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 2020

FINANCIAL HIGHLIGHTS

As at 31 December 2020, the Group recorded the following:

- Revenue was approximately RMB26,331million, representing an increase of approximately 1.8% over 2019, of which, hypermarkets increased by 0.3%, supermarkets increased by 6.8%, and convenience stores decreased by 13.8% due to consolidation and store closure.

- Gross profit was approximately RMB3,535 million, representing an increase of 0.5% over 2019. Gross profit margin was approximately 13.43%. Consolidated income margin was approximately 24.59%.

- Distribution and selling expenses and administrative expenses totalled approximately RMB5,791 million. Overall cost ratio was approximately 21.99%, decreasing by 1.37 percentage points over 2019.

- Operating profit amounted to approximately RMB50 million, representing an increase of RMB82 million over 2019. Annual loss attributable to shareholders of the Company amounted to approximately RMB319 million, representing a decrease in loss of RMB59 million. Basic loss per share amounted to approximately RMB0.29.

- The total number of outlets was 3,192, including 140 hypermarkets, 2,131 supermarkets and 921 convenience stores.

Note 1: Consolidated income margin = (Gross profit + Other revenues + Other income and other gains and losses)/Revenues

Note 2: Operating (loss) profit = Profit (loss) before tax – Share of profits of associates

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

	notes	**Year ended 31/12/2020** ***RMB'000*** **(audited)**	Year ended 31/12/2019 *RMB'000* (audited)
Revenue	*3*	**26,331,155**	25,859,198
Cost of sales		**(22,795,864)**	(22,340,358)
Gross profit		**3,535,291**	3,518,840
Other revenue	*3*	**2,170,108**	2,285,170
Other income and other gains and losses	*5*	**769,311**	651,782
Impairment losses reversed (recognised) under expected credit loss ("**ECL**") model		**(1,157)**	150
Distribution and selling expenses		**(4,861,494)**	(5,161,856)
Administrative expenses		**(929,048)**	(880,107)
Other expenses		**(338,334)**	(138,768)
Share of profits of associates		**(65,043)**	(13,938)
Finance cost		**(295,108)**	(307,374)
(Loss) profit before taxation	*6*	**(15,474)**	(46,101)
Income tax expense	*7*	**(172,123)**	(195,898)
Loss and total comprehensive expense for the year		**(187,597)**	(241,999)
(Loss) profit and total comprehensive (expense) income for the year attributable to:			
Owners of the Company		**(319,286)**	(378,301)
Non-controlling interests		**131,689**	136,302
		(187,597)	(241,999)
Loss per share – basic	*8*	**RMB0.29**	RMB0.34

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2020

	notes	**31/12/2020** ***RMB'000*** **(audited)**	31/12/2019 *RMB'000* (audited)
Non-current assets			
Property, plant and equipment		**3,407,002**	3,452,466
Construction in progress		**10,234**	33,345
Right-of-use assets		**6,968,377**	7,480,238
Intangible assets		**133,643**	99,950
Goodwill		**127,953**	127,953
Interests in associates		**660,405**	725,098
Financial assets at fair value through profit or loss ("**FVTPL**")		**57,684**	73,909
Finance lease receivables		**254,528**	305,180
Term deposits		**4,685,800**	1,695,000
Prepaid rental		**1,376**	467
Deferred tax assets		**7,883**	2,933
Other non-current assets		**209,693**	63,171
		16,524,578	14,059,710
Current assets			
Inventories		**2,677,659**	2,775,011
Finance lease receivables-current		**37,291**	39,376
Trade receivables	*9*	**183,464**	164,431
Deposits, prepayments and other receivables		**613,834**	754,232
Financial assets at FVTPL		**59,958**	1,310,747
Amounts due from fellow subsidiaries		**43,617**	9,075
Amounts due from associates		**77**	39
Term deposits		**1,070,000**	2,241,300
Cash and cash equivalents		**2,010,276**	2,198,539
		6,696,176	9,492,750
Total assets		**23,220,754**	23,552,460

(Continued)

	notes	**31/12/2020**	31/12/2019
		RMB'000	*RMB'000*
		(audited)	(audited)
Capital and reserves			
Share capital		**1,119,600**	1,119,600
Reserves		**333,067**	652,353
Equity attributable to owners of the Company		**1,452,667**	1,771,953
Non-controlling interests		**302,427**	274,553
Total equity		**1,755,094**	2,046,506
Non-current liabilities			
Deferred tax liabilities		**101,947**	94,388
Lease liabilities		**6,247,684**	6,774,004
		6,349,631	6,868,392
Current liabilities			
Trade payables	*10*	**3,889,797**	3,984,193
Tax payable		**165,899**	159,684
Bank borrowing		**20,000**	–
Other payables and accruals		**1,974,422**	1,675,869
Lease liabilities		**856,082**	754,352
Contract liabilities		**8,138,152**	8,022,516
Deferred income		**5,916**	11,779
Amounts due to Shanghai Bailian (as defined in note 1)		**36,234**	–
Amounts due to fellow subsidiaries		**28,131**	25,156
Amounts due to associates		**1,394**	1,262
Amounts due to other related parties		**2**	2,751
		15,116,029	14,637,562
Total liabilities		**21,465,660**	21,505,954
Total equity and liabilities		**23,220,754**	23,552,460
Net current liabilities		**(8,419,853)**	(5,144,812)
Total assets less current liabilities		**8,104,725**	8,914,898

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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, and its subsidiaries (the "Group"), are operation of chain stores including supermarkets, hypermarkets and convenience stores primarily in the eastern region of the PRC.

As of 31 December 2020, the Group has net current liabilities of RMB8,419,853,000 (31 December 2019: RMB5,144,812,000). 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 RMB3,485,300,000, the directors of the Company consider the liquidity risk is significantly reduced and the Group is able to be continued as a going concern.

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

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARD ("HKFRS")

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

The application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

The Group has not early applied the following new and revised to HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts[1]
Amendment to HKFRS 16	Covid-19-Related Rent Concessions[4]
Amendments to HKFRS 3	Reference to the Conceptual Framework[2]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform – Phase 2[5]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1	Classification of Liabilities as Current or Non–current and related amendments to Hong Kong Interpretation 5 (2020)[1]
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use[2]
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020[2]

[1] *Effective for annual periods beginning on or after 1 January 2023.*

[2] *Effective for annual periods beginning on or after 1 January 2022.*

[3] *Effective for annual periods beginning on or after a date to be determined.*

[4] *Effective for annual periods beginning on or after 1 June 2020.*

[5] *Effective for annual periods beginning on or after 1 January 2021.*

The directors of the Company anticipate that the application of all the new and amendments to HKFRSs mentioned above will have no material impact on the consolidated financial statements in the foreseeable future.

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

Type of Revenue

	Year ended 31/12/2020 *RMB'000*	Year ended 31/12/2019 *RMB'000*
Revenue		
Sales of merchandise	**26,331,155**	25,859,198
Services		
Income from suppliers (service income)	**1,590,222**	1,593,557
Franchising income from franchised stores	**42,689**	41,852
Commission income on coupon redemption at other retail shops	**8,661**	3,918
	1,641,572	1,639,327
Total	**27,972,727**	27,498,525

Timing of revenue recognition

	Year ended 31/12/2020 *RMB'000*	Year ended 31/12/2019 *RMB'000*
At a point in time	**26,339,816**	25,863,116
Over time	**1,632,911**	1,635,409
Total	**27,972,727**	27,498,525

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

	Year ended 31/12/2020 ***RMB'000***	Year ended 31/12/2019 *RMB'000*
Revenue		
Revenue from contracts with customers		
– sales of merchandise	**26,331,155**	25,859,198
Other revenue from contracts with customers – services	**1,641,572**	1,639,327
Rental income from leasing of shop premises	**528,536**	645,843
	2,170,108	2,285,170
Total revenue and other revenue	**28,501,263**	28,144,368

(ii) Performance obligations for contracts with customers

Sales of merchandise

For merchandise sold in stores, revenue is recognised at the point of sales terminals. For online or wholesale of merchandise, revenue is recognised on collection by the customers.

