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 2021 AND CHANGE OF NON-EXECUTIVE DIRECTOR

FINANCIAL HIGHLIGHTS

As at 31 December 2021, the Group recorded the following:

- Revenue was approximately RMB24,760 million, representing a decrease of approximately 6.0% over 2020. Same store sales of the Group decreased by approximately 4.88% over 2020, in which the hypermarket segment decreased by approximately 5.63%, the supermarket segment decreased by approximately 7.38% and the convenience store segment increased by approximately 48.30%.

- Gross profit was approximately RMB3,062 million, representing a decrease of 13.4% over 2020. Gross profit margin was approximately 12.37%, decreasing by 1.06 percentage points over 2020.

- Distribution expenses and administrative expenses was approximately RMB5,716 million, a decrease by approximately 1.29% over 2020.

- Consolidated income amounted to RMB5,793 million, representing a decrease of approximately 10.5% over 2020. Consolidated income margin was approximately 23.40%, decreasing by 1.19 percentage points over 2020.

- Operating loss amounted to approximately RMB317 million. Annual loss attributable to shareholders of the Company amounted to approximately RMB423 million. Basic loss per share amounted to approximately RMB0.38.

- The total number of outlets reached 3,279. During the period under review, the Group opened 336 new outlets, including five hypermarkets, 214 supermarkets (including 44 directly-operated stores and 170 franchised stores), and 117 convenience stores (including 21 directly-operated stores and 96 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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2021

	notes	**Year ended 31/12/2021** ***RMB'000*** **(audited)**	Year ended 31/12/2020 *RMB'000* (audited)
Revenue	*3*	**24,759,659**	26,331,155
Cost of sales		**(21,697,930)**	(22,795,864)
Gross profit		**3,061,729**	3,535,291
Other revenue	*3*	**2,255,259**	2,170,108
Other income and other gains and losses	*5*	**476,108**	769,311
Impairment losses (recognised) reversed under expected credit loss ("**ECL**") model, net of reversal		**(1,156)**	(1,157)
Distribution and selling expenses		**(4,841,767)**	(4,861,494)
Administrative expenses		**(873,960)**	(929,048)
Other expenses		**(108,171)**	(338,334)
Share of results of associates		**42,800**	(65,043)
Finance costs		**(285,003)**	(295,108)
Loss before taxation	*6*	**(274,161)**	(15,474)
Income tax expense	*7*	**(97,195)**	(172,123)
Loss and total comprehensive expense for the year		**(371,356)**	(187,597)
(Loss) profit and total comprehensive (expense) income for the year attributable to:			
Owners of the Company		**(422,779)**	(319,286)
Non-controlling interests		**51,423**	131,689
		(371,356)	(187,597)
Loss per share – basic	*8*	**RMB0.38**	RMB0.29

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2021

	notes	**31/12/2021** *RMB'000* **(audited)**	31/12/2020 *RMB'000* (audited)
Non-current assets			
Property, plant and equipment		**3,341,988**	3,407,002
Construction in progress		**9,740**	10,234
Right-of-use assets		**6,386,548**	6,968,377
Intangible assets		**127,336**	133,643
Goodwill		**127,953**	127,953
Interests in associates		**703,205**	660,405
Financial assets at fair value through profit or loss ("**FVTPL**")		**52,229**	57,684
Finance lease receivables		**237,571**	254,528
Term deposits		**3,980,870**	4,685,800
Deferred tax assets		**8,045**	7,883
Other non-current assets		**286,186**	209,693
		15,261,671	16,523,202
Current assets			
Inventories		**2,839,495**	2,677,659
Finance lease receivables-current		**46,245**	37,291
Prepaid rental		**441**	1,376
Trade receivables	*9*	**145,386**	183,464
Deposits, prepayments and other receivables		**715,302**	613,834
Financial assets at FVTPL		**997,618**	59,958
Amount due from ultimate holding company		**15,028**	–
Amounts due from fellow subsidiaries		**37,933**	43,617
Amounts due from associates		**251**	77
Term deposits		**577,100**	1,070,000
Cash and cash equivalents		**2,193,456**	2,010,276
		7,568,255	6,697,552
Total assets		**22,829,926**	23,220,754

(Continued)

	notes	**31/12/2021** **_RMB'000_** **(audited)**	31/12/2020 *RMB'000* (audited)
Capital and reserves			
Share capital		**1,119,600**	1,119,600
Reserves		**(89,712)**	333,067
Equity attributable to owners of the Company		**1,029,888**	1,452,667
Non-controlling interests		**224,509**	302,427
Total equity		**1,254,397**	1,755,094
Non-current liability			
Deferred tax liabilities		**120,359**	101,947
Lease liabilities		**5,741,487**	6,247,684
		5,861,846	6,349,631
Current liabilities			
Trade payables	*10*	**3,467,986**	3,889,797
Tax payable		**103,336**	165,899
Bank borrowing		**–**	20,000
Other payables and accruals		**2,060,971**	1,974,422
Lease liabilities		**911,399**	856,082
Contract liabilities		**8,540,256**	8,138,152
Deferred income		**1,475**	5,916
Amount due to immediate holding company		**–**	36,234
Amounts due to fellow subsidiaries		**626,409**	28,131
Amounts due to associates		**1,851**	1,394
Amounts due to other related parties		**–**	2
		15,713,683	15,116,029
Total liabilities		**21,575,529**	21,465,660
Total equity and liabilities		**22,829,926**	23,220,754
Net current liabilities		**(8,145,428)**	(8,418,477)
Total assets less current liabilities		**7,116,243**	8,104,725

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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 2021, the Group has net current liabilities of RMB8,145,428,000 (31 December 2020: RMB8,418,477,000). 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 RMB2,160,300,000, 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 STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2021 for the preparation of the consolidated financial statements:

Amendments to HKFRS 16	Covid-19-Related Rent Concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2

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.

New and amendments to HKFRSs in issue but not yet effective

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 and related Amendments[3]
Amendments to HKFRS 3	Reference to the Conceptual Framework[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021[1]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[3]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[3]
Amendments to HKAS 8	Definition of Accounting Estimates[3]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[3]
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 April 2021.
[2] Effective for annual periods beginning on or after 1 January 2022.
[3] Effective for annual periods beginning on or after 1 January 2023.
[4] Effective for annual periods beginning on or after a date to be determined.

Except for the amendments to HKFRSs mentioned above, 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.

Amendments to HKAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments narrow the scope of the recognition exemption of deferred tax liabilities and deferred tax assets in paragraphs 15 and 24 of HKAS 12 Income Taxes so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group currently applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences on initial recognition of the relevant right-of-use assets and lease liabilities are not recognised due to application of the initial recognition exemption.

Upon the application of the amendments, the Group will recognise a deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary differences associated with the right-of-use assets and the lease liabilities.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted. As at 31 December 2021, the carrying amounts of right-of-use assets and lease liabilities which are subject to the amendments amounted to RMB5,635,503,000 and RMB6,652,886,000 respectively.

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 31/12/2021 ***RMB'000***	Year ended 31/12/2020 *RMB'000*
Revenue		
Sales of merchandise	**24,759,659**	26,331,155
Services		
Income from suppliers (service income)	**1,632,148**	1,590,222
Franchising income from franchised stores	**41,638**	42,689
Commission income on coupon redemption at other retail shops	**2,137**	8,661
	1,675,923	1,641,572
Total	**26,435,582**	27,972,727

Timing of revenue recognition

	Year ended 31/12/2021 *RMB'000*	Year ended 31/12/2020 *RMB'000*
At a point in time	**24,761,796**	26,339,816
Over time	**1,673,786**	1,632,911
Total	**26,435,582**	27,972,727

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

	Year ended 31/12/2021 *RMB'000*	Year ended 31/12/2020 *RMB'000*
Revenue		
Revenue from contracts with customers		
– sales of merchandise	**24,759,659**	26,331,155
Other revenue from contracts with customers – services	**1,675,923**	1,641,572
Rental income from leasing of shop premises	**579,336**	528,536
	2,255,259	2,170,108
Total revenue and other revenue	**27,014,918**	28,501,263

(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 31/12/2021 ***RMB'000***	Year ended 31/12/2020 *RMB'000*
For operating leases:		
Fixed lease payments	**556,638**	503,691
For finance leases:		
Finance income on the net investment in the lease	**22,698**	24,845
	22,698	24,845
Total revenue arising from leases	**579,336**	528,536

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 prior years:

