its marketing strategy on a timely basis and increasingly carried a series of promotional activities to improve price perception instead of increasing merchandise prices to keep up with inflation, leading to a slight decrease in gross profit margin over 2011.

During the period under review, consolidated income reached RMB7.15 billion, representing an increase of 1.13% over 2011, mainly because of an increase in the number of hypermarkets, resulting in higher sales, corresponding increases in income from suppliers and rents from subleases of shop premises. The increase in income from suppliers also benefited from the optimised business operation structure and the sharing of merchandise resources that generated economies of scale. The overall rental income from sublease of shop premises increased mainly due to the net addition of five outlets in the hypermarket segment as well as rental increases for renewed sublease contracts. The consolidated income margin of 24.68% decreased by 1.03 percentage points over 2011, mainly because of the decreasing gross profit margin as a result of fierce competition. Meanwhile, income from suppliers did not meet the Group’s annual target and did not grow in line with sales growth after the Group rationalised the existing structure of income from suppliers and standardised criteria of charges on suppliers according to the “Notice of ‘Implementation Works on Cracking Down Illegal Charges by Retail Enterprises to the Suppliers’” issued by five ministries and commissions.

During the period under review, the Group maintained sufficient cash flow and managed its cash prudently, achieving steady growth of gains from cash management.

Operating cost and net profit

During the period under review, total distribution expenses and total administrative expenses of the Group amounted to RMB5.89 billion and RMB716 million respectively, representing increase of 7.06% and 6.46% over 2011 respectively. Overall cost ratio increased by approximately 0.35 percentage point over 2011. Major cost items such as labor and rents amounted to RMB2,685,565 thousand and RMB1,628,741 thousand respectively. The rise in cost was mainly caused by the fact that (1) the Group opened new hypermarkets which led to higher labor cost and rental cost as a result of increase in operation scale; and (2) the minimum wage level was raised nationwide by local governments due to price inflation, which led to a rise in overall labor cost in China. Chain supermarket business is labor intensive and thus increases in labor cost was the material cause to the increase in operating cost. Based on macro-economy policies, the Group expected that the trend of rapid rising in all costs would not yet come to an end. Especially, human resources related policies such as the reform of income distribution and doubling of income of urban and rural households by 2020 would strengthen the demand for a rigid and rapid increment of labor cost. The Group strived to diminish the impact of rising labor cost by continuously optimizing its organisational system and its employment system. The Group also attempted to reduce the increment of renewed outlet rental fees and extend the rent-free period for newly-opened outlets through more frequent negotiations with landlords so as to reduce rental expenses. The Group tried to lower its energy cost by installing and enhancing energy-efficient equipment in the newly-opened and existing outlets, and to overcome the challenges of overall rising costs by reinforcing budget management with the establishment of information system.

During the period under review, the Group recorded an operating profit of RMB512 million, representing a decrease of 38.24% over 2011. The operating profit margin decreased by 1.24 percentage points to 1.77% over 2011. The decrease resulted from: (1) the decrease in gross profit margin due to price inflation and fierce market competition; and (2) labor and rental costs continued to rise rigidly.

During the period under review, the Group's share of revenue of associated companies was RMB153,967 thousand, representing an increase of 7.99% over 2011. Shanghai Carhua Supermarket Company Limited ("Shanghai Carhua"), an associated company of the Company, opened two new outlets during the period under review. As at 31 December 2012, Shanghai Carhua had a total of 24 outlets.

During the period under review, the tax expenses of the Group was RMB214,302 thousand, with an effective tax rate of 32.16%. Although the Group has strived for preferential taxation policy, its effective tax rate increased by 5.59 percentage points over 2011 due to the gradual expiration of the tax holiday of mature outlets and the requirement that each outlet be taxed independently, which prevents the Group from balancing its total profits across different regions.

During the period under review, the Group recorded net profit attributable to shareholders of the Company of RMB339,947 thousand, representing a decrease of 45.77% over 2011. The decrease was mainly due to: (1) the decrease in gross profit margin due to price inflation and fierce market competition; and (2) labor and rental costs continued to rise rigidly as newly-added hypermarkets caused increase in operating scale. Net profit margin attributable to shareholders was 1.17%. The basic earnings per share were RMB0.30 based on the issued share capital of the Company of 1,119.6 million shares.

Cash flow

During the period under review, the Group's net cash outflow was RMB2,977,217 thousand mainly due to the increase in term deposits. Cash and miscellaneous bank balances as at the year end was RMB10,571,154 thousand, representing an increase of RMB548,583 thousand as compared to the balance as at the end of 2011.

For the year ended 31 December 2012, the turnover period of the Group's trade payables was approximately 59 days, and inventory turnover period was approximately 37 days.

During the period 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 2012.

