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 2014

FINANCIAL HIGHLIGHTS

As at 31 December 2014, the Group recorded the following:

- Turnover amounted to RMB29,152 million, representing a decrease of 4.1% over 2013. The same store sales of the Group decreased by 5.52% over 2013, in which hypermarket segment decreased by 7.14%, supermarket segment decreased by 4.88% and convenience store segment grew by 11.93%.

- Gross profit amounted to RMB4,241 million, representing a decrease of 2.8% over 2013. Gross profit margin was approximately 14.55%, recording an increase of 0.19 percentage point.

- Distribution expenses and administrative expenses amounted to approximately RMB6,862 million. Labor cost and rental cost increased rigidly and overall cost ratio was approximately 23.54%, recording an increase of 0.78 percentage point.

- Consolidated income amounted to approximately RMB7,130 million, representing a decrease of 2.3% over 2013. Consolidated income margin was approximately 24.46%, increasing by 0.44 percentage point over 2013.

- Operating profit amounted to approximately RMB242 million, representing a decrease of 9.0% over 2013. Profit attributable to shareholders of the Company amounted to approximately RMB31 million. Basic earnings per share amounted to RMB0.03.

- The total number of outlets reached 4,291. During the period under review, the Group opened 275 new outlets, including 4 hypermarkets, 158 supermarkets (including 23 directly-operated stores and 135 franchised stores), and 113 convenience stores (including 32 directly-operated stores and 81 franchised stores).

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

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

Note 3: Operating profit = Profit before tax – Share of profits of associates

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014

	NOTES	**2014** ***RMB'000***	2013 *RMB'000*
Turnover	*2&3*	**29,152,454**	30,383,420
Cost of sales		**(24,911,309)**	(26,020,830)
Gross profit		**4,241,145**	4,362,590
Other revenue	*2&3*	**2,217,525**	2,272,223
Other income and gains	*4*	**671,086**	662,770
Selling and distribution expenses		**(6,100,913)**	(6,178,129)
Administrative expenses		**(761,333)**	(737,080)
Other operating expenses		**(25,551)**	(116,425)
Share of profits of associates		**58,113**	85,896
Finance costs		**(143)**	(144)
Profit before tax	*5*	**299,929**	351,701
Income tax expenses	*6*	**(179,040)**	(216,398)
Total comprehensive income for the year		**120,889**	135,303
Total comprehensive income attributable to:			
Owners of the Company		**31,033**	52,953
Non-controlling interests		**89,856**	82,350
		120,889	135,303
Earnings per share – basic and diluted	*8*	**RMB0.03**	RMB0.05

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2014

	NOTES	**31/12/2014**	31/12/2013
		RMB'000	*RMB'000*
Non-current assets			
Property, plant and equipment		**2,924,276**	3,080,898
Construction in progress		**443,667**	319,073
Land use rights		**341,812**	344,654
Intangible assets		**196,469**	190,263
Interests in associates		**557,084**	579,335
Available-for-sale financial assets		**36,570**	250,986
Term deposits			
– restricted		**266,000**	1,210,000
– unrestricted		**2,095,000**	2,000,400
Prepaid rental		**82,895**	120,983
Deferred tax assets		**215,749**	203,369
Other non-current assets		**18,668**	20,126
		7,178,190	8,320,087
Current assets			
Inventories		**2,676,400**	3,404,430
Trade receivables	*9*	**101,372**	76,682
Deposits, prepayments and other receivables		**1,076,927**	1,030,083
Amounts due from fellow subsidiaries		**12,888**	11,117
Amounts due from associates		**61**	26
Available-for-sale financial assets		**246,628**	258,474
Held-to-maturity financial assets		**–**	240,980
Financial assets at fair value through profit or loss		**2,223**	140,022
Term deposits			
– restricted		**1,210,000**	1,271,365
– unrestricted		**778,400**	890,000
Cash and cash equivalents		**5,145,270**	4,877,493
		11,250,169	12,200,672
Total assets		**18,428,359**	20,520,759

(Continued)

	NOTES	31/12/2014 RMB'000	31/12/2013 RMB'000
Capital and reserves			
Share capital		**1,119,600**	1,119,600
Reserves		**2,282,761**	2,251,728
Equity attributable to owners of the Company		**3,402,361**	3,371,328
Non-controlling interests		**272,025**	277,292
Total equity		**3,674,386**	3,648,620
Non-current liability			
Deferred tax liabilities		**98,657**	88,398
Current liabilities			
Trade payables	*10*	**3,713,440**	4,542,397
Other payables and accruals		**2,007,891**	2,110,854
Coupon liabilities		**8,726,487**	9,930,631
Deferred income		**23,284**	16,114
Amounts due to fellow subsidiaries		**48,193**	44,169
Amounts due to associates		**5,515**	16,571
Bank borrowings		**2,000**	2,000
Tax payable		**128,506**	121,005
		14,655,316	16,783,741
Total liabilities		**14,753,973**	16,872,139
Total equity and liabilities		**18,428,359**	20,520,759
Net current liabilities		**(3,405,147)**	(4,583,069)
Total assets less current liabilities		**3,773,043**	3,737,018

1. PRINCIPAL ACTIVITIES

Lianhua Supermarket Holdings Co., Ltd (the "Company") is a public limited 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 Bailian Group Co., Ltd. ("Shanghai Bailian" previously known as 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 ("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 ("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:

	2014	2013
	RMB'000	*RMB'000*
Turnover		
Sales of merchandise	**29,152,454**	30,383,420
Other revenue		
Income from suppliers	**1,539,466**	1,614,687
Gross rental income from leasing of shop premises	**611,281**	585,075
Royalty income from franchised stores	**55,542**	58,681
Commission income from coupon redemption in other retailers	**11,236**	13,780
	2,217,525	2,272,223
Total revenue	**31,369,979**	32,655,643

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 (including turnover and other revenue) and results by each reportable operating segment for the two years:

	Segment revenue		Segment results	
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Hypermarkets	**18,898,085**	19,665,632	**98,030**	98,557
Supermarkets	**10,248,720**	10,854,975	**227,277**	294,820
Convenience stores	**2,132,093**	2,052,961	**(84,189)**	(86,439)
Other operations	**91,081**	82,075	**34,269**	689
	31,369,979	32,655,643	**275,387**	307,627

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

	2014	2013
	RMB'000	*RMB'000*
Segment results	**275,387**	307,627
Interest income	**64,354**	57,848
Unallocated income	**44,593**	68,696
Unallocated expenses	**(142,518)**	(168,366)
Share of profits of associates	**58,113**	85,896
Consolidated profit before taxation	**299,929**	351,701

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:

	31/12/2014	31/12/2013
	RMB'000	*RMB'000*
Segment assets		
– Hypermarkets	**9,528,574**	11,592,647
– Supermarkets	**5,301,178**	5,748,074
– Convenience Stores	**575,406**	710,582
– Other operations	**78,912**	151,823
Total segment assets	**15,484,070**	18,203,126
Investments in associates	**557,084**	579,335
Other unallocated assets *(Note)*	**2,387,205**	1,738,298
Total assets	**18,428,359**	20,520,759