Service income from suppliers

Service income from suppliers include information technology services, promotion services as well as logistical services. Such service income are recognised over time at the rate of each service item specified in the contract.

Franchising income from franchise stores

Franchising income is charged to the franchisee for the utilization of the brand of the Group. Franchising income is recognised over time in accordance with the rate specified in the contract.

Commission income on coupon redemption at other retail shops

Commission income is charged to the retailers when customers redeem the Group's coupon at their retail shops. Commission fee is recognised at a point in time when customers redeemed the coupons.

(iii) Leases

	Year ended 31/12/2020 *RMB'000*	Year ended 31/12/2019 *RMB'000*
For operating leases:		
Fixed lease payments	**503,691**	603,670
For finance leases:		
Finance income on the net investment in the lease	**24,845**	42,173
Total revenue arising from leases	**528,536**	645,843

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 ("Hypermarket")
- Supermarket chain operation ("Supermarket")
- Convenience store chain operation ("Convenience store")
- 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 online sales. 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 current and prios years:

	Segment revenue		Segment results	
	Year ended 31/12/2020	Year ended 31/12/2019	**Year ended 31/12/2020**	Year ended 31/12/2019
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Hypermarket	**16,443,618**	16,549,191	**118,658**	372,759
Supermarket	**10,245,431**	9,575,930	**175,522**	(36,963)
Convenience store	**1,643,270**	1,912,790	**(209,913)**	(282,420)
Other operations	**168,944**	106,457	**184,243**	49,582
	28,501,263	28,144,368	**268,510**	102,958

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

	Year ended 31/12/2020	Year ended 31/12/2019
	RMB'000	*RMB'000*
Segment results	**268,510**	102,958
Unallocated interest income	**51,343**	57,672
Unallocated income	**6,515**	7,258
Unallocated expenses	**(276,799)**	(200,051)
Share of results of associates	**(65,043)**	(13,938)
Consolidated loss before taxation	**(15,474)**	(46,101)

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 managed centrally). 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 31/12/2020	Year ended 31/12/2019
	RMB'000	*RMB'000*
– Hypermarket	**14,514,737**	14,373,277
– Supermarket	**5,659,443**	5,089,889
– Convenience store	**347,802**	505,783
– Other operations	**117,496**	120,801
Total segment assets	**20,639,478**	20,089,750
Interests in associates	**660,405**	725,098
Other unallocated assets	**1,920,871**	2,737,612
Total assets	**23,220,754**	23,552,460

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
31/12/2020

	Hypermarket *RMB'000*	Supermarket *RMB'000*	Convenience store *RMB'000*	Other operation *RMB'000*	Total *RMB'000*
Amounts included in the measure of segment results or segment assets:					
Addition to non-current assets *(note)*	**463,952**	**669,867**	**60,542**	**887**	**1,195,248**
Depreciation and amortisation	**845,703**	**515,032**	**83,986**	**14,840**	**1,459,561**
Impairment losses on property, plant and equipment and right-of-use assets in profit or loss	**56,910**	**–**	**20,042**	**–**	**76,952**
Gain (loss) on disposal of property, plant and equipment, right-of-use assets and intangible assets	**292**	**(1,052)**	**110,351**	**178,844**	**288,435**
Interest income on bank balance and term deposits	**173,496**	**52,376**	**376**	**2,103**	**228,351**
Interest income on finance lease receivables	**24,845**	**–**	**–**	**–**	**24,845**
Finance cost	**218,117**	**69,946**	**7,045**	**–**	**295,108**

Year ended
31/12/2019

	Hypermarket *RMB'000*	Supermarket *RMB'000*	Convenience store *RMB'000*	Other operation *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
Depreciation and amortisation	833,676	534,035	26,442	15,151	1,409,304
Impairment losses on property, plant and equipment and right-of-use assets in profit or loss	9,292	–	122,042	–	131,334
Gain (loss) 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	66,853	–	–	307,374

note: Addition to non-current assets include the additions to property, plant and equipment, construction in progress, right-of-use assets and 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 31/12/2020 *RMB'000*	Year ended 31/12/2019 *RMB'000*
Interest income on bank balances and term deposits	**279,694**	220,674
Government subsidies *(note i)*	**96,394**	56,622
(Loss) gain on change in fair value of financial assets at FVTPL	**(3,822)**	91,751
Dividends from financial assets at FVTPL	**769**	530
Gain on disposal of property, plant and equipment and right-of-use assets *(note ii)*	**288,435**	153,771
Salvage sales	**30,680**	35,020
Income from breakage *(note iii)*	**21,944**	34,796
Others	**55,217**	58,618
Total	**769,311**	651,782

notes:

i. The Group received unconditional government grants of RMB90,531,000 (2019: RMB48,869,000) from the PRC local government ("Authorities") as an encouragement for the operation of subsidiaries in certain jurisdictions. In addition, an amount of RMB5,863,000 (2019: RMB7,753,000) has been released from deferred income regarding the asset related government grants during the current year.

ii. Of the amount of RMB288,435,000, on 30 April 2020, the Group entered into an agreement with the Authorities for the dismantlement plan carried out by the Authorities ("the Agreement"). According to the Agreement, the Authorities would pay to the Group RMB304,240,000 as compensation for dismantling the warehouse of the subsidiary of the Group. As at 31 December 2020, the relevant terms and conditions as set out in the Agreement have been fulfilled and the compensation has been received by the Group, resulting in a gain of RMB251,661,000 on disposal of right-of-use assets and property, plant and equipment.

In 2019, of the amount of RMB153,771,000, a subsidiary of the Group received an amount of RMB148,849,000 as compensation for dismantling of the warehouse of the subsidiary, resulting a gain on disposal of property, plant and equipment of RMB135,433,000.

iii. The Group recognises the amount of breakage at expected redemption rate, which is formulated by reference to the ratio derived from historical information on proportion of coupons issued by the Group but not yet utilized by the customers for certain period of time. The breakage amounts are recognised as revenue from contract liabilities according to HKFRS 15.

6. LOSS BEFORE TAXATION

	Year ended 31/12/2020 *RMB'000*	Year ended 31/12/2019 *RMB'000*
Profit before taxation has been arrived at after charging (crediting):		
Amortisation and depreciation		
Depreciation of property, plant and equipmentote	**347,769**	353,360
Depreciation of right-of-use assets	**1,093,026**	1,038,528
Amortisation of intangible assets	**18,766**	17,416
Total amortisation and depreciation	**1,459,561**	1,409,304
Share of results of associates		
Share of results before taxation	**(42,663)**	(5,527)
Less: Share of income tax expense	**22,380**	8,411
	(65,043)	(13,938)
Auditors' remuneration	**5,351**	5,621
Impairment loss on property, plant and equipment recognised (included in other expenses)	**12,100**	9,292
Impairment loss on right-of-use assets recognised (included in other expenses)	**64,852**	122,042
Director's remuneration	**3,200**	3,078
Salaries, wages and other employee benefits of other staff	**2,418,971**	2,503,204
Retirement benefit scheme contribution of other staff	**111,685**	236,596
Total staff costs	**2,533,856**	2,742,878
Impairment losses recognised (reversed) under ECL model, net of reversal	**1,157**	(150)
Write-down (reversals of write-down) of inventories	**924**	(6,750)
Cost of inventories recognised as expenses	**22,795,864**	22,340,358

7. INCOME TAX EXPENSE

	Year ended 31/12/2020	Year ended 31/12/2019
	RMB'000	*RMB'000*
Current tax on the PRC Enterprise Income Tax ("EIT")	**169,514**	191,730
Deferred tax expense	**2,609**	4,168
	172,123	195,898

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 EIT at preferential rate of 15% as those entities are located in the western China. In addition, certain subsidiaries which are qualified as small low-profit enterprises are entitled to enjoy preferential EIT rate with ranging 5% to 10%.