Growth in retail businesses

Hypermarkets

During the period under review, the turnover of the Group's hypermarket segment increased by approximately 7.29 % over 2011 to RMB17,253,783 thousand, accounting for approximately 59.52% of the Group's turnover, representing an increase of approximately 1.08 percentage points over 2011. The Group continuously expanded the number of hypermarkets and reinforced promotions, thereby causing the increase in total revenue of hypermarket segment. Same store sales decreased by 2.77% over 2011 due to the weak growth in same store sales as a result of stronger competition from peer competitors who cut prices to gain market share and from B2C e-commerce businesses. In this ultra-competitive market, the Group adopted a "two-pronged driving" policy of building its image and enhancing the competitiveness of its hypermarket segment. On one hand, the Group ensured the quality of its newly-opened outlets by strictly applying its opening procedures, while putting greater effort in maintaining its sub-new outlets and deepening the transformation of its existing outlets, so as to enhance and consolidate its market share through establishing "key outlets". On the other hand, the Group adjusted its marketing strategy on a timely basis and stepped up efforts to promote the sales of daily necessities, expanded its strategic alliance with suppliers, and promoted a "Beneficial Life" (惠生活) theme marketing and promotional activities continuously. The Group firstly attracted customers by promoting price sensitive daily necessities to boost demand, and thereby promoted demand for non-price-sensitive products. The "price perception" of the Group was thus improved and the fall in store traffic slowed down while sales was enhanced.

During the period under review, the gross profit of the hypermarket segment increased by 2.50% over 2011 to RMB2,220,403 thousand due to the increase in turnover, while gross profit margin decreased by 0.60 percentage point over 2011 to 12.87%, which was mainly attributable to fierce market competition. The Group increasingly carried forward a series of promotional activities instead of raising merchandise prices in line with price inflation. Consolidated income was RMB4,196,383 thousand, representing an increase of 4.56% over 2011, mainly due to: new hypermarket outlets and effective promotions which generated revenue growth that led to increased purchasing scale and additional income from suppliers. Consolidated income margin was 24.32%, representing a decrease of 0.63 percentage point over 2011, mostly due to decrease of gross profit margin resulted from market competition, rationalisation of structure of income from suppliers and standardization of criteria of charges on suppliers, leading to decrease in product yield.

During the period under review, the hypermarket segment's operating profit was RMB233,788 thousand, representing a decrease of 33.72% over 2011. Operating profit margin was 1.35%, representing a decrease of 0.84 percentage point over 2011. Excluding the one-off gain from the disposal of a subsidiary in the same period of 2011, operating profit margin decreased by 0.58 percentage point over 2011, which was mainly due to the fact that: (1) lower gross profit margin resulting from fierce market competition; (2) higher labor cost as the minimum wage level was raised nationwide by local governments due to price inflation. The hypermarket business is labor intensive and the increase in labor cost was the material cause for the increase in operating cost; and (3) new stores generated additional rental costs. Despite such unfavorable conditions, the hypermarket segment addressed challenges proactively and strengthened its internal management, in order to maintain a healthy and continuous business development trend.

	As at 31 December	
	2012	2011
Gross Profit Margin *(%)*	**12.87**	13.47
Consolidated Income Margin *(%)*	**24.32**	24.95
Operating Profit Margin *(%)*	**1.35**	2.19

Supermarkets

During the period under review, the turnover of the Group's supermarket segment increased by approximately 2.10% over 2011 to RMB9,819,043 thousand, which accounted for approximately 33.87% of the Group's turnover, representing a decrease of approximately 1.07 percentage points over 2011. Same store sales increased by 2.38% over 2011. The supermarket segment was not only constrained by the slowdown in economic growth, but also suffered competitive pressure from hypermarket and convenience store segments, in particular, gradual adjustment of some traditional operation models well-received by consumers due to stricter regulations imposed increasing pressure on sales growth. Thus, the Group's supermarket segment stepped up its marketing efforts and organized merchandising seminars for franchised stores and several special marketing activities to ensure simultaneous growth in overall sales and same store sales.

During the period under review, the gross profit of the Group's supermarket segment decreased by 4.17% over 2011 to RMB1,433,295 thousand, and gross profit margin decreased by 0.95 percentage point over 2011 to 14.60% due to the increase of wholesale business to franchised stores. Consolidated income decreased by 1.52% over 2011 to RMB2,332,794 thousand while consolidated income margin was 23.76%, representing a decrease of 0.87 percentage point over 2011, mostly due to the increase of wholesale business to franchised stores, rationalization of structure of income from suppliers and standardization of criteria of charges on supplies, leading to a decrease of product yield.

During the period under review, the supermarket segment's operating profit decreased by 20.76% over 2011 to RMB284,621 thousand, and the operating profit margin was 2.90%. It was mainly because: (1) Price inflation led to increase in merchandise costs and reduction of gross profit; (2) some mature outlets were forced to close due to sharp rental cost increases upon expiry of lease terms and new outlets were under incubation and failed to fill up the loss in sales and profit of the closed mature outlets, therefore both gross profit and operating profit were in downward trends although overall sales and same store sales continued to grow; and (3) some franchised stores were streamlined or closed. Despite the decreasing number of franchised stores and royalty income, wholesales to franchisers still grew over 2011, and the quality of franchise business improved, so that the goodwill of the "Lianhua" brand was maintained. The supermarket segment proactively sought to improve this situation, concentrated primarily on fresh produce operations, deepened outlet transformation, forged ahead with the key outlet strategy, made progress in merchandise optimizations through enhancing competetiveness of core merchandises, established price monitoring mechanism, enhanced the effects of joint marketing with suppliers, all of which helped maintaining the market share.