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

Other segment information

2014

	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)*	**259,405**	**197,551**	**50,077**	**360**	**507,393**
Depreciation	**311,285**	**128,565**	**39,522**	**13,832**	**493,204**
Amortisation	**5,220**	**8,121**	**797**	**5,883**	**20,021**
Impairment losses on property, plant and equipment	**6,700**	**3,300**	**455**	**–**	**10,455**
(Gain) loss on disposal of property, plant and equipment and intangible assets	**(1,543)**	**1,585**	**829**	**458**	**1,329**
Interest income	**260,249**	**77,717**	**6,016**	**66,736**	**410,718**
Finance costs	**–**	**–**	**–**	**143**	**143**

2013

	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)*	228,168	176,476	65,175	212	470,031
Depreciation	318,155	144,672	39,464	14,539	516,830
Amortisation	3,306	6,957	814	5,755	16,832
Impairment losses on property, plant and equipment	39,592	3,240	394	–	43,226
Loss on disposal of property, plant and equipment and intangible assets	1,943	4,438	329	579	7,289
Interest income	272,066	73,947	9,351	65,457	420,821
Finance costs	–	–	–	144	144

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

	2014	2013
	RMB'000	*RMB'000*
Interest income on bank balances and term deposits	**410,718**	420,821
Government subsidies *(Note)*	**66,331**	49,559
Fair value change on financial assets at fair value through profit or loss	**4,646**	12,673
Interest income from available-for-sale financial assets	**20,793**	31,443
Interest income from held-to-maturity financial assets	**12,220**	15,558
Gain on disposal of an associate	**7,403**	8,963
Dividend from unlisted equity investments	**12,377**	377
Salvage sales	**29,154**	28,224
Others	**107,444**	95,152
Total	**671,086**	662,770

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

	2014	2013
	RMB'000	*RMB'000*
Profit before taxation has been arrived at after charging (crediting):		
Amortisation and depreciation		
Amortisation of other non-current assets	**1,458**	1,482
Amortisation of intangible assets	**11,168**	9,793
Amortisation of land use rights	**7,395**	5,557
Depreciation of property, plant and equipment	**493,204**	516,830
Total amortisation and depreciation	**513,225**	533,662
Share of profits of associates		
Share of profit before taxation	**(82,376)**	(114,607)
Share of taxation	**24,263**	28,711
	(58,113)	(85,896)
Auditors' remuneration	**5,649**	7,218
Loss on disposal of property, plant and equipment and intangible assets	**1,329**	7,289
Impairment loss on property, plant and equipment recognised (included in other operating expenses)	**10,455**	43,226
Director's remuneration	**6,091**	10,082
Salaries, wages and other employee benefits of other staff	**2,645,635**	2,623,918
Retirement benefit scheme contribution of other staff	**281,708**	276,084
Total staff costs	**2,933,434**	2,910,084
Allowance for doubtful debts	**3,083**	–
Reversal of allowance for doubtful debts	**(1,546)**	(3,836)
Allowance for write-down of inventories	**–**	21,239
Cost of inventories recognised as expenses	**24,911,309**	26,020,830

6. INCOME TAX EXPENSE

	2014	2013
	RMB'000	*RMB'000*
Current tax on PRC Enterprise Income Tax ("EIT")	**181,161**	215,037
Deferred (credit) charge	**(2,121)**	1,361
	179,040	216,398

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%. Certain subsidiaries are taxed at preferential rate of 15% as those entities which are located in specific provinces of western China and engaged in specific encouraged industries which enjoy a preferential tax rate of 15% under EIT Law. During 2013, a group entity is qualified as "High Tech Enterprise" and enjoys a preferential tax rate of 15% under EIT Law and subject to renewal for every three years.

	2014	2013
	RMB'000	*RMB'000*
Profit before tax	**299,929**	351,701
Tax at PRC EIT tax rate of 25% (2013: 25%)	**74,982**	87,925
Tax effect of share of profit of associates	**(14,528)**	(21,474)
Tax effect of expenses not deductible for tax purpose	**16,780**	14,690
Tax effect of income not taxable for tax purpose	**(5,510)**	(2,560)
Tax effect of tax losses not recognised	**129,106**	154,586
Utilisation of tax losses previously not recognised	**(19,375)**	(14,934)
Effect of preferential tax rates granted to certain PRC subsidiaries	**(2,415)**	(1,835)
Tax charge for the year	**179,040**	216,398

7. DIVIDEND

	2014	2013
	RMB'000	*RMB'000*
Dividend recognised as distribution during the year:		
2012 final dividend RMB0.07 per share	**–**	78,372
	–	78,372

No dividend was proposed for the year ended 31 December 2014. (2013: a final dividend for the year ended 31 December 2012 of RMB0.07 per share totalling RMB78,372,000 was proposed and approved by the shareholders of the Company in the annual general meeting on 18 June 2013.)

8. EARNINGS PER SHARE

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

	2014	2013
	RMB'000	*RMB'000*
Earnings		
Profit for the year attributable to owners of the Company	**31,033**	52,953
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**1,119,600,000**	1,119,600,000

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 aging 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 (2013: 30 to 60 days), is as follows:

	31/12/2014	31/12/2013
	RMB'000	*RMB'000*
Within 30 days	**94,930**	74,857
31-60 days	**5,649**	860
61-90 days	**39**	238
91 days – one year	**754**	727
	101,372	76,682

Movement in allowance for doubtful debts is as follows:

	2014	2013
	RMB'000	*RMB'000*
1 January	**1,691**	10,193
Impairment losses recognised	**3,083**	–
Amounts reversed during the year	**–**	(2,653)
Amounts written-off during the year	**–**	(5,849)
31 December	**4,774**	1,691

10. TRADE PAYABLES

The aging 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 (2013: 30 to 60 days), is as follows:

	31/12/2014	31/12/2013
	RMB'000	*RMB'000*
Within 30 days	**1,963,490**	2,423,941
31-60 days	**809,341**	866,503
61-90 days	**231,245**	431,071
91 days – one year	**709,364**	820,882
	3,713,440	4,542,397

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Environment

In 2014, China's economic growth continued to outpace that of other economies around the world. Meanwhile, with a complicated global economic environment and the continuous adjustment of domestic economic structure, the Chinese economy entered a "new normal" stage, which focused on growth quality and structure optimization. Hence, China's economic growth gradually slowed down.

In light of the complicated domestic and global economic environment, as well as the extremely difficult missions on reform and development initiatives, the Chinese government adhered to its principle of achieving growth amid stability, and continued to implement proactive fiscal policy and stable monetary policy. It gave priority to targeted regulation on top of interval regulation and launched a series of policies and measures aimed at stabilizing growth, promoting reform and restructuring as well as boosting the overall welfare of its people. According to the National Bureau of Statistics, in 2014, China's gross domestic product (GDP) increased by 7.4% year over year, amounting to RMB63.65 trillion. The domestic economic environment remained stable under the new normal environment.

