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 2022

FINANCIAL HIGHLIGHTS

As at 31 December 2022, the Group recorded the following:

- Revenue was approximately RMB24,681 million, representing a decrease of approximately 0.3% over 2021. Same store sales of the Group increased by approximately 3.98% over 2021, in which the hypermarket segment increased by approximately 2.86%, the supermarket segment increased by approximately 6.26% and the convenience store segment decreased by approximately 3.31%.

- Gross profit was approximately RMB3,382 million, representing an increase of 10.5% over 2021. Gross profit margin was approximately 13.70%, increasing by 1.33 percentage points over 2021.

- Distribution expenses and administrative expenses was approximately RMB5,504 million, decreased by approximately RMB212 million and approximately 3.7% over 2021.

- Consolidated income amounted to RMB5,912 million, representing an increase of approximately 2.1% over 2021. Consolidated income margin was approximately 23.95%, increasing by 0.55 percentage point over 2021.

- Operating profit shifted from loss to profit and amounted to approximately RMB88 million, representing an increase of RMB405 million over 2021. Annual loss attributable to shareholders of the Company amounted to approximately RMB212 million. Basic loss per share amounted to approximately RMB0.19.

- The total number of outlets reached 3,352. During the period under review, the Group opened 348 new outlets, including two hypermarkets, 276 supermarkets (including 129 directly-operated stores and 147 franchised stores), and 70 convenience stores (including 30 directly-operated stores and 40 franchised stores).

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

Note 2: Consolidated income margin = (Gross profit + Other revenue + Other income and other gains and losses)/Revenue

Note 3: Operating profit (loss) = Loss before tax – Share of results of associates

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022

	notes	**Year ended 31/12/2022 *RMB'000* (audited)**	Year ended 31/12/2021 *RMB'000* (audited)
Revenue	*3*	**24,681,396**	24,759,659
Cost of sales		**(21,299,101)**	(21,697,930)
Gross profit		**3,382,295**	3,061,729
Other revenue	*3*	**2,058,711**	2,255,259
Other income and other gains and losses	*5*	**471,145**	476,108
Impairment recognised under expected credit loss ("**ECL**") model, net of reversal		**(1,132)**	(1,156)
Distribution and selling expenses		**(4,715,290)**	(4,841,767)
Administrative expenses		**(788,724)**	(873,960)
Other expenses		**(42,185)**	(108,171)
Share of results of associates		**(111,526)**	42,800
Finance costs		**(276,866)**	(285,003)
Loss before tax	*6*	**(23,572)**	(274,161)
Income tax expense	*7*	**(109,192)**	(97,195)
Loss and total comprehensive expense for the year		**(132,764)**	(371,356)
(Loss) profit and total comprehensive (expense) income for the year attributable to:			
Owners of the Company		**(211,747)**	(422,779)
Non-controlling interests		**78,983**	51,423
		(132,764)	(371,356)
Loss per share – basic	*8*	**RMB0.19**	RMB0.38

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2022

	notes	**31/12/2022**	31/12/2021
		RMB'000	*RMB'000*
		(audited)	(audited)
Non-current assets			
Property, plant and equipment		**3,463,791**	3,341,988
Construction in progress		**4,330**	9,740
Right-of-use assets		**5,738,461**	6,386,548
Intangible assets		**123,005**	127,336
Goodwill		**148,017**	127,953
Interests in associates		**592,814**	703,205
Financial assets at fair value through profit or loss ("**FVTPL**")		**42,319**	52,229
Finance lease receivables-non-current		**188,758**	237,571
Term deposits		**2,605,420**	3,980,870
Deferred tax assets		**8,520**	8,045
Other non-current assets		**82,115**	286,186
		12,997,550	15,261,671
Current assets			
Inventories		**3,036,797**	2,839,495
Finance lease receivables-current		**47,895**	46,245
Prepaid rental		**4,727**	441
Trade receivables	*9*	**242,853**	145,386
Deposits, prepayments and other receivables		**696,646**	715,302
Financial assets at FVTPL		**867,164**	997,618
Amount due from an ultimate holding company		**8**	15,028
Amounts due from fellow subsidiaries		**48,633**	37,933
Amounts due from an associate		**363**	251
Term deposits		**1,786,265**	577,100
Cash and cash equivalents		**3,198,945**	2,193,456
		9,930,296	7,568,255
Total assets		**22,927,846**	22,829,926