	As of 31 December	
	2012	2011
Gross Profit Margin *(%)*	**14.60**	15.55
Consolidated Income Margin *(%)*	**23.76**	24.63
Operating Profit Margin *(%)*	**2.90**	3.73

Convenience Stores

During the period under review, the convenience store segment recorded a turnover of RMB1,837,821 thousand, representing an increase of approximately 6.01% over 2011, which accounted for approximately 6.34% of the Group's turnover. Same store sales increased by 5.80% over 2011. The convenience store segment actively responded to the heavy challenges from peer competitors. During the period under review, 135 quality outlets were selected for enhancement and the pace of transformation for the existing outlets accelerated. Meanwhile, the segment segregated the market, tried to establish a niche in the high-end market, captured the market share from peer competitors by deepening merchandise categories optimization, and laid a foundation for the transformation of existing middle and high-end outlets. The segment also implemented a marketing model of operation with core merchandise and core services. These efforts achieved expected results, ensuring growth in the segment's overall revenue and same store sales.

During the period under review, gross profit margin was 14.89%, representing a decrease of 0.52 percentage point over 2011, mainly due to keen market competition that led to more promotions on our side squeezing gross profit space. Consolidated income was RMB423,628 thousand, representing an increase of 1.69% over 2011, which was mainly due to the deepened optimization of merchandise categories, the above mentioned marketing model of operation with core merchandise and core services and increased value-added services capitalizing on outlet scale. Consolidated income margin was 23.05%, representing a decrease of 0.98 percentage point over 2011 mostly due to market competition, leading to a decrease of product yield. Due to continuingly rapid rises in labor costs and rental costs, operating profit drastically dropped and operating profit margin was -1.31%. The convenience store segment will proactively explore improvements in profit model and enhance profitability through measures including further optimization of product mix, expansion of value-added services by leveraging e-commerce and image maintenance and promotion of its franchised stores.

	As of 31 December	
	2012	2011
Gross Profit Margin *(%)*	**14.89**	15.41
Consolidated Income Margin *(%)*	**23.05**	24.03
Operating Profit Margin *(%)*	**(1.31)**	0.83

Financial results analysis

	Twelve months ended 31 December *RMB million*		Year-on-year change
	2012	2011	(%)
Turnover	**28,988**	27,520	5.33
Gross profit	**3,929**	3,956	(0.68)
Consolidated income	**7,155**	7,075	1.13
Operating profit	**512**	829	(38.24)
Taxation	**214**	258	(17.05)
Profit attributable to shareholders of the Company for the period	**340**	627	(45.77)
Basic earnings per share *(RMB)*	**0.30**	0.56	(46.43)
Interim dividend per share *(RMB)*	**0.08**	0.08	–

Capital structure

As at 31 December 2012, the Group's cash equivalents were mainly held in Renminbi, and the Group had no other bank borrowings, except for existing 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 approximately RMB3,313,909 thousand to approximately RMB3,403,780 thousand, which was mainly due to the profit for the period amounting to approximately RMB339,947 thousand, dividends distribution amounting to approximately RMB223,920 thousand and payment for acquisition of equity interest in subsidiaries amounting to RMB26,156 thousand.

Details of the Group's pledged assets

As at 31 December 2012, 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 purchase 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 2012, 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 2012, the Group did not have any material contingent liabilities.

Operating Review

Outlet development

In line with Lianhua's strategic goal of "Becoming a Regional Leader and a National Strong Player," the Group steadily promoted its strategy of focused development. The Group emphasised quality enhancement of its outlets by implementing strict processes for opening new outlets and strengthening the synergies between operation and procurement, gradually increased its investment in new outlets and proactively optimised the quality of its geographic footprint in accordance with market developments in 2012.

During the period under review, 12 new hypermarkets were opened: four in Shanghai, three in Zhejiang Province, two in Jiangsu Province, two in Henan Province and one in the Guangxi Zhuang Autonomous Region. During the period under review, the Group continued its in-depth development in East China, where it has a dominant position, with 75% of its newly-opened outlets located in the region. The operation of the new hypermarkets improved in five aspects, namely property quality, business positioning, synergies of operation and procurement, market position and continuous operation. Meanwhile, the Group, after careful consideration, proactively optimised the quality of its geographic footprint by closing certain outlets that had been suffering long-term losses and retreating from some markets with unfavorable operating conditions to avoid prolonged losses. The Group closed seven outlets during the period under review, continuing to consolidate its market share in Eastern China and maintain its growth momentum in other cities, thereby increasing the Group's brand influence. Currently, the Group has a total of 133 hypermarkets in Shanghai, Zhejiang Province, Jiangsu Province and Anhui Province, accounting for approximately 85% of its hypermarkets.

During the period under review, 156 new supermarkets were opened, including 21 directly-operated stores and 135 franchised stores. The Group consistently gave the highest priority to the development quality of its outlets in order to uphold the image of the "Lianhua" brand amid food safety regulation and industry consolidation. During the period under review, the Group maintained the growth pace of its directly-operated stores in the supermarket segment, especially in middle to high-end areas, strictly monitored and controlled its lease-renewed outlets, especially franchised stores, and standardized the procedures for opening new franchised stores, including enhancing the criteria for franchising which helped to ensure that the quality of these stores is aligned with and meet the high standards of the Group's brand. Meanwhile, the Group diversified outlet type and unified standard in accordance with its franchised store optimization program for 2011-2013. It closed 593 franchised stores during the period under review. The quality of the segment's franchised outlets had been significantly enhanced, thus helping to maintain effective control over operational risk.