In 2014, urban and rural residents' disposable income continued to grow but at a slower pace. The domestic disposable income of Chinese residents was RMB20,167, representing a 10.1% nominal growth rate and an 8.0% actual growth rate after excluding the impact of inflation year over year. Urban disposable income per capita was RMB28,844, representing a 9.0% nominal growth rate and a 6.8% actual growth rate after excluding the impact of inflation year over year. The actual growth rate of urban disposable income per capita in 2014 was 0.2 percentage point lower than that of 2013. Rural cash income per capita was RMB8,896, which represented a 11.2% nominal growth rate and a 9.2% real growth rate after excluding the impact of inflation year over year. The actual growth rate of rural cash income per capita in 2014 was 0.1 percentage point lower than that of 2013. The Gini coefficient for national income was 0.469 in 2014. As the structure of domestic demand continued to improve, the final consumption expenditure accounted for 51.2% of GDP in 2014, representing an increase of 3.0 percentage points compared to last year.

In 2014, the consumer price index (CPI) increased by 2.0% year over year as a result of the effective economic regulations by the Chinese government. However, the producer price index (PPI), a leading indicator of CPI, continued its decreasing trend since March 2012, indicating sluggish domestic economic growth and weak expansion of real aggregate demand. Although the Chinese government introduced a number of structural "micro stimulus" packages, the effects of those measures remained to be seen. Traditional industries still suffered from the restructuring of economy. With the weak momentum in the physical retail industry, sluggish domestic demand and continuous decline in customer concentration, the whole retail industry entered into a phase of structure transformation and further adjustment. In general, department stores and supermarkets faced pressure of declining result performance, shrinking customer flow, merger and acquisition, and closure of stores to limit losses. On the other hand, as online shopping became mature, e-commerce started further integration with physical retailers. The integration impacted traditional retailers, which was further supported by statistics of domestic retail industry.

According to the National Bureau of Statistics, the total retail sales of social consumer goods for 2014 was RMB26.24 trillion, representing a 12.0% nominal growth (a 10.9% actual growth excluding inflation) year over year, which was 1.1 percentage points lower than that of 2013. It is worth noting that the domestic online sales amounted to RMB2.79 trillion, representing a growth rate of 49.7% year over year and accounting for over 10.0% of the total retail sales of social consumer goods.

According to the statistics from the China National Commercial Information Center, in 2014, retail sales of the top 100 largest retail enterprises in China increased by only 0.4% year over year, which was 8.5 percentage points lower than that of 2013. This was the third consecutive year of slowdown in growth since 2012, and the growth was the lowest since 2005. There was significant slowdown in growth rate of products such as oil and foodstuff, meat products, health supplements, daily groceries, apparels and home appliances, or decreased sales of such products compared to last year. The sales of 5,000 major retail enterprises in China monitored by the Ministry of Commerce of the People's Republic of China ("MOC") rose by 6.3% year over year, which was 2.6 percentage points lower than that of 2013. Sales from supermarket enterprises rose by only 5.5% year over year, which was 2.8 percentage points lower than that of 2013.

In conclusion, in 2014, the Group and the supermarket chain industry as a whole faced unprecedented challenges and tremendous pressure, resulting in an increased pressure on operating results for 2014.

Financial Review

Growth in turnover and consolidated income

During the period under review, the Group's turnover was RMB29,152 million, which represented a decrease of approximately 4.1% year over year. Same store sales decreased by approximately 5.52%, represented a decrease of 7.65 percentage points year over year. The adverse effects of macro-economic slowdown, significant decrease of institutional group consumption and the rapid development of online retailing on physical chain supermarkets were increasing. There was a decline in overall sales for 2014 since the majority of the Group's outlets are located in first and second tier cities relatively affected by market saturation with slower growth in recent years. Facing the challenging environment, the Group continuously strove to constantly optimize its merchandise structure, enhance the consolidated income from its merchandise, strictly control various costs and expenses and minimize the effect of sales decline on earnings. Meanwhile, in order to enhance the capability to maintain sustainable development, the Group put greater efforts on the reform of three major models, namely business model, operational model and incentive model, in 2014, aiming to solve the existing problems.

During the period under review, the Group recorded a gross profit of approximately RMB4,241 million, representing a decrease of 2.8% year over year due to the decline in sales. The decline in gross profit was lower than that of revenue. Gross profit margin continued to increase by 0.19 percentage point to 14.55%. Gross profit margin increased primarily because the Group managed to lower its purchasing costs by stepping up its efforts to negotiate with suppliers, strengthening the source procurement of merchandise, promoting the "fee-to-ratio" project, as well as increasing sales rebates from suppliers.

During the period under review, consolidated income reached approximately RMB7,130 million, representing a decrease of 2.3% year over year. The decrease was mainly attributable to the fact that: (1) the number of customers visiting physical stores decreased because online businesses leveraged the advantage of the intensive management on information platform and boosted their sales through low price strategy. The decrease in store sales resulted in decline in gross profit; and (2) the Group slowed down the opening of new stores and closed down loss-incurring outlets and the total order amount decreased. Income from suppliers decreased by RMB75 million year over year. As the decline in consolidated income was smaller than that of turnover, consolidated income margin increased by 0.44 percentage point year over year to approximately 24.46%.

During the period under review, demand from institutional group consumption significantly shrunk. The growth in sales of the Group's single-purpose pre-paid cards showed a downward trend, while the redemption of the pre-paid cards started to increase. Although the Group maintained sufficient cash flow and managed its cash prudently, the return on capital decreased by approximately RMB32,118 thousand year over year due to decline in net cash flow.

Operating cost and net profit

During the period under review, total distribution expenses and administrative expenses of the Group amounted to approximately RMB6,862,246 thousand, representing a decrease of RMB52,963 thousand or approximately 0.8% year over year. The decrease was mainly attributable to the facts that: (1) the Group focused on the performance management over input and output, resulting in a decrease in promotion costs of approximately RMB54,265 thousand; and (2) electricity expenses were effectively controlled through energy management, recording a decrease of approximately RMB12,177 thousand year over year. (3) major cost items such as rent and labor expenses maintained their rises and amounted to RMB1,762,288 thousand and RMB2,933,434 thousand, respectively. During the period under review, many local governments across China increased their minimum wage levels and social welfare. In Shanghai and Hangzhou, the minimum wage increased from RMB1,620 to RMB1,820 and RMB1,470 to RMB1,650 in 2014, respectively. The overall labor costs further increased by RMB23,350 thousand with the increase in minimum wage level and social welfare. The Group minimized the rise in labor costs by optimizing staff structure, improving employee incentive mechanism, reducing redundant employees, as well as promoting store contracting.

During the period under review, the Group recorded an operating profit of RMB241,816 thousand, representing a decrease of 9.0% year over year. Operating profit margin slightly decreased by 0.04 percentage point year over year to 0.83%. Facing the sluggish environment in retail operation of chain supermarkets, the Group adhered to its innovative works and business transformation. During the period under review, the Group took the following measures to cope with the challenges arising from the increase in overall costs: (1) strengthen the establishment of fresh produce system and establish a comprehensive supply chain system. The Group increased the types of fresh produce and expanded the sale of fresh produce, thereby increasing customer traffic; (2) control various fees and expenses, including promotion fees and information fees, in order to boost performance; (3) enhance employment system and promote the responsible mechanism for store operation and contracting as to cope with the rigid rise in labor costs; and (4) promote the installation of energy-efficient equipment and actively seek government support.