	Year ended 31/12/2020	Year ended 31/12/2019
	RMB'000	*RMB'000*
Loss before tax	**(15,474)**	(46,101)
Tax at PRC EIT tax rate of 25% (2019: 25%)	**(3,869)**	(11,525)
Tax effect of share of results of associates	**16,261**	3,484
Tax effect of expenses not deductible for tax purpose	**488**	1,112
Tax effect of income not taxable for tax purpose	**(2,688)**	(1,394)
Tax effect of tax losses and deductible temporary differences not recognised	**214,430**	229,601
Utilisation of tax losses previously not recognised	**(50,683)**	(24,133)
Effect of different tax rates of subsidiaries	**(1,816)**	(1,247)
Income tax expense for the year	**172,123**	195,898

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 31/12/2020 *RMB'000*	Year ended 31/12/2019 *RMB'000*
Loss for the year attributable to owners of the Company	**(319,286)**	(378,301)

	31/12/2020	31/12/2019
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

	31/12/2020 *RMB'000*	31/12/2019 *RMB'000*
Trade receivables – contracts with customers	**189,076**	169,049
Less: allowance for credit losses	**(5,612)**	(4,618)
	183,464	164,431

The aging analysis of the trade receivables net of allowance for credit losses at 31 December 2020, arising principally from the Group sales of merchandise with credit terms ranging from 30 to 60 days (2019: 30 to 60 days), presented as follows:

	31/12/2020	31/12/2019
	RMB'000	*RMB'000*
0-30 days	**178,780**	161,692
31-60 days	**1,252**	963
61-90 days	**3,255**	1,432
91 days – one year	**177**	344
	183,464	164,431

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 public institutions 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:

	31/12/2020	31/12/2019
	RMB'000	*RMB'000*
61-90 days	**3,255**	1,432
91 days – one year	**177**	344
	3,432	1,776

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 (2019: 30 to 60 days), is as follows:

	31/12/2020	31/12/2019
	RMB'000	*RMB'000*
0-30 days	**1,886,322**	2,188,279
31-60 days	**706,511**	600,744
61-90 days	**394,111**	347,832
91 days – one year	**902,853**	847,338
	3,889,797	3,984,193

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

The outbreak of COVID-19 in early 2020 has brought huge impact on China's economy. The Chinese government swiftly introduced effective measures and policy support to resume work and normal life. Along with gradual control of the pandemic, China's economy has recovered quarter by quarter. According to the data of National Bureau of Statistics of the PRC, in 2020, China's economy still achieved positive growth despite the outbreak of COVID-19, and China's gross domestic product (GDP) exceeded RMB100 trillion for the first time in history, representing a year-on-year increase of 2.3%. In 2020, the national economy of China recovered steadily with significant results achieved in stabilizing employment and protecting livelihoods.

According to the data of National Bureau of Statistics of the PRC, total retail sales of consumer goods nationwide fell by 3.9% year on year in 2020. By retail segment, the retail sales of supermarkets in retail units above designated size recorded a year-on-year growth of 3.1%, while department stores, specialty stores and exclusive shops recorded a decrease of 9.8%, 5.4% and 1.4%, respectively. In 2020, national online retail sales recorded a year-on-year growth of 10.9%, among which, online retail sales of physical goods rose by 14.8%, accounting for 24.9% of total retail sales of consumer goods. In 2020, despite the impact of the COVID-19 pandemic, consumer spending still accounted for 54.3% of GDP, the highest level in recent years, which demonstrated that consumption remained as an anchor of stable economic operation.

According to the data of National Bureau of Statistics of the PRC, in 2020, with the further increase of food prices, the consumer price index (CPI) ascended by 2.5% as compared with last year. The effect of the pandemic on total social demand exceeded its effect on total social supply and the recovery of consumption expenditure per capita remained slower than that of income per capita. As a result, the national disposable income per capita grew by 2.1% in real terms while the national consumption expenditure per capita declined by 4.0% in real terms. From the perspective of consumption category, consumption in the category of food, tobacco and liquor recorded a growth of 5.1%, which was the fastest among all categories, and accounted for 30.2% of the consumption expenditure per capita.

As shown in the Report on the Development of Consumer Market in China 2020 issued by the Chinese Academy of International Trade and Economic Cooperation, the continuous innovation and development of new consumption, which is characterized by new consumption contents, new ways and modes of consumption, new consumption structures and new consumption systems, have become an important driver leading the domestic economic circulation. It also boosted the digital transformation of market entities, fueled new segments and new modes, enhanced the efficiency of industrial chain, supply chain and value chain and cultivated the new growth drivers for digital economy.

The outbreak of COVID-19 boosted the "Stay-at-home Economy" and further stimulated the shift of consumers' preference to online shopping. Meanwhile, the new generation of Internet also demonstrated great intention and high budget for consumption. The significant increase in consumer stickiness to online consumption continues to drive the digitization of retail industry at a faster pace and with more profound impacts. Retail companies including the Company are embracing new segments with brand new thoughts, reshaping traditional retail scenarios with brand new models. By accelerating the development of online ecosystems for new retail, flow-based operation of member system, and emerging marketing techniques such as live streaming, we strive to bring consumers with more visualised and more vivid shopping experiences, thus leading growth in consumption.

Financial Review

Revenue

During the period under review, the Group's revenue was approximately RMB26,331 million, representing a year-on-year increase of approximately RMB472 million, or approximately 1.8%. The main reason for the increase was that the Group responded promptly during the outbreak of COVID-19 in the first half of the year to ensure the supply of products for people's livelihood, which, together with the active price control, effectively attracted customers. Meanwhile, the Group has been actively promoting store operation transformation and store partnership scheme in Shanghai region, driving the revenue of the supermarket segment to achieve a year-on-year increase of approximately RMB613 million, or approximately 6.8%. Same store sales decreased by approximately 2.34%.

Gross Profit

During the period under review, the Group's gross profit was approximately RMB3,535 million, representing a year-on-year increase of approximately RMB16 million, or approximately 0.5%. While customers' consumption habits changed during the COVID-19 pandemic, the Group's product mixes also changed during the post-pandemic period, with fast-moving consumer goods such as fresh produce taking a higher proportion. These products normally have lower gross profit margins. As a result, the overall gross profit margin of the Group was approximately 13.43%, representing a decrease of approximately 0.18 percentage point as compared with the gross profit margin of approximately 13.61% in 2019.

Other Revenue

During the period under review, the Group's other revenue was approximately RMB2,170 million, representing a year-on-year decrease of approximately RMB115 million, or approximately 5.0%. This was mainly due to the fact that the revenue from merchant solicitation decreased by approximately RMB117 million as compared with 2019 due to the outbreak of COVID-19.

Other Income and Other Gains and (Losses)

During the period under review, the Group's other income and other gains amounted to approximately RMB769 million, representing a year-on-year increase of approximately RMB117 million, or approximately 18.0%, which was primarily attributable to the gains of RMB252 million from disposal of the Group's land acquisition and reserve in Caoyang Road during the period under review and the gains of approximately RMB135 million from the disposal of self-owned land and buildings of Hangzhou Lianhua Huashang Group Co., Ltd., a subsidiary of the Group, in 2019.