During the period under review, the convenience store segment remained steady. The Group emphasized both quantity and quality of outlet development. 226 new convenience stores were opened, of which 78 were directly-operated stores including 11 high-end outlets and 148 were franchised stores. During the period under review, the Group ensured the quality of its new convenience stores by searching for locations in high quality areas. The convenience store segment also effectively coped with a rise in rental costs by managing renewals and sublet renewals. It not only opened new outlets, but also steadily promoted the transformation of existing directly-operated stores by implementing a number of strategies, including encouraging orderly development, reinforcing transformation and opening high-end outlets. 135 stores in total were transformed during the period under review. A number of stores in Shanghai were renovated and the Group worked to steadily optimize products positioning and merchandise display. In Dalian, Liaoning Province, efforts were made to enhance the image and profitability of each outlet through upgradings and other renovations. By leveraging past experience in outlet development, the Group focused on opening new stores and transforming old ones in Zhejiang. In Beijing, the Group primarily concentrated on operating high-end convenience stores and personalizing the merchandise mix to clarify outlet positioning.

As at 31 December 2012, the Group had a total of 4,698 outlets, representing a decrease of 452 outlets from the end of 2011, mainly due to the rationalization of franchised supermarket outlets according to the Group's franchised store optimization program in the supermarket segment with a net decrease of 458 franchised stores. Approximately 84% of the Group's outlets were located in Eastern China.

	Hypermarkets	**Supermarkets**	**Convenience Stores**	**Total**
Direct operation	157	653	984	1,794
Franchised operation	–	1,857	1,047	2,904
Total	157	2,510	2,031	4,698

Note: The above information was as at 31 December 2012.

Operation improvements

During the period under review, the Group actively sought market opportunities and improved its operation system against a backdrop of slower growth in the macro-economy and in the consumer goods market due to subdued consumer sentiment and shrinking consumer demand. The Group boosted its "key outlet strategy", strengthened operation and procurement synergies and tightened budget management with a view to reduce costs and enhance efficiency, thereby helping the Group to overcome difficulties and continue to steadily facilitate development.

During the period under review, the "key outlet" strategy of the Group focused on the construction of supply chains, transformation of outlets and management of merchandise categories. For hypermarkets, the Group focused on designing more efficient layouts, optimizing merchandise categories and improving the atmosphere within stores. Onsite quality inspection centers were established in certain hypermarkets in order to enhance the Group's ability to carry out on-site inspections of fresh produce and deliver confidence to consumers about the Group's high quality offerings. The supermarket segment retained its mark of differentiation for "freshness and value" among consumers in the market. It also made progress introducing high margin non-food merchandise and created exclusive sections for imported merchandise to promote sales. Meanwhile, the Group tightened the management of franchised supermarkets to strengthen the formulation of strategies to improve franchising performance, and attempted to offer additional professional guidance to franchisees. During the period under review, the supermarket segment achieved its "Double-Hundred" objective of franchised stores – i.e. the reputation of one hundred outlets was significantly enhanced while sales at one hundred outlets increased substantially. Wholesale merchandise sold to franchised stores recorded an increase of approximately 6% over 2011, while the number of franchised outlets declined during the period under review. Average wholesale purchase made per store increased by approximately 18.19%. The convenience store segment accelerated the renovation and transformation of outlets, emphasizing in particular the establishment of "lean and well-functioning" outlets. As a part of this, the Group optimized merchandise categories and accelerated the adjustment of slower turnover items and categories by reducing stock based on the characteristics of the area in which each outlet is located. In addition to making outlets leaner, the Group also worked to replenish the stock of best-selling merchandise on a timely basis and expanded the number of value-added service items to reinforce the strength of each outlet. Operational capabilities of the enhanced stores and same store growth in the convenience store segment met expectations. The convenience store segment also proactively developed high-end outlets, opening 11 new high-end outlets during the period under review, which helped to improve brand image and bring merchandise quality and individual store sales to new levels.

During the period under review, the Group correctly met market demand, catered to consumer tastes, optimized its mix of fresh products so as to boost fresh food sales and stepped up its efforts in fresh produce bases construction, reducing the costs of procurement, distribution and sales. This led to strong sales of fresh produce and demonstrated the benefit of providing high quality, inexpensive goods in sufficient volume. Sales of produce from the Group's own production bases increased by approximately 15% over 2011. During the period under review, the Group adopted a "fresh produce first" guideline and took the following initiatives to improve the performance of the segment: the Group strengthened the link between production and sales to guarantee the freshness of produce and lower procurement costs, which also helped to improve gross profit. The Group strengthened the link between production and marketing by hosting weekly liaison meetings between outlets and the procurement department to exchange information and improve communication so as to strengthen the operating capabilities of fresh produce, and the Group also took advantage of opportunities related to fresh produce supply through its active on-site management. The Group enhanced its on-site tracking related to the management, marketing and promotion of fresh produce, tracked and analyzed the sales of different products following different marketing campaigns and promotional events, and fine-tuned its strategies when problems were discovered to ensure sufficient sales at each outlet. Actions such as these further increased the operational capability of Group and helped to differentiate the Group's stores in the market.

During the period under review, the Group continued to expand the procurement and sales of imported merchandise based on consumer demand. The Group saw remarkable results during the period under review, with sales amounted to RMB984 million, representing an increase of approximately 24% over 2011. This accounted for approximately 3.74% of the Group's total turnover. During the period under review, the Group also achieved a breakthrough in buyout procurement, recording sales of RMB3.36 billion, which representing an increase of 12.68% over 2011. This strategy helped to ensure a steady supply of best-selling merchandise during peak seasons, such as festivals and holidays, and shifts between seasons. In addition, the Group continued to strengthen the research and development and promotion of its private label products. During the period under review, sales of private label products increased by approximately 8.43% over 2011, and accounted for 3.48% of the Group's total turnover.