During the period under review, the Group's share of profits of associates amounted to RMB58,113 thousand, representing a decrease of 32.3% year over year. Online sales also affected the performance of the Company's associates. In addition, new outlets opened in recent years remained in their incubation periods. At the same time, due to the increase in labor, rental and advertisement expenses, operating costs increased, dragging down the profit of the Company's associates. Shanghai Carhua Supermarket Company Limited ("Shanghai Carhua") opened one new outlet during the period under review. As at 31 December 2014, Shanghai Carhua had a total of 29 outlets.

During the period under review, the tax charge of the Group was RMB179,040 thousand, representing a decrease of approximately RMB37,358 thousand year over year. The Group closely monitored the implementation of financial support policies by the Chinese government and took measures that lowered the overall effective tax rate at the Group level by striving for local government funding. However, with the expiration of the tax holiday enjoyed by mature outlets, the requirement to pay taxes separately by individual outlet also made it impossible for the Group to lower its overall tax tariff by re-balancing profit and loss at the Group level. During the period under review, the effective EIT tax rate of the Group was up to 59.69%, though recording a decrease of 1.84 percentage points.

During the period under review, the Group recorded profit before tax of approximately RMB299,929 thousand, representing a decrease of 14.7% year over year. Profit attributable to shareholders of the Company was RMB31,033 thousand, representing a decrease of 41.4% year over year. Net profit margin attributable to shareholders of the Company was 0.11%. Basic earnings per share were RMB0.03 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 inflow was RMB267,777 thousand, mainly due to the decrease of term deposits due over one year. Cash and cash equivalents and term deposits as at the end of the period were RMB9,494,670 thousand.

As of 31 December 2014, account payable turnover days were approximately 58 days, and inventory turnover days were approximately 40 days.

During the period under review, the Group did not use any financial instruments for hedging purposes and did not issue any hedging instruments as at 31 December 2014.

Growth in retail businesses

Hypermarkets

During the period under review, the turnover of the Group's hypermarket segment decreased by approximately 4.0% year over year to RMB17,513,911 thousand, accounting for approximately 60.1% of the Group's turnover. Gross profit was approximately RMB2,533,376 thousand. Gross profit margin increased by 0.66 percentage point to 14.46%. Same store sales decreased by 7.14%. Consolidated income margin was 24.41%, representing an increase of 0.78 percentage point year over year. The segment operating profit was approximately RMB98,030 thousand, representing a decrease of 0.5% year over year. Operating profit margin increased by 0.02 percentage point year over year to 0.56%. During the period under review, growth in domestic consumption slowed down. Meanwhile leveraging on its convenience nature, online sales produced strong adverse effect on chain supermarkets business, especially hypermarkets business. There was a slowdown in the growth of chain supermarkets business in China's first and second tier cities. The Group fully acknowledged the challenging business environment. It focused on the performance of its operation, and continued to adopt a "two-pronged driving" policy of building its image and enhancing its competitiveness. Hence, the operating profit from hypermarket operation recorded slight decrease, while margins increased once again: Firstly, the Group enhanced the quality of outlets through outlet management. While maintaining high standards for newly-opened outlets, the Group continued to add support to its semi-matured outlets, facilitated transformation and upgrade of the existing outlets, as well as closed down loss-incurring stores. It also expanded and consolidated market share through its "key outlets" strategy. Secondly, the Group accelerated the functional adjustments of its outlets and highlighted the display of merchandise by arranging and dividing the outlets into certain specific areas such as "Baby/Child Area" and "Specialty Electrical Appliances Area" to cater to the customers' preferences and consumption habits, instead of displaying merchandise in accordance with the types of merchandises in the past. Meanwhile, the Group attached great importance to sublease area that can provide strong backup to its outlets and enhance the customers' one-stop shopping, recreation and dining experience in the outlets. Thirdly, the Group carefully selected price-sensitive daily groceries based on its understanding of consumers' shopping habit of comparing prices and closely matched its price of daily groceries with the market price information published by the government from time to time and continuously promoted its "Beneficial Life" (惠生活) marketing and promotional campaign. It also increased the procurement in fresh produce such as vegetables. The Group created a lower price perception which helped increase customer traffic, trigger customers' enthusiasm in shopping and drive sales of non-price-sensitive products. Fourthly, based on the "input-output" principle and centering to the performance of operations, the Group controlled various expenses and costs, including labour cost, marketing and promotion fees and information maintenance fees.

	As of 31 December	
	2014	2013
Gross Profit Margin (%)	**14.46**	13.80
Consolidated Income Margin (%)	**24.41**	23.63
Operating Profit Margin (%)	**0.56**	0.54

Supermarkets

During the period under review, the turnover of the Group's supermarket segment decreased by approximately 6.0% year over year to RMB9,544,941 thousand, which accounted for approximately 32.7% of the Group's turnover. Same store sales decreased by 4.88%. Gross profit decreased by approximately 9.7% year over year to RMB1,382,332 thousand, and gross profit margin decreased by approximately 0.61 percentage point to approximately 14.48%. Consolidated income margin of the supermarket segment was approximately 23.33%, representing an increase of approximately 0.05 percentage point year over year. The segment's operating profit was RMB227,277 thousand, and operating profit margin was 2.38%. During the period under review, community supermarkets were popular among consumers due to long business hours and were easy to access. However, the Group operated many supermarkets, and many mature outlets with lease contracts approaching expiry had to be closed every year due to change of the commercial use of the properties by respective landlords or dramatically increased rents, whereas the newly-opened supermarkets were not able to attain the equivalent sales and profitability as that of mature ones within a short period of time. Moreover, revenue had been hindered by the advent of e-commerce, wet markets and other wholesale markets. Hence, outlet sales recorded decline for the first time. Meanwhile, continuous rise in major cost items such as labor cost and rents put pressure on the profitability of supermarkets. Looking forward, supermarkets will enjoy a better operating environment as compared with other retail chain segments. The Group will focus on fresh produce operations with the support of omni channel online marketing, accelerate outlet transformation, carry forward its key outlet strategy, and optimize product categories by enhancing the performance of core merchandise so as to maintain its market share.