(Continued)

	notes	**31/12/2022**	31/12/2021
		RMB'000	*RMB'000*
		(audited)	(audited)
Capital and reserves			
Share capital		**1,119,600**	1,119,600
Reserves		**(301,459)**	(89,712)
Equity attributable to owners of the Company		**818,141**	1,029,888
Non-controlling interests		**367,270**	224,509
Total equity		**1,185,411**	1,254,397
Non-current liability			
Deferred tax liabilities		**148,272**	120,359
Lease liabilities		**5,108,859**	5,741,487
		5,257,131	5,861,846
Current liabilities			
Trade and bills payables	*10*	**4,525,669**	3,467,986
Tax payable		**149,412**	103,336
Other payables and accruals		**1,963,901**	2,060,971
Lease liabilities		**896,096**	911,399
Contract liabilities		**8,928,208**	8,540,256
Deferred income		**–**	1,475
Amount due to an ultimate holding company		**6,814**	–
Amounts due to fellow subsidiaries		**14,051**	626,409
Amounts due to associates		**1,153**	1,851
		16,485,304	15,713,683
Total liabilities		**21,742,435**	21,575,529
Net current liabilities		**(6,555,008)**	(8,145,428)
Total equity and liabilities		**22,927,846**	22,829,926
Total assets less current liabilities		**6,442,542**	7,116,243

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 with limited liability. The address of its registered office and principal place of business is Room 713, 7th Floor, No. 1258, Zhen Guang Road, Putuo 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 direct holding company is Bailian Group Co., Ltd ("**Bailian Group**"), a state-owned enterprise established in the PRC, and 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.

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 2022, the Group had net current liabilities of RMB6,555,008,000 (2021: RMB8,145,428,000). Taking into account of the historical settlement and addition pattern of the coupon liabilities and the Group's ability to withdraw the non-current unrestricted term deposits of RMB1,885,000,000 (2021: RMB2,160,300,000), the directors of the Company consider that 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 also 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 2022 for the preparation of the consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKFRS 16	Covid-19-Related Rent Concessions
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020

In addition, the Group applied the agenda decision of the Committee of the International Accounting Standards Board, including Lessor Forgiveness of Lease Payments (IFRS 9 Financial Instruments and IFRS 16 Leases), which is relevant to the Group.

The application of 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.

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

Impacts on application of the agenda decision of the Committee – Lessor Forgiveness of Lease Payments (IFRS 9 Financial Instruments and IFRS 16 Leases)

In October 2022, the Committee published the agenda decision related to the accounting for a rent concession where the lessor legally releases the lessee from its obligation to make specifically identified lease payments. Some of these lease payments are contractually due but not paid and some of them are not yet contractually due. The Committee concluded that, before the rent concession is granted, the lessor applies the impairment requirements in IFRS 9 to the operating lease receivable, the measurement of expected credit losses ("**ECL**") should include the lessor's expectations of forgiving the related lease payments. In addition, the lessor accounts for the rent concession on the date it is granted by applying: (a) the derecognition requirements in IFRS 9 to forgiven lease payments that the lessor has recognised as operating lease receivables; and (b) the lease modification requirements in IFRS 16 to forgiven lease payments that the lessor has not recognised as an operating lease receivable.

Prior to issuance of this agenda decision, the Group, as a lessor, granted rent concession to release certain of its tenants' obligation to make specific lease payments which included operating lease receivables that were contractually due as at the date of granting the rent concession. The Group accounted for all the forgiven lease payments, including operating lease receivables that were contractually due, as lease modification under IFRS 16, the related leases in which rent concessions were granted were considered as new leases from the effective date of modification, outstanding operating lease receivables that were forgiven were considered as lease incentives of the related new leases. Subsequent to the publication of this agenda decision, the Group changed its accounting policy retrospectively to reflect the explanatory material in the agenda decision.

The application of the Committee's agenda decision has had no material impact on the Group's consolidated financial statements.

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKFRS 16	Lease liability in a Sale and Leaseback[3]
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	Non-current Liabilities with Covenants[3]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to HKAS 8	Definition of Accounting Estimates[1]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[1]

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

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

[3] Effective for annual periods beginning on or after January 1, 2024.

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

3. REVENUE AND OTHER REVENUE

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

(i) Disaggregation of revenue from contracts with customers

Type of Revenue

	Year ended 31/12/2022 *RMB'000*	Year ended 31/12/2021 *RMB'000*
Revenue		
Sales of merchandise	**24,681,396**	24,759,659
Services		
Income from suppliers (service income)	**1,570,291**	1,632,148
Franchising income from franchised stores	**39,261**	41,638
Commission income on coupon redemption at other retail shops	**10,902**	2,137
	1,620,454	1,675,923
Total	**26,301,850**	26,435,582

Timing of revenue recognition

	Year ended 31/12/2022 *RMB'000*	Year ended 31/12/2021 *RMB'000*
At a point in time	**24,692,298**	24,761,796
Over time	**1,609,552**	1,673,786
Total	**26,301,850**	26,435,582

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

	Year ended 31/12/2022 *RMB'000*	Year ended 31/12/2021 *RMB'000*
Revenue from contracts with customers – sales of merchandise	**24,681,396**	24,759,659
Other revenue from contracts with customers – services	**1,620,454**	1,675,923
Rental income from leasing of shop premises	**438,257**	579,336
	2,058,711	2,255,259
Total revenue and other revenue	**26,740,107**	27,014,918