During the period under review, customer traffic of the Group decreased rapidly over 2011 due to frequent promotional events launched by competitors, the Group promptly expanded its strategic alliance with suppliers, jointly launching a variety of large-scale marketing events to attract customers and boost sales. Meanwhile, the Group adjusted its marketing strategy on a timely basis and stepped up efforts to promote the sales of daily necessities. The Group launched "Preferential Merchandise" (惠商品) and "Beneficial Life" (惠生活) brands to further improve price perception and draw more attention from customers. The launch of these events successfully brought positive social benefits, mitigated the downturn trend of customer traffic and boosted revenue and same store sales growth. While the Group focused on merchandise mix and promotional events during the period under review, sales growth was slightly lower than the Group's expectation due to, among other things, greater competition and subdued consumer sentiment, which along with high marketing costs, also affected the Group's gross profit.

During the period under review, the Group continued to strengthen its operation and management and enhance its brand image. In terms of merchandise pricing, the Group tightened its pricing and price adjustment process both at headquarter and the store level, which helped to push through flexible and rapid pricing changes at stores as well as ensure manageable pricing strategies. In terms of managing merchandise categories, the hypermarket segment optimised its operation and management system. The commodity management department worked to directly link its operation with stores and continued to improve its management of different merchandise categories. The supermarket segment, as a way of specialisation, promoted a classification system of main merchandise directory in stores. The Group strengthened the management of its procurement process to optimise its performance by formulating plans for the procurement, promotion, and evaluation of new items. Dealing with the strict regulations from six ministries and state commissions related to charges on suppliers by retail chain enterprises, the Group rationalised the structure of income from suppliers, and standardised the criteria of and reduced the types of charges on suppliers, helping to create a win-win situation where the Group's interest were tied more closely with the sales of suppliers. The Group's Caoyang Distribution Center further worked to create a more efficient distribution process, and the value of distributed products handled by this warehouse to hypermarkets increased by 30% over 2011 to RMB1.48 billion. The Group continued to implement its Enterprise Application Suite (EAS) from Kingdee, strengthened the supervision of the system, and stepped up efforts to control its budget and review all expenses so as to enforce responsibility and further enhance cost control. The Group strengthened quality control of various commodities by implementing comprehensive measures at various levels and from various channels and ensured food safety through regular random examination of supplier qualifications, on-site review of suppliers, and tests on specific items. For example, the Group conducted quick on-site inspections of, among other things, levels of pesticide residue, by establishing food safety laboratories in certain hypermarket stores and commissioning third party institutions to test items randomly selected from outlets. The Group also dynamically tracked food safety, proactively assumed its social responsibilities and formally initiated a vegetable tracking system. In collaboration with the government, the Group installed a pork and vegetable tracking system, which has already been recognized by the government and society. In addition, the Group further enhanced the construction of fresh produce self-operation function in stores as well as strengthened its "Central Kitchen" at a fresh produce process and distribution center, which helped to control food quality and safety and minimize related risks.

Business development

During the period under review, the Group tested hypermarket outlets that have more amenities. For example, in March 2012, in Hangzhou, Zhejiang Province, the Group opened a one-stop outlet of approximately 39,000 square meters featuring areas such as a hypermarket, exclusive shops, restaurants and other services. And in cooperation with Bailian Group Co., Ltd, the ultimate controlling shareholder of the Company, the Group developed another hypermarket outlet in Yuqiao, Shanghai which has more than 40,000 square meters of floor space and feature department stores, exclusive shops and restaurants. The development had already met expectations, and reinforced the Group's market share, and through this development, the Group acquired important experience developing this kind of outlet.

During the period under review, the Group continued to amend and improve its member data. The membership system was gradually expanded from its original function as a rewards card to a more in-depth system featuring membership activities, and membership data is now actively tracked and analyzed. Positive progress was achieved in building the membership system, and in 2012, the Group commenced a series of targeted marketing activities based on membership data analysis. With continued improvements based on membership data, the Group expects to keep reaping the benefits of more precise marketing over time.

During the period under review, the Group achieved significant breakthroughs in its Jiangqiao logistics center project. The roof of main structure was completed. The Group started to install and commission equipment and facilities in accordance with process planning. Operations are expected to commence in the first half of 2014 and the Group will strive to conduct a pilot run by the end of 2013. The Group's new fresh product processing and distribution center in Gouzhuang district, Yuhang, Zhejiang Province was fully put to operation, which further increased the Group's satisfaction rate of fresh products for outlets in Zhejiang Province. The Group also submitted an application to build a normal temperature distribution center in Zhejiang Province, which is planned to commence operation in 2015.

During the period under review, the Group's shopping website, "Lianhua Mart" (www.lhmart.com), received a "Top Ten" award at the "Online Shopping Season 2012" event hosted by the Shanghai Modern Business Promotion Center. Since its formal launch in December 2011, "Lianhua Mart" website has seen a steady increase in user numbers and shipping volume as a result of innovative marketing campaigns, fast shipping, and great customer service, and has been able to leverage the Group's advantages in scale, merchandise depth, information technology and brand influence. Currently, the average sales per transaction already exceeded RMB160, which demonstrated the site's sound development in the e-commerce industry. The Group is further leveraging its numerous competitive advantages, further centralising innovative features, linking social resources and increasing customer service to strengthen the trust of consumers of online merchandise. The Group also provided better services to its clients through customer management and by leveraging the improvement integration of online and offline network, including distribution and collection from multiple physical locations, all of which helped to establish "Lianhua Mart" as an online supermarket for communities. The Group expects this to further propel future sales growth.