	As of 31 December	
	2014	2013
Gross Profit Margin (%)	**14.48**	15.09
Consolidated Income Margin (%)	**23.33**	23.28
Operating Profit Margin (%)	**2.38**	2.90

Convenience Stores

During the period under review, the convenience store segment recorded a turnover of approximately RMB2,013,456 thousand, representing an increase of approximately 4.1% year over year, which accounted for approximately 6.9% of the Group's turnover. Same store sales increased by 11.93%. The convenience store segment recorded gross profit of RMB323,096 thousand, representing an increase of approximately RMB10,979 thousand or 3.5 percentage points, which was mainly attributable to the increase in turnover of high-end stores year over year. The convenience store segment focused on transforming its existing stores into high-end stores by introducing appropriate merchandise through continuous optimization of merchandise structure so as to increase customer traffic, thereby boosting sales. On the other hand, it promoted the implementation of O2O sales model in order to attract young customers through online sales and offline purchase. In Shanghai and Dalian markets, convenience store segment enjoyed the fastest growth in the chain supermarket industry. This reflected the increase in customer loyalty of convenience store segment, and indicated room for development of this segment. During the period under review, despite the rise in major cost items such as labor cost and rent as affected by the macroeconomic environment, the convenience store segment accelerated outlet transformation, updated new products, enhanced instant food promotion, and increased provision of value-added services in order to offset the increase in expenses by boosting sales to increase income from merchandise. Hence, the net profit achieved bottoming out in this segment. During the period under review, consolidated income margin was 22.97%, representing a decrease of 0.95 percentage point year over year. Operating loss was approximately RMB84,189 thousand, representing a decrease of loss of approximately RMB2,250 thousand year over year. Looking forward, the Group will continue to facilitate the transformation and upgrade in convenience store segment. With the support of e-commerce information platform, the Group shall adopt innovative value-added earning model and control various costs and expenses, aiming to achieve the goal of reducing loss.

	As of 31 December	
	2014	2013
Gross Profit Margin (%)	**16.05**	16.13
Consolidated Income Margin (%)	**22.97**	23.92
Operating Profit Margin (%)	**-4.18**	-4.47

Financial results analysis

	Year ended 31 December *RMB million* 2014	2013	Year-on-Year change (%)
Turnover	**29,152**	30,383	-4.1
Gross profit	**4,241**	4,363	-2.8
Consolidated income	**7,130**	7,298	-2.3
Operating profit	**242**	266	-9.0
Taxation	**179**	216	-17.3
Profit attributable to shareholders of the Company for the period	**31**	53	-41.4
Basic earnings per share *(RMB)*	**0.03**	0.05	-40.0
Interim dividend per share *(RMB)*	**N/A**	N/A	N/A

Capital structure

As at 31 December 2014, 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 of a non-wholly owned subsidiary of the Group.

During the period under review, equity attributable to shareholders of the Group increased from approximately RMB3,371,328 thousand to approximately RMB3,402,361 thousand, which was mainly attributable to the profit for the period amounting to approximately RMB31,033 thousand.

Details of the Group's pledged assets

As at 31 December 2014, the Group did not pledge any assets.

Exposure to foreign exchange risk

Most of the Group's 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 its foreign exchange risk. The Directors believed that the Group was able to meet its foreign exchange requirements.

Share capital

As at 31 December 2014, the issued share capital of the Company was as follows:

Class of shares	Number of shares in issue	Percentage
Domestic shares	715,397,400	63.90
Unlisted foreign shares	31,602,600	2.82
H shares	372,600,000	33.28
Total	1,119,600,000	100.00

Contingent liabilities

As at 31 December 2014, the Group did not have any material contingent liabilities.

Operating Review

Outlet development

During the period under review, in response to recent new domestic economic trends and new developments in the retail industry, the Group strove to achieve its strategic goal of 'Becoming the Regional Leader and a National Strong Player'. It paid close attention to the positioning of new outlets, accelerated the optimization of outlet structure, enhanced its operating capabilities and strengthened its competitiveness in operating markets. Hence, The Group proactively adjusted its outlet development model, decreased the pace and carefully planned for new outlet expansion to improve the success rate of new outlets, and streamlined underperforming outlets on a timely basis in order to enhance the competitiveness of its outlets across all segments and achieve the goal of loss minimization and profit maximization.

During the period under review, four new hypermarkets were opened, among which two were located in Hangzhou, Zhejiang Province, one in Yiwu, Zhejiang Province and another one in Zhengzhou, Henan Province. These new hypermarkets consolidated the Group's market share in regions where it had competitive advantages. Yiwu is one of the richest cities in China with promising prospects. The Group's ultra-large hypermarket in Yiwu fully reflected the development strategy of the Group. The property in Yiwu had a gross floor area of approximately 80,000 sq. m. and comprised of five floors above the ground level and two floors underground. The first, second and third floors were used as a hypermarket and sublease areas. The remaining portions of the property were used for parking lots and ancillary facilities. The Group's Yiwu ultra-large hypermarket integrated shopping, leisure and catering experience. In particular, it focused on the consumption experience of its customers, and the integration of online and offline shopping. Since its opening on 28 August 2014 to the end of 2014, the average daily number of visitors was 7,478, and its daily sales was RMB998 thousand. It is likely to reach the breakeven point in the next two to three years. The Group currently already has one hypermarket in Yiwu, representing over one-third of the market share of local hypermarket business. Benefiting from the opening of this new ultra-large hypermarket, the Group is expected to maintain over 60% of market share in hypermarkets in Yiwu.

During the period under review, the Group maintained a steady pace of development with 158 new supermarkets comprised of 23 directly-operated stores and 135 franchised stores. The development of directly-operated outlets was advanced steadily with the expansion of new outlets and the transformation of existing outlets. For the franchising business, its development in Shanghai was considered a top priority as the Group worked to improve its outlet quality and standardize store operations. It also strove to improve the renewal terms of expiring outlets. These measures helped to ensure the sustainable development of the supermarket segment while maintaining a reasonable scale.

During the period under review, 113 new convenience stores were opened, comprising of 32 directly-operated stores and 81 franchised stores, representing a rational decrease in the pace of growth. During the period under review, the Group's convenience store segment broadened its sources of income and reduced its expenditure. The Group continued to promote the transformation of its existing outlets with a total of 89 undergoing successful changes. Due to intense competition, growth of franchised outlets was lower than expected. During the period under review, subject to the maintenance of the scale of directly-operated stores, effective adjustment was made to the structure of directly-operated convenience stores. The Group continued to streamline certain outlets that showed limited potential. It also adjusted its commercial layout and positioning strategy. Hence, it successfully launched high-end compound outlets, and improved the quality of its outlets.

As at 31 December 2014, the Group had a total of 4,291 outlets, representing a decrease of 239 outlets since the end of 2013 mainly due to the overall development pace of franchised outlets being slower than expected. Approximately 84% of the Group's outlets were located in Eastern China.

	Hypermarkets	**Supermarkets**	**Convenience Stores**	**Total**
Direct operation	157	619	842	1,618
Franchised operation	–	1,796	877	2,673
Total	157	2,415	1,719	4,291

Note: The above figures were as at 31 December 2014.

Deepening Reform

During the period under review, in response to the changes in consumer behavior and the challenges arising from the continuous slowdown in overall industry growth, the Group focused on reforms to change its earning and business model, explored merchandise channels, and pushed forward operational structural reform, regional business pilot programs and incentive mechanism reform in an orderly manner.

During the period under review, returning to its retail business essence, the Group implemented the "fee-to-ratio" reform to establish a gross profit oriented procurement system, thereby making a breakthrough in its earning model. Through the implementation of various measures such as lowering the sourcing cost and increasing gross profit, the percentage of rebates linked to sales had increased. During the period under review, the Group actively entered into a fee-to-ratio reform agreement with suppliers to increase the rebate rate and gross profit.

