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 2019

FINANCIAL HIGHLIGHTS

As at 31 December 2019, the Group recorded the following:

- Revenue was approximately RMB25,859 million, representing an increase of approximately 1.9% over 2018. The same store sales of the Group increased by approximately 0.1% over 2018, in which the hypermarket segment decreased by approximately 0.3%, the supermarket segment increased by approximately 1.8% and the convenience store segment decreased by approximately 1.4%.
- Gross profit was approximately RMB3,519 million, representing a decrease of 1.9% over 2018. Gross profit margin was approximately 13.61%, decreasing by 0.52 percentage point over 2018.
- Distribution expenses and administrative expenses was approximately RMB6,042 million. Overall cost ratio was approximately 23.36%, decreasing by 1.03 percentage points over 2018.
- Consolidated income amounted to RMB6,456 million, representing an increase of approximately 1.8% over 2018. Consolidated income margin was approximately 24.97%, decreasing by 0.01 percentage point over 2018.
- Operating loss amounted to approximately RMB32 million, representing a decrease of approximately 146.9% over 2018. After deducting the effects of the initial application of HKFRS 16 "Leases", operating profit was approximately RMB186 million, representing a year-on-year increase of approximately 170.9%. Annual loss attributable to shareholders of the Company amounted to approximately RMB378 million. After deducting the effects of the initial application of HKFRS 16 "Leases", annual loss attributable to shareholders of the Company amounted to approximately RMB152 million. Basic loss per share amounted to approximately RMB0.34.
- The total number of outlets reached 3,352. During the period under review, the Group opened 316 new outlets, including seven hypermarkets, 250 supermarkets (including 88 directly-operated stores and 162 franchised stores), and 59 convenience stores (including 11 directly-operated stores and 48 franchised stores).

Note 1: *Consolidated income = Gross profit + Other revenues + Other income and other gains and losses*

Note 2: *Consolidated income margin = (Gross profit + Other revenues + Other income and other gains and losses)/Revenues*

Note 3: *Operating (loss) profit = Profit (loss) before tax – Share of profits of associates*

ANNUAL RESULTS

The board of directors (the "**Board**") of Lianhua Supermarket Holdings Co., Ltd. (the "**Company**") announces the consolidated results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2019 (the "**2019 Annual Results**").

The 2019 Annual Results have not been audited by the Company's auditor. The 2019 Annual Results have not yet been agreed by the Company's auditor in accordance with Rule 13.49(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**") due to delay in the audit procedures resulting from the outbreak of the COVID-19 epidemic in the People's Republic of China (the "**PRC**"). The Company expects that such agreement from the auditor will be obtained on or before 26 April 2020 and in any event not later than 30 April 2020, and the Company will publish further announcement in due course. The 2019 Annual Results have been reviewed by the audit committee of Company (the "**Audit Committee**").

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	notes	**Year ended 31/12/2019** ***RMB'000*** **(unaudited)**	Year ended 31/12/2018 *RMB'000* (audited)
Revenue	*3*	**25,859,198**	25,389,082
Cost of sales		**(22,340,358)**	(21,801,683)
Gross profit		**3,518,840**	3,587,399
Other revenue	*3*	**2,285,170**	2,153,816
Other income and other gains and losses	*5*	**651,782**	601,582
Impairment losses recognised (reversed) under expected credit loss ("**ECL**") model		**150**	(1,432)
Distribution and selling expenses		**(5,161,856)**	(5,376,741)
Administrative expenses		**(880,107)**	(814,173)
Other expenses		**(138,768)**	(81,919)
Share of profits of associates		**(13,938)**	42,435
Finance cost		**(307,374)**	–
(Loss) profit before taxation	*6*	**(46,101)**	110,967
Income tax expense	*7*	**(195,898)**	(188,099)
Loss and total comprehensive expense for the year		**(241,999)**	(77,132)
(Loss) profit and total comprehensive (expense) income for the year attributable to:			
Owners of the Company		**(378,301)**	(218,724)
Non-controlling interests		**136,302**	141,592
		(241,999)	(77,132)
Loss per share – basic and diluted	*8*	**RMB0.34**	RMB0.20

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2019

	notes	31/12/2019 RMB'000 (unaudited)	31/12/2018 RMB'000 (audited)
Non-current assets			
Property, plant and equipment		**3,452,466**	3,503,796
Construction in progress		**33,345**	31,279
Right-of-use assets		**7,480,238**	–
Land use rights		**–**	838,878
Intangible assets		**227,903**	210,423
Interests in associates		**725,098**	682,370
Financial assets at fair value through profit or loss ("**FVTPL**")		**73,909**	52,901
Term deposits		**1,695,000**	375,000
Prepaid rental		**467**	49,202
Finance lease receivables		**305,180**	–
Deferred tax assets		**2,933**	79,146
Other non-current assets		**63,171**	12,834
		14,059,710	5,835,829
Current assets			
Inventories		**2,775,011**	2,509,078
Trade receivables	*9*	**164,431**	175,002
Deposits, prepayments and other receivables		**754,232**	1,118,289
Amounts due from fellow subsidiaries		**9,075**	29,556
Amounts due from associates		**39**	42
Finance lease receivables-current		**39,376**	–
Financial assets at FVTPL		**1,310,747**	3,241,214
Term deposits		**2,241,300**	1,620,000
Cash and cash equivalents		**2,198,539**	2,661,100
		9,492,750	11,354,281
Total assets		**23,552,460**	17,190,110

(Continued)

	notes	**31/12/2019**	31/12/2018
		RMB'000	*RMB'000*
		(unaudited)	(audited)
Capital and reserves			
Share capital		**1,119,600**	1,119,600
Reserves		**652,353**	1,037,397
Equity attributable to owners of the Company		**1,771,953**	2,156,997
Non-controlling interests		**274,553**	302,929
Total equity		**2,046,506**	2,459,926
Non-current liabilities			
Deferred tax liabilities		**94,388**	93,210
Lease liabilities		**6,774,004**	–
		6,868,392	93,210
Current liabilities			
Trade payables	*10*	**3,984,193**	4,129,974
Other payables and accruals		**1,675,869**	2,439,121
Lease liabilities-current		**754,352**	–
Contract liabilities		**8,022,516**	7,816,494
Deferred income		**11,779**	17,082
Amounts due to Shanghai Bailian (as defined in note 1)		**–**	28,176
Amounts due to fellow subsidiaries		**25,156**	59,384
Amounts due to associates		**1,262**	1,156
Amounts due to other related parties		**2,751**	785
Tax payable		**159,684**	144,802
		14,637,562	14,636,974
Total liabilities		**21,505,954**	14,730,184
Total equity and liabilities		**23,552,460**	17,190,110
Net current liabilities		**(5,144,812)**	(3,282,693)
Total assets less current liabilities		**8,914,898**	2,553,136

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2019

1. GENERAL

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), 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 (the "RMB"), which is the same as the functional currency of the Company and its subsidiaries.

As of 31 December 2019, the Group has net current liabilities of RMB5,144,812,000 (31 December 2018: RMB3,282,693,000). Taking into account of the historical settlement and addition pattern of the coupon liabilities of the Group and the possibility of immediate withdrawal of non-current unrestricted term deposits of RMB1,385,000,000, the directors of the Company consider the liquidity risk is significantly reduced and the Group is able to be continued as a going concern.

2. PRINCIPAL ACCOUNTING POLICIES

New and Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year.

HKFRS 16	*Leases*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
Amendments to HKFRS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
Amendments to HKFRSs	*Annual Improvements to HKFRs 2015-2017 Cycle*

Except as described below, the application of the new and amendments to HKFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

2.1 Impacts and changes in accounting policies of application on HKFRS 16

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying HKAS 37 Provisions, Contingent Liabilities and Contingent Assets as an alternative of impairment review;

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application, and;

iii. excluded initial direct costs from measuring right-of-use assets at date of initial application;

On transition, the Group has made the following adjustments upon application of HKFRS 16:

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying HKFRS 16.C8(b)(ii) transition.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is within the range from 3.60% to 3.84%.

	At 1 January 2019
	RMB'000
Operating lease commitments disclosed as at 31 December 2018	11,237,168
Operation lease commitments exclusion of value-added-tax previously included in operating lease commitments	10,702,065
Lease liabilities discounted at relevant incremental borrowing rates	8,547,731
Less: Recognition exemption – short-term leases	586,682
Lease liabilities relating to operating leases recognised upon application of HKFRS 16	7,961,049
Lease liabilities as at 1 January 2019	7,961,049
Analysed as	
Current	609,880
Non-current	7,351,169
	7,961,049

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

		Right-of-use assets
	notes	*RMB'000*
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16		7,961,049
Reclassified from land use rights	*(a)*	865,136
Reclassified from other non-current assets	*(b)*	12,834
Reclassified from prepaid lease payment	*(c)*	285,403
Less: Accrued lease liabilities at 1 January 2019	*(d)*	(717,776)
		8,406,646

(a) Upfront payments for leasehold lands in the PRC were classified as land use rights as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of land use rights amounting to RMB26,258,000 and RMB838,878,000 respectively were reclassified to right-of-use assets.

(b) Upfront the prepayments for the leasing of certain buildings from the PRC government were classified as other non-current assets as at 31 December 2018. Upon application of HKFRS 16, other non-current assets of RMB12,834,000 was reclassified to right-of-use assets.

(c) Prepaid lease payment
The carrying amount of prepaid lease payment of several operating leases at 31 December 2018 was adjusted to right-of-use assets at transition.

(d) Rent free period
These relate to accrued lease liabilities for leases of properties in which the lessors provided rent-free period. The carrying amount of the lease incentive liabilities as at 1 January 2019 was adjusted to right-of-use assets at transition.