Distribution and Selling Expenses

During the period under review, the Group's distribution and selling expenses amounted to approximately RMB4,861 million, representing a year-on-year decrease of approximately RMB300 million, or approximately 5.8%. Distribution and selling expenses accounted for approximately 18.46% of the revenue, representing a year-on-year decrease of approximately 1.50 percentage points. During the period under review, due to the COVID-19 pandemic, the Group was granted a reduction or exemption from part of the social security contributions, leading to a decrease in staff costs.

Administrative Expenses

During the period under review, the Group's administrative expenses amounted to approximately RMB929 million, representing a year-on-year increase of approximately RMB49 million, or approximately 5.6%. Administrative expenses accounted for approximately 3.53% of the revenue, representing a year-on-year increase of approximately 0.12 percentage point.

Other Expenses

During the period under review, the Group's other expenses amounted to approximately RMB338 million, representing a year-on-year increase of approximately RMB199 million, or approximately 143.8%. The integration loss in the convenience store segment in each region based on the Group's overall consideration of the strategic development of this sector as well as the store closure plans of several outlets in the hypermarket segment resulted in an increase in relevant loss provision as compared with last year.

Share of Profits of Associates

During the period under review, the Group's share of losses of associates amounted to approximately RMB65 million, representing a year-on-year increase of approximately RMB51 million in losses. In particular, the return on investment in Shanghai Carhua Supermarket Co., Ltd.(上海聯家超市有限公司)recorded a year-on-year increase of approximately RMB49 million and the return on investment in Tianjin Yishang Friendship Co., Ltd.(天津一商友誼股份有限公司)recorded a year-on-year decrease of RMB106 million.

Profit before Taxation

During the period under review, the Group's loss before taxation amounted to approximately RMB15 million, representing a year-on-year decrease in losses of approximately RMB31 million, or approximately 66.4%.

The Group's operating profit was improved in 2020. The Group's profit before taxation recorded sound increase year on year after deducting the influences brought by one-off factors including the integration in the convenience store segment, the store closure of several hypermarket outlets as well as the gain from disposal of land acquisition and reserve.

Income Tax Expense

During the period under review, the Group's income tax expense was approximately RMB172 million, representing a year-on-year decrease of approximately RMB24 million, or approximately 12.1%.

Profit Attributable to Shareholders of the Company

During the period under review, the Group's loss attributable to shareholders of the Company amounted to approximately RMB319 million, representing a year-on-year decrease of approximately RMB59 million, or approximately 15.6% in losses. During the period under review, the net loss margin was approximately 1.21%, representing a year-on-year decrease of approximately 0.25 percentage point in losses. Based on the 1,119.6 million shares issued by the Group, the basic loss per share were approximately RMB0.29.

Liquidity and Financial Resources

During the period under review, the net cash outflow of the Group was approximately RMB188,263 thousand, mainly due to the year-on-year decrease in sales of prepaid cards and an increase in funds withdrawal. As at 31 December 2020, cash and balance at bank amounted to approximately RMB7,766,076 thousand.

For the year ended 31 December 2020, the accounts payable turnover period of the Group was 59 days, and the inventory turnover period was approximately 39 days.

During the period under review, the Group did not use any financial instrument for hedging purposes. As at 31 December 2020, there were no arbitrage financial instruments in issue by the Group.

Growth of Each Retail Business

Hypermarkets

During the period under review, the Group's hypermarket segment continued its upgrading and iteration of hypermarket 2.0 community neighbourhood centre, deepened the finalization of its 3.0PLUS model, created customer experience with diversified market and catering scenarios, accelerated the construction of digital store system, and actively enhanced its online operation capability. During the period under review, the hypermarket segment of the Group recorded a revenue of approximately RMB15,026 million, representing a year-on-year increase of approximately 0.3% and accounting for approximately 57.1% of the Group's revenue. Same store sales had a year-on-year decrease of approximately 5.82%. During the period under review, the hypermarket segment recorded a gross profit of approximately RMB2,004 million, representing a year-on-year increase of approximately RMB16 million. Affected by the outbreak of COVID-19, revenue from suppliers decreased by RMB48 million year on year, and rental income from leasing of shop premises recorded a year-on-year decline of RMB107 million, which led to a year-on-year decline of approximately RMB251 million in the consolidated income. The aggregate of distribution and selling expenses and administrative expenses amounted to approximately RMB3,235 million, representing a year-on-year decrease of approximately RMB102 million. The finance cost dropped by RMB23 million year on year. Other expenses increased by approximately RMB126 million year on year, which was mainly due to the effect of closure plan of certain stores of the hypermarket segment. The segment operating profit amounted to approximately RMB119 million, representing a year-on-year decrease of approximately RMB254 million, and the operating profit margin declined year on year by 1.70 percentage points to approximately 0.79%.

	As at 31 December	
	2020	2019
Gross Profit Margin (%)	**13.33**	13.27
Consolidated Income Margin (%)	**24.68**	26.44
Operating Profit Margin (%)	**0.79**	2.49

Supermarkets

During the period under review, the Group's supermarket segment focused on transformation and upgrading. It consolidated its established foundation while seeking innovation with a focus on the community fresh produce supermarkets. Through category planning and brand revamp, the Group differentiated and created the community-based fresh produce shopping experience with its own characteristics, and reconstructed the store space based on scenario and product portfolio optimisation to improve the effectiveness per square meter. During the period under review, the Group's supermarket segment recorded a revenue of approximately RMB9,572 million, representing a year-on-year increase of approximately RMB613 million, or approximately 6.8%, and accounting for approximately 36.4% of the Group's revenue. In particular, same store sales had a year-on-year growth of approximately 4.0%. During the period under review, the supermarket segment recorded a gross profit of approximately RMB1,310 million, and the gross profit margin rose year on year by 0.18 percentage point to approximately 13.68%. The consolidated income was approximately RMB2,080 million, representing a year-on-year increase of approximately RMB133 million, and the consolidated income margin remained unchanged at 21.73% as compared with last year. The segment operating profit amounted to approximately RMB176 million, representing a year-on-year increase of approximately RMB213 million, and the operating profit margin rose by 2.24 percentage points to approximately 1.83%.

	As at 31 December	
	2020	2019
Gross Profit Margin (%)	**13.68**	13.50
Consolidated Income Margin (%)	**21.73**	21.73
Operating Profit Margin (%)	**1.83**	–0.41

Convenience stores

During the period under review, the convenience store segment focused on "streamlining structure, cutting costs and reducing loss faster", accelerated reorganisation of store with loss in each area, downsized the work force by several measures and controlled operating costs. During the period under review, the convenience store segment recorded a revenue of approximately RMB1,577 million, representing a year-on-year decrease of approximately 13.8% and accounting for approximately 6.0% of the Group's revenue. In particular, same store sales decreased by approximately 0.41% year on year. The convenience store segment recorded a gross profit of approximately RMB214 million, and the gross profit margin decreased by 3.12 percentage points to approximately 13.58%. Gains of RMB73 million from disposal of the land parcels at Caoyang Road was included in other income and other gains. The consolidated income was approximately RMB401 million and the consolidated income margin increased by 3.38 percentage points year on year to approximately 25.45%. The aggregate of distribution and selling expenses and administrative expenses amounted to approximately RMB403 million, representing a year-on-year decrease of approximately RMB156 million. The loss-making store reorganisation resulted in a year-on-year increase of approximately RMB73 million of other expense. During the period under review, the convenience store segment recorded an operating loss of approximately RMB210 million, representing a decrease of approximately RMB72 million in losses as compared with last year. The operating profit margin rose by 2.12 percentage points to approximately -13.31%.