During the period under review, leveraging the "Regionalization" reform, the Group proactively facilitated the reform on operating system, reduced management levels, adjusted organizational structure, and improved operating efficiency. Striving for the regional positioning focused on profit and making a breakthrough with the reform in Jiangsu, the Group integrated the direct sale system of its hypermarkets and supermarkets in Jiangsu into a regional subsidiary in Jiangsu. Meanwhile, it optimized the operational and management system and procedure in the headquarters and Jiangsu, and fully promoted the work on "Simplifying Administrative Structure" regionalization reform, thereby ensuring the orderly operation within the region.

During the period under review, the Group proactively optimized various business processes and focused on pilot contract operation. Through streamlining and optimization, the Group confirmed the catalog of necessary merchandise items for various segments, and rearranged the responsibilities of stores. The Group established its organizational structure with the headquarters leveraging its competitive edges in integrated and efficient chain, while the outlets focusing on site management and customer service, and reformed its organizational structure, streamlined the management levels and transformed functions on such basis. It also focused on site service and put great efforts on promoting sales. During the period under review, the Group implemented its reform on fresh produce business model by promoting contracting operation for vegetable and fruit in hypermarkets and supermarkets in Shanghai, thereby stimulating the vigors of stores. This measure not only effectively motivated employees and the management of the stores, but also increased both sales and gross profit of fresh produce.

In accordance with the basic principles of incentives reform, the Group strengthened compensation management, and standardized internal allocation during the period under review. The Group established an incentive mechanism to efficiently make internal assessments. During the period under review, the Group also increased the transparency of its distribution, established remuneration packages and changed assessment measures to link compensation of employees to the Group's performances. These changes resulted in better staff initiatives.

Transformation and Improvement

During the period under review, the Group deepened the transformation of its business and further strengthened the professional management. Focusing on outlet positioning, merchandise optimization and upgrade and transformation of generatrix design, the Group's hypermarkets gradually attracted more tenants from various brands, in particular, catering brands, which had greatly enhanced the Group's capability to attract customers. This had also enriched the composition of catering and public facilities, convenience services and other ancillary services in stores and increased customer interaction within the stores. Supermarkets in Shanghai were divided into small, medium and large scale ones equipped with their respective merchandise files and were individually improved along with the surrounding business environment. In Zhejiang province, the position, coverage and competitiveness of the Group's community-based supermarkets were strengthened with the addition of convenience services such as postal services, laundry and Nonghua lunchboxes that improved the cohesion of community services. For merchandise management, the merchandise structure was adjusted and streamlined in accordance with the characteristics of community-based supermarkets and the available categories of fresh produce were increased, in order to turn community-based supermarkets into one-stop shopping areas of "real-time convenience + relaxing experience + fresh specialty + retail". For convenience stores, the Group proactively developed high-end convenience stores, where the trial of compound catering outlet was conducted through the promotion of fresh soybean milk, coffee and fresh lunch-box. Such fresh foods targeted at young consumers working at commercial buildings and were popular among them.

During the period under review, the Group strengthened its fundamental management and improved management's efficiency. The Group also optimized its management systems and processes. The Group employed micromanagement to standardize and institutionalize various operational practices, strengthen basic management of store operations, and improve store operating capacity. During the period under review, in order to further improve price management, and enhance gross profit levels while maintaining its price image, the Group's hypermarket segment conducted daily gross profit monitoring, including analysis of abnormal gross profit, regulation of merchandise of negative gross profit and high-in low-out merchandise remark, while also regularly analyzed gross profit of various types of goods with different marketing grades under the gross profit investment concept of grade marketing, strictly controlled the overall gross profit level. With respect to merchandise prices, the Group continued to carry out market researches, compared and drew on the successful experience with merchandise prices, promotional activities, number of SKUs and their prices. The Group applied these concepts to the merchandise price system, thereby optimizing its pricing and enhancing overall image. During the period under review, the streamlining project of the Group's convenience store segment gradually created a solid base from which the Group can reinforce its position. The Group focused on imported products, fresh merchandise and "Little-Q" branded products to optimize merchandise structure and enhance major products operation in accordance with the relevant categories confirmed early this year. It also constantly introduced new products in order to attract customers and increase sales.

Concept Innovations

During the period under review, "Lianhua Mart", the Group's one-stop e-commerce website, continued to develop steadily. Leveraging its on-the-spot outlets, the Group developed the trial of "order online, pickup in store". In accordance with the integrated strategy of the e-commerce of Bailian Group, the Group grasped the opportunities to proactively apply internet technologies and enter into the internet economy. It also took full advantage of existing network and member resources to give play to its payment advantage and create synergies among its multi segments. The Group strove to create a unique omni-channel mode with user-oriented characteristics and seamless online and offline connections, enhancing the competitiveness of the Group's physical stores.

During the period under review, the Group's marketing events were actively "connected with the internet". The Group launched accurate and efficient marketing modes. Apart from traditional marketing events, the Group increased its investments in new media and channels for various segments. It provided more interactive experience events, and established platforms for WeChat marketing, Alipay payment and online group buying. Through the cross-border cooperation on mobile internet, the Group can continue to attract and expand its online customer base.

To increase customer traffic, sales and profit, the Group implemented initiatives in its merchandise procurement process during the period under review. These initiatives included the expansion of the procurement scope for more daily groceries, introduction of more "Popular, Special and Excellent" brands to enrich the beef and lamb categories in stores. The Group also adjusted its operation of seafood products from traditional joint operations to self-procurement and self-marketing. In respect of the procurement methods, the Group procured from both wholesale markets and place of origin. The Group procured live fishes from wholesale markets based on their characteristics while sourced other seafood directly from their place of origin so as to implement special operation. During the period under review, the Group's direct sourcing of aquatic products built the supply chain of "delivering seafood products directly from pier to kitchen". During the period under review, the Group directly sourced over 150 types of fruit since March 2014, among which 100 types of fruit increased in sales year over year.

Fresh produce food product is vital for chain supermarkets. During the period under review, focusing on vegetable and meat products, the Group implemented processes to re-engineering and enhanced the efficiency of its supply chain, thereby establishing its abilities in the operation of strategic fresh produce. By setting up quality standards, products sourced directly from suppliers, as well as managing and controlling the whole process from plantation and rear to harvest, butcher and delivery, the Group initially established the "Lianhua Assurance Vegetable" brand, and built up a quality image. The Group had established a total of 100 fresh produce bases for 5 types of product categories including vegetable, fruit, egg product, seafood and meat product, covering 215 SKUs. During the period under review, the Group cooperated with a local professional vegetable union in Chongming, Shanghai, and entered into an agreement concerning vegetable cultivation on an area of 1,200 mu to establish a vegetable cultivation supply base managed by Lianhua itself. Hence, the Group achieved whole-process monitoring from source plantation to sale in stores. Vegetables from self-managed farms were generally of higher quality and sold in competitive price.