	Segment revenue		**Segment results**	
	Year ended 31/12/2021	Year ended 31/12/2020	**Year ended 31/12/2021**	Year ended 31/12/2020
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Hypermarket	**15,065,315**	16,443,618	**(146,700)**	118,658
Supermarket	**10,115,635**	10,245,431	**51,325**	175,522
Convenience store	**1,558,080**	1,643,270	**(3,264)**	(209,913)
Other operations	**275,888**	168,944	**(15,184)**	184,243
	27,014,918	28,501,263	**(113,823)**	268,510

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

	Year ended 31/12/2021	Year ended 31/12/2020
	RMB'000	*RMB'000*
Segment results	**(113,823)**	268,510
Unallocated interest income	**48,654**	51,343
Unallocated (loss) gain	**(5,258)**	6,515
Unallocated expenses	**(246,534)**	(276,799)
Share of results of associates	**42,800**	(65,043)
Consolidated loss before taxation	**(274,161)**	(15,474)

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 31/12/2021	Year ended 31/12/2020
	RMB'000	*RMB'000*
– Hypermarket	**13,309,270**	14,514,737
– Supermarket	**5,920,975**	5,659,443
– Convenience store	**455,594**	347,802
– Other operations	**230,626**	117,496
Total segment assets	**19,916,465**	20,639,478
Interests in associates	**703,205**	660,405
Other unallocated assets	**2,210,256**	1,920,871
Total assets	**22,829,926**	23,220,754

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
31/12/2021

	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)*	**717,800**	**461,369**	**95,488**	**1,692**	**1,276,349**
Depreciation and amortisation	**857,562**	**529,379**	**50,356**	**12,993**	**1,450,290**
Impairment losses on property, plant and equipment and right-of-use assets in profit or loss	**98,770**	**–**	**(2,497)**	**–**	**96,273**
Gain (loss) on disposal of property, plant and equipment, right-of-use assets and intangible assets	**17,750**	**(1,219)**	**3,492**	**771**	**20,794**
Interest income on bank balances and term deposits	**166,695**	**55,788**	**488**	**515**	**223,486**
Interest income on finance lease receivables	**22,698**	**–**	**–**	**–**	**22,698**
Finance costs	**197,878**	**83,235**	**3,890**	**–**	**285,003**

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

note:

Addition to non-current assets include the additions 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 31/12/2021 *RMB'000*	Year ended 31/12/2020 *RMB'000*
Interest income on bank balances and term deposits	**272,140**	279,694
Government grants *(note i)*	**58,259**	96,394
Gain (loss) on change in fair value of financial assets at FVTPL	**9,684**	(3,822)
Dividends from financial assets at FVTPL	**1,241**	769
Gain on disposal of property, plant and equipment, right-of-use assets and intangible assets *(note ii)*	**22,281**	288,435
Salvage sales	**29,772**	30,680
Income from breakage *(note iii)*	**11,252**	21,944
Coupon charges	**14,385**	15,439
Penalty income	**14,252**	9,354
Others	**42,842**	30,424
Total	**476,108**	769,311

notes:

i. The Group received unconditional government grants of RMB53,818,000 (2020: RMB90,531,000) from the PRC local government ("**Authorities**") as an encouragement for the operation of subsidiaries in certain jurisdictions. In addition, an amount of RMB4,441,000 (2020: RMB5,863,000) has been released from deferred income regarding the asset related government grants during the current year. Details of deferred income are set out in note 40.

ii. 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. 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.

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 31/12/2021 *RMB'000*	Year ended 31/12/2020 *RMB'000*
Profit before taxation has been arrived at after charging (crediting):		
Amortisation and depreciation		
Depreciation of property, plant and equipment	**329,508**	347,769
Depreciation of right-of-use assets	**1,099,984**	1,093,026
Amortisation of intangible assets	**20,798**	18,766
Total amortisation and depreciation	**1,450,290**	1,459,561
Share of results of associates		
Share of results before taxation	**47,941**	(42,663)
Less: Share of income tax expense	**5,141**	22,380
	42,800	(65,043)
Auditors' remuneration	**6,096**	5,351
Impairment loss on property, plant and equipment recognised (included in other expenses)	**–**	12,100
Impairment loss on right-of-use assets recognised (included in other expenses)	**96,273**	64,852
Director's remuneration	**3,149**	3,200
Salaries, wages and other employee benefits of other staff	**2,216,210**	2,418,971
Retirement benefits scheme contribution of other staff	**202,106**	111,685
Total staff costs	**2,421,465**	2,533,856
Impairment losses recognised (reversed) under ECL model, net of reversal	**1,156**	1,157
Write-down (reversals of write-down) of inventories	**(977)**	924
Cost of inventories recognised as expenses	**21,697,930**	22,795,864

During the year ended 31 December 2020, the Group recognised Covid-19 related government grants offered by the PRC government amounted to RMB179,187,000. The amount had been offset against employee benefits expenses in the prior year.

During the year ended 31 December 2021, the Group did not obtain any grants in relation to Covid-19 compensation.

7. INCOME TAX EXPENSE

	Year ended 31/12/2021	Year ended 31/12/2020
	RMB'000	*RMB'000*
Current tax on the PRC Enterprise Income Tax ("**EIT**")	**78,945**	169,514
Deferred tax expense	**18,250**	2,609
	97,195	172,123

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 which are identified as small low-profit enterprises are entitled to enjoy preferential EIT rate ranging from 5% to 10%.

	Year ended 31/12/2021 *RMB'000*	Year ended 31/12/2020 *RMB'000*
Loss before taxation	**(274,161)**	(15,474)
Tax at PRC EIT tax rate of 25% (2020: 25%)	**(68,540)**	(3,869)
Tax effect of share of results of associates	**(10,700)**	16,261
Tax effect of expenses not deductible for tax purpose	**411**	488
Tax effect of income not taxable for tax purpose	**(4,762)**	(2,688)
Tax effect of tax losses not recognised	**181,639**	171,710
Tax effect of deductible temporary differences not recognised	**6,110**	42,720
Utilisation of tax losses previously not recognised	**(7,171)**	(50,962)
Over provision in prior years	**1,030**	279
Effect of different tax rates of subsidiaries	**(822)**	(1,816)
Income tax expense for the year	**97,195**	172,123

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 31/12/2021 *RMB'000*	Year ended 31/12/2020 *RMB'000*
Loss for the year attributable to owners of the Company	**(422,779)**	(319,286)

	Year ended 31/12/2021	Year ended 31/12/2020
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

	31/12/2021	31/12/2020
	RMB'000	*RMB'000*
Trade receivables – contracts with customers	**150,248**	189,076
Less: allowance for credit losses	**(4,862)**	(5,612)
	145,386	183,464

The aging analysis of the trade receivables net of allowance for credit losses at 31 December 2021, arising principally from the Group sales of merchandise with credit terms ranging from 30 to 60 days (2020: 30 to 60 days), presented as follows:

	31/12/2021	31/12/2020
	RMB'000	*RMB'000*
0 – 30 days	**142,429**	178,780
31 – 60 days	**2,048**	1,252
61 – 90 days	**401**	3,255
Over 90 days	**508**	177
	145,386	183,464

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. For trade receivables which are past due, the Group has applied provision matrix to measure the ECL.

Aging of trade receivables which are past due:

	31/12/2021	31/12/2020
	RMB'000	*RMB'000*
1 – 30 days past due	**401**	3,255
More than 30 days past due	**508**	177
	909	3,432

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 (2020: 30 to 60 days), is as follows:

	31/12/2021	31/12/2020
	RMB'000	*RMB'000*
0 – 30 days	**1,494,703**	1,886,322
31 – 60 days	**718,851**	706,511
61 – 90 days	**366,786**	394,111
91 days – one year	**887,646**	902,853
	3,467,986	3,889,797

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 2021, the global pandemic and economic trends have become increasingly complex, and China's economic development has encountered multiple challenges such as the spread of the pandemic in many places, severe floods, a rapid rise in commodity prices and a tight supply of electricity and coal. Facing the downward pressure on the economy, China insisted on coordinating normalized and precise prevention and control of COVID-19 pandemic and economic and social development, so that its economy can recover continuously and stably. In 2021, China's gross domestic product (GDP) increased by 8.1% year on year.

In 2021, China's consumer market generally maintained a recovery trend with sufficient food supply in the market, and the residents' food consumption continued to grow steadily. According to data released by the National Bureau of Statistics of China, the total retail sales of consumer goods for the year increased by 12.5% over the previous year, but the basic trend of slow growth in consumer demand remained unchanged. In 2021, the Consumer Price Index (CPI) rose by 0.9%, representing a decrease of 1.6 percentage points from the previous year. Among them, food prices fell by 1.4 percentage points year on year, mainly due to the continued decline in pork prices. As pork is the main fresh product category of the Group, the decline in pork prices has a negative impact on the growth of store sales.