	As at 31 December	
	2020	2019
Gross Profit Margin (%)	**13.58**	16.70
Consolidated Income Margin (%)	**25.45**	22.07
Operating Profit Margin (%)	**–13.31**	–15.43

Analysis of Financial Results

	For the year ended 31 December RMB in million		
	2020	2019	Year-on-year change (%)
Turnover	**26,331**	25,859	1.8
Gross profit	**3,535**	3,519	0.5
Consolidated income	**6,475**	6,456	0.3
Operating profit	**50**	–32	354.1
Income tax expense	**172**	196	-12.1
Profit for the period attributable to owners of the Company	**–319**	–378	15.6
Basic earnings per share *(RMB)*	**–0.29**	–0.34	15.6
Dividend per share *(RMB)*	**Not Distributed**	Not Distributed	N/A

Capital Structure

As at 31 December 2020, the Group's cash and cash equivalents were mainly held in Renminbi. The Group had no other bank borrowings other than the bank borrowings of RMB20 million incurred by a non-wholly owned subsidiary.

During the period under review, the equity attributable to owners of the Group decreased from approximately RMB1,771,953 thousand to approximately RMB1,452,667 thousand, which was primarily attributable to the loss of approximately RMB319,286 thousand recorded in the period.

Details of the Group's Pledged Assets

As at 31 December 2020, the Group did not pledge any assets.

Foreign Exchange Risks

Most of the incomes 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 2020, the issued share capital of the Company was as follows:

Class of Shares Issued	**Number of 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

Development of Sales Network: Segment and End Models Expansion

During the period under review, the Group focused on core regions and core segments, enhanced its presence in the Yangtze River Delta region, and steadily advanced the opening and renewal of outlets. The Group opened a total of 429 new stores, including 91 new directly-operated stores and 338 new franchised stores. 321 stores were located in the Yangtze River Delta region and accounted for 74.83% of the new stores. On the other hand, the Group adapted to changes in market environment, continued to prudently review the stores and improved the overall quality of the physical outlets. As a result, 589 stores were closed, including 372 directly-operated stores and 217 franchised stores.

Region	**Segment**	**Newly opened stores during the period under review**		**Closed stores during the period under review**	
		Number	**Operating Area** *(m2)*	**Number**	**Operating Area** *(m2)*
Greater East China	Hypermarkets	3	15,000.00	5	36,947.00
	Supermarkets	226	132,498.20	147	39,746.96
	Convenience Stores	125	6,519.04	243	17,857.42
North China	Supermarkets	1	4,800.00	0	0.00
	Convenience Stores	4	187.00	80	5,441.65
Northeast China	Convenience Stores	15	833.58	93	4,245.90
Central China	Hypermarkets	1	1,350.00	0	0.00
	Supermarkets	14	19,472.00	3	4,540.00
South China	Supermarkets	34	66,427.54	17	11,791.00
Southwest China	Supermarkets	0	0.00	1	2,800.00
Northwest China	Supermarkets	6	5,210.00	0	0.00
Total		429	252,297.36	589	123,369.93

Note: Data as at 31 December 2020.

During the period under review, four new hypermarkets were opened, with three located in Zhejiang province and one located in Henan province; five hypermarkets were closed, with three located in Shanghai, one located in Zhejiang province and one located in Anhui province. The number of stores recorded a net decrease of one. The hypermarket segment accelerated transformation and upgrading and continued the upgrading and iteration of the hypermarket 2.0 community neighbourhood centre with a view to increasing profitability. The segment optimised the layout of tenants and improved the overall effectiveness per square meter by repositioning its operating model. It followed the concept of "community life centre & vibrant hustle and bustle for life", built a new retail model that underlines the last mile of community service, and upgraded from "traditional hypermarket" to "community commercial centre". The hypermarket segment continued to finalize its 3.0PLUS model, determined marketing positioning and strengthened community-based service, with an emphasis on the model of "light catering + department store + lifestyle service + leisure and entertainment". It built a market of omni-channel and interactive scenarios, and through exploring and polishing its operating model, it constantly refined operational standards and improved operational processes so as to enhance operation efficiency and improve the overall revenue of products.

During the period under review, the supermarket segment, as the core development segment of the Group, continued to promote sales network expansion and store transformation and efficiency enhancement. A total of 281 new supermarkets were opened, including 83 directly-operated stores and 198 franchised stores. 168 supermarkets were closed, including 40 directly-operated stores and 128 franchised stores. The number of stores recorded a net increase of 113. The supermarket segment has achieved consecutive and rapid growth in store number with high renewal rate of stores since 2018. During the period under review, the supermarket segment focused on the determination of the existing new store model in response to the consumption trends. With a focus on the community fresh produce supermarkets, it kept making innovation while consolidating its established base, and introduced community fresh produce experiencing stores. With a focus on the incubation of new segments, it continued to explore whole food supermarket and selected supermarket, two new segments of the Group, in order to provide consumers with more personalised and differentiated quality services, better shopping experiences, and inspiration for life through the precise positioning of demand. It innovated scenario and model for community fresh produce supermarkets, and created differentiated and characteristic community-based fresh produce shopping experience through category planning and brand revamp. With the continued polish and determination of the new business model, whole food supermarket further promoted the interaction between dining experience and supermarket, developed private-label brands, conducted mutual empowerment of the Company's existing supply chain, and kept in line with the trend of socialization of food and beverage. Selected supermarket planned to focus on the mid-to-high end community to plan segment and select product categories targeting at customer groups with high-quality demands.

During the period under review, 144 new convenience stores were opened, including four directly-operated stores and 140 franchised stores and 416 stores were closed. The number of stores recorded a net decrease of 272. Centering on the principle of "streamlining structure, cutting costs and reducing loss faster", on one hand, the convenience store segment accelerated the improvement of stores operation capability, tracked user experience, empowered catering models and developed additional service functions; on the other hand, it continued to reorganise and transform, adjusted store network layout and integrated the supply chain capacity with other segments. Guided by the principle of cutting costs and reducing losses, Quik convenience stores in Shanghai region and Dalian region accelerated reorganisation of stores with loss, converted some directly-operated stores to franchise model; Quik convenience stores in Beijing region closed all directly-operated stores and will carry out franchise business under franchise model; and Quik convenience stores in Zhejiang region will integrate the strength of the supply chain in Zhejiang region, adjust store structures and improve operating results.

During the period under review, leveraging on its sales network advantage, the Group further improved its delivery-to-home services and enhanced the operation capability, thus accelerating the sales growth of this business. The Group fixed online category-specific activities by interacting with brand owners and integrating marketing resource; enhanced product power and completed category layout; based on the data-driven and consumer-oriented approach, comprehensively utilised new media resources, adopted more social elements and increased contributions from sales to online members; strengthened the support of big data for business by developing internal and external platforms in a collaborative manner; increased the frequency and output of ground promotion, basically established production and research collaboration of omni-channel, optimized the process at the shopping end, improved offline delivery capabilities and strategically enhanced delivery-to-home experience through digital means.

As at 31 December 2020, the Group had 3,192 stores in total, representing a net decrease of 160 stores compared with the end of 2019, which was primarily attributable to the adjustment in convenience store segment. Approximately 85.31% of the Group's stores were located in East China.

	Hypermarkets	Supermarkets	Convenience Stores	Total
Direct operation	140	718	339	1,197
Franchise operation	–	1,413	582	1,995
Total	140	2,131	921	3,192

Note: Data as at 31 December 2020.