During the period under review, the Group rebuilt its "Lianhua Tianyuan" pork brand. Through tendering and introducing quality suppliers, the Group selected Shanghai Oriental Agricultural and Livestock Farm (上海東方種畜場) and Shanghai Fengjin Pig Farm (上海奉金生豬養殖) as its farm bases. It also selected Shanghai Wufeng Food (上海五豐上食) as its butcher and delivery service provider. The products were sold in the Group's stores in Shanghai since 20 September 2014. The sales amounted to RMB11.23 million with a decrease of 3% in average sourcing cost year over year. Hence, the good image of "Tianyuan" meat product was re-established.

During the period under review, to cope with the difficult operating environment of traditional retail enterprises in non-food categories such as home appliances and textile products, the Group made a breakthrough by establishing a cooperative relationship with professional home appliance chain enterprises. Leveraging their operating capabilities and resource competitiveness, the Group expanded its existing home appliance operations, and developed a new method to enhance the sales growth of sluggish products.

During the period under review, according to the investment feasibility report, further investment was needed for the cosmeceutical business invested by the Group. Over the recent years, the demand for cosmeceutical products had been increasing, whether through physical stores or e-commerce stores. Based on historical trends, the Group adjusted its philosophy on outlet development, merchandise management and store operations, resulting in enhancement of the overall operating standard. Some of the stores which were operated at an early stage, started making profit. However, in general, the pace of development of cosmeceutical stores was much slower than expected. Although the competition among outlets was less fierce as compared to the past few years, it did take time for the stores to make profit. In view of the current financial conditions of the Group and the prospects of the cosmeceutical business, the Board decided not to increase its investment in the cosmeceutical business but to transfer the entire 43% of its equity interest to other shareholders.

Cost Control and Efficiency Increase

During the period under review, various costs such as labor and rental costs increased rapidly. The Group implemented a series of cost control measures to cope with challenges arising from the overall cost increase. In 2014, these various costs amounted to RMB6,862 million in aggregate, representing a decrease of approximately RMB52.963 million as compared to 2013, among which, the labor costs increased by RMB23.35 million as compared to 2013 to RMB2,933 million. Provided that the remuneration of frontline staff recorded had two-digit growth on average, the Group achieved cost controls by optimizing staff structure and organizational systems.

During the period under review, the Group improved and strengthened internal control in order to boost sales, reduce costs and increase efficiency. The Group strengthened budget control through implementing inspections and laid out a detailed plan to implement the reform on bidding process so as to regulate investment controls.

The Group also options to implement centralized purchasing of assets, improved the management and utilisation of idle assets, implemented a real-time tracking system of energy cost and depreciation and amortization expenses and set up an "energy-saving store model" to further reduce costs. In addition, the Group further strengthened communication between its asset engineering and operational divisions, especially with regards to renovating stores, so as to fully utilize idle assets and reduce overall investments in store transformation.

During the period under review, the Group enhanced its audit work in order to prevent operational risks. During the period under review, the audit office of the Group completed 73 audit projects. The Group enhanced its control over operational risks and promoted positive operating cycle through various audit works. The audit control and monitoring on construction projects helped the Group lower investment costs and control investment risks to a certain extent.

Employment, Training and Development

As of 31 December 2014, the Group had a total of 52,905 employees, with a decrease of 3,282 employees during the period under review, costing RMB2,933,434 thousand in total.

During the period under review, centering on incentive mechanism reform of "enhancement of remuneration management, standardization of internal allocation, establishment of incentive mechanism, and implementation of performance appraisal", the Group changed the process of its annual performance review for procurers and emphasized the principle of monthly performance review, which ensured a timely feedback on procurers. With respect to the frontline staff of stores, the Group commenced a trial of contracted management of fresh produce, which featured the principle of more pay for more work. With respect to second-tier companies, the Group adopted result-linked performance review, which featured the principle of linking with the results. Regarding supporting departments, the Group adopted a sale-oriented review, which featured the principle of service. In respect of functional departments under the headquarters, the Group adopted the key project tracking model, which featured the principle of issue orientation.

During the period under review, centering on the goal of "courses management, skill training and platform establishment", the Group strove to consolidate training into actual operation and business. It helped solve the business problems and provide training guidance and supporting training resources to the business departments. The Group enhanced standardized supervision of training, ensuring that the Group gets real benefits from the training work. On such basis, the Group further optimized various types of training management systems including the "Incentive System of Professional Technology and Vocational Skills Training" and "Mentoring Management Methods" in order to solve the new problems and issues encountered in training work and ensure scientific, fair and reasonable training. Meanwhile, the Group strengthened the establishment and development of its internal talent reserve, which provided an excellent platform for internal talent communication, learning and improvement.

Strategy and Plan

In 2015, while the Group will continue to face traffic dispersion of distribution channels and pressure from major industry competitors and the continuous rise of costs, the Group considers these to be opportunities rather than challenges. The "New Normal" will be China's near-term growth strategy. The framework of another round of economic structure reforms will also be further incorporated into real economy, and will certainly produce positive "stimulus" effects. The "micro-stimulus" policies on investment and foreign trade have been implemented continuously. The process of approving investment projects has been accelerated, and real estate policy has been gradually loosened, which implies that the economic policy will be gradually and steadily loosened. On the other hand, Shanghai State-owned Assets Bureau indicated that the reform of state-owned enterprises has entered into an implementation phase, which may further promote the development of the Group. At the same time, the controlling shareholder of the Group will fully commence its works on promoting e-commerce.

In view of the industry situation, the omni-channel era interacting with overproduction and material abundance has provided more choices to consumers, and the accelerated pace of living and the rise of new generation consumers have enhanced independent consumer consciousness. The Group is of the opinion that omni-channel competition has broken the limit between online and offline businesses, and segments of catering, supermarkets and department stores. The key for retail stores upgrade in 2015 will be the implementation of business innovation through e-commercialization. Mergers and acquisitions in the market will also intensify. Apart from acquisition of offline enterprises, acquisition of an online business by an offline business or vice versa has been developing in the market. With the introduction of policies on urbanization and land transfer, there is great market potential in third and fourth tier cities. There will not be physical change in the fundamental solid environment for the development of chain retail enterprises.

Hence, the Group will strive to attain its major goal of deepening reform in 2015. Based on its general working direction of "enhancing capability, strengthening basic skills, grasping opportunities from transformation, facilitating development", the Group will continue to promote the reform for its three key models on profitability, operation and incentive scheme. The Group will also continue to develop and enhance its operating mechanism with a focus on marketization and professionalism. It will enhance internal management and the efficiency of its supply chain, thereby increasing sales and improving efficiency.

In 2015, the Group will continue to facilitate the transformation and innovation on business and operation mode of existing stores while steadily developing new outlets in terms of quality and quantity. Hypermarket segment shall continue to pilot community commercial centers or neighbourhood shopping centers mode. Supermarket segment will focus on fresh produce. Convenience stores will be further classified to accelerate the transformation on stores with high customer traffic, stores located in business districts, community-based stores and stores in special business district. For franchised stores, the Group will look to optimize its support system for franchise business, improve the service standard of franchised stores, and promote the rapid development of franchise business with a focus on quality.