In 2021, with the normalization of COVID-19 pandemic prevention and control, consumers have gradually adapted to the shopping habits and consumption patterns brought about by the pandemic. In 2021, the national online retail sales amounted to RMB13.1 trillion, representing a year-on-year increase of 14.1%. The Group's online sales achieved a year-on-year increase of 24%, and the proportion of online sales further increased. However, the resurgence of pandemic in various places, the rapid development of various new online businesses, the impact of community group buying and the frequent occurrence of disastrous weather have reduced the number of offline store visitors and further intensified competition in the industry. Supermarkets, including the Group, are facing unprecedented challenges.

Financial Review

Revenue

During the period under review, the Group's revenue was approximately RMB24,760 million, representing a year-on-year decrease of approximately RMB1,571 million, or approximately 6.0%. In the post-epidemic period, affected by the repeated epidemics and the decline in offline customers, the competition in the retail industry intensified with a general decline in revenue. On the other hand, the Group sorted out, integrated and closed some stores due to relocation and losses in the past two years, which had a certain impact on the revenue. This year, the hypermarket segment was particularly affected by the epidemic and store closures. The revenue decreased from approximately RMB15,026 million in the same period of last year to approximately RMB13,580 million, representing a year-on-year decrease of approximately RMB1,446 million. Among them, Huashang Store, one of our key stores in Zhejiang, was closed and relocated due to the expiration of the lease in March 2021, reducing the revenue by approximately RMB600 million year-on-year.

Gross Profit

During the period under review, the Group's gross profit was approximately RMB3,062 million, representing a year-on-year decrease of approximately RMB473 million, or approximately 13.4%. Gross profit decreased mainly due to a year-on-year decline in sales, and due to the Company's increased efforts to boost sales, the gross profit of goods was further compressed. The overall gross profit margin of the Group during the year was approximately 12.37%, representing a decrease of approximately 1.06 percentage points as compared with the gross profit margin of 13.43% for the corresponding period of last year. In conjunction with increased promotions, the Company negotiated with suppliers to increase charges on promotional subsidy, and as a result, revenue from suppliers increased by approximately RMB42 million during the year as compared with the corresponding period of last year.

Other Revenue

During the period under review, the Group's other revenue was approximately RMB2,255 million, representing a year-on-year increase of approximately RMB85 million, or approximately 3.9%. During the same period in 2020, the Company's revenue from merchant solicitation was greatly affected by the withdrawal of tenants and the exemption of rent due to the epidemic. However, since the second half of 2020 when the epidemic was effectively alleviated, the Company's merchant solicitation rate has gradually increased, and the revenue from merchant solicitation during the year increased by approximately RMB51 million as compared with the corresponding period of last year. In addition, as a result of the increase in promotional activities, the Company's revenue from suppliers increased by approximately RMB42 million as compared with 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 amounted to approximately RMB476 million, representing a year-on-year decrease of approximately RMB293 million, or approximately 38.1%, mainly due to the gain from the land acquisition and reserve in Caoyang Road of approximately RMB252 million in the corresponding period of last year.

Distribution and Selling Expenses

During the period under review, the Group's distribution and selling expenses amounted to approximately RMB4,842 million, representing a year-on-year decrease of approximately RMB20 million, or approximately 0.4%.

Administrative Expenses

During the period under review, the Group's administrative expenses amounted to approximately RMB874 million, representing a year-on-year decrease of approximately RMB55 million, or approximately 5.9%. During the period under review, the Group strengthened the management and control of administrative expenses. Administrative expenses saw a year-on-year decrease after taking into account policies such as the reduction and exemption of social security expenses in the corresponding period of last year.

Other Expenses

During the period under review, the Group's other expenses amounted to approximately RMB108 million, representing a year-on-year decrease of approximately RMB230 million, or approximately 68.0%. During the year, the Group accrued a loss of RMB99 million for asset impairment due to the losses incurred by some stores. Other expenses in 2020 were mainly the loss from the integration of convenience stores and the loss from the closures of some hypermarkets.

Share of Profits of Associates

During the period under review, the Group's share of profits of associates amounted to approximately RMB43 million, representing a year-on-year increase of approximately RMB108 million. In the corresponding period of last year, the Group recognized an investment loss of approximately RMB127 million from Tianjin Yishang Friendship Holdings Co.,Ltd.

Loss before Taxation

During the period under review, the Group's loss before taxation amounted to approximately RMB274 million, representing a year-on-year increase of approximately RMB259 million in loss.

Income Tax

During the period under review, the Group's income tax expense was approximately RMB97 million, representing a year-on-year decrease of approximately RMB75 million, or approximately 43.5%.

Profit Attributable to Shareholder of the Company

During the period under review, the Group's loss attributable to shareholders of the Company amounted to approximately RMB423 million, representing a year-on-year increase of approximately RMB103 million, or approximately 32.4% in loss. Based on the 1,119.6 million shares issued by the Group, the basic loss per share was approximately RMB0.38.

Liquidity and Financial Resources

As at 31 December 2021, the Group's cash and balance at the bank amounted to approximately RMB6,751,426 thousand. During the period under review, the net outflow of cash and balance at the bank amounted to approximately RMB1,014,650 thousand, mainly due to investment cash outflows such as investment in wealth management products, payment for pre-purchase and construction of logistics base, mergers and acquisitions for Zhuji project and new store expansion.

For the year ended 31 December 2021, the accounts payable turnover period of the Group was 54 days, and the inventory turnover period was approximately 40 days.

During the period under review, the Group did not use any financial instrument for hedging purposes. As at 31 December 2021, there were no arbitrage financial instruments in issue by the Group.

Growth of Each Retail Business

Hypermarkets

During the period under review, due to the repeated epidemics and the decline in offline customer flow, the supermarket industry was greatly impacted, especially the hypermarket segment. On the other hand, due to the relocation and closure of Huashang Store, one of the key profitable stores in Zhejiang, the Group's revenue of hypermarkets decreased year on year. The hypermarket segment recorded a revenue of approximately RMB13,580 million, representing a decrease of approximately RMB1,446 million or approximately 9.6% year on year, and accounting for approximately 54.8% of the Group's revenue. Among them, the revenue of Huashang Store, which was relocated and closed due to lease expiration, decreased by approximately RMB611 million year on year. Same-store sales decreased by approximately 5.6%.

During the period under review, the hypermarket segment recorded a gross profit of approximately RMB1,667 million, representing a decrease of approximately RMB337 million year on year. Gross profit margin decreased by approximately 1.05 percentage points, mainly due to the further increase in sales promotion due to increased revenue pressure. The hypermarket segment recorded a consolidated income of approximately RMB3,423 million, representing a decrease of approximately RMB286 million year on year. The consolidated income margin increased by 0.53 percentage points year on year due to a year-on-year increase of RMB51 million in rental income from the leasing of shop premises and a year-on-year increase of RMB15 million in promotional subsidies from suppliers.

During the period under review, the hypermarket segment recorded an operating loss of approximately RMB147 million, representing a year-on-year decrease of approximately RMB266 million in profit, of which the closure of Huashang Store resulted in a year on year decrease in operating profit of RMB70 million. Operating profit margin decreased by 1.87 percentage points year on year to approximately –1.08%.

	As at 31 December	
	2021	2020
Gross Profit Margin (%)	**12.28**	13.33
Consolidated Income Margin (%)	**25.21**	24.68
Operating Profit Margin (%)	**–1.08**	0.79

Supermarkets

During the period under review, the Group's supermarket segment focused on transformation and upgrading, space reconstruction to enhance the shopping experience and the enrichment of the operation of categories to create a differentiated and distinctive community-based fresh produce shopping experience. However, due to the limited daily consumption channels of residents during the epidemic in the same period of last year, the business of the outlets experienced rapid growth. Due to the high base, the sales of the supermarket segment during the period under review decreased slightly year on year, but increased by 5.0% as compared with 2019. The supermarket segment of the Group recorded a revenue of approximately RMB9,407 million, representing a decrease of approximately RMB165 million or approximately 1.7% year on year, and accounting for approximately 38.0% of the Group's revenue. Same-store sales decreased by approximately 7.4%.

During the period under review, the supermarket segment recorded a gross profit of approximately RMB1,203 million, representing a year-on-year decrease of RMB107 million or 8.1%. Gross profit margin decreased by 0.89 percentage points year on year to 12.79%, mainly due to increased marketing efforts. The recorded consolidated income was approximately RMB2,040 million, representing a decrease of approximately RMB40 million year on year. The consolidated income margin decreased slightly by 0.05 percentage point year on year due to a year-on-year increase of RMB34 million in promotional subsidies received from suppliers.