Lease payments increase progressively over lease terms
These relate to accrued lease liabilities of several operating leases for leases of properties in which the rentals increase progressively by fixed annual percentage. The carrying amount of the accrued lease liabilities was adjusted to right-of-use assets at transition.

Effective from 1 January 2019, leasehold lands which were as land use rights are measured under HKFRS 16 at cost any accumulated depreciation and any impairment losses.

As a lessor

In accordance with the transitional provisions in HKFRS 16, except for sub-leases in which the Group acts as an intermediate lessor, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

(e) Before application of HKFRS 16, refundable rental deposits received were considered as rights and obligations under leases to which HKAS 17 applied under trade and other payables. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right-of-use assets and were adjusted to reflect the discounting effect at transition.

(f) Effective on 1 January 2019, the Group has applied HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15") to allocate consideration in the contract to each lease and non-lease components. The change in allocation basis has had no material impact on the consolidated financial statements of the Group for the current year.

Sublease

(g) At the date of initial application, leased properties under subleases were assessed and classified as an operating lease or a finance lease individually based on the remaining contractual terms and conditions of the head lease and the sublease at that date The Group classified finance lease rising from sublease which was classified as operating lease under HKAS 17, resulting in the decrease in right-of-use of assets and amounts due from fellow subsidiaries amounting to RMB449,496,000 and RMB6,776,000, increase in finance lease receivable with amount of RMB503,182,000 in total(included in finance lease receivable of RMB438,922,000 and finance lease receivable-current of RMB64,260,000 respectively) and RMB46,910,000 was adjusted to opening retained profits on transition.

The following table summarises the impact of transition to HKFRS 16 on retained profits at 1 January 2019.

	notes	**Impact of adopting HKFRS 16 at 1 January 2019** *RMB'000*
Net equity		
Reverse of deferred taxation for operating lease expenses	*(h)*	(73,223)
Classification of finance lease rising from sublease	*(g)*	46,910
Impact on retained earnings at 1 January 2019		(6,743)
Impact on non-controlling interests at 1 January 2019		(19,570)

(h) The Group reversed deferred tax assets arising from the accrued lease liabilities under HKAS 17 upon the initial application of HKFRS 16 since the exemption of initial recognition of deferred tax applied.

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018	Adjustments	Carrying amounts under HKFRS 16 at 1 January 2019
	RMB'000	*RMB'000*	*RMB'000*
Non-current Assets			
Prepaid rental	49,202	(48,387)	815
Land use right	838,878	(838,878)	–
Right-of-use assets	–	7,957,150	7,957,150
Deferred tax assets	79,146	(73,223)	5,923
Finance lease receivables	–	438,922	438,922
Other non-current assets	12,834	(12,834)	–
Current Assets			
Deposits, prepayments and other receivables	1,118,289	(253,513)	864,776
Amounts due from fellow subsidiaries	29,556	(16,537)	13,019
Finance lease receivables – current	–	64,260	64,260
Capital and Reserves			
Reserves	1,037,397	(6,743)	1,030,654
Non-controlling interests	302,929	(19,570)	283,359
Current Liabilities			
Other payables and accruals	2,439,121	(701,353)	1,737,768
Amounts due to fellow subsidiaries	59,384	(16,423)	42,961
Lease liabilities – current	–	609,880	609,880
Non-current liabilities			
Lease liabilities	–	7,351,169	7,351,169

Note: For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

3. REVENUE AND OTHER REVENUE

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

(i) Disaggregation of revenue from contracts with customers

	Year ended 31/12/2019 *RMB'000*	Year ended 31/12/2018 *RMB'000*
Revenue		
Sales of merchandise	**25,859,198**	25,389,082
Services		
Income from suppliers (service income)	**1,593,557**	1,492,814
Royalty income from franchised stores	**41,852**	41,477
Commission income from coupon redemption in other retailers	**3,918**	3,683
	1,639,327	1,537,974
Total	**27,498,525**	26,927,056

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information.

	Year ended 31/12/2019	Year ended 31/12/2018
	RMB'000	*RMB'000*
Revenue		
Revenue from contracts with customers		
– sales of merchandise	**25,859,198**	25,389,082
Other revenue from contracts with customers – services	**1,639,327**	1,537,974
Rental income from leasing of shop premises	**645,843**	615,842
	2,285,170	2,153,816
Total revenue and other revenue	**28,144,368**	27,542,898

(ii) Performance obligations for contracts with customers

Sales of merchandise

Sales of merchandise is recognized at a point in time when the goods are sold to the end consumers either by consumer themselves or through delivery company which is the independent third party, the Group transfers the control of goods when the end consumers or the delivery company merchandises the goods at the POS.

Direct mail ("DM") income from suppliers

DM fee earned from suppliers is recognized at a point in time when the related promotion has been terminated.

Service income excluding DM income from suppliers

Service income excluding DM income from suppliers primarily involves IT services, promotion services as well as logistical services. Such service is recognized over time at the rate of each service item specified in the contract.

Royalty income from franchise stores

Royalty income is charged to the franchisee for the utilization of the brand of the Group. Royalty income is recognized over time and charged at daily rates specified in the contract.

Commission income from coupon redemption in other retailers

Commission income is charged to the retailers other than the Group. Commission fee is recognized at a point in time when the customers merchandise certain goods in those retailers with the coupon issued by the Group.

(iii) Leases

	Year ended 31/12/2019 *RMB'000*
For operating leases:	
Fixed lease payments	**603,670**
Total	**603,670**
For finance leases:	
Finance income on the net investment in the lease	**42,173**
	42,173
Total revenue arising from leases	**645,843**

	Year ended 31/12/2018 *RMB'000*
Operating lease income	615,842
Total revenue arising from leases	615,842

4. SEGMENT INFORMATION

Information reported to the Group's general manager, who is the chief operating decision maker of the Group for the purposes of resource allocation and assessment of performance, is focused on three main operations of the Group identified in accordance with the business nature and the size of the operations.

Specifically, the reportable segments of the Group under HKFRS 8 are as follows:

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

There are no significant sales or other transactions among 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.

Segment revenues and results

The following is an analysis of the Group's revenue (including revenue and other revenue) and results from continuing operations by operating and reportable segment for the two years:

	Segment revenue		**Segment results**	
	Year ended 31/12/2019	Year ended 31/12/2018	**Year ended 31/12/2019**	Year ended 31/12/2018
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Hypermarkets	**16,549,191**	16,322,527	**372,759**	204,790
Supermarkets	**9,575,930**	9,144,786	**(36,963)**	96,727
Convenience stores	**1,912,790**	1,982,914	**(282,420)**	(177,473)
Other operations	**106,457**	92,671	**49,582**	81,537
	28,144,368	27,542,898	**102,958**	205,581

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

	Year ended 31/12/2019	Year ended 31/12/2018
	RMB'000	*RMB'000*
Segment results	**102,958**	205,581
Unallocated interest income	**57,672**	76,173
Unallocated income	**7,258**	4,401
Unallocated expenses	**(200,051)**	(217,623)
Share of profit of associates	**(13,938)**	42,435
Consolidated profit before taxation	**(46,101)**	110,967

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.

The accounting policy of the operating segments are the same as the Group's accounting policies described in note 2. 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.

Segment assets

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

	Year ended 31/12/2019 *RMB'000*	Year ended 31/12/2018 *RMB'000*
– Hypermarkets	**14,373,277**	8,025,826
– Supermarkets	**5,089,889**	2,844,832
– Convenience stores	**505,783**	484,199
– Other operations	**120,801**	140,153
Total segment assets	**20,089,750**	11,495,010
Interests in associates	**725,098**	682,370
Other unallocated assets	**2,737,612**	5,012,730
Total assets	**23,552,460**	17,190,110

For the purpose of monitoring segment performance and allocating resources among segments:

- all assets are allocated to operating segments other than certain financial assets, cash and cash equivalents centrally managed by headquarter and deferred tax assets.

Other segment information

Year ended
31/12/2019

	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)*	**527,245**	**641,566**	**234,571**	**56,663**	**1,460,045**
Impairment losses on property, plant and equipment, and right-of-use assets	**9,292**	**–**	**122,042**	**–**	**131,334**
Loss (gain) on disposal of property, plant and equipment, right-of-use assets and intangible assets	**(122,662)**	**(33,786)**	**2,148**	**529**	**(153,771)**
Interest income on bank balance and term deposits	**123,762**	**36,917**	**415**	**1,908**	**163,002**
Interest income on finance lease receivables	**42,173**	**–**	**–**	**–**	**42,173**
Finance cost	**240,521**	**66,852**	**–**	**–**	**307,373**

Year ended
31/12/2018

	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)*	300,161	158,245	25,260	472	484,138
Impairment loss on property, plant and equipment	5,814	–	–	–	5,814
Impairment loss on goodwill	–	685	1,105	–	1,790
Loss (gain) on disposal of property, plant and equipment and intangible assets	(71,084)	(18,027)	3,081	(350)	(86,380)
Interest income on bank balance and term deposits	55,823	16,923	387	1,207	74,340

note: Addition to non-current assets include the additions of RMB285,327,000 (2018: RMB315,206,000) to property, plant and equipment, RMB60,475,000 (2018: RMB155,917,000) to construction in progress, RMB1,101,421,000 to right-of-use assets and RMB12,822,000 (2018: RMB13,015,000) to intangible assets.

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 revenue of the Group during both years.