During the period under review, after careful market research and planning, the Group's joint venture – "Sakura Kobo" cosmeceutical store opened its first outlet in Shanghai on 1 June 2012 and as at 31 December 2012, a total of four outlets had been opened. "Sakura Kobo" offers more than 7,000 items of merchandise, about 70% of which are Japanese products, including many well-known Japanese cosmetics products. The stores also set up Japanese and Korean products counters, and for the first time, introduced 19 "Sakura Kobo" branded products, providing a new space for consumers who are interested in health care and beauty products. As the "Sakura Kobo" brand becomes more widely known and the Group's commercial areas within its outlets will be increasingly integrated with "Sakura Kobo", the Group believes that cosmeceutical merchandise could be expanded to other Lianhua stores.

Enhancement in consolidation

During the period under review, the Group optimized its management of merchandise by migrating from its original model of managing merchandise by segment to a system based on the regional centralized management. The Group established and improved a series of systems and processes, including items, pricing, marketing, quality control, information, and supplier management to ensure a smooth migration to the regional centralized procurement model. The Group also implemented business flow grading management and further optimized process management of procurement, distribution, order, display and pricing to strengthen standardization and specialization in its operation. In addition, the Group enhanced the operation and professionalism of its various segments in terms of merchandise mix, consumer positioning, marketing activities and pricing strategies. Although this reform was in line with current market trends, it was a great challenge, not just in terms of processes, but also organizational systems and professional capabilities. This has been a gradual transition and will be continuously improved and developed in the coming years. The Group believes that the effects of this reform will become increasingly clear based on its current market position and bargaining power.

During the period under review, the Group improved its information technology management through the integration of various procurement, operations and logistics systems in all segments. During the period under review, as part of the Group's B2B supply chain management platform, the Group launched certification and credit information services to collect and save various types of licenses and certificates of suppliers, and further extended the application of the platform from the hypermarket segment to the supermarket and convenience store segments.

During the period under review, the Group completed an upgrade of the information systems of all franchised supermarket stores, and established catalogues for merchandise that are not procured from the Group. The Group also formulated rules for introducing new merchandise that are not procured from the Group, which provide extra "Guarantee" to assure food safety. The Group laid a solid foundation for the establishment of merchandise procurement records that would help subsequent franchises. The Group further improved its core business system platform to support centralized procurement, maximize the integration of the Group's existing resources and improve the efficiency of merchandise and marketing management. During the period under review, the Group, through a unified settlement platform, launched an online unified settlement system to enhance the analysis and evaluation of supplier information. This unified settlement platform further improved centralized cash management.

Employment, Training and Development

As at 31 December 2012, the Group had a total of 59,224 employees, representing a decrease of 1,366 employees during the period under review. Total staff costs were RMB2,685,565 thousand.

During the period under review, the Group focused on optimizing processes and rationalizing responsibilities. In particular, the Group conducted field researches, analyzed post setting, revised job responsibilities, adjusted staff deployment and conducted an in-depth study of the allocation of human resources in order to control labor costs and improve work efficiency.

During the period under review, in order to enhance the competitiveness of the Group's remuneration, the Group adjusted remuneration structure of management below the manager level and maintained staff stability and further aligned the Group's business performance with individual salaries of middle to high level members of management. The Group also implemented a new allowance system for management trainees to improve incentives for outstanding candidates.

During the period under review, the Group further amended its performance assessment index system, and incorporated "service improvement" into the assessment system for departments at the Group's headquarters in order to enhance the service quality provided by headquarters to the Group's subsidiaries. The Group also incorporated "operational quality" into the assessment system of the Group's subsidiaries in order to ensure that all subsidiaries focused on the quality of daily operations and management, and to enhance the performance of the overall operation and management of the Group.

During the period under review, the Group developed a personalized training development program for its management trainees. The Group organized its fifth management trainee programme in order to further build and deepen its management reserve team. In addition, the Group implemented a job-rotation program for key talented individuals where further training and incentives are provided. Meanwhile, the Group conducted a series of development activities for highly skilled front-line personnel, including skill appraisal of shop assistants, special training on quality control of merchandise, apprenticing, encouraging innovative marketing and more, in order to steadily improve the general quality of the Group's staff.

Strategy and Plan

In 2013, stabilizing growth will remain the main priority of the policies of the Chinese government. In light of the importance of consumption on economic development, it is expected that the government will promote a series of measures, such as accelerating urbanization, increasing income of citizens, and improving public investment in order to increase domestic demand and stimulate consumption. As the total retail sales of social consumer goods have rebounded steadily since August 2012, the retail industry is expected to recover.

However, in consideration of the weak recovery of the global economy, the potential fallout from the "Fiscal Cliff" in the U.S. and the ongoing debt crisis in Europe, it is not expected that there will be material improvements in the near term. With the slowdown in the Chinese economy, which used to be a very important growth driver for the retail industry, the rising overall production costs and tightening regulations in the retail industry, the retail industry is expected to adapt to the new environment and large and medium-sized enterprises should stand out.