During the period under review, the supermarket segment recorded an operating profit of approximately RMB51 million, representing a decrease of approximately RMB125 million year-on-year and an increase in profit of RMB88 million compared to 2019. The operating profit margin decreased by 1.28 percentage points to approximately 0.55%.

	As at 31 December	
	2021	2020
Gross Profit Margin (%)	**12.79**	13.68
Consolidated Income Margin (%)	**21.68**	21.73
Operating Profit Margin (%)	**0.55**	1.83

Convenience stores

Since 2020, guided by "streamlining structure, cutting costs and reducing loss faster", the convenience store segment has been accelerating the sorting and integration of loss-making outlets in various regions, as well as multi-dimensional control of operating costs. At the same time, the Group accelerated the integration of the supply chain and operational management of the convenience store segment and other segments in Zhejiang, improving the operational efficiency. During the period under review, the operating results of the convenience store segment improved significantly. The convenience store segment recorded a revenue of approximately RMB1,501 million, representing a decrease of approximately 4.8% year on year, and accounting for approximately 6.1% of the Group's revenue, mainly due to the closure of some loss-making stores during the integration. During the period under review, same-store sales increased significantly, with a year-on-year increase of approximately 48.3%.

During the period under review, the convenience store segment recorded a gross profit of approximately RMB176 million, and the gross profit margin decreased by 1.86 percentage points to approximately 11.72%. The recorded consolidated income was approximately RMB251 million, and the consolidated income margin decreased by 8.73 percentage points year on year to approximately 16.72%. This was mainly due to the fact that other income and other gains in the same period of last year included the gain from the land acquisition and reserve in Caoyang Road of approximately RMB73 million.

During the period under review, the distribution and selling expenses and administrative expenses of the convenience store segment totalled approximately RMB254 million, representing a year-on-year decrease of approximately RMB149 million. The operating loss of the convenience store segment was approximately RMB3 million, representing a year-on-year decrease of approximately RMB207 million in loss from the same period of last year, and the operating profit margin increased by 13.09 percentage points to approximately –0.22%.

	As at 31 December	
	2021	2020
Gross Profit Margin (%)	**11.72**	13.58
Consolidated Income Margin (%)	**16.72**	25.45
Operating Profit Margin (%)	**–0.22**	–13.31

Financial Performance Analysis

	Twelve months ended 31 December RMB million		
	2021	2020	YoY change (%)
Revenue	**24,760**	26,331	–6.0
Gross profit	**3,062**	3,535	–13.4
Consolidated income	**5,793**	6,475	–10.5
Operating profit	**–317**	50	–739.4
Income tax expense	**97**	172	–43.5
Profit attributed to shareholders of the Company for the period	**–423**	–319	–32.4
Basic earnings per share *(RMB)*	**–0.38**	-0.29	–32.4
Dividend per share *(RMB)*	**Nil**	Nil	N/A

Capital Structure

As at 31 December 2021, the Group's cash and cash equivalents were mainly held in Renminbi. The Group had no other bank borrowings.

During the period under review, the equity attributable to owners of the Group decreased from approximately RMB1,452,667 thousand to approximately RMB1,029,888 thousand, which was primarily attributable to the loss of approximately RMB422,779 thousand recorded in the period.

Details of the Group's Pledged Assets

As at 31 December 2021, 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 2021, 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: Improvement of Whole-area Sales and Operation Capability

During the period under review, the Group maintained its network growth and scale advantages through business transformation, strategic adjustment and asset-light expansion. The Group steadily promoted the renewal of outlets and rent-reducing during the contract period, reduced costs and increased efficiency, and continued to maintain its advantages in scale. On the one hand, to optimize the strategic layout, it focused on core areas and core business segments, and enhanced its presence in the Yangtze River Delta region. In Shanghai, it emphasized exploring the suburban and Lingang, Chongming, as well as promoting the Chongming village-level store model. It also completed the capital injection and cooperation with Zhejiang Zhuji Yibai, which greatly perfected the network layout in Zhejiang. The Group launched strategic alliances and expanded network resources with the aim of opening up new growth areas. During the period under review, the Group opened a total of 336 new stores, including 70 new directly-operated stores and 266 new franchised stores. 252 stores were located in the Yangtze River Delta region and accounted for 75% of the new stores. On the other hand, the Group adapted to changes in the market environment, continued to prudently review the stores and improved the overall quality of the physical outlets. As a result, 249 stores were closed, including 54 directly-operated stores and 195 franchised stores.

Region	Segment	Newly opened stores during the period under review		Closed stores during the period under review	
		Number	Operating Area (m^2)	Number	Operating Area (m^2)
Greater East China	Hypermarkets	5	30,029.00	4	39,734.00
	Supermarkets	159	97,953.90	125	46,305.64
	Convenience Stores	96	5,391.71	70	3,790.15
North China	Supermarkets	0	0.00	5	970.00
	Convenience Stores	17	1,069.00	2	111.00
Northeast China	Convenience Stores	4	288.50	25	1,220.28
Central China	Hypermarkets	0	0.00	1	6,246.00
	Supermarkets	6	8,610.00	6	5,150.00
South China	Supermarket	26	4,862.57	11	3,494.63
Southwest China	Supermarket	8	23,370.00	0	0.00
Northwest China	Supermarket	15	25,550.00	0	0.00
Total		336	197,124.68	249	107,021.70

Note: Data as at 31 December 2021.

During the period under review, five new hypermarkets were opened, with four located in Zhejiang province and one located in Anhui province; and five hypermarkets were closed, with two located in Shanghai and one located in Zhejiang, Jiangsu and Henan provinces, respectively. For the hypermarket segment, we continued to improve the operational capabilities of our stores in terms of fresh produce, rationalized the distribution areas of fresh produce and increased the sales proportion of fresh produce. We introduced training programs on fresh produce to improve the self-operated ability in fresh produce and expand the proportion of self-operated fresh produce, and we also solidified new products and promoted the core products of online communities to meet the rapidly iterative consumer demands. We enhanced the delivery-to-home services by establishing online servicing groups, setting up an online fulfillment responsibility system for store managers, shortening the picking time for the delivery-to-home services and improving the fulfillment rate of own picking of products in the delivery-to-home services, so as to meet the "online" needs of consumers at different levels of business circles from shopping to receiving services. During the period under review, the 2.0 Community Life Center of Qiaoziwan Store in Shanghai opened after transformation. By greatly reducing slow-turnover categories of goods, strengthening merchant solicitation efforts, uplifting merchant solicitation income and lowering store operating costs, the store cost after the transformation has been greatly reduced with rising profits recorded. In a word, the transformation efforts paid off, and the operating capabilities and the delivery-to-home services have been improved.

During the period under review, the supermarket segment, as the core business segment of the Group, continued to promote outlet expansion and store transformation and efficiency enhancement. A total of 214 new supermarkets were opened, including 44 directly-operated stores and 170 franchised stores. 147 supermarkets were closed, including 23 directly-operated stores and 124 franchised stores. The number of stores recorded a net increase of 67. During the period under review, the supermarket segment accelerated the digitalization process and improved operational efficiency. We used hand-held terminals to replace all manual operations to support digital operation and management. We have improved the digitization module and optimized the scene workflow, and based on the digitalization project, we optimized the standardization process of daily operation to improve the quality of operation. We strengthened category management and promoted category-specific upgrades. In 2021, two stores in Shanghai of the supermarket segment, Tianlin store and Yushan store, were transformed as pilot stores. The two transformed stores have strengthened the modular management concept based on the original community fresh store model, and have improved the professional operation and servicing capabilities of various categories, introduced new products at room temperature and imported high-end commodities, prepared fresh categories and enriched the categories of ready-made cooked foods. They have realized brand renewal in all scenarios, standardized Lianhua's brand image, and considered POSM touchpoints according to consumers' shopping path. Digital means are applied to realize cloud-system architecture, multi-system integration and 70% of operation are upgraded to handheld mode. By adopting the "members + regular customers" promotion model, the stores simultaneously acquired new customers online and offline, achieving good transformation results. In terms of franchise business, on the one hand, through the network expansion, we have formed a variety of franchise types such as tight, semi-close and loose, and created three franchise store models, such as community stores, express stores and fresh produce stores; and on the other hand, we also built a refrigerated commodity supply chain system and constructed a refrigerated commodity delivery warehouse to meet the needs of franchise business expansion and accelerate the improvement of supply chain capabilities.