5. OTHER INCOME AND OTHER GAINS AND LOSSES

	Year ended 31/12/2019 *RMB'000*	Year ended 31/12/2018 *RMB'000*
Interest income on bank balances and term deposits	**220,674**	150,513
Government subsidies *(note i)*	**56,622**	51,535
Gain on change in fair value of financial assets at FVTPL	**91,751**	133,025
Dividends from financial assets at FVTPL	**530**	2,090
Gain on disposal of property, plant and equipment *(note ii)*	**153,771**	86,380
Gain on disposal of a subsidiary	**–**	2,243
Salvage sales	**35,020**	32,273
Early termination of an operating lease contract by lessor *(note iii)*	**–**	38,000
Income from breakage *(note iv)*	**34,796**	50,066
Others	**58,618**	55,457
Total	**651,782**	601,582

notes:

i. The Group received unconditional subsidies of RMB48,869,000(2018: RMB45,482,000) from the PRC local government as an encouragement for the operation of certain subsidiaries in certain areas. In addition, amount of RMB7,753,000(2018: RMB6,053,000) has been recognised as other income and other gains and losses from deferred income regarding the government grants related to assets during the current year.

ii. On 31 May 2019, a subsidiary of the Group entered into an agreement with the local government for the dismantlement plan carried out by the local government ("the Agreement"). According to the agreement, the government would pay RMB148,849,000 in total as compensation for dismantling the warehouse of the subsidiary. As at 31 December 2019, the relevant procedures as set out in the Agreement have been completed and the compensation has been received, resulting in a gain of RMB135,433,000 on disposal of property, plant and equipment.

On 31 October 2017, a subsidiary of the Group entered into a conditional arrangement with the local government in connection with the compensation of RMB109,988,000 for the dismantlement plan carried out by the local government. The amount was received during the current year of 2018 and resulted in a gain of RMB93,152,000 on disposal of property, plant and equipment.

iii. On 25 January 2018, a subsidiary of the Group entered into an agreement with its lessor on early termination of the lease contract at the request of lessor. According to the agreement, the lessor would pay RMB40,000,000 in total as compensation and the payment schedule is made according to the process of the completion of the termination obligations set out in the early termination contract. The compensation of RMB38,000,000 has been received in 2018 and no further payment has received up to 31 December 2019.

iv. The Group recognises the amount by reference to the ratio derived from historical information that represents proportion of the coupons issued by the Group but not yet utilized by the costumers for over five years. The breakage amounts are recognised as revenue from contract liabilities according to HKFRS 15.

6. PROFIT BEFORE TAXATION

	Year ended 31/12/2019	Year ended 31/12/2018
	RMB'000	*RMB'000*
Profit before taxation has been arrived at after charging (crediting):		
Share of results of associates		
Share of profit before taxation	**(5,527)**	65,035
Less: Share of income tax expense	**8,411**	22,600
	(13,938)	42,435
Release of prepaid lease payments	**–**	1,717
Auditors' remuneration	**5,621**	5,167
Gain on disposal of property, plant and equipment, right-of-use assets and intangible assets	**(153,771)**	(86,380)
Impairment loss on property, plant and equipment recognised (included in other expenses)	**9,292**	5,814
Impairment loss on right-of-use assets recognised (included in other expenses)	**122,042**	–
Impairment loss on goodwill (included in other expenses)	**–**	1,790
Director's remuneration	**3,078**	3,337
Salaries, wages and other employee benefits of other staff	**2,503,204**	2,558,448
Retirement benefit scheme contribution of other staff	**236,596**	252,303
Total staff costs	**2,742,878**	2,814,088
Allowance for credit losses	**–**	1,432
Reversal of allowance for credit losses	**(150)**	–
Reversal of allowance for write-down of inventories	**(6,750)**	(8,370)
Cost of inventories recognised as expenses	**22,340,358**	21,801,683

7. INCOME TAX EXPENSE

	Year ended 31/12/2019	Year ended 31/12/2018
	RMB'000	*RMB'000*
Current tax on the PRC Enterprise Income Tax ("EIT")	**191,730**	176,510
Deferred tax expense (credit)	**4,168**	11,589
	195,898	188,099

No provision for taxation in Hong Kong has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

Under the Law of the PRC on EIT ("EIT Law") and Implementation Regulation of the EIT Law, the EIT tax rate of the PRC subsidiaries is 25%. Certain subsidiaries are entitled to compute the EIT with a preferential rate of 15% as those entities which are located in the western of China. Certain subsidiaries which are identified as small low-profit enterprises are entitled to enjoy preferential EIT rate of 5% to 10%.

	Year ended 31/12/2019	Year ended 31/12/2018
	RMB'000	*RMB'000*
Profit before tax	**(46,101)**	110,967
Tax at PRC EIT tax rate of 25% (2018: 25%)	**(15,137)**	27,742
Tax effect of share of results of associates	**3,484**	(10,609)
Tax effect of expenses not deductible for tax purpose	**1,112**	2,058
Tax effect of income not taxable for tax purpose	**(1,394)**	(1,696)
Tax effect of tax losses and deductible temporary differences not recognised	**229,601**	199,953
Utilisation of tax losses previously not recognised	**(24,133)**	(29,349)
Effect of different tax rates of subsidiaries	**(1,247)**	–
Income tax expense for the year	**195,898**	188,099

8. LOSS PER SHARE

The calculation of the basic loss per share attributable to the owners of the Company is based on the following data:

	Year ended 31/12/2019	Year ended 31/12/2018
	RMB'000	*RMB'000*
Loss for the year attributable to owners of the Company	**(378,301)**	(218,724)

	Year ended 31/12/2019	Year ended 31/12/2018
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	**1,119,600,000**	1,119,600,000

No diluted loss per share is presented as there was no potential ordinary shares in issue for both years.

9. TRADE RECEIVABLES

	31/12/2019	31/12/2018
	RMB'000	*RMB'000*
Trade receivables – contracts with customers	**169,049**	179,876
Less: allowance for credit losses	**(4,618)**	(4,874)
	164,431	175,002

As at 1 January 2018, trade receivables from contracts with customers amounted to RMB133,564,000.

The aging analysis of the trade receivables net of allowance for credit losses 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 (2018: 30 to 60 days), presented as follows:

	31/12/2019	31/12/2018
	RMB'000	*RMB'000*
0-30 days	**161,692**	171,377
31-60 days	**963**	1,353
61-90 days	**1,432**	1,915
91 days – one year	**344**	357
	164,431	175,002

note: The aging is determined from the date on which the control of the goods or services is transferred to the customers till the end of the reporting period.

The trade receivables are mainly major retailer chains and well established banks with good credit standing. The management considered the credit quality of the trade receivables that are neither past due nor impaired were good and there was no default from those debtors in historical record.

Aging of trade receivables which are past due:

	31/12/2019	31/12/2018
	RMB'000	*RMB'000*
61-90 days	**1,432**	1,915
91 days – one year	**344**	357
	1,776	2,272

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 (2018: 30 to 60 days), is as follows:

	31/12/2019	31/12/2018
	RMB'000	*RMB'000*
0-30 days	**2,188,279**	2,178,686
31-60 days	**600,744**	679,871
61-90 days	**347,832**	357,182
91 days – one year	**847,338**	914,235
	3,984,193	4,129,974

note: The aging is determined from the date on which the control of the goods or services is transferred to the Group till the end of the reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Environment

In 2019, facing a more complicated environment with greater domestic and external risks and challenges, the Chinese government upheld the general working principle of pursuing progress while maintaining stability as the guideline of its work, adhered to the new development philosophy, remained devoted to the major task of supply-side structural reform, actively promoted the high-quality development and stabilized employment, finance, foreign trade, foreign and domestic investments, and expectations. As a result, the national economy maintained its overall stability, and the quality of development steadily improved. China's economy demonstrated great resilience and potential in the course of addressing downturn pressure and maintained the momentum of steady growth amid overall stability. The economic growth remained in a reasonable range. However, the economy still faced many challenges and risks and there were still considerable development uncertainties and great downturn pressure on China's economy.

Based on the data from the National Bureau of Statistics of the PRC, in 2019, China's gross domestic product (GDP) achieved a year-on-year growth of 6.1%, representing a decrease of 0.5 percentage point in growth rate over last year. Total retail sales of consumer goods nationwide had a nominal year-on-year growth of 8.0%, representing a decrease of 1.0 percentage point in growth rate over last year. In particular, total retail sales of consumer goods of units over a designated size had a year-on-year growth of 3.9%, representing a decrease of 1.8 percentage points in growth rate over last year. The contribution rate of consumption to economic growth was 57.8% in 2019, boosting the economy growth by 3.5 percentage points and becoming the major engine of economic growth for six consecutive years.

In 2019, as the Chinese government issued policies to promote a large scale of tax and fee reductions and local governments in various regions adjusted the minimum wage standards, the urban-rural income gap continued to narrow and people's sense of gain improved correspondingly with an increase in wage income. Generally speaking, the growth of people's income was in line with the growth of GDP. Based on the data from the National Bureau of Statistics of the PRC, the national disposable income per capita of 2019 grew by 5.8% in real terms, which was basically in line with the economic growth and almost the same as the growth of GDP per capita. The national consumption expenditure per capita grew by 5.5% in real terms, representing a decrease of 0.7 percentage point in growth rate over the last year. Due to the rising food price caused by the price increase of pork and fruit, the consumer price index (CPI) grew by 2.9% year on year in 2019, and the growth expanded by 0.8 percentage point as compared with the same period of last year. As shown by the Research Findings on China Quality Consumption Experience 2019 (2019年中國質量消費體驗研究成果), which was released by Customer Committee of China Association for Quality (中國質量協會用戶委員會), the disposable income and expenditure of Chinese residents grew steadily, and consumers' purchasing power strengthened continuously, accompanied with a higher consumer confidence index and a robust consumer confidence of Chinese consumers. McKinsey's China Consumer Report 2020 indicated that China's consumer confidence index hit a ten-year high in early 2019.