Product Portfolio Planning and Supply Chain Construction

During the period under review, the Group actively expanded the source of fresh produce products and constructed fresh produce bases. On the one hand, it strengthened the direct sourcing, enhanced the base management and improved the fresh produce supply chain to build a high-quality and competitive fresh produce category. On the other hand, the Group expanded its fresh produce value chain, fully developed channel advantages, and deepened the cooperation with suppliers in marketing and major products for people's livelihood to enrich the category and build a leading product structure.

During the period under review, the Group strengthened the cooperation with JBP suppliers, signed nationwide joint procurement contracts and improved the terms of these contracts. It built the product debut cooperation model with brands and expanded the portfolio of five-star launch and three-star launch to develop Lianhua's differential business advantage. The Group realised brand upgrading through establishing the all-round strategic cooperation with brand owners in multiple new retail fields including big data empowerment and experience innovation, launching more brand owner activities and increasing resource investment in the franchise system. It established nationwide JBP contract project and marketing project teams to improve the work frame of JBP internal and external communication. The Group established an advanced price management system as it reviewed and adjusted low-margin products, comprehensively considered the consolidated revenue, sales and dynamic distribution rate, selected optimal products and advanced the smart promotion and pricing, and built the supplier management system based on consolidated revenue dashboard by working on the assessment of each supplier and the gross margin channel simultaneously.

During the period under review, the Group continued to improve its category allocation, focused on the improvement of single product efficiency, and promoted the category solidification to stores in an orderly manner. It upgraded the structure of imported products by focusing on expanding the leisure category and developing fortress commodities, and improved the supply chain by developing the agency procurement/direct procurement model. As a result, the advancement of imported products achieved significant progress, and the proportion of imported products improved to more than 6%.

Private-label Brand

During the period under review, the Group actively promoted its private-label brand based on a clear development path and positioning, and made progress in building a private-label brand hierarchy consisting of "Lianhua Quality" and Lianhua Excellence series according to GBB (Good, Better, Best) classification. It further improved the penetration of private-label brands in core categories through multi-channel marketing and promotion and on the basis of operating private-label brands with Lianhua characteristics. The Group accelerated the development of fresh produce private-label brands, promoted the development of "Lianhua Quality" fresh produce category, introduced more major products to the category, and comprehensively improved the proportion of fresh produce private-label brands. Meanwhile, it advanced the development of room-temperature private-label brands and improved the proportion of groceries and general merchandise.

During the period under review, the Group further improved the marketing strategy for private-label brand category and advanced the synergetic development of business segments and the regional resource integration. Basing on the core strategy and the visual presentation, the Group built the visualisation strategy system for key brands carefully, fully applied the basic visualisation system and the visualisation application system to the package design of "Lianhua Quality" and Lianhua Excellence series, thus bringing consumers brand-new shopping experience and further expanding the scale effect of Lianhua private-label brands. It established the nationwide working group to further promote its private-label brands from a consumer oriented perspective. In the meantime, the Group reviewed the supply chain of private-label brands on regular basis, integrated Lianhua's resources, achieved resource sharing, diversified the product portfolio of private-label brands in Shanghai, Zhejiang and other regions, so as to build an omni-channel and high-quality category.

During the period under review, the Group continued to adjust and improve the management system for private-label brands. It established the joint management group of private-label brands to take charge of the nationwide development and maintenance of private-label brands. From quality control, package design to supplier tracing, the "Lianhua Quality" brand launched in 2020 has been incorporated into the unified management of the joint management group of private-label brands, and has established the whole-process quality monitoring system in accordance with the overall requirement of the supply chain construction standard.

Excellent Implementation to Improve Operational Capability

During the period under review, the Group realised a year-on-year growth in overall sales by adopting several measures to attract customer flow and orders. It took advantage of high-frequency fresh produce to attract customers and maintained a stable customer flow by promoting the member referral scheme, improving services and making sure that marketing activities reached targeted customers precisely. While creating consumption scenarios and promoting cross-industry cooperation, the Group leveraged the We-Media to produce regular programmes and columns, opened Lianhua Select Live Streaming Channel (聯華好物直播間) to attract young customers, and gathered resources of other industries to expand brand communication. It also combined the bundling sale with non-price cut promotion, and improved the display of products at the same time.

During the period under review, the Group was committed to creating supply chain synergy and improving logistics operation. It improved the business process and expanded the transition from direct delivery to distribution to improve the warehouse utilisation efficiency and logistics distribution efficiency; improved the automatic replenishment system for central warehouses, reduced inventory turnover days, thus further improving the store order fulfilment rate. While maintaining the stable performance of core businesses, the Group strengthened logistics to support the business development, made efforts to develop third-party distribution resources and reduce the operating cost, and built a competitive logistics distribution support system. In the meantime, the Group endeavoured to improve the competitiveness of fresh produce category. It strengthened the centralised distribution capacity by starting from improving the logistics operation efficiency and leveraging the synergy of logistics warehouses in Jiangqiao, optimised the vegetable and fruit operation, and therefore boosted the sustainable sales growth of the fresh produce category.

During the period under review, the Group focused on improving the operation and marketing capabilities of the fresh produce category. It developed different sales scenarios throughout the day to enhance the operating capacity of fresh produce category. Specifically, it improved the all-day-long operation capability for all categories, boosted sales in rush hours, and strived to attract more customers in morning and evening sales sessions; reinforced the operating capacity of base direct sourcing fresh produce segment: increasing products supplied from the bases, showcasing the display highlights, and cultivating high-quality fresh produce and building fresh produce areas with Lianhua characteristics.

During the period under review, the Group stayed performance-oriented and promoted the store partnership model. By reviewing the operation philosophy and operation capability of partners, the Group further improved the Handbook of Standard Operation Procedure (SOP) and the store operation procedures, thereby further polishing the sustainable partnership model. It made high-quality progress in promoting the partnership scheme through consolidating the existing model, iterating to a new one and building data analysis tools, and achieved gradual expansion.

During the period under review, the Group continued to advance the improvement of operation standard and service level and focused on strengthening the executive ability. For promoting the implementation of operation standard in stores, the Group adopted multiple measures, which mainly included reviewing some of the procedures to improve the work efficiency, building SOP model store to improve the operation, and promoting online-offline integrated trainings. For improving the service quality, the key measures included promoting Five Commitments of Bailian（百聯五大承諾）and expanded the policy of returning goods without reason within 7 days to all stores, keeping staff care/customer activities, promoting the appointment of product selection officer to cover all stores in Shanghai, intensifying inspection to five-star stores and finalising the five-star store plan.

Brand Revamp

During the period under review, the Group strengthened external communication via the scenario insight and creation, and promoted the cross-industry cooperation to boost the number of customers and build a younger consumer structure. It leveraged we-media platforms, produced regular programmes and columns and cultivated followers' reading habits to achieve greater product promotion and better marketing and promotion effectiveness. It also developed an innovative operation model by opening Lianhua Select Live Streaming Channel, to attract young consumers and gradually realise the conversion from consumers' perception, interest, engagement to purchasing.

During the period under review, the Group advanced the consumer-oriented marketing integration driven by nationwide branding through integrating suppliers' resources and touching consumers via multiple points, and effectively stimulated the overall performance to grow through further promoting and improving the S-grade marketing. In addition, the Group further conveyed Lianhua's mission of "To offer better products, better experiences, and better living every day" by launching a series of theme activities, which included Lighting up Dream Dinner, Qianjiang Crayfish Festival and Harvest Festival – Chongming Select.

During the period under review, the Group built an eCRM membership system with whole-chain targeted marketing, conducted membership system analysis driven by the big data technology, built the sustainable and regular membership marketing system, therefore rebuilding members' interests and experience and improving member consumption frequency and activeness. Through the Business Intelligence (BI) data development, the Group deepened the analysis and insight into member data and improved the membership operation efficiency.