During the period under review, a total of 117 new convenience stores were opened, including 21 directly-operated stores and 96 franchised stores. 97 convenience stores were closed, including 26 directly-operated stores and 71 franchised stores. The number of stores recorded a net increase of 20. The convenience store segment strived to build a new brand image of stores and used information systems to help improve operations. We have increased the equipment and facilities in the stores, and constantly added popular elements, especially those popular among young people, in the stores to attract young consumer groups. We kept optimizing the core functions in the stores through transformation, and strengthened the fresh food function of the stores according to consumption scenarios such as breakfast, lunch, afternoon tea, dinner and late night snacks, with a view to reshaping the Quik convenience stores brand and consumer recognition and providing consumers with a safe, fashionable, comfortable and warm shopping environment.

During the period under review, the Group made every effort to promote omni-channel sales and group buying sales. In terms of omni-channel sales, we promoted omni-channel operation, omni-channel marketing, omni-channel category management and third-party strategic cooperation, facilitated the growth of the delivery-to-home business, and completed the full launch of the fulfillment tools in hypermarkets and supermarkets in Shanghai which have been gradually optimized and iterated. We accelerated the efficiency of member referrals through the simplification of new links and the promotion of "Benefiting All" packages, and comprehensively implemented the online compliance traffic-light system to further strengthen store compliance. We carried out S-class and A-class large-scale promotions and constantly advanced the promotional day for each category of goods, and we newly introduced the One-Dairy-Product-for-Every-Week Day and the One-Meal scenario, and launched the function of set meal. We have realized the online and offline integration of core products. We optimized the online and offline category structure by regularly acquiring TOP products from external channels and benchmarking competitors. We used the two major brands of fresh produce and daily necessities to take the lead in developing the consumption interest of users, and completed the planning of core products online in winter. We strived to attract traffic through Meituan, increased the sales volume in Jingdong Mall and propelled the progress of admission into Taoxianda, thereby promoting the quarterly integrated marketing schemes with third parties. During the period under review, the Group vigorously expedited group buying sales, established a group buying organizational structure and streamlined the group buying business process, and it also re-determined the incentive policies for group buying and developed new sales models and new scenarios for group buying, achieving growth in both the number of group buying cooperative customers and group buying sales.

During the period under review, the Group focused on optimizing the deployment of merchant solicitation and enhancing the customer flow of stores. It reduced the vacancy rate, explored the potential rise in merchant solicitation, expanded the income of temporary shops, and implemented the accountability system for recovering rent arrears, resulting in improved performance in merchant solicitation. The Group reduced the proportion of large-department stores in tenants and strengthened convenience services, and it introduced categories such as catering and community facilities, increased the number of brand merchants with their own customer flow and market resistance and developed chain merchants, realizing the exchange of resources between stores and stimulating the flow of customers in stores.

As at 31 December 2021, the Group had 3,279 stores in total, representing a net increase of 87 stores compared with the end of 2020. Approximately 84.90% of the Group's stores were located in Greater East China.

	Hypermarkets	**Supermarkets**	**Convenience Stores**	**Total**
Direct operation	140	739	334	1,213
Franchise operation	–	1,459	607	2,066
Total	140	2,198	941	3,279

Note: Data as at 31 December 2021.

Supply Chain Construction and Product Power Enhancement

During the period under review, the Group focused on category optimization, supplier optimization, improvement in consolidated income and implementation of trade plans. The Group implemented a hypermarket category solidification plan, accelerated the upgrade and replacement of items and the development of new products, so as to upgrade the consumption of items to the mid-to-high end and continuously optimize categories. The Group optimized the approaches of branding activities as well as stocking of large single products to home activities. It combined supplier's third-party platform activities to strengthen negotiations with suppliers and determine a pricing strategy. The Group strengthened national supply chain collaboration, actively developed new supply chains, and refined suppliers' overall sales action plans through supplier structure analysis and replacement, continuously optimizing suppliers. The Group conducted periodic market research on sensitive and non-sensitive commodities to determine a clearer pricing strategy. It conducted comprehensive supplier evaluations, provided clearer investment on promotional products and urged suppliers to settle the balance to the account in a timely manner, continuously improving its consolidated income. The Group carried out more marketing activities to increase the stickiness of consumers, and focused on major categories and items in online and offline promotions. It determined the level of marketing activities and investment methods, and innovated and changed the way of membership activities. The Group increased the frequency of community group purchase and item promotion, developed group purchase commodities for large customers and promoted the implementation of trade plans.

During the period under review, the Group focused on promoting the TBFF (To Be Famous For) category development strategy and strengthening the development of fresh produce, imported and private-label brand categories. The Group cultivated direct source from bases for fresh produce category by launching the first batch of in-depth direct source from "four major bases", including Chongming eco-commodities in Shanghai, vegetables in Shandong, tropical crops in Hainan and coarse grains in Northeast China. The Group initiated nationwide joint and centralized sourcing to unify procurement specifications and product codes and share procurement channels and supply chains. It implemented the JBP strategic partnership, the first batch of 10 national fresh produce suppliers were introduced and national joint procurement contracts were signed, which integrated the advantageous resources of both parties, co-branded and customized exclusive products to create exclusive marketing strategy support. The Group paid close attention to the expansion of imported commodity category, vigorously introducing new products, and improved the commodity structure. For private-label brands, based on its clear development path and positioning planning, the Group launched a series of excellent brands – "Excellence Offering"(優饗), "Tasy"(她樹), "Quality Life"(優品生活), and under the guidance of "Lianhua Quality"(聯華質造), promoted new product sales to realize brand value.

During the period under review, the Group accelerated the pace of introduction of new products and promoted the implementation of category solidification and category optimization and extension. It adjusted the mode of introduction of new products, optimized close-loop new product introduction and enhanced shops' operation capability of new products. The Group accelerated the introduction of new products in the daily necessities and leisure categories, as well as new products targeting at the online community, and established the cooperation model for product debut and live streaming to create new product trends, by collaborating with suppliers and launching manufacturer week activities. The Group guided the online classification of new products and promoted the whole-area marketing of new products. It promoted the implementation of category solidification in supermarkets and hypermarkets to improve the availability of commodities in the solidified categories. The Group took mitigating measures for abnormal inventory data and continuously optimized inventory days and core commodities. The Group implemented commodity allocation management and store display guidelines, completing automatic replenishment on a trial basis; focused on the combination of headquarters distribution and independent replenishment to achieve category optimization and extension.

Improvement of Consumer Experience and Marketing Capability

During the period under review, the Group deepened the brand revamp and its implementation in stores. From the perspective of consumers, it improved the branding store visualization, and based on the brand visualization strategy and operational requirements, the Group continued to develop the brand building management system and improved the brand image system. Such systems were applied to all dimensions of the brand revamp to enhance the brand penetration experience, further bringing a new shopping experience to consumers. In 2021, the Group collected information on the retail industry in different regions across the country to create a nationwide, systematic and unified brand image, completing the nationwide brand revamp for a total of 178 supermarkets and 38 hypermarkets.

During the period under review, the Group's S-grade marketing campaign realized a unified visual style across the country, with the 30th anniversary theme running throughout the year. Combined with the brand positioning and core design elements, a happy family of six and Lianhua's grassroots staff were set as characters to complete the main visual presentation of S-grade marketing and the promotion of brand communication. The Group strengthened external communication via the scenario insight and creation and through cross-industry collaboration with 31 brands such as Weibo, with the 30th anniversary theme running throughout the year, launched a number of large-scale campaigns such as Lighting up Dream Dinner and Lianhua Select Live Streaming Channel(聯華好物直播間)with clear themes. That have expanded the effect of product advertising and marketing and promotion, strengthened consumers' awareness of the Lianhua brand and enhanced consumer stickiness.

During the period under review, the Group developed a we-media ecosystem and accumulated Lianhua's traffic in private domain, such community marketing activities contributed to its performance growth. The Group sought multiple opportunities to reach consumers, optimized WeChat public account, mini-program, and video account live streaming etc., to provide more tools and possibilities for membership promotion. Combined with the WeChat ecosystem, the Group created effective touchpoints by scenarios and population groups, successfully attracting consumers and increasing the source for new members. In 2021, the Group placed advertisement on WeChat Moments for the first time, and the overall click-through rate and ROI were higher than the industry average. In 2021, Lianhua enterprise WeChat community and the Lianhua group buying mini-program were newly launched, vigorously developing community marketing, and thus contributing to performance growth. In 2021, the Group continued to strengthen construction of the membership system and flow operation, opened up external flow entrances, optimized the rights and interests of new members and strengthened the operation of new members, so as to continue to attract customers and promote member referral. The Group strengthened membership repurchase operation, transforming membership operation from "operational activities" to "operators" and developed more digital marketing tools to divert traffic in mutual ways between online and offline shops.