Based on the data from the National Bureau of Statistics of the PRC, in 2019, the retail sales of supermarkets, department stores, specialty stores and exclusive shops in retail units above designated size increased by 6.5%, 1.4%, 3.2% and 1.5% respectively compared with the same period of last year, and the growth rates fell by 0.3 percentage point, 1.8 percentage points, 3.0 percentage points and 0.3 percentage point, respectively. In 2019, national online retail sales accounted for approximately 25.8% of the total retail sales of social consumer goods, representing a year-on-year increase of approximately 2.2 percentage points.

In 2019, Chinese retail enterprises, including the Group, accelerated the transformation and upgrading, continuously enhanced the quality and intelligence level of retail business and further improved the quality of product and service offered. In the meantime, they vigorously promoted the technology-driven development, deepened online and offline integration and re-constructed the consumption interaction scenario to better satisfy people's demands for consumption upgrade.

Financial Review

Revenue

During the period under review, the Group's revenue was approximately RMB25,859 million, representing a year-on-year increase of approximately RMB470 million, or approximately 1.9%. This was mainly attributable to the Group's newly-opened stores and the effects of reform and transformation of existing stores. The revenue of the supermarket segment increased by approximately RMB387 million, or approximately 4.5%, compared to that of last year.

Gross profit

During the period under review, the Group's gross profit was approximately RMB3,519 million, representing a year-on-year decrease of approximately RMB68 million, or approximately 1.9%. This was mainly due to the effects of the adjustments in product portfolio by stores in the hypermarket segment as well as a decrease in operating areas as a result of transformation and reform. In particular, the gross profit of the hypermarket segment decreased by approximately RMB71 million compared to that of last year. During the period under review, the Group increased sales by strengthening the integration of online and offline business and implementing various marketing activities. As a result, gross profit margin was approximately 13.61%, representing a decrease of approximately 0.52 percentage point from approximately 14.13% for the corresponding period of last year.

Other revenue

During the period under review, the Group's other revenue was approximately RMB2,285 million, representing a year-on-year increase of approximately RMB131 million, or approximately 6.1%. This was mainly due to the fact that the income from suppliers increased by approximately RMB101 million as compared with that of the corresponding period of last year.

Other income and other gains and losses

During the period under review, the Group's other income and other gains and losses amounted to approximately RMB652 million, representing a year-on-year increase of approximately RMB50 million, or approximately 8.3%, primarily due to the effect of the disposal of self-owned land and buildings by Hangzhou Lianhua Huashang Group Co., Ltd., a subsidiary of the Group during the period under review.

Distribution and selling expenses

During the period under review, the Group's distribution and selling expenses amounted to approximately RMB5,162 million, representing a year-on-year decrease of approximately RMB215 million, or approximately 4.0%. Distribution and selling expenses accounted for approximately 19.96% of the revenue, representing a year-on-year decrease of approximately 1.22 percentage points. This was mainly attributable to a decrease in operating costs upon the Group's re-organization of stores, including a year-on-year decrease of approximately RMB133 million in the labour costs as well as a year-on-year decrease of approximately RMB200 million in the rental expenses and depreciation expenses of stores. After deducting the effects of initial application of HKFRS16 "Leases", the rental expenses and depreciation expenses of stores increased by approximately RMB12 million compared to the same period of last year.

Administrative expenses

During the period under review, the Group's administrative expenses amounted to approximately RMB880 million, representing a year-on-year increase of approximately RMB66 million, or approximately 8.1%, and accounting for approximately 3.40% of the revenue, representing a year-on-year increase of approximately 0.19 percentage point. This was mainly due to a year-on-year increase of approximately RMB62 million in labour costs as a result of the Group's adjustment to management structure as well as the increased bonus of certain segments for completion of performance targets.

Other expenses

During the period under review, the Group's other expenses amounted to approximately RMB139 million, representing a year-on-year increase of approximately RMB57 million, or approximately 69.4%, which mainly due to the effect of initial application of HKFRS 16 "Lease" and provision of RMB122 million in impairment on right-of-use assets.

Share of profits of associates

During the period under review, the Group's share of losses of associates amounted to approximately RMB14 million, representing a year-on-year decrease of approximately RMB56 million in profits, or approximately 132.8%, including a year-on-year decrease of approximately RMB32 million in the return on investment of Shanghai Carhua Supermarket Co.,Ltd.（上海聯家超市有限公司）("**Shanghai Carhua**"). After deducting the effects of initial application of HKFRS 16 "Lease", the Group's return on investment of Shanghai Carhua decreased by approximately RMB12 million compared to the same period of last year.

The Company holds 20% equity interest of Tianjin Yishang Friendship Co., Ltd. ("**Yishang Friendship**"). Tianjin Yishang Group Co., Ltd., the holding company of Yishang friendship, has completed the reform of the mixed ownership system by the end of 2019, and relevant major issues involving Yishang Friendship have not yet fulfilled the approval procedures of its internal shareholders meetings. The Group will continue to follow up. It is expected that the mixed reform plan will have an impact on the investment rights of the Company in Yishang Friendship.

Profit before taxation

During the period under review, the Group's loss before taxation amounted to approximately RMB46 million, representing a year-on-year decrease in profit of approximately RMB157 million, or approximately 141.5%. After deducting the effects of the initial application of HKFRS 16 "Leases", profit before taxation amounted to approximately RMB192 million, representing an increase of approximately RMB81 million as compared to the same period of last year.

Income tax expense

During the period under review, the Group's income tax expense was approximately RMB196 million, representing a year-on-year increase of approximately RMB8 million, or approximately 4.1%. After deducting the effects of initial application of HKFRS 16 "Lease", the Group's income tax expense increased by approximately RMB3 million compared to the same period of last year.

Loss for the year attributable to owners of the Company

During the period under review, the Group's loss attributable to owners of the Company amounted to approximately RMB378 million, representing a year-on-year increase of approximately RMB159 million in losses, or approximately 73.0%. After deducting the effects of initial application of HKFRS 16 "Leases", the loss attributable to owners of the Company amounted to approximately RMB152 million, representing a year-on-year decrease of approximately RMB67 million in losses. During the period under review, the net loss margin was approximately 1.46%, representing a year-on-year increase of 0.60 percentage point. Based on the 1,119.6 million shares issued by the Group, the basic loss per share were approximately RMB0.34.

Liquidity and financial resources

During the period under review, the net cash out flow of the Group was approximately RMB462,561 thousand. This was mainly due to the year-on-year decrease in sales of prepaid cards and an increase in funds withdrawal. As at 31 December 2019, cash and various balance at bank amounted to approximately RMB6,134,839 thousand.

For the year ended 31 December 2019, the accounts payable turnover period of the Group was 60 days and the inventory turnover period was approximately 38 days.

During the period under review, the Group did not use any financial instrument for hedging purposes. As at 31 December 2019, there were no arbitrage financial instruments in issue by the Group.

Growth of each retail business

Hypermarkets

During the period under review, for the hypermarkets segment, the Group focused on the determination and iteration of the segment 3.0 model, creating customer experience with diversified market and catering scenarios, strengthening operations and accelerating the brand refreshment. During the period under review, the hypermarket segment of the Group recorded a revenue of approximately RMB14,976,770 thousand, accounting for approximately 57.9% of the Group's revenue, representing an increase of approximately 0.9% compared to the same period of last year. In particular, same store sales had a year-on-year decrease of approximately 0.3%. During the period under review, the hypermarket segment recorded a gross profit of approximately RMB1,988,039 thousand, representing a decrease of approximately RMB71,085 thousand compared to the same period of last year. The consolidated income was approximately RMB3,959,814 thousand, representing an increase of approximately RMB105,782 thousand compared to the same period of last year. The distribution and selling expenses and administrative expenses were approximately RMB3,337,468 thousand representing a decrease of approximately RMB241,456 thousand compared to the same period of last year. Depreciation expenses and rental expenses of stores recorded a year-on-year decrease of approximately RMB260,596 thousand and finance costs recorded a year-on-year increase of approximately RMB240,521 thousand mainly due to the effects of initial application of HKFRS16 "Leases". The segment operating profit was approximately RMB372,759 thousand, representing a year-on-year increase in profit of approximately RMB167,969 thousand. Operating profit margin increased by 1.11 percentage points compared to the same period of last year to approximately 2.49%. After deducting the effects of initial application of HKFRS 16 "Leases", the segment operating profit was approximately RMB386,066 thousand and the operating profit margin was 2.58%.

	As at 31 December	
	2019	2018
Gross Profit Margin (%)	**13.27**	13.88
Consolidated Income Margin (%)	**26.44**	25.97
Operating Profit Margin (%)	**2.49**	1.38

Supermarkets

During the period under review, the Group carried out comprehensive transformation and upgrades on existing supermarkets and actively adjusted its product portfolio. The Group continued to promote the implementation of the online delivery-to-home project to improve same store sales and in the meantime, actively engaged in new business. During the period under review, the supermarket segment of the Group recorded a revenue of approximately RMB8,958,752 thousand, accounting for approximately 34.6% of the Group's revenue, representing a year-on-year increase of approximately RMB387,022 thousand, or approximately 4.5%. In particular, same store sales had a year-on-year increase of approximately 1.8%. During the period under review, the supermarket segment recorded a gross profit of approximately RMB1,209,270 thousand. The gross profit margin decreased by 0.43 percentage point compared to that of last year to 13.50%. The consolidated income was approximately RMB1,946,554 thousand, representing a year-on-year increase of approximately RMB77,801 thousand. The consolidated income margin decreased by 0.07 percentage point compared to that of last year to 21.73%. The segment operating loss was approximately RMB36,963 thousand, representing a year-on-year decrease of approximately RMB133,690 thousand in profits. Operating profit margin decreased by 1.54 percentage points to approximately –0.41%. After deducting the effects of initial application of HKFRS 16 "Leases", the segment operating profit was approximately RMB45,524 thousand and the operating profit margin was 0.51%.