(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 utilisation 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 31/12/2022	Year ended 31/12/2021
	RMB'000	*RMB'000*
For operating leases:		
Fixed lease payments	**428,714**	556,638
For finance leases:		
Finance income on the net investment in the lease	**9,543**	22,698
Total revenue arising from leases	**438,257**	579,336

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 Operating Segments 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:

	Segment revenues		**Segment results**	
	Year ended 31/12/2022	Year ended 31/12/2021	**Year ended 31/12/2022**	Year ended 31/12/2021
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Hypermarket	**13,650,205**	15,065,315	**143,081**	(146,700)
Supermarket	**11,430,017**	10,115,635	**164,185**	51,325
Convenience store	**1,548,627**	1,558,080	**(25,349)**	(3,264)
Other operations	**111,258**	275,888	**(6,817)**	(15,184)
	26,740,107	27,014,918	**275,100**	(113,823)

The reconciliation of the total segment results to consolidated loss before tax is as follows:

	Year ended 31/12/2022	Year ended 31/12/2021
	RMB'000	*RMB'000*
Segment results	**275,100**	(113,823)
Share of results of associates	**(111,526)**	42,800
Gain on disposal of interests in associates	**598**	–
Unallocated interest income	**38,046**	48,654
Unallocated expenses	**(217,064)**	(246,534)
Unallocated loss on change in fair value of financial assets at FVTPL	**(8,726)**	(5,258)
Consolidated loss before tax	**(23,572)**	(274,161)

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 results of associates, gain on disposal of interests in associates, allocation of headquarter income and expenses (including certain interest income relating to funds centrally managed) and unallocated loss on change in fair value of financial assets at FVTPL. 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 31/12/2022 ***RMB'000***	Year ended 31/12/2021 *RMB'000*
– Hypermarket	**12,746,305**	13,309,270
– Supermarket	**6,652,162**	5,920,975
– Convenience store	**495,596**	455,594
– Other operations	**320,422**	230,626
Total segment assets	**20,214,485**	19,916,465
Interests in associates	**592,814**	703,205
Deferred tax assets	**8,520**	8,045
Other unallocated assets	**2,112,027**	2,202,211
Total assets	**22,927,846**	22,829,926

For the purpose of monitoring segment performance and allocating resources among segments, all assets are allocated to operating segments other than interests in associates, deferred tax assets, certain financial assets, cash and cash equivalents centrally managed by headquarter.

Other segment information

Year ended
31/12/2022

	Hypermarket *RMB'000*	Supermarket *RMB'000*	Convenience store *RMB'000*	Other operations *RMB'000*	Total *RMB'000*
Amounts included in the measure of segment results or segment assets:					
Addition to non-current assets *(note)*	**515,061**	**460,682**	**62,446**	**900**	**1,039,089**
Depreciation and amortisation	**736,722**	**594,457**	**58,969**	**9,694**	**1,399,842**
Impairment losses on goodwill	**–**	**1,921**	**–**	**–**	**1,921**
Loss(gain) on disposal of property, plant and equipment	**8,427**	**(288)**	**108**	**455**	**8,702**
Net gain on termination of right-of-use assets and lease liabilities	**(23,929)**	**(237)**	**(4,007)**	**–**	**(28,173)**
Interest income on bank balances and term deposits	**(163,108)**	**(58,851)**	**(498)**	**(617)**	**(223,074)**
Interest income on finance lease receivables *(note 3)*	**(9,543)**	**–**	**–**	**–**	**(9,543)**
Finance costs	**185,068**	**87,745**	**4,053**	**–**	**276,866**

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 (reversal) 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 *(note 3)*	(22,698)	–	–	–	(22,698)
Finance costs	197,878	83,235	3,890	–	285,003

note:

Addition to non-current assets include the additions of RMB234,476,000 to property, plant and equipment (2021: RMB272,431,000), RMB11,476,000 to construction in progress (2021: RMB6,206,000), RMB783,673,000 to right-of-use assets (2021: RMB982,951,000) and RMB9,464,000 to intangible assets (2021: RMB14,761,000).

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 customers contributed over 10% of the total revenue of the Group for both reporting periods.

5. OTHER INCOME AND OTHER GAINS AND LOSSES

	Year ended 31/12/2022 *RMB'000*	Year ended 31/12/2021 *RMB'000*
Interest income on bank balances and term deposits	**261,120**	272,140
Government grants *(note i)*	**85,172**	58,259
(Loss) gain on change in fair value of financial assets at FVTPL	**(3,067)**	9,684
Dividends from financial assets at FVTPL	**1,471**	1,241
Net gain on termination of right-of-use assets and lease liabilities	**28,173**	22,281
Salvage sales	**24,295**	29,772
Income from breakage *(note ii)*	**15,127**	11,252
Coupon charges	**11,400**	14,385
Penalty income	**12,000**	14,252
Gain on disposal of investments in associates	**598**	–
Others	**34,856**	42,842
Total	**471,145**	476,108

notes:

i. The Group received unconditional government grants of RMB83,697,000(2021: RMB53,818,000) from the PRC local government as an encouragement for the operation of subsidiaries in certain jurisdictions. In addition, an amount of RMB1,475,000(2021: RMB4,441,000) has been released from deferred income regarding the asset related government grants during the current year.