Cost Control and Efficiency Improvement

During the period under review, the Group promoted operational efficiency through SOP (Standard Operation Procedure) reshaping, service enhancement, three drivers (training empowerment, skills competition and evaluation system) and digitalised operation. With the focus on reshaping SOPs for sales methods such as delivery to home, fresh produce and community/group buying, based on the three main directions of "priority in procurement, sales and inventory", "solving practical problems in stores" and "facilitating practical operations at the frontline", the Group sorted out the SOPs and built the system from the fundamental aspects of procurement, sales and inventory of stores, consumers' perception and customer interaction, so as to continuously improve and solidify the standard system and service system and strengthen store execution. In terms of basic services, business promotion and staff care, the Group established a regular service system at the consumers' perception level to create a "warm Lianhua" integrating with consumers' perception, with online-offline experience and scenarios, and with business promotion. At the same time, the digital system was optimised, which drove the organisational reform of the digital store structure, and minimized the use of PC and manual work to the most extent to enhance labour efficiency. In combination with the digital system, the Group updated and simplified the workflow while strengthening red-line control, and replaced manual tracking and control with system to the greatest extent to promote the optimisation of workflow. Through the design of clear and apparent exception spectaculars, the control system was reconstructed for the headquarters and stores, and the report tracking system was optimised for the exception control units of stores by virtue of exception spectaculars.

During the period under review, the Group continued to improve the efficiency and service support of logistics warehousing and distribution, and vigorously expanded the third-party operation business. The Group implemented a tracking mechanism for suppliers' fulfillment rate to improve the satisfaction rate of core products and continuously enhance the efficiency of warehousing and distribution; collaborated with procurement to determine the product types to be warehoused and steadily advanced the transition from direct delivery to distribution; increased the double "30" inventory co-ordination and processing mechanism to deal with slow-moving inventory and constantly reduce inventory turnover days. The Group cooperated with third parties to develop central warehouse and cloud warehousing services, expanded VMI (Vendor Managed Inventory) and Lianhua cloud warehouse business, promoted cold storage leasing business, and vigorously expanded the third-party operation business. The Group enhanced distribution services, increased dissembling items in line with the transformation of business segments and according to the needs of stores, accelerated the distribution time and response speed, and improved the supporting efficiency for business segments. The Group investigated and promoted the trial operation of inter-district warehouses and trunk line logistics by business segments, launched the community group buying business, optimised the overall operation process and built a new retail logistics system.

During the period under review, the Group optimised its staffing and staff structure, increased flexible employment and optimised the employment mode. Through reform in the structure of digital stores and organisational structure, the Group updated and simplified the workflow, replaced manual tracking and control with a digitally driven system to the greatest extent, and combined with store resource consolidation to enhance labour efficiency. During the period under review, the Group made significant progress in cost control through labour optimization and store resource consolidation, with total annual expenses, particularly labour costs, fixed costs and repair costs, decreasing year-on-year.

Process Reconstruction and Strong Execution Guarantee

During the period under review, the Group streamlined current existing systems and promoted the optimisation of business processes. The communication channel was established mainly for the internal management staff of each department, forming a counterpart relationship between the "system management department of the headquarters – departments and offices of the headquarters and member companies". The Group improved the quarterly joint meeting mechanism and operation method for system management to effectively ensure smooth information flow and connection between the top and bottom. The training department carried out online and offline promotional work, and organised various forms of training such as subject learning, knowledge competitions and special examinations to enhance management standards and skills. The Group improved the supporting operation processes for digital projects, added and revised the operation-end processes, unified version 1.0 of the SOP standard manual, prepared and piloted the key business processes of "operation – procurement – distribution – sales" by adhering to the requirement of "emergency first". The Group collated the existing operation process materials, formed a basic process catalogue and initiated the formulation of the operation process management specifications.

Employment, Training and Development

As at 31 December 2021, the Group had a total of 27,780 employees, representing a decrease of 3,588 employees during the period under review. Total employment expenses amounted to approximately RMB2,421.47 million.

During the period under review, the Group further integrated the overall organisational structure of the headquarters, continued to focus on operations, optimised internal core business processes and continuously improved operation and management efficiency. The Group established a new department, the Marketing Centre, and set up a new department, the Project Group for Process Optimization, added financial support and management functions, merged QC, the secondary function of the Department of Fresh Produce Procurement, into Lianhua Logistics, transferred the system construction function of the Department of Safety and Quality to the Project Group for Process Optimization, and adjusted the ranking correspondence between the management members of the segment companies and the joint stock company. The Group strengthened the construction of the core team of the management, boldly cultivated and appointed young cadres, and actively promoted the process of rejuvenating the cadres of the Company. The Group optimised its staffing to create a service-oriented and high-performing headquarters. With the help of technological innovations such as digital stores and electronic price tags, the Group optimised front-line processes, streamlined operations and continuously improved the operation efficiency of stores. At the same time, the Group innovated the staffing model for hypermarket and supermarket, and increased flexible employment and hourly scheduling to achieve the goal of improving labour efficiency and reducing labour costs.

During the period under review, the Group steadily promoted the contract-based management of core positions, and carried out dynamic staff adjustments to achieve the goal of competent staff to take up the positions. The Group continuously optimised the excessive performance incentive system and fully implemented the excessive performance incentives to create and share value, and achieve a win-win situation. The Group optimised the remuneration management system for frontline staff in stores, continuously iterated and deepened the partnership mechanism, strengthened the ability to open up new sources of income, increased the coverage to maintain cost-saving capabilities and achieve performance improvement. The remuneration assessment and incentive system was optimised for staff in stores to improve the income of frontline staff. The Group further advanced the business model transition, steadily promoted the implementation of strategic projects, set up a special assessment scheme for key areas of the Company, and motivated management members to share the responsibility and jointly contribute to breakthroughs.

During the period under review, the Group continued to improve and enrich its talent cultivation methods to build a talent echelon system that meets strategic needs. The Group improved its talent cultivation and reserve plan, and created a series of leadership development programmes for Eagle, forming a spiral upward path of "growing, promoting, empowering, excelling and developing". The Group focused on new retail and special digital skills, store partners, store managers, management trainees and high potential talents to create a team of talents who own good operational and management skills and can quickly improve their ability to perform their duties.

Digital Intelligence and System Driven

During the period under review, the Group completed the full coverage of digital stores in Shanghai and pilot sites in other regions, and continued to advance the process of system integration. The Group continued to promote the process of digital and intelligent construction and system optimisation, and fully deployed the system integration of operation, procurement, sales, distribution and finance. Digital stores achieved full coverage in Shanghai, and the digital and intelligent construction of stores in other regions was gradually piloted and rolled out. The digital and intelligent system was revamped and optimised in three areas, namely improving customer experience, enhancing execution efficiency and improving store management efficiency, so as to enhance the digitalised operation capability and efficiency of stores. Through the integration of software and hardware technology, the Group solved the structural and operational problems of stores, and realized the conversion of CS structure to cloud structure to ensure the real-time and accuracy of data. The Group upgraded and replaced the digital and intelligent terminal technology and equipment, and the integrated front-end system of stores became simple and efficient, significantly improving the execution efficiency and labour efficiency of stores. The Group promoted the integration of the main business system of the digital supply chain, clarified the objectives and functions of the new system, integrated the logistics system in Jiangqiao, collaborated with the integration of the replenishment system and the integration of the financial support system, and comprehensively improved the digital intelligence of the supply chain. The Group completed the data connection of BI project, optimised and improved the construction of franchise reporting, consolidated statement of gross profit performance and supply chain reporting systems, completed the partner store performance reporting system and completed the digital store reporting system, gradually completing the transformation to a data-driven organisation.

During the period under review, the Group achieved controllable production safety procedures, strengthened food safety management, and continued to optimise the construction of quality management process and system. The Group strengthened production safety and food safety inspection, eliminated potential safety hazards and implemented supervision and rectification, optimised the food safety and product quality systems and processes in the headquarters, and continued to improve and optimise the construction of quality systems.

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

As a result of the resurgence of the epidemic, citizens' travel habits and shopping habits have changed, resulting in a reduction of the in-store consumption, which jointly posed great challenges to physical stores. On top of that, the downward pressure on the economy has increased and consumers now have less intention to make purchase. At the same time, due to the weak supply chain, slow introduction of new products, few new categories actively launched and poor fresh produce operations, it is difficult to increase the consolidated income margin. All of these subject the Group's operations to greater challenges.