	As at 31 December	
	2019	2018
Gross Profit Margin (%)	**13.50**	13.93
Consolidated Income Margin (%)	**21.73**	21.80
Operating Profit Margin (%)	**–0.41**	1.13

Convenience stores

During the period under review, the convenience store segment continued to improve its operational quality and brand image of existing stores, constantly optimized and adjusted store functions and shifted the focus of the product portfolio to young customers. During the period under review, the convenience store segment recorded a revenue of approximately RMB1,829,787 thousand, accounting for approximately 7.1% of the Group's revenue, representing a year-on-year decrease of approximately 3.5%. In particular, same store sales decreased by approximately 1.4% compared to that of last year. The convenience store segment recorded a gross profit of approximately RMB305,550 thousand. The gross profit margin decreased by 0.19 percentage point compared to that of last year to approximately 16.70%. The consolidated income was approximately RMB403,805 thousand. The consolidated income margin decreased by 0.26 percentage point compared to that of last year to approximately 22.07%. The distribution costs and administrative expenses amounted to approximately RMB558,577 thousand, representing a year-on-year decrease of approximately RMB38,232 thousand. During the period under review, the convenience store segment incurred an operating loss of approximately RMB282,420 thousand with a year-on-year increase in losses of approximately RMB104,947 thousand. The operating profit margin decreased by 6.07 percentage points to approximately –15.43%. After deducting the effects of initial application of HKFRS 16 "Leases", the segment operating loss was approximately RMB160,378 thousand.

	As at 31 December	
	2019	2018
Gross Profit Margin (%)	**16.70**	16.89
Consolidated Income Margin (%)	**22.07**	22.33
Operating Profit Margin (%)	**–15.43**	–9.36

Analysis of Financial Results

	For the year ended 31 December RMB in million		
	2019	2018	Year-on-year change (%)
Revenue	**25,859**	25,389	1.9
Gross profit	**3,519**	3,587	–1.9
Consolidated income	**6,456**	6,343	1.8
Operating (loss) profit	**–32**	69	–146.9
Taxation	**196**	188	4.1
Loss for the period attributable to owners of the Company	**–378**	–219	–73.0
Basic loss per share *(RMB)*	**–0.34**	–0.20	–73.0

Capital Structure

As at 31 December 2019, the Group's cash and cash equivalents were mainly held in Renminbi. There were no bank borrowings of the Group.

During the period under review, the equity attributable to owners of the Group decreased from approximately RMB2,156,997 thousand to approximately RMB1,771,953 thousand, mainly due to the loss in the period of approximately RMB378,301 thousand and the decrease in opening balance by approximately RMB6,743 thousand adjusted for the initial application of HKFRS 16 "Leases".

Details of the Group's Pledged Assets

As at 31 December 2019, the Group did not pledge any assets.

Foreign Exchange Risks

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 exchange rates. The Group neither entered into any agreements nor purchased any financial instruments to hedge its foreign exchange risk. The directors of the Company (the "**Directors**") believe that the Group is able to meet its foreign exchange demands.

Share Capital

As at 31 December 2019, the issued share capital of the Company was as follows:

Class of Shares	Number of Issued Shares	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 2019, the Group did not have any material contingent liabilities.

Development of Sales Network: Determination and Expansion of the Segments and End Model

During the period under review, the Group enhanced its presence in the Yangtze River Delta by focusing on core regions and core segments and steadily advanced the opening and renewal of outlets. The Group opened a total of 316 new stores, including 106 new directly-operated stores and 210 new franchised stores. Among these new stores, 211 stores were located in the Yangtze River Delta and accounted for 66.8%. On the other hand, the Group adapted to changes in market environment, prudently reviewed the stores and improved the overall quality of the physical stores. As a result, 335 stores were closed, including 139 directly-operated stores and 196 franchised stores.

Region	**Segment**	**Newly opened stores during the period under review**		**Closed stores during the period under review**	
		Count	**Operating Areas** *(m2)*	**Count**	**Operating Areas** *(m2)*
Greater East China	Hypermarkets	7	30,711.00	7	52,823.00
	Supermarkets	202	82,764.10	118	46,638.33
	Convenience Stores	50	3,245.02	135	7,933.30
North China	Convenience Stores	3	177.59	18	929.12
Northeast China	Convenience Stores	6	256.50	35	1,749.89
Central China	Supermarkets	12	22,950.00	3	9,000.00
South China	Hypermarkets	–	–	1	9,628.00
	Supermarkets	34	18,925.00	18	8,888.00
Southwest China	Supermarkets	2	3,920.00	–	–
Total		316	162,949.21	335	137,589.64

Note: Data as at 31 December 2019.

During the period under review, seven new hypermarkets were opened, with six located in Zhejiang Province and one located in Anhui Province. The number of stores recorded a net decrease of one. The hypermarket segment focused on consolidation and improvement, combined with the Group's initiatives of brand refreshment. The Century Mart 3.0 PLUS model was piloted in Qingpu Store, Shanghai. The "light catering + department store + lifestyle services + leisure, fitness and entertainment + preschool education" model has been explored. Upon the transformation, the proportion of sales to members improved, and the number of younger members gradually expanded. The hypermarket 3.0 Whale-Choice Future Store（鯨選未來店）model was piloted in four stores including the West Lake Cultural Plaza Store in Zhejiang Province, featuring retail + scenario/culture/entertainment/technology and integrating products into the environment through attraction-based retails. The hypermarket segment also built online flagship stores to operate specifically and improved quality of delivery-to-home services by offering a superior experience of highly efficient but cost-effective online services. Based on the localization of members, the hypermarket 2.0 model promoted the "Cozy Home and Selected Lifestyle Exhibit" (「愛家淘生活」) concept and developed the community business center of open lifestyle proposals, which was piloted by the first store in Yinyueli-Hangzhou Canal Shopping Plaza（印悦裡－杭州運河購物廣場首店）in Zhejiang Province.

During the period under review, supermarket segment, the core development segment of the Group, continued to promote sales network expansion, store transformation and productivity improvement. A total of 250 new supermarkets were opened, including 88 directly-operated stores and 162 franchised stores. 139 supermarkets were closed down, including 25 directly-operated stores and 114 franchised stores. The number of stores recorded a net increase of 111. The sales network of the supermarket segment recorded positive net increase at a rapid speed in two consecutive years with a high level of lease renewal rate. During the period under review, the directly-operated business under the supermarket segment focused on transformation and upgrading by following consumption trends and centering on the determination of three models, namely community fresh produce stores（社區生鮮超市）, whole food supermarkets（料理超市）and selected stores（精品超市）. Based on the determined store positioning and the selected transformation direction, the Group focused on the transformation of community fresh produce store by presenting the brand refreshment in all aspects including in-store signboards, interior decoration and product display, and optimized the product categories for improvement and positioning. While strengthening efforts to attract customers by fresh produce and enlarging the display area of fresh produce, the Group focused on the dynamic distribution rate of room-temperature product and carefully designed the customer movement and the interior layout. By continuous improvement of model store and replication and promotion of successful experience, the Group recorded improvement in both customer attraction and revenue generation. Since 2018, transformation of about 100 stores have been completed, and sales revenue realized double-digit growth for two consecutive years. Meanwhile, the Group actively explored the whole food supermarket model, deepened the catering-supermarket coordination, developed private-label brands and enhanced cooperation with existing suppliers. At the end of 2019, the Group opened the first whole food supermarket, “Joy & Safety Food Market” (「吾安食集」) in Shanghai. Based on the completion of model planning, the Group also planned to build new-type selected supermarkets in community business that targeted at mid–to-high-end communities. For the franchise operation under the supermarket segment, the Group vigorously reshaped the franchise system, actively developed close-relationship franchised models and advanced the pattern setting of new franchise system. Adopting the successful transformation experience of directly-operated stores and the standards of directly-operated “five-star stores” to improve the operation level of franchised stores, the franchised stores provided customers with the same level of services as those offered in directly-operated stores, unified information system and got access to store sales data. In the meantime, the segment made new progress in mechanism innovation by preparing for establishment of a trading company that particularly served franchisees, reshaped the franchisee supply chain, improved the proportion of franchisee purchases, accelerated the development of new franchise system and promoted the win-win cooperation with franchisees.

During the period under review, 59 new convenience stores were opened, including 11 directly-operated stores and 48 franchised stores. 188 stores were closed down. The number of stores recorded a net decrease of 129. The convenience store segment continued to optimize its product portfolio, enrich its product categories and expand the sales proportion of fresh produce, imported goods and private-label products, while paying attention to consumers' experience, creating new consumption scenarios for young consumers, enhancing catering models and providing more service functions. The current objective of the Group's convenience store segment is to reorganize and transform stores and to reduce losses.

During the period under review, the Group actively expanded the sales of delivery-to-home business. The omni-channel business experienced orderly and sound development. The rapid development of delivery-to-home business was contributed to the sales network advantage and improvement in the frontline operation capability, coupled with synchronized offline promotion efforts and marketing resource consolidation. The calculation of product power indicator on a quarterly basis and the optimization of product pool was based on the data-driven and consumer-oriented approach. The Group adopted more social elements and comprehensively utilized new media resources to expand customer base and enhanced its operation. The Group effectively controlled the order-picking time and the proportion of wrong and missed delivery, therefore witnessing a significant improvement in delivery capability and a greater contribution from delivery-to-home services and sales to members.