ii. 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 utilised 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 TAX

	Year ended 31/12/2022 *RMB'000*	Year ended 31/12/2021 *RMB'000*
Loss before tax has been arrived at after charging (crediting):		
Amortisation and depreciation		
Depreciation of property, plant and equipment	**343,049**	329,508
Depreciation of right-of-use assets	**1,034,319**	1,099,984
Amortisation of intangible assets	**22,474**	20,798
Total amortisation and depreciation	**1,399,842**	1,450,290
Share of results of associates		
Share of results before tax	**110,045**	(47,941)
Share of income tax expense	**1,481**	5,141
	111,526	(42,800)
Auditors' remuneration	**6,472**	6,096
Impairment loss on right-of-use assets recognised (included in other expenses)	**–**	96,273
Director's remuneration	**2,642**	3,149
Salaries, wages and other employee benefits of other staff	**2,139,840**	2,216,210
Retirement benefits scheme contribution of other staff	**204,835**	202,106
Total staff costs	**2,347,317**	2,421,465
Impairment losses recognised under ECL model, net of reversal	**1,132**	1,156
Write-down (reversals of write-down) of inventories	**2,152**	(976)
Cost of inventories recognised as expenses	**21,299,101**	21,697,930

7. INCOME TAX EXPENSE

	Year ended 31/12/2022	Year ended 31/12/2021
	RMB'000	*RMB'000*
Current tax on the PRC Enterprise Income Tax ("**EIT**")	**118,833**	77,915
(Over) under provision of PRC EIT in prior years	**(437)**	1,030
Deferred tax (credit) charge	**(9,204)**	18,250
	109,192	97,195

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

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

	Year ended 31/12/2022	Year ended 31/12/2021
	RMB'000	*RMB'000*
Loss before tax	**(23,572)**	(274,161)
Tax at PRC EIT tax rate of 25% (2021: 25%)	**(5,893)**	(68,540)
Tax effect of share of results of associates	**27,882**	(10,700)
Tax effect of expenses not deductible for tax purpose	**331**	411
Tax effect of income not taxable for tax purpose	**(4,946)**	(4,762)
Tax effect of tax losses not recognised	**117,584**	181,639
Tax effect of deductible temporary differences not recognised	**1,098**	6,110
Utilisation of tax losses previously not recognised	**(25,917)**	(7,171)
(Over) under provision in prior years	**(437)**	1,030
Effect of different tax rates of subsidiaries	**(510)**	(822)
Income tax expense for the year	**109,192**	97,195

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 31/12/2022	Year ended 31/12/2021
	RMB'000	*RMB'000*
Loss for the year attributable to owners of the Company	**(211,747)**	(422,779)

	Year ended 31/12/2022	Year ended 31/12/2021
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

	31/12/2022	31/12/2021
	RMB'000	*RMB'000*
Trade receivables – contracts with customers	**250,030**	150,248
Less: allowance for credit losses	**(7,177)**	(4,862)
	242,853	145,386

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

	31/12/2022	31/12/2021
	RMB'000	*RMB'000*
0 – 30 days	**229,386**	142,429
31 – 60 days	**3,554**	2,048
61 – 90 days	**3,468**	401
Over 90 days	**6,445**	508
	242,853	145,386

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:

	31/12/2022	31/12/2021
	RMB'000	*RMB'000*
1-30 days past due	**3,468**	401
More than 30 days past due	**6,445**	508
	9,913	909

10. TRADE AND BILLS PAYABLES

	31/12/2022	31/12/2021
	RMB'000	*RMB'000*
Trade payables	**3,525,669**	3,467,986
Bills payables	**1,000,000**	–
	4,525,669	3,467,986

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 (2021: 30 to 60 days), is as follows:

	31/12/2022	31/12/2021
	RMB'000	*RMB'000*
0 – 30 days	**1,342,254**	1,494,703
31 – 60 days	**704,211**	718,851
61 – 90 days	**427,381**	366,786
Over 90 days	**1,051,823**	887,646
	3,525,669	3,467,986

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 2022, adhering to the principle of "steadiness" and "seeking progress while maintaining stability", the domestic economy withstood the triple pressure of shrinking demand, supply shocks and weakening expectations under the background of complex and severe international environment. In 2022, China's gross domestic product (GDP) exceeded RMB120 trillion, representing a year-on-year increase of 3.0%. The Chinese consumer market experienced significant ups and downs and showed an obvious V-shaped trend due to the impact of several rounds of pandemic, coupled with the implementation of a series of policies to stabilize the economy and promote consumption. In 2022, China's total retail sales of consumer goods fell to RMB44 trillion, representing a year-on-year decrease of 0.2%.