During the period under review, the Group adhered to the vision of "Increase our consumers' loyalty to us" and think from the perspective of consumers when promoting the new brand visualisation system in stores, which was based on the brand's core strategy and visual presentation and the operation requirements, establishing the new visual refreshment standard and building a nationwide, systematic and unified brand image. The Group continuously made new attempts in the course of brand revamp, and launched the scenario setting in the first community fresh produce experience store, conveying more meaningful and warmer connection to consumers with new look and new positioning and bringing consumers brand-new shopping experience. With diversified marketing communication channels, the Group communicated and delivered the connotation of Lianhua brand to consumers: "In Lianhua, everything has a story, every space is for sharing, and people are warm and loving."

Employment, Training and Development: Mechanism, Organisation and Corporate Culture

As at 31 December 2020, the Group had a total of 31,368 employees, representing a decrease of 3,870 employees during the period under review. Total employment expenses amounted to approximately RMB2,533,856 thousand.

During the period under review, the Group further promoted the organizational reform and improved the talent selection and employment mechanism based on contract-based management where the hiring, promotion and dismissal become more flexible. The Group conducted performance review and talent selection by reference to the requirements for three-year term of office assessment and made good application of the result of performance review and talent selection. The design of the Company's new organizational structure has been completed and the business department system was put into trial implementation for the first time through establishing the Business Department of Food and General Merchandise. The Group also completed the design and implementation of new department structure in relation to goods, operation and business. The Group established a marketing center with integrated marketing and management resources and completed its function adjustment. The Group promoted the implementation of talent review and fixed positions and personnel quota and completed the transformation of relevant employees in a timely manner, so as to achieve the overall performance goal of the Company. The Group optimised the employment mode of its stores by ways of front line innovation and pilot calculation and improved labour efficiency and reduced labour expense rate through adopting flexible employment and an employment mode where different types of employment co-exist.

During the period under review, the Group continued to optimise and adjust its remuneration structure and performance evaluation and incentive mechanism. Focus was put on the adjustment and optimisation of the annual salary system and monthly salary system. Meanwhile, the Group continuously improved its incentive mechanism. Multi-level performance evaluation targets were set clearly to encourage teams to strive for higher performance, realising more pay for more work. The Group continued to establish the incentive model of sharing incremental income with all staff. The store partnership scheme was further improved and upgraded. The Group mobilized and motivated its employees through promoting and implementing store partnership scheme continuously, with a view to achieving a win-win situation between the Company and its employees.

During the period under review, the Group's training development focused on cultivating back-up talents and innovative talents, while strengthening its training system that consists of faculty and course. The construction of the faculty system was further strengthened, and the systematic, targeted and practical nature of the course system was emphasised to realise further upgrades of the course system. In response to the epidemic, some training courses were transferred from offline to online in a timely manner. The training programs for eagle talents and eyas were implemented through brand training camp, new retail and new specialized skills, digital store, store partnership and other key projects with a focus on improvement in professional skills empowered by marketing and procurement, so as to gradually form a tiered and categorised talent training model.

Digital Drive

During the period under review, the Group made efforts to promote the construction and application of digital store system. It accelerated the iteration of digital store system, built the "multi-layer and sustainable" store digitalisation system, completed the network framework of digital store system and the pilot launching in some supermarkets and one hypermarket in Shanghai region.

During the period under review, the Group promoted the digital upgrading targeted for standardising operation and management to improve the quality of store operation and management. It completed the development of Lianhua integrated digital supply chain system and the development and launching of theme-based statements, such as "inventory management", "product procurement" and "promotion performance", and achieved the full coverage of headquarters backup system to enhance the headquarters network security system.

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 follows:

Operational risk

The pandemic has changed citizens' travel habits and shopping habits and reduced the in-store consumption, which jointly posed great challenges to physical stores. On top of that, the pandemic has not completely receded and continued to affect shopping habits, and consumers now have less intention to make purchase. All of these subject the Group's businesses to greater challenges.

Mitigating measures

The Group will strengthen the platform competitiveness of online businesses, intensify publicity efforts, enrich the product portfolio and increase the frequency of promotion. It will reinforce in-store businesses, provide various live-streaming sales, and expand marketing channels to stimulate consumption. The Group will actively participate in the government's voucher issuing campaign to attract consumers to draw the vouchers and then come to stores to use them. The marketing plan will focus on improving customer flow. On the one hand, the Group will seize the opportunity of street stall economy and set up more stalls outside the stores for promotion. On the other hand, it will make use of the consumption stimulation policy and explore more opportunities from more aspects such as promotion efforts, services and member-only activities.

Risk related 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 delay development of network.

For the existing stores, the Group is faced with the increasing rental cost for the stores located alongside streets, 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 adopting refined business development strategy, the Group mainly focuses on the regions with advantages or market gap, targeting to benefit the overall business from particular well-performing stores. Meanwhile, the Group prudently explores regions for future development and preliminary communicates on the supporting policies for new store development.

In respect of tenancy agreement renewal for 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 through various channels and methods.

Risk related to merchant solicitation

Due to the pandemic, the vacancy rate increases, accompanied by greater uncertainty in contract performance and delayed rent payment by merchants, which indicate that the risk of contract breach is greater.

Mitigating measures

The Group will improve the deployment of merchant solicitation to fill the vacancy rapidly. It will reduce the dependence on retailing, strengthen the experience, increase the proportion of merchants offering community services, in order to increase the revenue from merchant solicitation.

In addition, the Group's department of legal affairs will respond actively to lawsuits, propose to convene special meetings according to the cases, and provide legal opinions. In the meantime, the business department will assess the impact of the pandemic on business operation, actively negotiate with contract counterparties to resolve disputes by settlement.

Risk related to employees

The rapid business expansion and business model transformation 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 for 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 a 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.

Risk related to supplier management

Among the suppliers of the Group, brand suppliers of high-risk food may provide complete and valid certificates but may have potential safety risks in respect of production environment and equipment.

Mitigating measures

The Group requires producers of high-risk food to possess valid certificates, including ISO22000 certificate or HACCP certificate, and submit on-site audit reports issued by certification bodies. Third-party auditors designated by the Group conduct on-site audits and issue qualified audit reports, and the audit reports remain valid for one calendar year.

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), information disclosure requirements and the Group's standards of compliance practices.

Strategy and Planning

The year of 2021 is a new start for the 14th Five-Year Plan and the Vision 2035 of China. Facing the complex and profound changes in the international and domestic environments, the Chinese government will take proactive measures to cope with the new environment and new challenges, and stick to the general principle of pursuing progress while ensuring stability. Based on a new development stage, it will promote new concepts and build new patterns for development, and unremittingly deepen reform, opening up and innovation. It will consolidate and expand the achievements of epidemic control and economic and social development, implement the macro-policy in a scientific and accurate manner, endeavour to maintain the economy within a reasonable range and ensure that the 14th Five-Year Plan will have a good start.

In 2021, with persistent and effective epidemic control, further economic recovery and the construction of new development pattern in which domestic economic cycle plays a leading role, the Chinese government will deepen reform and innovation in the future to stimulate the endogenous dynamics of market entities, and roll out more policies to boost residents' consumption, improve the consumption environment and develop new consumption growth engines, further building a favourable consumption environment, making greater effort to increase residents' income and improving residents' consumption power and willingness to spend. The Group anticipates that residents' consumption will maintain steady growth in 2021, the consumption upgrading will have a strong momentum and stimulate industry upgrading to accelerate, and that consumption will play a greater role in driving the economic growth and become a strong engine for China to seek progress and maintain stability in 2021.