As at 31 December 2019, the Group had 3,352 stores in total, representing a net decrease of 19 stores compared with the end of 2018, which was primarily attributable to the adjustment in convenience store segment. Approximately 82.5% of the Group's store were located in East China.

	Hypermarkets	**Supermarkets**	**Convenience Store**	**Total**
Direction operation	141	675	662	1,478
Franchise operation	–	1,343	531	1,874
Total	141	2,018	1,193	3,352

Note: Data as at 31 December 2019.

Brand Revamp

During the period under review, guided by its brand strategies, the Group built an inside-out and seamless brand experience based on brand design. Committed to the corporate vision of "making our customers become more loyal to us" (「讓消費者更喜愛我們」), the Group adopted a top-down approach to build the Lianhua brand model that included three major segments, i.e. corporate culture, business depiction and major brands. With the brand values of "customer first, pursuing excellence, leading by innovation, upholding integrity, devoting to retail industry" (「顧客第一、追求卓越、創新引領、堅持誠信、執著零售」), the Group relentlessly strove for the corporate mission of "good commodities and good experience to build a good life" (「好商品、好體驗構建人情好生活」).

During the period under review, the Group adhered to the implementation principle that brand strategies should support business strategies and propelled two major sections, namely the brand strategy development and the brand design. By promoting brand development, devising brand slogans based on brand vision, mission, positioning, connotation and values, designing the brand visual presentation and enhancing brand management and promotion efforts, the Group delivered the brand connotation of "integrity and reliability, love and sharing, life inspiration, family happiness" (「誠信可靠、人情分享、生活靈感、闔家歡享」) through the value and benefit creation for different targeted customer groups, and built a trustworthy and deep relationship between the Lianhua brand and targeted customer groups. While strengthening the existing customer base, the Group focused on developing middle-to-high income family customers, attracted more members from targeted customer groups, and made great progress in expanding the younger consumer base. The Group consolidated the nationwide marketing resources through brand refreshment, improved the nationwide promotion planning, strengthened the combination of store display and categories/products, improved the product power indicator of marketing and expanded external brand promotion and therefore boosted promotion effectiveness and effects.

During the period under review, the Group reshaped Lianhua membership system and improved sales to members. It strengthened cross-industry cooperation and attracted more customers through resource exchange. With the third-party payment model, it launched nationwide Lianhua Member Promotion Days. Meanwhile, the Group sought cooperation in digitalized customer attraction. Leveraging on activities launched in WeChat and Alipay, the two major payment platforms, it advanced the cooperation with third-party digital platforms, developed new digitalized cross-industry customer attraction platforms, and built internal support systems, segment financial accounting procedures and omni-channel allocation procedures. Through such moves, the Group improved member experience and therefore boosted membership growth and expansion of sales to members.

Product Portfolio Planning and Supply Chain Construction

During the period under review, the Group actively promoted the construction of fresh produce bases through various measures and improved the proportion of fresh produce. It vigorously promoted joint procurement of fresh produce, constructed the nationwide joint procurement information communication platform, completed a clear catalog of superior bases in engaged regions for product selection, and established dedicated procurement teams with clear responsibilities to promote the procurement of vegetables and fruits categories and to explore aquatic products, meat and eggs as well as dried foods in the near future. Meanwhile, the Group enhanced the construction of fresh produce in Zhejiang region through development and construction of high-quality bases, great-value order execution and direct procurement, "Chief Commander Project" for fresh produce, targeted marketing and "Amoeba" assessment mechanism.

During the period under review, the Group established strategic synergy with partners, further adjusted and improved the scale of nationwide joint procurement from suppliers under the Joint Business Plan (JBP), improved the trading terms and thereby energized the development of all segment in the whole country through supply chain. While enhancing and consolidating the cooperative relationship with suppliers, the Group established the nationwide working mechanism for strategic suppliers. The Group and the suppliers enhanced the effectiveness of communication and exchanges, improved the "Manufacturer Week" promotion activities focusing on customers and offered more attractive products and innovative services. Through the synergy of online and offline marketing activities, the Group accelerated cooperation and output in whole-area sales, and therefore stimulated consumption upgrade and results improvement.

During the period under review, the Group actively made concerted efforts to provide a full range of imported products with higher cost performance based on the active improvement in the data management and target tracking in respect of imported products, procuring products directly and relying on the output from products that were directly supplied by their brands. It prudently determined the positioning of imported products in each category, enhanced the capacity of direct procurement and brand direct supply, improved the proportion of direct procurement, joint procurement and agency procurement and strengthened the overall competitiveness, so that it could satisfy consumers' demands for consumption upgrade.

Private-label Brands

During the period under review, the Group proactively promoted the construction of its private-label brands and focused on setting their development plans and positioning. Through reviewing existing private-label brands and strengthening their promotion plans, the Group built a strategic visualization system for key brands and increased their sales amount and proportion. The Group settled the brand positioning and planning and established a brand positioning which is closely connected to consumers and highly active in the minds of consumers. The Group built a private-label brand hierarchy comprising "Lianhua Quality"(聯華質造) and "Lianhua Excellence"(優系列) based on GBB (Good, Better, Best) category to satisfy consumption demand of different levels of consumption needs and expand its target customers groups.

In terms of building the supply chain for its private-label branded products, the Group focused on major products for people's livelihood and put more efforts in developing high-margin, high-growth and high-potential categories. During the period under review, the Group successfully developed more than 200 new products and strengthened supplemental categories including snacks, dried food, daily necessities, textile, and gift boxes for festivals and holidays, etc. Through reasonable planning, the Group introduced differentiated quality categories and added new areas for high-quality products in hypermarket segments. The Group met market demands by strengthening the direct procurement at source and of quality products.

The Group has deepened the coordination of various segments and integration of regional resources for the development of private-label brands for two consecutive years. It promoted resources sharing for products from different regions, formulated intensified negotiation mode for condensed product resources, prepared management manual for private-label brands, and standardized the process for management in multiple regions, to maintain the sustainable development in regional operation. Meanwhile, the Group's marketing of private-label brands became more diversified by creating scenario-based layouts, emphasizing brand quality and sharing stories of brand origins, to enhance shopping experience of and recognition from the consumers of the private-label brands. The private-label brands enjoyed healthy growth and expansion of sales proportion for two consecutive years, which supported the improvement in the comprehensive income of the Group and consolidated the differentiated development of products under Lianhua brand.

Excellent Implementation to Improve Operational Capability

During the period under review, the Group made efforts to promote the implementation of operational standards and sample stores system. Through on-site training and promotion of exemplary stores and sample stores, the Group developed a customer satisfaction-oriented service enhancement plan and established an integrated management and service system. The Group proactively improved the in-store services by paying attention to customers' experience with a combination of its standard service, to build high-standard and high-quality five-star stores, to enhance brand reputation, and to establish an image of quality retail service. The Group strengthened standardization of national operating standards and deepened the promotion of operating standards. Upholding the corporate vision of "making our customers become more loyal to us", the Group has designed, established and implemented upgraded operation manual, and continuously refined the manual during implementation to finalize and promote it.

During the period under review, the Group continued to promote the partnership projects and carried out pilot projects in stores. The Group guided employees to learn operation skills and techniques actively and encouraged them to involve in the management of stores through experience sharing and cooperation. As a result, the operating capability and service of stores were strengthened with improved KPI. Starting from this store partnership system, the Group transformed from supervision to empowerment in terms of organization mode, and encouraged staff to participate in partnership project through standardizing training during the period under review. Through sharing experience and giving feedbacks, the Group explored room of improvement with follow-up implementation, optimized operating process, leveraged the flexibility of operation, and enhanced the capability of organization.

During the period under review, the Group kept improving its logistic efficiency and strengthening its service support system. By establishing an effective communication mechanism for operation, procurement and delivery, the Group tracked core products regularly, improved its inventory management, made reasonable procurement, reviewed products and continuously promoted the progress in systematic management of inventory. Therefore, the Group managed to further leverage logistics to support stores, improve the fulfillment of orders from the stores, and increase the turnover rate of inventory.

During the period under review, the Group proactively progressed towards the target of cost reduction and efficiency enhancement, and focused on improving corporate management and control capabilities. It strengthened tax planning to reduce tax expenditures and management costs. The labour cost was strictly controlled through budget tracking, central management and allocation and scientific allocation by region and stores. The Group proactively enhanced its negotiation efforts regarding rent deduction, and established a special team for costs reduction to reduce procurement cost by collective bidding for asset purchase.

During the period under review, the Group actively implemented safe production, introduced innovative working system, and optimized its system and procedure. The Group established a management network and consolidated its safety management system by enhancing the management of commodity access, quality supervision and strengthening food safety control. The Group built sample stores and further developed "Trustworthy Supermarkets"（守信超市）.

Incentive Mechanism, Corporate Culture and Digital Drive

During the period under review, the Group promoted the contract-based performance targets of core positions, established the incentive model of sharing incremental income with all staff, adopted pilot store partnership model, and developed an incentive mechanism in favor of sales and front-line operation. Meanwhile, the Group continued to deepen contractual mechanism reform and made innovations on incentive mechanism through boosting contract-based performance bonuses for the management of companies in respective segments. The Group has selected its annual star teams and valued employees, carried out brand co-building in line with its brand refreshment program, established communication channels to optimize organization spirit, improved the salaries and medical benefits of front-line staff, and carried out caring activities for basic level employees. It focused on core business and empowered the development of new business through enhancing and revitalizing basic level employees. A digital new retail training system has been developed to support the implementation of new business model. The Group has cultivated its study-oriented internal trainers to form a multi-level trainer team, with a view to cultivating a consumer-oriented corporate culture.