Mitigating measures

The Group accelerates the transformation of stores and supermarkets, improves the standardization system, upgrades and converts members, optimises product categories, and strengthens cost control. It improves fresh-keeping capabilities and strengthens home-delivery services; promotes close franchise development and iterative upgrades; optimises the new product management process and establishes a compulsory commodity elimination system. The Group promotes commodity upgrading, re-clarifies the development principles of own-brand items, reflecting the advantage of performance-to-price ratio; expands the direct supply model of brands, optimises the direct purchasing import model, and constantly tries the industry joint procurement and base price goods supply mode and the bidding procurement mode of the livelihood items. The Group pays attention to new products and high-yield products, continues to negotiate the purchase price of sensitive products, and arranges special personnel to track the difference in promotional activities to improve the overall yield rate.

Risk related to the development of network

As for development of new network, 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 delayed 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, due to the operating performance of the new store falling short of expectations, and the sharp rise in rent after the lease of the store expired, the uncertainty of the lease renewal of the store has been increased.

Mitigating measures

The Group will pay close attention to large-scale residential communities, community neighborhood centers and regional centers to achieve the community-centralized development of supermarkets, focusing on promoting the development in five new towns in Shanghai, the Lingang New Area, and Chongming District, and at the same time accelerating the development of an intensive franchise system.

For the lease renewal of existing stores, the Group will give priority to renewal of leases, deepen the reduction of rents, and lengthen the lease renewal period, so as to improve the stability of store operations and reduce the closing rate.

Risk related to merchant solicitation

Due to the repeated epidemics and the implementation of the double reduction policy, the stores are facing severe challenges such as the withdrawal of merchants and the increase in the vacancy rate.

Mitigating measures

The Group will determine the investment promotion positioning, optimise the layout, continue to promote the transformation of one store and one strategy. It will increase the proportion of branding, increase the proportion of catering snacks and leisure and entertainment formats in investment promotion, thus reducing the vacant rate of shops, and expanding investment incomes.

Risk related to employees

The Group is faced with difficulties such as large headquarters organization, but lack of efficiency, old cadres, lack of innovative consciousness and vitality, disunity of salary structure, lack of management ability of store partners, and so on. There is a certain gap between the incentive mechanism and the expected results, which affects the enthusiasm of employees to a certain extent.

Mitigating measures

The Group will continuously promote the integrated organization and establishment of headquarters, optimize the employment mode of storefront and strengthen contract management, and optimize the core business process through organizing and integrating, rearranging, focusing on operation. The Group will increase the experience of rotation, improving the comprehensive ability of cadres; optimize store organization and staffing model to improve human efficiency. It will implement contractualization for core posts, further optimize the performance excess incentive system, and optimize the salary management system of front-line employees in stores. The Group will deepen the iteration of partner rights, responsibilities and interests model, accelerate the promotion of fresh partner system and other ways to improve the enthusiasm of employees.

Risk related to system integration

The system application architecture is decentralized, complex with low integration. The technical framework of the system is backward, the degree of data sharing is poor, and there are system barriers among businesses of departments. The decentralized system architecture is poor in the efficiency of data transmission and synchronous real-time performance, and the degree of real-time data visualization is low. The existing hardware equipment cannot meet the development, business iteration and rapid deployment of innovative applications.

Mitigating measures

Relying on the digital transformation project of Lianhua, the digital top-level design and key paths are determined, that is overall planning of the overall architecture, promoting infrastructure cloud, deepening business data governance and collaborative business ecological construction. The Group will establish quick win and core projects to ensure the sustained and stable implementation of projects.

Compliance risk management

The corporate compliance group of the Group, in conjunction with the Group's legal advisor, regularly reviews the Group's compliance with 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

In 2022, China's macroeconomic policy will continue to "focus on stability while seeking progress". Amid normalized epidemic, China's prevention and control measures are in a leading position in the world, and the people's production and living order has remained generally stable, laying the foundation for sustained economic development and overall social stability. The Group believes that the trend of China 's sustained economic recovery and development will not change, and the key economic metrics will remain in a reasonable range, supporting high-quality development of industries. The good development situation has played a supporting role in economic stability and promoted the confidence of enterprises in the future Chinese economy. In 2022, the Chinese government will advocate a simple and moderate, green and low-carbon lifestyle, to enhance people's awareness of economy while continuing to promote domestic consumption. The cultural and tourism consumption market will stimulate new vitality, and diversified consumption scenarios in the field of consumption will further promote the recovery of the consumer market and industrial recovery, making the economic growth more healthy and stable. Overall, China's trend of maintaining medium- and high-speed economic growth will not change.

To this end, in 2022, the Group will "sharpen fusion and break the ice", adhere to business format integration, supply chain layout optimization, digital intelligence transformation and organizational incentive plan, ensure good development and investment promotion, actively improve logistics and commodity efficiency, improve consumers' experience and marketing power, comprehensively manage budgets and expenses, and ensure process rebuilding and strong implementation. In the Yangtze River Delta, with the two main formats of standard supermarkets and hypermarkets occupying the regional advantageous network resources, the Group will integrate the national and regional complementary and interactive supply chain system, and realize the integrated online and offline global sales network.

In 2022, the Group will strategically focus on the integration and upgrading of business formats, improve store building standards, formulate transformation mechanisms, and accelerate the implementation of measures for the transformation of large-scale comprehensive supermarket formats and supermarket formats. The Group will strengthen the operation capacity of supermarkets, promote the development of compact franchise outlets, and reduce losses and increase profits of convenient formats. It will further build core categories, expand multiple cooperation with third parties, drive traffic from multiple channels, integrate store and warehouse, and promote the development of all channels. The Group also simultaneously optimize the organization process of group purchase, expand the card and coupon sales channels and models to improve the overall sales.

In 2022, the Group will strategically take the optimization of supply chain layout as a priority, focus on the optimization of categories and suppliers, and promote the comprehensive income improvement plan and trade plan. All business segments will pay great attention to the sales promotion of new products and high-yield product categories, establish a compulsory commodity elimination system through the new product management process, and vigorously develop differentiated commodities with purchase price advantages and product selling point advantages, so as to maximize performance output and improve comprehensive income. The Group will optimize the national linkage of JBP suppliers, break through the supply chain mode, expand the brand direct supply mode, optimize the import direct purchase mode, and constantly try the industry joint purchase and base price supply mode and the bidding purchase mode of single product for people's livelihood. The Group will arrange the annual marketing plan well for JBP suppliers, promote brand carnival activities, improve the quality of product selection, improve the efficiency of product promotion, synchronize online and offline commodity activities, and improve and achieve sales targets. The Group will continue to optimize the fresh food supply chain, enhance its self-operation and marketing capabilities, and accelerate the development of its own brands. The Group will open up the fresh value chain, dig deep into category resources, introduce head suppliers of each category, develop direct procurement from the source of the base, concentrate strength for joint procurement, improve logistics service efficiency and promote quality fresh food. The Group will create a rich image of imported categories and promote its own brand category planning and brand renewal. The Group will continuously expand the proportion of direct purchase of imported products, develop a diversified supply chain, try the joint purchase mode with importers, quickly find the best-selling and online popular goods in the market, and create a rich image of imported goods. Through external platforms and home sales, the Group will expand new marketing methods, promote new and popular products, attract young consumers and drives sales promotion. The Group will accelerate the development of our own brand, promote the category planning of our own brand, clarify quality standards, standardize the brand system, improve brand building, establish clear product values, and highlight the corporate image.

In 2022, the Group will strategically focus on digital transformation, formulate Lianhua's digital transformation strategy and method, implement executable digital solutions, establish quick wins and core projects, reduce costs and increase efficiency internally, and improve user experience and customer value externally, to realize the overall value improvement of Lianhua. And the Group will continue to optimize and iterate the digital system functions of the core business, improve the digital SOP, further release the store personnel efficiency, and increase the dividend. The Group will continue to promote the digitization of the whole process of the supply chain to facilitate an efficient supply chain, clarify the integrated integration and digital transformation system plan of the logistic bases in Jiangqiao to achieve smooth semi-automatic management and control of business processes. The Group will optimize the big data platform, build a layered system, and promote the digital empowerment and enhancement of the integration of industry and finance. It will check and diagnose Lianhua's existing infrastructure, make feasibility study and path design, formulate infrastructure cloud implementation plan, and build Lianhua's digital transformation base by using mature cloud services to support the application scenario of Lianhua's digital intelligent transformation.