In 2022, Jiangsu, Zhejiang and Anhui provinces all achieved year-on-year growth in GDP. Shanghai's economy showed a V-shaped recovery, declining 0.2% for the year. At the beginning of 2022, Shanghai went through a 3-month severe lockdown period while controlling the pandemic, which affected the Yangtze River Delta region and the upstream and downstream industries due to the shutdown of production and work, and significantly affected local consumption activities and consumer confidence. To resume development, Shanghai issued a series of policies to stabilize growth, including "21 measures" (21條) to fight the pandemic and help enterprises, "50 measures" (50條) to revive the economy, and "22 measures" (22條) to maintain steady growth. In addition, three rounds of electronic consumption vouchers worth RMB1 billion were distributed to promote market and economic recovery.

81% of the Group's stores were located in the Yangtze River Delta region where the production and daily life had gradually restored and consumer sentiment had recovered with the pandemic receding in the second half of the year. The Group's operating loss narrowed significantly in 2022, mainly due to the improvement in operating profit as the Group actively promoted the construction of its supply chain and cost management. In 2022, the Group continued to maintain high growth in online business by focusing on its operations in the Shanghai region and expanding the markets outside the region. In addition, during the pandemic period in the first half of 2022, Shanghai and Zhejiang regions accomplished the task of ensuring supply in an outstanding manner, and the temporary store closure loss during lockdown period was largely compensated by sales for ensuring commodities supply.

Financial Review

Revenue

During the period under review, the Group's revenue was approximately RMB24,681 million, representing a year-on-year decrease of approximately RMB78 million, or approximately 0.3%. In the first half of 2022, due to the serious epidemic situation in Shanghai and surrounding areas, especially in Shanghai, most stores were closed for nearly two months. Given that, the Group organized forces in a timely manner, coordinated and implemented social resources, and took measures to ensure commodities supply during the epidemic. The sales for ensuring commodities supply made up for the decline in revenue caused by temporary store closures. In the second half of 2022, the resurgence of pandemic in various places, led to a decrease in offline customer traffic and a slight decrease in sales on a year-on-year basis.

Gross Profit

During the period under review, the Group's gross profit was approximately RMB3,382 million, representing a year-on-year increase of approximately RMB321 million, or approximately 10.5%. During the period under review, the overall gross profit margin of the Group was approximately 13.70%, representing an increase of approximately 1.33 percentage points as compared with the gross profit margin of 12.37% for the corresponding period of last year. The Group continued to promote supply chain optimization, with room temperature commodities focusing on category optimization and accelerating the iteration of new products to enhance the gross profit of sales. Meanwhile, during the period under review, the gross profit margin improved slightly due to a decrease in store promotions as a result of the resurgence of the pandemic.

Other Revenue

During the period under review, the Group's other revenue was approximately RMB2,059 million, representing a year-on-year decrease of approximately RMB197 million, or approximately 8.7%. In the second quarter of 2022, affected by the epidemic, there were some stores temporarily closed in Shanghai and surrounding areas, and the operation of tenants was also largely affected, reflected in the withdrawal of tenants and rental default. To retain tenants and ensure rental incomes, the Group discussed with tenants about rental reduction or exemption in accordance with the principle of sharing the pandemic risk and the government's policies on rental reduction or exemption, and offered tenants certain rental reductions or exemptions. During the period under review, our revenue from merchant solicitation decreased by approximately RMB141 million as compared with the corresponding period of last year. In addition, as a result of the decrease in promotional activities during the epidemic, our revenue from suppliers decreased by approximately RMB62 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 RMB471 million, representing a year-on-year decrease of approximately RMB5 million, or approximately 1.0%.

Distribution and Selling Expenses

During the period under review, the Group's distribution and selling expenses amounted to approximately RMB4,715 million, representing a year-on-year decrease of approximately RMB126 million, or approximately 2.6%. The Group continued to strengthen comprehensive budget management and standardised control over the entire process of expenses in all business sectors, and network operation expenses continued to decline after excluding the expenses related to epidemic prevention and control. Distribution and selling expenses accounted for approximately 19.1% of revenue, representing a year-on-year decrease of approximately 0.45 percentage point.

Administrative Expenses

During the period under review, the Group's administrative expenses amounted to approximately RMB789 million, representing a year-on-year decrease of approximately RMB85 million, or approximately 9.8%. During the period under review, the Group further enhanced its overall budget management system through ways and means such as system rationalization, system control and budget management enhancement, and optimized the management staffing model and employment mode in a continuous manner. Administrative expenses accounted for approximately 3.2% of revenue, representing a year-on-year decrease of approximately 0.33 percentage point.

Other Expenses

During the period under review, the Group's other expenses amounted to approximately RMB42 million, representing a year-on-year decrease of approximately RMB66 million, or approximately 61.0%, mainly due to the year-on-year increase of about RMB25 million in losses caused by the closure of certain hypermarket and the impairment loss of the right-of-use assets recorded in the same period last year was approximately RMB97 million.