In such a context, the Group will follow the vision of "basing on the Yangtze River Delta region, expanding to the whole country, integrating the supply chain effectively to offer a full range of high-quality products, and becoming an omni-channel lifestyle retailer with local spirit" in 2021, uphold the principle of "nothing but thirty, innovation & revolution", stick to the key tasks of the year of "segment and end model and expansion, product portfolio planning and supply chain construction, private-label brand, excellent implementation and brand revamp", and endeavour to win the three battles of "comprehensively promoting the whole-area sales", "improving consumers' perception of core categories and realising growth in sales of core categories", "organisational reform, process reconstruction and digitalised operation", with the dual drive, being "organisation and mechanism" and "digital drive", serving as the support system.

In 2021, the Group will comprehensively promote whole-area sales. It will advance the whole-area category management in an all-round manner, establish its online category and front-end warehouses, strengthen membership services and improve user experience on its own platform, and develop community group purchase and other new businesses. Leveraging the development of delivery-to-home business, the Group will build a category structure centred on "fresh produce", capitalise on the customer flow of external platforms to build its brand influence, and take the advantage of its front-end warehouses to drive greater market penetration. It will cooperate third-party platforms to build the reputation in the e-commerce field, further develop its online category structure, and highlight the service value. The Group will comprehensively promote the category management and whole-area sales of segments, closely follow market trends to improve product categories, and extend the achievement of category solidification. On the basis of accelerated improvement of second-party logistics efficiency, it will build the new retail logistics ecosystem. Through the new retail logistics system, it will promote the delivery-to-home and next-day delivery model, and launch intra-city retail and third-party services, which will focus on cold chain products and realise half-hour and one-hour delivery in Shanghai. The regional central warehouse will support the second distribution of hypermarkets and supermarkets, and realise next-day delivery and scheduled delivery through the trunk line logistics, which will significantly reduce the logistics and distribution fees. The Group will reshape its membership system and flow operation ecosystem, taking stores and applets as the main positions, developing more ecosystem flow entrances through we-media operation and paid marketing operation and achieving flow conversion. It will promote digital stores, build the digital store system that aims to improve online and offline consumer experience and supports micro-level business operation, and integrate online and offline data to realise whole-process visualisation and real-time accessibility to business data.

In 2021, the Group will make efforts to improve consumers' perception of core categories and realise growth in sales of core categories. It will build the supply chain model and strengthen product quality control, logistics, fresh produce promotion, store operation and training; apply smart promotion and pricing tools to develop online-offline coordinated differential promotion campaigns, focus on S-grade marketing, and launch "scenario + blockbuster" theme marketing activities to improve marketing and promotion effectiveness and benefits. With the consumer-driven model, the Group will study and satisfy what the consumers want, expedite the development of core categories, concentrate on the enhancement of dinner scenario, and comprehensively improve the whole-chain, omni-channel experience and sales presentation. It will continue to improve the visual effect of display scenario, take theme activities as the opportunity, make use of new media platforms, integrate new media resources, and launch diversified activity-based communications, thus connecting and interacting with consumers via multiple ways, building close relationship with them and better conveying the brand philosophy of "To offer better products, better experiences, and better living every day".

In 2021, the Group will further advance organisational reform, process reconstruction and digitalised operation. It will review headquarters-business division/region-store relations, initiate process reconstruction for headquarters, business divisions and stores, strengthen the operation and procurement coordination of fresh produce category, and further develop the features of each segment. The Group will establish an integrated operation standard of operation-procurement-sale-distribution to draw together and standardise the operation, enable seamless connection among departments and make the work measurable and verifiable. Basing on the SOP reconstruction, the Group will comprehensively upgrade the standardised operation, promote the technology-driven digitalised organisation operation, and build the service brand. It will consolidate and streamline the organisation structure, adjust the reporting hierarchy, form an efficient and flat organisation, and gradually unify the remuneration and benefit structure and the performance evaluation and incentive policy to form a positive and negative bi-directional incentive mechanism. The Group will employ the digitalisation-driven category and supply chain management, improve the product structure, apply smart promotion to increase the proportion of effective promotion, thereby improving the consolidated revenue. It will promote the construction of digital supply chain and integrate the logistics system to realise supply chain whole-process digitalization covering products, stocking, selling and storing, logistics and operation.

In 2021, the Group will continue to promote the segment and end model and expansion. The hypermarket segment will further upgrade and iterate the hypermarket 2.0 community neighbourhood centre, building hypermarket 2.0 into community life centre & vibrant hustle and bustle for life, and continue to explore the hypermarket 3.0 market model, constructing hypermarket 3.0 into the omni-channel interactive market based on the 3-kilometer service circle of stores. The directly-operated business under the supermarket segment will expedite the expansion and transformation of community fresh produce store, with the franchise business focusing on the development of close-relationship franchising and semi close-relationship franchising models. The convenience store segment will put emphasis on store improvement and streamlining and further develop stores with profit and loss balance, to realise sustainable growth of the segment.

In 2021, the Group will integrate high-quality resources effectively for the category planning and supply chain construction, build a nationwide fresh produce value chain, strengthen coordination and collaboration with suppliers across the country, initiate strategic cooperation for core categories, and develop a JBP strategic cooperation model pursuing shared future and mutual benefits through joint efforts. The Group will advance the penetration of its private-label brand, expand the product line of Lianhua Quality, develop the features of high quality and cost-effectiveness to build the reputation of Lianhua Quality and Lianhua Excellence series, and realise the promotion of Lianhua private-label brands across the country.

In 2021, the Group will continue to promote the brand revamp, accelerate the implementation of brand system planning and build a nationwide, systematic and unified brand image.

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 2020.

Final Dividend

The board of Directors (the "**Board**") of the Company recommends not to distribute final dividend for the year ended 31 December 2020.

Audit Committee

The Audit Committee has reviewed the 2020 Annual Results and confirmed that they are prepared in accordance with the applicable accounting standards, laws and regulations and appropriate disclosures have been made.

Scope of Work of Messrs. Deloitte Touche Tohmatsu

The figures in respect of the Group's consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2020 as set out in this announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu ("**Deloitte**"), to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Deloitte in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements, or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Deloitte on this announcement.

Compliance with Model Code for Securities Transactions by Directors 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. Qian Jian-qiang, the then non-executive Director, was unable to attend the thirteenth 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 first meeting of the seventh session of the Board convened on 22 June 2020 by the Company due to her other business commitments.

Ms. Xu Zi-ying, a non-executive Director, and Ms. Zhang Shen-yu, a non-executive Director, were unable to attend the second meeting of the seventh session of the Board convened on 28 August 2020 by the Company due to their other business commitments.

Mr. Xu Hong, a non-executive Director, was unable to attend the third meeting of the seventh session of the Board convened on 26 November 2020 by the Company due to his other business commitments.

Ms. Xu Zi-ying, a non-executive Director, Mr. Qian Jian-qiang, then non-executive Director, and Ms. Zheng Xiao-yun, then non-executive Director, were unable to attend the 2019 annual general meeting of the Company convened on 22 June 2020 (the "**2019 AGM**") due to their other business commitments.

Ms. Zhang Shen-yu, a non-executive Director, was unable to attend the fourth meeting of the seventh session of the Board convened on 29 March 2021 by the Company 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 2019 AGM to all members of the Board before the 2019 AGM. All ordinary resolutions considered at the 2019 AGM were passed smoothly. The Company sent the related minutes of the 2019 AGM to all members of the Board after the 2019 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, 29 March 2021

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, Zhang Shen-yu, Dong Xiao-chun and Wong Tak Hung;*
Independent non-executive directors:	*Xia Da-wei, Lee Kwok Ming, Don, Chen Wei and Zhao Xin-sheng.*