Opportunities and challenges shall coexist for the Group in 2013. As for challenges, many of the Group's outlets may face considerable competitive pressure and some outlet will also suffer during renovation and alternation. Additionally, the Group will likely need a period of transition after a variety of internal reforms are pushed through and improvements are made to procedures and standards. But there are also a number of opportunities. First, the Company, with an established strategy of "Becoming a Regional Leader and a National Strong Player," clarified its objectives for each region. Second, the Group implemented a number of reforms aimed at enhancing its bargaining power through centralized procurement, creating a more flexible operating mechanism by implementing business flow grading management, and pushing specialization according to different segments of the Group. Lastly, the Group clarified the transformation and development of its outlets. With steady quality improvement being seen across the Group's existing outlets, the success of new outlets and favorable same store sales growth are becoming increasingly assured.

The Group's key strategies for 2013 are as follows:

Optimize business structure and consolidate competitive advantages. In 2013, the Group will continue to implement a development strategy which is focused on the Yangtze Delta Region, strictly control its property locations and conditions, and put more efforts in segment positioning, pre-opening preparation and outlet incubation. The Group will make adjustments during its development in order to achieve an optimised business structure and better layout. The Group plans to open 327 new outlets, including 10 hypermarkets, 157 supermarkets, and 160 convenience stores. For the first year after the opening of hypermarkets, achieving a certain level of sales and market share is critical. In view of this objective, stricter controls will be taken in terms of site selection, property condition, design, opening and incubation in order to ensure that the opportunity for competitors to open outlets nearby is minimized. Development of directly-operated stores in the supermarket and convenience store segments will be accelerated smoothly in order to optimize organization and explore new development, with an aim to stabilize and consolidate market scale. A balance between speed and quality is essential for the expansion of franchise businesses, while the contribution of franchise businesses to the convenience store segment should increase gradually. On the e-commerce side, the Group will accelerate the implementation of a system linking online and offline businesses, and explore value-adding opportunities at physical stores by taking advantages of ecommerce technologies,which should help to lower down the overall operating costs. In addition, the Group will further optimize the business model of its cosmeceutical stores, and link the cosmeceutical business with its main segments in terms of merchandize and sublease cooperation. The sales volume of imported goods, buyout merchandise and fresh products should also increase.

Reform to make breakthroughs and optimize the system. In 2013, first, the Group will further improve its organisation system of merchandise procurement and operation management to achieve synergies between operations and procurement. The merchandise department will reduce the purchase price of goods by making greater use of bulk purchasing, while the operations department will enhance its capacity to sell effectively with professional management. At the same time, the Group will focus on improving on-site management and customer service at the store level. Second, recognizing the importance of shelf placement on the sales performance of merchandise, the Group will optimize its management of merchandise and categorize merchandise suitable for each individual store based on the market position and location of these stores. Lastly, the Group will analyze its operations by using information management systems, which should help to provide guidance in the management of various businesses while improving organization and category management. Construction on the Jiangqiao logistics center is on track. Integrating the center with the Group's operations, and installing and commissioning new equipment and facilities will be implemented in 2013, and the Group will strive to conduct the pilot run by the end of 2013. Unlike the existing logistics model of categorization by segments, the Jiangqiao logistics center will require the Group to run on a unified procurement platform where dispatching and distribution are based on the demand of individual stores. This change will require the Group to revolutionize its existing model of handling orders, improve category management and store layout in all types of stores, and require more suppliers to start delivering directly to the Group's distribution center instead of its stores. In 2013, the Group plans to take advantage of its enhanced ability to scale based on centralized and direct procurement, and greater bulk and exclusive purchasing of merchandise. Complying with requirements of the government to regulate charges on suppliers, the Group will also strive to attract greater investments in marketing resource by suppliers and increase cooperation with them in order to improve sales and consolidated income.

Improve profitability through innovation. The objective of chain supermarkets is to provide consumers with high quality goods and services at low prices. This can only be accomplished by constantly increasing scale and efficiency. As such, the Group has to improve its monetization model, and accelerate the optimization of its revenue mix. The Group will streamline its operations, clarify its category strategy, increase sales of key merchandise categories and items, increase marketing investment from suppliers and provide incentive rebates. The Group will also continue to conduct market segmenting, improve classification of merchandize directories in stores, and lift efficiency to boost its sales progressively by making use of category management technologies. The Group selects the best supplier for each merchandise category through a selection process and competitive bidding and this is expected to help increase consolidated income. The Group will establish a robust and unified membership program, accumulate and improve member data, and continuously expand its member database. On the marketing side, various marketing initiatives will be combined with the Group's membership system, and the percentage of discounted goods available to members will be increased significantly in an effort to raise sales from members. In addition, the Group will improve store layouts, attract marketing partners, optimize marketing mode and increase income from concessionaire tenants.

Tighten cost control and improve efficiency. The Group will leverage its advantages in terms of chain scale, allocate its resources reasonably, simplify its working process and make full use of its potential to strictly control costs and reduce expenses and charges. The Group will take advantage of centralized capital management to improve capital utilization efficiency. The Group will strictly comply with government's regulations on its use of commercial single purpose pre-paid cards, and increase card issuance volume with its network advantages. The Group will make appropriate decisions according to the operating environment, conduct in-depth research and strive for preferential taxation treatment. The Group will support business reforms and optimize internal evaluation methods in compliance with market principles in order to break operational bottlenecks, achieve synergies between departments, and enhance management efficiency.