During the period under review, the Group proactively optimized its organization. It continued to optimize organizational functions to improve its operating efficiency, made innovations in setting up new departments and strengthened core departments to build a flat organizational structure and enhance the organizational strength of core departments. In line with organization development, the Group put more efforts on core talent introduction and back-up management selection in youth to strengthen core operation team. It carried out "the Eagle Growth Program"(雛鷹成長計劃) to boost the rapid growth of its talent team. Cadre management were strictly implemented with enhanced cadre team construction. The Group continuously enhanced the construction of innovative talent and back-up talent pool.

During the period under review, the Group emphasized digital driven work. It completed the preliminary survey on the digitalized store system of supermarket segment and boosted the supply chain planning under new retail systems. The Group also promoted the optimization and upgrade of the big data platform of Lianhua, completed the comprehensive promotion of franchise contract platform and the function enhancement and development of new franchise model system. The Group also put efforts on the establishment of information security system.

Employment, Training and Development

As at 31 December 2019, the Group had a total of 35,238 employees, representing a decrease of 2,341 employees during the period under review. Total employment expenses amounted to approximately RMB2,742,878 thousand.

During the period under review, the Group continued to optimize organizational framework and promote the flattening of the organization structure, according to the need of business development. The Group further reduced the level of management in its headquarter and improved the efficiency of information communication and response. The Group attempted to accelerate the implementation of key business and incubation of innovation and transformation by adopting the project-based system. It has also accelerated the decision, maturity and implementation of new business by encouraging internal entrepreneur team to innovate, leveraging the advantage of flexible organizations. The introduction of core talent and professionals, as well as the internal training for leaders and management trainees have been enhanced continuously.

During the period under review, the Group promoted the contract-based performance targets of core positions, continued to establish the incentive model of sharing incremental income with all staff, and focused on advancing the front-line store partnership mechanism. The store partnership mechanism advocated the sense of belonging among all staff as operators, which can motivate them and increase their incomes, thus establishing an incentive model where the Company and its staff can jointly create values and share benefits. The Company implemented the store partnership mechanism step by step following successful pilots throughout the year. Meanwhile, efforts were put on further improving key business processes and enhancing the service awareness of the headquarters from the perspective of resolving the problems in front-line work.

During the period under review, the training of the Group focused on its core business, empowering the development of new business and supported the implementation of new business model. Several rounds of courses relating to operation empowerment and procurement power were introduced throughout the year. The Group built a digitalised training system under new retail to encourage fragmented learning among employees, and to achieve more effective inspection and better learning result. The Group insisted on carrying out "the Eagle Growth Program"(雛鷹成長計劃), through which forthcoming college graduates were selectively recruited and trained with various cultivating measures such as "reverse classroom", competitions, post rotation, etc., to promote the growth of management trainee of Lianhua and the integration of corporate spirit. The Group also insisted on the development of internal training teams, constructing multi-level internal training teams of in Lianhua and accelerating the development and provision of courses relating to core business and front-line basic skills.

Principal Risks

The Group's business, financial condition, operating results and prospects may be subject to risks and uncertainties related to the Group's business. The Group incorporates its risk management procedures into the formulation of strategies, business planning, investment decision-making, internal control and day-to-day operation management. The principal risks encountered by the Group and the mitigating measures are as followed:

Risks relating to the development of network

As for development of network in new residential areas, the Group expects to experience a relatively long period for the market incubation, which is subject to potential risks in new business expansion and recording operating profit from the stores at initial stages. Besides, the overall impacts, from the changing market conditions, diversified channels and competition as well as increasing cost in operating physical stores, are increasingly material, which subjects the Group to the risk of having difficulties in selecting new sites and to delayed development of network.

For the existing stores, the Group encountered increasing rental cost for its stores located alongside the street, and the rising proportion of rental cost in total costs leads to the risk of further compression of profit margin. Besides, the risk of failure to renew the relevant tenancy agreements when due is rising due to a series of factors, such as competition, rental price and government policies, etc.

Mitigating measures

By adoption of refined business development strategy, the Group mainly focuses on the regions where it enjoys advantages or with market gap, targeting to benefit the overall business from particular well-performing stores. Meanwhile, prudence is exercised by the Group in addition to the combination of potential exploration in future development regions and preliminary communication on the supporting policies for development of new stores.

In respect of renewal of tenancy agreements for the existing stores, the Group would make relevant arrangement in advance and complete the renewal case by case for certain stores where the Group considers important or encounters difficulties in renewal, managing to accomplish the renewal targets though various channels and methods.

Risk relating to the investment attraction

As online shopping becomes increasingly popular with consumers, a majority of our tenants (especially those engaged in restaurants and education) of physical stores may need smaller operation areas, which would lead to a decrease in occupancy rate and thus subject the Group to the challenges in rental collection. Besides, the continuous upgrade of "delivery-to-home" business results in continuous decrease of customer flow in physical stores. For part of tenants whose operation relies on customer flow shared with the stores, they are going to experience obvious decline in operating results, which would continuously increase the pressure in rental collection.

In addition, the space left for the Group to adjust business strategy for investment attraction is decreasing due to the adjustment and more strict requirements in relevant government policies, particularly in respect of firefighting and supervision of food and drug.

Mitigating measures

The Group will enhanced its efforts in market research, fasten the accumulation of effective tenant resources by proactively searching for tenants instead of waiting for them to join us. The Group will also pay more attention to monthly rental collection to timely identify any relevant issue and assist the stores to do the relevant works. Day-to-day communication with the department of engineering shall be strengthened. Especially at the preliminary preparation stage of the investment attraction plans involving large areas, intervene and promotion from the perspective of engineering technology shall be proactively coordinated to improve the efficiency of investment attraction.

Risk related to the logistic system and return of goods

The level of smart working for logistics service of the Group is relatively low, and the information system development may not satisfy the internal requirements. Improper management of authorization may lead to the failure of effectively control over review and approval procedure in relation to return of goods by information technology. In case that the application for return of goods is not reviewed and approved properly, the Group may experience random return of goods by stores with increasing returns recorded. Besides, an increase in return of goods may also increase the costs of coordination between the procurement departments and suppliers, and even affect the long-term cooperation with the suppliers since the goods returned and stocked as imperfections have to be returned to the suppliers. Also, random return of goods will increase the labor cost and logistic cost of central warehouses, which may affect the normal development and operation of the Company.

Mitigating measures

The Group will optimize the review and approval procedure in relation to return of goods by general categorization on types of return. It also considers uploading the list of goods returned into the review and approval system and labeling the type of return under the second level. Review and approval may be canceled for return of certain general types of products, and only part of return of special types and imperfections requires review and approval, so as to reduce the time spent in review and approval procedure and cut down the transportation costs and labor cost of logistics centers.

Risk relating to employees

The rapid business expansion and transformation of business model of the Group result in new change in its demand for talents, and the sustainable development of the Group needs strong support from cultivation of a batch of backup talents reserve. At the current stage, the Group needs to make further efforts in talents reserve, especially in cultivation of talents in professional core posts. Imbalance exists in match between talents and remuneration, performance-related bonus and position value, which to a certain extent affects the enthusiasm of the employees. The control of employee related risks plays an important role in overall risk control.

Mitigating measures

The Group manages to build the corporate culture focused on consumers' needs through enhancing and revitalizing basic level employees. The Group promoted the contract-based performance targets of core positions, continued to establish the incentive model of sharing incremental income with all staff, and focused on advancing the front-line store partnership mechanism. The performance evaluation system has been gradually established oriented by operating performance with unified process management and target management. The Group continues to supplement the core business talents through external recruitment while selecting the youth backup elites. Meanwhile, its core operating team is getting consolidated through diversified means, such as concurrent serve in another position, work by rotation and incubation of innovative projects. The Group focuses on its core business and posts, promotes development of new business under the new retail concept, and propels training and development of the leading and backup talents.

Compliance risk management

The corporate compliance group of the Group, in conjunction with the Group's legal advisor, regularly reviews the Group's compliance of relevant laws and regulations, the Listing Rules, information disclosure requirements and the Group's standards of compliance practices.

Strategy and Planning

2020 is the final year for China to build a well-off society in all respects as well as the final year of the 13th Five-Year plan. The basic trend of the Chinese economy maintaining steady growth with long-term sound development remains unchanged. Amid the complicated and volatile economic landscape at home and abroad, it is anticipated that the Chinese government will uphold the underlying principle of pursuing progress while maintaining stability, adhere to the new development philosophy, focus on the main task of supply-side structural reform and turn the advantages of reform and opening up into a powerful driving force. China will keep its economic growth within a reasonable range under "new normal" environment in 2020 with generally stable employment and price, continuous optimization of industrial structure and constant enhancement in the quality of economic growth.

In 2020, it is expected that household consumption will maintain a stable growth with a strong momentum in consumption upgrade, which will in turn speed up the upgrade in the industry. The consumption will continue to serve as the main driving force of the economic development, and will become a strong engine for China's overall stable economic growth in 2020.

In this regard, in 2020, the Group will adhere to its philosophy of "reform, innovation, persistence, growth", persistently pursue the goal of "determination and expansion of the segments and end model, product portfolio planning and supply chain construction, private-label brands, excellent implementation and brand revamp" for the year along with the incentive mechanism, organisational system, capital structure and the double driving system covering both corporate culture-driven and digital-driven approach. The Group will base on its brand mission of "good commodities and good experience to build a good life" (「好商品，好體驗，構建人情好生活」) to strengthen its base in Yangtze River Delta and expand throughout the country. The Group provides full range of quality products through effective and integrated supply chain, thereby becoming an omni-channel lifestyle retailer with local spirit.

In 2020, the Group plans to open 226 new stores, including four hypermarkets.