Share of Results of Associates

During the period under review, the Group's share of losses of associates amounted to approximately RMB112 million, representing a year-on-year decrease in profits of approximately RMB154 million. This was mainly due to the losses of approximately RMB249 million of Shanghai Carhua Supermarket Co., Ltd., an associate of the Group, during the period under review. The Group recognised investment loss of approximately RMB112 million on a basis of proportion of investment, representing a year-on-year decrease in investment profits of approximately RMB153 million.

Loss before Tax

During the period under review, the Group's loss before tax amounted to approximately RMB24 million, representing a year-on-year decrease in loss of approximately RMB251 million.

Income Tax

During the period under review, the Group's income tax expense was approximately RMB109 million, representing a year-on-year increase of approximately RMB12 million.

Profit Attributable to Shareholders of the Company

During the period under review, the Group's loss attributable to shareholders of the Company amounted to approximately RMB211,747 thousand, representing a year-on-year decrease in loss of approximately RMB211,032 thousand, or approximately 49.9%. During the period under review, the net loss rate was approximately 0.86%, representing a year-on-year decrease of 0.85 percentage point. Based on the 1,119.6 million shares issued by the Group, the basic loss per share was approximately RMB0.19.

Liquidity and Financial Resources

As at 31 December 2022, the Group's cash and balance at the bank amounted to approximately RMB7,590,630 thousand. During the period under review, the net inflow of the Group's cash and balance at the bank amounted to approximately RMB839,204 thousand, which was mainly the cash inflows from operating activities.

For the year ended 31 December 2022, the accounts payable turnover period of the Group was 59 days, and the inventory turnover period was approximately 43 days.

During the period under review, the Group did not use any financial instrument for hedging purposes. As at 31 December 2022, there were no arbitrage financial instruments in issue by the Group.

Gearing Ratio

As at 31 December 2022, the gearing ratio of the Group (the gearing ratio is calculated by dividing total interest-bearing liabilities by total equity) was 0.0% (31 December 2021: 47.8%).

Growth of Each Retail Business

Hypermarkets

During the period under review, the revenue of the hypermarket segment amounted to approximately RMB12,396 million, representing a year-on-year decrease of approximately RMB1,185 million, or approximately 8.7%, accounting for approximately 50.2% to the Group's revenue. During the period under review, some stores of the hypermarket segment were temporarily closed due to the impact of pandemic lockdown and control measures in Shanghai for nearly two months, coupled with recurrent outbreaks in other regions, resulting in a decrease in the store traffic and a year-on-year decrease in the revenue.

During the period under review, the hypermarket segment recorded a gross profit of approximately RMB1,759 million, representing a year-on-year increase of approximately RMB92 million. Gross profit margin increased by approximately 1.91 percentage points year on year to 14.19%. During the period under review, the increase in gross profit margin was attributable to factors including the optimized category portfolio of goods at room temperature, the reinforced efforts in cultivation of the best-selling online and livelihood-based fresh produce categories, the improved operational capabilities in terms of fresh produce and the increased direct/joint purchase bases of fresh produce. The hypermarket segment recorded a consolidated income of approximately RMB3,310 million, representing a year-on-year decrease of approximately RMB113 million, mainly due to the rental income decreased by approximately RMB127 million year on year as a result of the pandemic. The consolidated income margin increased 1.49 percentage points year on year.

During the period under review, the aggregate of distribution and selling expenses and administrative expenses of the hypermarket segment amounted to approximately RMB2,945 million, representing a year-on-year decrease of RMB318 million. The standardized process throughout the operation helped to effectively reduce the operating costs. At the same time, the capital investment in promotion was gradually reduced by improving the precise. marketing activities and optimizing the content operation. The hypermarket segment recorded an operating profit of approximately RMB143 million, representing a year-on-year increase in profit of approximately RMB290 million in profit. Operating profit margin increased by 2.23 percentage points year on year to approximately 1.15%.

	As at 31 December	
	2022	2021
Gross Profit Margin (%)	**14.19**	12.28
Consolidated Income Margin (%)	**26.70**	25.21
Operating Profit Margin (%)	**1.15**	-1.08

Supermarkets

During the period under review, the supermarket segment recorded a revenue of approximately RMB10,691 million, representing an increase of approximately RMB1,284 million or approximately 13.6% year on year, accounting for approximately 43.3% of the Group's revenue. During the period under review, most of the supermarket stores in Shanghai were closed for nearly two months due to the pandemic, but those stores took advantage of their close proximity to communities to actively provide commodities supply for communities and enterprises to make up for the sales gap. On the other hand, Hangzhou Lianhua Huashang Group Co., Ltd. ("**Lianhua Huashang**"), a subsidiary of the Company, has acquired Zhejiang Bailian Supermarket Co., Ltd. (浙江百聯超市有限公司) since January 2022, and recorded a revenue of approximately RMB587 million.

During the period under review, the supermarket segment recorded a gross profit of approximately RMB1,447 million, representing a year-on-year increase of approximately RMB244 million or 20.3%. Gross profit margin increased by 0.75 percentage point year on year to 13.54%. The recorded consolidated income was approximately RMB2,296 million, representing an increase of approximately RMB256 million year on year. The consolidated income margin decreased by 0.21 percentage point year on year.