In 2022, another focus of the Group is the organization and incentive plan, involving the continuous promotion of the integrated organization and establishment of headquarters, the integration of the overall organizational structure of headquarters, the carding of the functions and responsibilities of various departments, the re-approval of staffing, and the creation of a service-oriented and high-performance headquarters. The Group will increase the building of the core team, follow no set form to boldly train and appoint young cadres, increase the experience of rotation, enhance the comprehensive ability of cadres, and promote the process of rejuvenating cadres. The contract management is carried out for core post, and professional manager's "2022 annual goal responsibility letter" is drawn up, which sets the term target, and the Group will carry on the follow-up appraisal, the performance interview, the dynamic adjustment according to the system. The Group will further optimize the performance excess incentive system to create value, share value, earn more with more work, and achieve win-win results. The Group will focus on operation, sort out core business processes, optimize store employment mode, optimize processes and simplify operations with the help of technological innovation measures such as digital stores, so as to further institutionalize, standardize, simplify, and informatize, optimize processes, reduce labor rates, and improve human efficiency, thereby continuously improving the efficiency of store operations and the efficiency of operation and management. To further deepen the transformation of the business model, constantly iterate and deepen the partnership mechanism, the Group will promote the iteration of the rights, responsibility and profit model of supermarket partners, accelerate the promotion of fresh partners to strengthen the ability of diversifying source, and encourage cadres and staffs to work together to break boundaries, innovate and make breakthroughs to maintain sustainable performance.

In 2022, the Group will deepen the development of outlets, focusing on the regional development of the community fresh food stores in Chongming, Lingang New Area, five new towns in Shanghai, focus on regional development for Guangxi and Henan regions, consolidate and expand regional advantages, strengthen capabilities, accelerate the development of a compact franchise system. The Group will optimize the layout of investment promotion, divide the business districts of commercial districts, light rail community business districts, pure community business districts and shopping mall business districts according to the categories of consumer groups. It will reduce the vacant shop rate and increase investment income, and improve the efficiency of logistics and commodities; focus on sorting out standardized processes and digital management; consolidate the self-support capacity of fresh food operations, and promote the solidification of normal temperature categories. The Group will develop digital scene stores, promote digital operation and digital management, continue to optimize and iterate digital and intelligent systems, improve operation level and improve operation efficiency, accelerate the progress of direct logistics to distribution, expand the three party operation business, introduce intelligent technology, establish a management and control system, intensify the operation of warehousing resources, and improve the efficiency of logistics warehousing and distribution. The Group will improve consumer experience and marketing power, take consumer demand as the guide, seasonal festivals as the main line, we-media matrix as the main reach, and traffic operation as the core, to create a global marketing system. The Group will promote comprehensive budget management and cost control planning, improve budget preparation and approval systems, clarify budget objectives, improve information system construction, and enhance management and control efficiency. The Group will improve the standardization of management systems and operating procedures, and explore concise and efficient technical support systems. Relying on the reconstruction project, the Group will comprehensively sort out and reconstruct various management systems and operating procedures. Taking systematic construction as a benchmark, the Group will improve the management standards of systems and processes. With the direction of "process informatization and inspection visualization", the Group will explore the establishment of a technical support system for efficient execution to provide a strong execution guarantee for the Group's operations.

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 2021.

Final Dividend

The board of Directors (the "**Board**") of the Company recommends not to distribute final dividend for the year ended 31 December 2021.

Audit Committee

The Audit Committee has reviewed the 2021 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 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 2021 as set out in this announcement have been agreed by the Group's auditor, Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Deloitte Touche Tohmatsu 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 Touche Tohmatsu 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 of the Company. After specific enquiries to all Directors and supervisors, the Board is pleased to announce 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 B.2.2 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 C.1.6 of the Code is regarding the non-executive directors' regular attendance and active participation in Board meetings and attendance to general meetings.

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.

Ms. Zhang Shen-yu, a non-executive Director, and Mr. Lee Kwok Ming, Don, an independent non-executive Director, were unable to attend the fifth meeting of the seventh session of the Board convened on 17 June 2021 by the Company due to their other business commitments.

Mr. Ye Yong-ming, a then non-executive Director, was unable to attend the sixth meeting of the seventh session of the Board convened on 30 August 2021 by the Company due to his other business commitments.

Ms. Zhang Shen-yu, a non-executive Director, was unable to attend the seventh meeting of the seventh session of the Board convened on 2 December 2021 by the Company due to her other business commitments.

Ms. Zhang Shen-yu, a non-executive Director, and Mr. Lee Kwok Ming, Don, an independent non-executive Director, were unable to attend the 2020 annual general meeting of the Company convened on 17 June 2021 (the "**2020 AGM**") due to their other business commitments.

Ms. Zhang Shen-yu, a non-executive Director was unable to attend the 2021 extraordinary general meeting of the Company convened on 2 December 2021 (the "**2021 EGM**") due to her other business commitments.

Mr. Xu Hong, a then non-executive Director, and Mr. Wong Tak Hung, a non-executive Director, were unable to attend the eighth meeting of the seventh session of the Board convened on 28 March 2022 by the Company due to their other business commitments.

Mr. Wong Tak Hung, a non-executive Director, was unable to attend the ninth meeting of the seventh session of the Board convened on 28 March 2022 by the Company due to his 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 relating to the 2020 AGM and 2021 EGM (collectively referred to as the "**2021 General Meetings**") to all members of the Board before the 2021 General Meetings. All ordinary resolutions considered at the 2021 General Meetings were passed smoothly. The Company sent the related minutes of the 2021 General Meetings to all members of the Board after the 2021 General Meetings so that the Directors who were unable to attend the meeting were 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 and the Company respectively in due course.

RESIGNATION AND APPOINTMENT OF NON-EXECUTIVE DIRECTOR AND MEMBER OF STRATEGIC COMMITTEE

The Board announces that Mr. Xu Hong tendered his resignation as a non-executive Director and a member of the strategic committee of the Company due to adjustment of work.

The above resignation of Mr. Xu Hong takes effect on 28 March 2022, the date on which the appointment of the new Director to fill the vacancy was approved by the Board. Mr. Xu Hong has confirmed that he has no disagreement with the Board and there is no matter relating to his resignation that needs to be brought to the attention of the Shareholders and the Stock Exchange.

The Board has convened a meeting (the "**Meeting**") on 28 March 2022 in accordance with the requirements of the Company Law of the PRC and the articles of association of the Company. At the Meeting, the Board approved the appointment of Mr. Xu Pan-hua *(Note)* as a non-executive Director and a member of the strategic committee of the Company for a term commencing from 28 March 2022 until the conclusion of the annual general meeting of the Company to be held in 2022.

By order of the Board
Lianhua Supermarket Holdings Co., Ltd.
Pu Shao-hua
Chairman

Shanghai, the PRC, 28 March 2022

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

Executive director:	*Chong Xiao-bing;*
Non-executive directors:	*Pu Shao-hua, Shi Xiao-long, Xu Pan-hua, 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.*

Note:

Mr. Xu Pan-hua, aged 44, graduated from Shanghai Jiao Tong University with bachelor's degree in engineering and Emory University with MBA degree. He is currently a senior investment director in the strategic investment department of Alibaba Group Holding Limited ("**Alibaba Group**"). He joined Alibaba Group in 2012 and served as an investment manager, a senior investment manager, an investment director and a senior investment director in the strategic investment department. Prior to joining Alibaba Group, he was an assistant auditor at Deloitte & Touche LLP, and then an engineer and senior engineer at Nokia Siemens Networks, and then a senior research manager at Roth Capital Partners. Meanwhile, he is a board director of Sanjiang Shopping Club Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 601116), New Huadu Supercenter Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 002264) and Wuhan Wushang Group Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000501). From December 2019 to April 2020 and from October 2021 to March 2022, he was a board director of Meinian Onehealth Healthcare Holdings Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 002044).

Mr. Xu Pan-hua was elected as a non-executive director of the Company at the Meeting for a term from the effective date until the conclusion of the upcoming general meeting of the Company, subject however to the articles of association of the Company. Mr. Xu Pan-hua will not enter into any service agreement with the Company and he will not be entitled to any remuneration from the Company during the term of non-executive directorship.

As at the date of this announcement, Mr. Xu Pan-hua has no interest in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). Save as disclosed herein, Mr. Xu Pan-hua has not held any other directorships in any public listed companies in the past three years and has no relationship with any directors, senior management or substantial or controlling shareholders of the Company. Mr. Xu Pan-hua confirmed that there is no other information required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules and there is no matter that needs to be brought to the attention of shareholders of the Company and the Stock Exchange.