In 2020, the Group will continue to promote the determination and expansion of the segments and end model. The hypermarket segment will focus on loss reduction and profit increase, enhance product operation efficiency, boost the product comprehensive income, facilitate store transformation and determination and continuously foster 3.0 PLUS model determination and 2.0 model upgrade. It will continue to determine marketing positioning and strengthen community-based service so as to increase the revenue. It will also refine duties of each position, formulate evaluation standards and reshape operational procedures of the hypermarket segment. The supermarket segment will concentrate on the determination, iteration and upgrade of the existing new store models as well as the development of new business segment. Community fresh produce supermarket will pay attention to the implementation of product category planning and the refinement and reproduction of light assets model. Whole food supermarket will further emphasize on the interconnection between dining experience and supermarket, develop private-label brands and empower the Company's existing supply chain and vice versa. Selected supermarket will focus on the mid-to-high end community, keep optimising product category planning and supply chain construction and create new form of community business. The convenience stores segment will put efforts in raising single store performance and conduct loss reduction. The Group will ensure sustainable growth of the sales of franchised stores through assuring the increase in the number of the franchised stores, promoting new franchised models, empowering franchisee supply chain and facilitating the enhancement in store operation. The Group will adopt a light asset model to expand its outlets and strictly control the investment payback period so as to realise sustainable expansion of the number of stores. Centering on the store layout of each segment, the Group will focus on promoting the integration of online and offline products, as well as marketing and sales integration and speed up omni-channel development. Taking the advantages of the stores located in the Yangtze River Delta region, the Group will raise the proportion of delivery-to-home sales and stimulate performance growth of the stores.

Regarding the product portfolio planning and supply chain construction in 2020, the Group will accentuate the enhancement in single product efficiency through solidification of the number of categories. Category allocation and planning will also be implemented in each type of store of respective segment so as to strengthen core products. In addition, the Group will also carry out smart promotion, increase the effectiveness of the promotion, thereby boosting the comprehensive income of each segment. The Group will continue to optimize fresh produce supply chain, establish fresh produce value chain, reinforce fresh produce marketing, significantly improve the construction of dining scenes, proactively expand delivery-to-home channels and facilitate sustainable development of product category. The Group will also implement category management and continuous enhancement in order to create a supply chain for full range of products. The framework on internal and external cooperation and communication of JBP strategic suppliers will be improved to employ a consumer-oriented cooperation strategy with suppliers. Through category enhancement, supply chain optimization, segment channels expansion and other measures, the Group will be able to create the image as a vendor of imported products with higher cost performance.

As to the development of private-label brand in 2020, the Group will persistently improve the quality and appearance design of its private-label brands, promote the launch of "Lianhua Quality" brand, deepen the development of the "Lianhua Excellence" series and further improve the penetration of the private-label brands in the core categories. The Group will strictly control the source of the products at bases, accelerate the development of private-label brand of fresh produce, create more single fresh produce product, formulate a nationwide private-label brand work group, trace the supply chain and enhance quality management control and procedural control. The Group will promote multi-segment synergies and regional resources integration, stimulate marketing and promotion, and continue to raise the proportion of the private-label brands. The Group will identify brand positioning, characteristics, visual presentation standards to construct private-label brand development framework and speed up the establishment of private-label brands strategic system of Lianhua.

Regarding the excellent execution in 2020, the Group will adopt a two-pronged approach, promoting the same store growth of each segment through the improvement in customer traffic and customer order. The Group will also conduct the second opening of stores, reinforce the marketing during the evening rush hour, and guide the dining table of consumers with an easy and convenient products portfolio so as to bolster sales in the evening rush hour. The Group will strengthen the operational execution, fresh produce operational and marketing capabilities and provide quality fresh produce in an all aspects. The Group will streamline standardized business operation procedures, reshape standardized business operation procedures based on online and offline sales development as well as strengthen the overall operational capabilities. The Group will also reinforce the execution of service standards, build an employee care system, improve employees' service skills internally and enhance value-added service of the business externally to establish an on-line and off-line integrated service system. The Group will continue to iterate and promote partnership model based on the operation performance. It will also bolster internal supply chain synergies, persistently stimulate logistics operational efficiency and operation benefits as well as boost the satisfaction level of stores.

In 2020, the Group will continuously stimulate brand revamp. Through insight and creation of different scenes, the Group will enhance the efforts on external communication, promote cross-sector cooperation, facilitate membership recruitment, increase the number of members and reinforce the connection with young consumer groups so as to improve the number of customers and build a younger consumer structure. The Group will continue to optimise the promotion levels and improve promotion efficiencies and results. The Group will continuously speed up the integration of consumer-oriented brand integrated marketing (S level marketing) across the country. The Group will also implement brand positioning, optimise brand management system, constantly raise consumers' awareness of the mission of "good commodities and good experience to build a good life" (「好商品，好體驗，構建人情好生活」).

In 2020, the Group will continue to conduct organisational reform, carry out market-oriented recruitment in all respects and undertake a fundamental reform of contract-based management. In addition, the Group will also improve organisational efficiency, motivate the team, further strengthen fresh produce operation, implement category planning, carry out delivery-to-home operation in the entire region and develop segment innovation and other core organisational capabilities. The Group will conduct orderly adjustment on remuneration system, continuously optimise incentive model and start to build the corporate culture of Lianhua consisting of organisational culture, system culture, behaviour culture and performance culture. Such corporate culture will be implemented throughout the process of organisational structure adjustment, system review and values discussion, etc.

In 2020, the Group will continue to accelerate the digitalized construction of stores, facilitate the enhancement in execution efficiency of store operation, consumer satisfaction level and products sales efficiency through digital empowerment. The Group will carry out quantitative analysis of promotion efficiency, develop product tools based on big data, provide guidance on scientific decisions of promotion, integrate tools into workflow and promote such approach as well as maximize the overall promotional effectiveness based on big data. The Group will integrate business supporting platform, optimize big data platform, strengthen information security and develop capabilities that support the Group's new retail digital management and operation.

Purchase, Sale or Redemption of Shares

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company for the year ended 31 December 2019.

Audit Committee

The Audit Committee has reviewed the 2019 Annual Results and confirmed that they are prepared in accordance with the applicable accounting standards, laws and regulations and appropriate disclosures have been made.

Review of Unaudited Annual Results

The annual results of the Group for the year ended 31 December 2019 have not been audited or agreed with the Company's auditor, Deloitte Touche Tohmatsu ("**Deloitte**"), which were unable to complete their auditing process due to the travel restrictions and quarantine policies adopted in various part of the PRC to combat the COVID-19 coronavirus outbreak. Hence, additional time is required for the completion of the auditing process. It is currently expected that the auditing process will be completed in April 2020 subject to any further epidemic prevention measures in the PRC. The unaudited annual results of the Group for the year ended 31 December 2019 contained herein have been reviewed by the Audit Committee. The Audit Committee is of the view that the unaudited annual results for the year ended 31 December 2019 are in compliance with the applicable accounting standards and requirements, and appropriate disclosures have been made.

Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

Compliance with Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of 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 of the Listing Rules as code of conduct for securities transactions by all Directors and supervisors. After specific enquiries to all Directors and supervisors, the Board is pleased to confirm that all of the Directors and supervisors have fully complied with the provisions under the Model Code during the period under review.

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

The Board is pleased to confirm that 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 period under review. Apart from the following deviations, 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. Details of the deviations are set out as follows:

The code provision A.4.2 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, the Company deviated from the aforementioned provision of the Code.

The code provision A.6.7 of the Code is regarding the non-executive directors' regular attendance and active participation in board meetings and attendance to general meetings.

Mr. Lee Kwok Ming, Don, an independent non-executive Director, was unable to attend the ninth meeting of the sixth session of the Board convened on 29 March 2019 by the Company due to his other business commitments.

Ms. Xu Zi-ying, a non-executive Director, was unable to attend the tenth meeting of the sixth session of the Board convened on 12 June 2019 by the Company due to her other business commitments.

Mr. Qian Jian-qiang, a non-executive Director, was unable to attend the 11th meeting of the sixth session of the Board convened on 29 August 2019 by the Company due to his other business commitments.

Mr. Ye Yong-ming, a non-executive Director, and Mr. Qian Jian-qiang, a non-executive Director, were unable to attend the 12th meeting of the sixth session of the Board convened on 16 December 2019 by the Company due to their other business commitments.

Mr. Qian Jian-qiang, a non-executive Director, was unable to attend the 13th meeting of the sixth session of the Board convened on 31 March 2020 by the Company due to his other business commitments.

Ms. Xu Zi-ying, a non-executive Director, was unable to attend the 2018 annual general meeting of the Company convened on 12 June 2019 (the "**2018 AGM**") due to her other business commitments.

After receiving the relevant materials for the Board meetings, the above mentioned Directors have authorized other Directors to attend the meetings and vote on their behalf. The matters considered at the Board meetings were ordinary matters and all resolutions were passed smoothly. The Company sent the related 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 relevant materials and all necessary information relating to the 2018 AGM to all members of the Board before the 2018 AGM. All ordinary resolutions considered at the 2018 AGM were passed smoothly. The Company sent the related minutes of the 2018 AGM to all members of the Board after the 2018 AGM so that the Director who was unable to attend the meeting was able to understand the resolutions passed at the meeting.

Publication of Annual Report

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

By order of the Board
Lianhua Supermarket Holdings Co., Ltd.
Ye Yong-ming
Chairman

Shanghai, the PRC, 31 March 2020

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

Executive director:	*Xu Tao;*
Non-executive directors:	*Ye Yong-ming, Xu Zi-ying, Xu Hong, Qian Jian-qiang, Zheng Xiao-yun and Wong Tak Hung;*
Independent non-executive directors:	*Xia Da-wei, Lee Kwok Ming, Don, Chen Wei and Zhao Xin-sheng.*