The establishment of an e-commerce operation by Bailian Group, the controlling shareholder of the Group, shall provide a new source of profit of the Group in 2015. In accordance with the integrated strategy of the e-commerce of Bailian Group, the Group will establish a five-step business model comprising of introduction, transfer, transaction, delivery and after-sale service leveraging the competitive edges of Bailian Group on outlet scale, commodity resources, pre-paid cards, member sources and settlement. First of all, the Group will implement trial operation at certain hypermarkets, supermarkets and convenience stores, and promote e-commerce operations such as online sales, on-site experiences, online order and store pick-ups and logistics deliveries etc. Based on the trial operation, the Group will promote e-commerce operation to other stores in Shanghai. On 12 December 2014, the Group's outlets in Zhejiang participated in the promotional event of limited 50% discount initiated by Alipay, increasing the sales of that day by over 70%. Hence, with full commencement of the e-commerce operation of Bailian Group, the sales of the Group's physical outlets will have a great potential in growth.

With the increasingly rigid costs, the Group must speed up the growth rate in merchandise income over that in sales in order to continuously increase profitability. The Group will continue to promote profitability model, the reforms on its procurement model, and establish a gross-profit-oriented tendering and procurement operation model. The Group will increase the portion of direct procurement, integrate the sourcing channels for imported goods, implement innovative procurement methods for non-food products, enhance the introduction of new products, enhance the capability to self-operate its merchandise, and promote the growth in merchandise income. It will expand and improve its core merchandise, enhance operating capability and strengthen operation fundamentals. The Group will strengthen its procurement of fresh produce, aiming to build up a solid supply chain on fresh produce and improve core competitiveness. It will also expand source procurement of fresh produce, enhance procurement methods, and accelerate the establishment of fresh produce base. The Group will establish its central kitchen, thereby strengthening its capability on self-operation business and development of fresh produce.

2015 will be a crucial year for the optimization and streamline of the headquarters of the Group in developing a highly efficient headquarters. Leveraging the state-owned enterprise reform, the Group will focus on marketization, redundancy reduction, integration and professionalism to support the reform on profitability model, operational model and incentive model, and pave the way for the long-term development of the Group. This will be a significant and challenging mission in 2015. However, the Group believes that the reform on organizational system will be a success with the deepening reform on state-owned enterprises and the support of the controlling shareholder.

In the age when omni-channel retailing grows rapidly, information, lifestyle and consumption philosophy all change rapidly with the penetration of the internet. The operation of an enterprise cannot remain unchanged or, in particular, cannot be guided by a stubborn mindset. The need for staple will always exist and the competition in the retail market will separate the weak from the strong. While deepening reform, the Group always adheres to cultural development, fully recognizes the nature of chain supermarket business and enhances efficiency through process re-engineering. The Group will stay customer-oriented to improve customer experience and persist in providing good merchandise and service.

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

The board of directors (the "Board") of the Company recommends not to distribute final dividend for the year ended 31 December 2014.

Audit Committee

The audit committee of the Company has reviewed the annual results of the Company for the year ended 31 December 2014 and confirmed that they are prepared in accordance with the applicable accounting standards, laws and regulations and appropriate disclosures have been made.

Scope of Work of Messrs. Deloitte Touche Tohmatsu

The figures in respect of the Group's consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2014 as set out in this announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu ("Deloitte"), to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Deloitte in this respect did not constitute an assurance engagement in accordance with Hong Kong

Standards on Auditing, Hong Kong Standards on Review Engagements, or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Deloitte on this announcement.

Compliance with Model Code for Securities Transactions by Directors in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange ("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 all directors, the Board is pleased to confirm that all the directors have fully complied with the provisions under the Model Code during the financial year ended 31 December 2014.

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 "Corporate Governance Code" (the "Code") under Appendix 14 of the Listing Rules during the financial year ended 31 December 2014. 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 during the financial year ended 31 December 2014 in compliance with the Code. Details of the deviation are set out as follows:

Provision A4.2 of the Code requires that every director (including those appointed for a specific term) of a listed issuer shall be subject to retirement by rotation at least once every three years. The articles of association of the Company provides that each director shall be appointed at the general meeting of the Company and for a term of not more than three 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. Wong Tak Hung, non-executive Director, and Mr. Kazuyasu Misu, non-executive Director of the time, were unable to attend the 13th meeting of the fourth session of the Board convened on 26 March 2014 by the Company due to their other work engagements.

Mr. Wong Tak Hung, non-executive Director was unable to attend the first meeting of the fifth session of the Board convened on 27 June 2014 by the Company due to their other work engagements.

Ms. Qi Yue-hong, executive Director, Ms Wu Jie-qing, non-executive Director and Mr. Wong Tak Hung, non-executive Director were unable to attend the second meeting of the fifth session of the Board convened on 28 August 2014 by the Company due to their other work engagements.

Mr. Li Guo-ding and Mr. Wong Tak Hung, non-executive Directors, and Mr. Xia Da-wei, independent non-executive Director, were unable to attend the extraordinary general meeting and class meetings of the Company convened on 5 December 2014 due to their other work engagements.

Mr. Li Guo-ding, non-executive Directors, and Mr. Zhang Hui-ming, independent non-executive Director, were unable to attend the third meeting of the fifth session of the Board convened on 17 December 2014 by the Company due to other work engagements..

After receiving the materials for the relevant Board meetings, the above-mentioned Directors have authorized other Directors of the Company to attend the relevant Board meetings and vote on their behalf. The matters considered at the relevant Board meeting were ordinary matters and all resolutions were passed smoothly. The Company had sent the minutes of the relevant meeting subsequently to all members of the Board to enable the Directors who were unable to attend the meeting to understand the resolutions passed at the meeting.

Moreover, the Company has provided the materials and all necessary information in relation to the extraordinary general meeting and class meetings to all members of the Board before the meetings. The Company had also sent the minutes of such meetings subsequently to all members of the Board after the extraordinary general meeting and class meetings so that any Director who was unable to attend the relevant meetings could be able to understand the resolutions passed at the relevant meetings.

For Provisions A.6.7 and E.1.2 of the Code, Mr. Wong Tak Hung, non-executive Director, was unable to attend the 2013 annual general meeting of the Company convened on 27 June 2014 due to his other work engagements. The Company has provided the relevant materials relating to the 2013 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 also 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 could be able to understand the resolutions passed at the meeting.

Publication of Annual Report

The annual report of the Company will be despatched to the shareholders as well as published on the website of the Stock Exchange of Hong Kong Limited and the Company in due course.

By order of the Board
Lianhua Supermarket Holdings Co., Ltd.
Chen Jian-jun
Chairman

Shanghai, the PRC, 27 March 2015

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

Executive directors: Chen Jian-jun, Hua Guo-ping, Qi Yue-hong, Zhou Zhong-qi and Shi Hao-gang

Non-executive directors: Li Guo-ding, Wu Jie-qing and Wong Tak Hung

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