During the period under review, the supermarket segment recorded an operating profit of approximately RMB164 million, representing an increase of approximately RMB113 million year on year. The operating profit margin increased by 0.99 percentage point to approximately 1.54%.

	As at 31 December	
	2022	2021
Gross Profit Margin (%)	**13.54**	12.79
Consolidated Income Margin (%)	**21.47**	21.68
Operating Profit Margin (%)	**1.54**	0.55

Convenience stores

During the period under review, the convenience store segment focused on building a new brand image of stores, updating the store equipment and facilities, constantly adding the popular elements, and strengthening the fresh produce function. During the pandemic, the convenience store segment in Shanghai was under lockdown and closed for a longtime with limited commodity categories, the stores had less ensure commodities supply business, and the income was affected to a certain extent. The convenience store segment recorded a revenue of approximately RMB1,496 million, representing a decrease of approximately RMB5 million or approximately 0.3% year on year, accounting for approximately 6.1% of the Group's revenue.

During the period under review, the convenience store segment recorded a gross profit of approximately RMB170 million, representing a decrease of approximately RMB6 million or approximately 3.6% year on year. The gross profit margin decreased by 0.38 percentage point to 11.34%. The recorded consolidated income was approximately RMB234 million, representing a year-on-year decrease of approximately RMB17 million, and the consolidated income margin decreased by 1.06 percentage points year on year to approximately 15.66%.

During the period under review, due to the impact of the pandemic, the operating loss of the convenience store segment was approximately RMB25 million, representing a year-on-year increase of approximately RMB22 million from the same period of last year, and the operating profit margin decreased by 1.47 percentage points to -1.69%.

	As at 31 December	
	2022	2021
Gross Profit Margin (%)	**11.34**	11.72
Consolidated Income Margin (%)	**15.66**	16.72
Operating Profit Margin (%)	**-1.69**	-0.22

Financial Performance Analysis

	Twelve months ended 31 December		
	RMB million		
	2022	2021	YoY change (%)
Revenue	**24,681**	24,760	–0.3
Gross profit	**3,382**	3,062	10.5
Consolidated income	**5,912**	5,793	2.1
Operating profit (loss)	**88**	–317	127.7
Income tax expense	**109**	97	12.3
Loss for the period attributed to shareholders of the Company	**–212**	–423	49.9
Basic loss per share *(RMB)*	**–0.19**	–0.38	49.9
Dividend per share *(RMB)*	**Nil**	Nil	N/A

Capital Structure

As at 31 December 2022, 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 RMB1,029,888 thousand to approximately RMB818,141 thousand, which was primarily attributable to the loss of approximately RMB211,747 thousand recorded in the period.

Details of the Group's Pledged Assets

As at 31 December 2022, 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 2022, 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

Contingent Liabilities

As at 31 December 2022, the Group did not have any material contingent liabilities.

Development of Sales Network: Enhancement of Business Integration

During the period under review, the Group accelerated the transformation of its business segments through measures such as hypermarket miniaturizing, 3.0 supermarket and franchise model innovation. Affected by the epidemic in 2022, the Group mitigated the impact on new stores, effectively controlled the number of stores closed in the later stage of the epidemic and maintained the growth of outlets through measures such as prudent stores closure and supporting franchisees. During the COVID-19 pandemic, the Group helped small and medium-sized merchants overcome the difficulties and retained those merchants through the rental reduction and exemption policies as well as the rental decrease policy during the contract period. At the same time, the Group accelerated its expansion into the community fresh produce stores and explored strategic project cooperation to stabilize the scale of stores. The renewal rate of existing outlets nationwide reached 90%.

During the period under review, the Group opened a total of 348 new stores, including 161 directly-operated stores and 187 new franchised stores. 298 of the new stores were located in the Yangtze River Delta region, accounting for 86% of the new stores. On the other hand, the Group adapted to changes in the market environment, continued to prudently streamline the stores and improved the overall quality of the physical outlets. As a result, 275 stores were closed, of which 117 were directly-operated stores and 158 were franchised stores.

Region	Business format	New stores opened during the period under review		Stores closed during the period under review	
		Quantity	Operating Area *(sqm)*	Quantity	Operating Area *(sqm)*
Greater East China	Hypermarkets	2	3,002.00	5	32,711.00
	Supermarkets	237	142,838.83	190	53,405.06
	Convenience stores	69	4,436.81	51	3,356.52
North China	Supermarkets	1	100.00	0	0.00
	Convenience stores	0	0.00	3	127.00
Northeast China	Convenience stores	1	22.00	10	550.50
Central China	Supermarkets	8	14,700.00	1	170.00
South China	Supermarkets	25	14,116.00	14	3,334.12
Southwest China	Supermarkets	3	10,600.00	1	120.00
Northwest China	Supermarkets	2	820.00	0	0.00
Total		348	190,635.64	275	93,774.20

Note: The above information is as at 31 December 2022.