The Group will optimize its income structure by insisting on the idea of "Profits are Generated from Sales and Gross Profit Leading to Gains" (利潤源於銷售，毛利主導收益); enhance customer relationship management and make use of effective pricing strategies to establish a brand image of high quality at low prices by adhering to the idea of "Sales are Driven by Store Traffic and High Quality Service" (銷售源於客流，服務主導運營); change from a passive business approach to an active one, drive innovation in the Group's procurement model, optimize category structure and increase gains from merchandise by pushing through the idea of "Optimization Stems from Innovations and Structure Sets the Direction" (優化源於創新，結構主導方向); as well as attain diversified and coordinated development, and proactively seize opportunities by upholding the idea of "Rooting on and Serving the Main Businesses" (立足於主營，服務於主營).

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 RMB0.07 per share (including tax) for the year ended 31 December 2012.

The arrangements for the closure of the register of H-shares holders of the Company will be announced after the above proposal has been approved by shareholders at the Company's 2012 annual general meeting.

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 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 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 distribute the 2012 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 2012 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 2012 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 of Listed Issuers in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules")

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("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 for the matters as set out below, the Company has complied with all the code provisions in the "Code on Corporate Governance Practices" (formerly set out in Appendix 14 of the Listing Rules) for the period from 1 January 2012 to 31 March 2012 and all the code provisions in the "Corporate Governance Code" (the "Code") (the new edition of the Code on Corporate Governance Practices which is applicable to financial reports covering a period after 1 April 2012) for the period from 1 April 2012 to 31 December 2012. Apart from the following deviation, none of the directors is aware of any information that would reasonably indicate that the Company is not or was not for any time of the period under review in compliance with the Code and Code on Corporate Governance Practices. Details of the deviation are set out as follows:

Provision A.4.2 of the Code and Code on Corporate Governance Practices 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 of the Company shall be appointed at the general meeting of the Company and for a term of not more than 3 years, and eligible for re-election. Having taken into account the continuity of the implementation of the Company's operation and management policies, the Articles of Association contains no express provision for the mechanism of directors' retirement by rotation, thus deviating from the aforementioned provision of the Code.

For Provision A.6.7 of the Code, Mr. Wang Zhi-gang and Mr. Wong Tak Hung, non-executive directors, were unable to attend the fifth meeting of the fourth session of the Board convened on 15 June 2012 by the Company due to their work duties. After receiving the relevant materials for the Board meeting, they have authorised other directors of the Company to attend the meeting and vote on their behalf. The Board meeting considered and approved ordinary matters and all resolutions were passed smoothly. The Company had sent the related minutes to all members of the Board after the Board meeting so any director who was unable to attend the meeting was able to understand the resolutions passed at the meeting.

For Provision A.6.7 of the Code, Mr. Kazuyasu Misu and Mr. Wong Tak Hung, non-executive directors, and Mr. Xia Da-wei, independent non-executive director, were unable to attend the sixth meeting of the fourth session of the Board convened on 28 August 2012 by the Company due to their work duties. After receiving the relevant materials for the Board meeting, they have authorised other directors of the Company to attend the meeting and vote on their behalf. The Board meeting considered and approved ordinary matters and all resolutions were passed smoothly. The Company had sent the related minutes to all members of the Board after the Board meeting so any director who was unable to attend the meeting was able to understand the resolutions passed at the meeting.

For Provision A.6.7 of the Code, Mr. Kazuyasu Misu and Mr. Wong Tak Hung, non-executive directors, were unable to attend the seventh meeting of the fourth session of the Board convened on 30 October 2012 by the Company due to their work duties. After receiving the relevant materials for the Board meeting, they have authorised other directors of the Company to attend the meeting and vote on their behalf. The Board meeting considered and approved ordinary matters and all resolutions were passed smoothly. The Company had sent the related minutes to all members of the Board after the Board meeting so any director who was unable to attend the meeting was able to understand the resolutions passed at the meeting.

For Provisions A.6.7 and E.1.2 of the Code, Mr. Wang Zhi-gang and Mr. Wong Tak Hung, non-executive directors, were unable to attend the 2011 annual general meeting of the Company convened on 15 June 2012 due to their work duties. Mr. Lee Kwok Ming, Don, the chairman of the audit committee and an independent non-executive director, attended the annual general meeting through telephonic conference. The Company has provided the relevant materials relating to the 2011 annual general meeting to all members of the Board before the meeting. All ordinary resolutions and special resolutions were passed smoothly at the annual general meeting. The Company had sent the related minutes to all members of the Board after the annual general meeting so any director who was unable to attend the meeting was able to understand the resolutions passed at the meeting.

For Provision A.6.7 of the Code, Mr. Kazuyasu Misu and Mr. Wong Tak Hung, non-executive directors, were unable to attend the extraordinary general meeting of the Company convened on 30 October 2012 due to their work duties. The Company has provided the relevant materials relating to the extraordinary general meeting to all members of the Board before the meeting. All special resolutions were passed smoothly at the extraordinary general meeting. The Company had sent the related minutes to all members of the Board after the extraordinary shareholders' general meeting so any director who was unable to attend the meeting was able to understand the resolutions passed at the meeting.

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

Shanghai, 25 March 2013

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, Zhang Hui-ming and Lin Yi-bin