During the period under review, the Group opened two new stores for the hypermarket segment in Shanghai, and closed five stores for the segment, including two in Shanghai and three in Zhejiang Province. In terms of the hypermarket segment, we integrated the miniaturized stores into the malls. To be specific, Qiaozi Wan Store became the first store implementing the transformation; the new Qingpu Caoying Store was put into operation in the Qingpu Shopping Mall of Bailian Group; and Wusong Store tried to cooperate with Bailian Group to jointly build a community living centre. As the Group's first outlet selection store, Songhong Road Store broke through limits of the fresh food business through the combination of small physical stores and excellent online stores to keep improving the self-operating capability in fresh produce. The store in Yinyue Complex in Yiwu was transformed into a community-based shopping centre, creating a new lifestyle and addressing consumers' needs for quality life.

During the period under review, we continued to promote outlet expansion as well as store transformation and efficiency enhancement for supermarkets, the core segment of the Group. For the supermarket segment, a total of 276 new stores were opened, including 129 directly-operated stores and 147 franchised stores. 206 stores were closed, including 99 directly-operated stores and 107 franchised stores. The number of stores recorded a net increase of 70 stores. During the period under review, systematic store establishment standards were developed for the supermarket segment. In strict compliance with the standards, we deepened the potential for operation and management improvement, clarified the positioning as "select stores", and improved operation capabilities by optimizing the layout and commodity structures and creating innovative living scenarios. The Group adopted an independent marketing strategy and VI system to create a community fresh produce 3.0 selection model and increase the proportion of sales of new products and imported goods.

During the period under review, 70 new convenience stores were opened, including 30 directly-operated stores, and 40 franchised stores and 64 stores were closed, including 13 directly-operated stores and 51 franchised stores. The number of stores recorded a net increase of six stores. For the convenience store segment, the Group focused its efforts on creating a new brand image for stores and leveraged the information system to improve operations. The Group offered more equipment and facilities in stores with newly added trendy and young elements in its stores to attract younger consumers. At the same time, the Group optimized the core functions of stores. It strengthened the fresh food feature of stores based on the consumption scenarios such as breakfast, lunch, afternoon tea, dinner and late-night snacks, and reshaped the brand of "Lianhua Quik" and recognition of customers, thereby providing consumers with a safe, fashionable, comfortable and warm shopping environment.

As at 31 December 2022, the Group had a total of 3,352 stores, representing a net increase of 73 stores as compared to the end of 2021. Approximately 84.69% of the Group's stores are located in Greater Eastern China.

	Hypermarkets	**Supermarkets**	**Convenience Stores**	**Total**
Directly-operated	137	769	351	1,257
Franchised	–	1,499	596	2,095
Total	137	2,268	947	3,352

Note: The above information is as at 31 December 2022.

During the period under review, the Group promoted the omnichannel development through expanding cooperations, attracting customers through multiple channels and strengthening the integration of stores and warehouses. We integrated B2C with delivery-to-home business to optimize goods structure. We optimized and replaced goods based on the offline core lists to create an online core goods list to help improve product quality and efficiency. We expanded online business through cooperations to build a corporate welfare purchase platform. We established our stores on Taoxianda (淘鮮達) and JD one-hour delivery service (京東1小時達), and planned to establish our online stores on one-hour delivery service and half-day service of Tmall Supermarket to promote cooperation through alliance with leading brands. We allocated more efforts into content marketing, attracted customers through multiple channels, and enhanced user reach and attracted traffic through various channels such as communities, live streaming and official accounts. By improving targeted reach and optimizing content operation, we gradually reduced the investment in promotion expenses. We expanded the sources of traffic to form an all-around traffic source integrating offline, community, platform and external channel users, thus developing an online product procurement and operation strategy based on user profiles. Leveraging its central warehouse-based multi-mode online business, the Group has implemented the store-warehouse integration project and supported instant delivery and B2C.

Responsibility of a Stated-owned Enterprise in Ensuring Supply during the Epidemic

During the period under review, the Group's supply chain responded quickly with interconnections across segments, departments and channels, and completed the task of ensuring supplies for the year in an excellent manner. During the pandemic, the Group immediately set up an emergency supply guarantee team to connect with the district, sub-districts and residential communities, and established a grid-based supply guarantee network. With the high coordination among the operation, procurement and logistics, and sufficient support from finance and information departments, we provided online and offline services and sought all resources to ensure supplies to meet the needs of people in different lockdown situations. All employees of the Group participated in epidemic prevention and supply guarantee. During the period of lockdown in Shanghai, the Group served more than 5,400 village committees, and completed the supply of 4.5 million gift packs and over 1.4 million guaranteed supplies. The Group provided services for more than 30 mobile cabin hospitals and more than 100 related enterprises, and fulfilled more than 300,000 orders of epidemic prevention materials. At the same time, Lianhua Huashang also actively participated in the regional supply guarantee work. During the year, the Group's total supply guarantee amount exceeded RMB1 billion, and the Group was highly appraised by consumers, Bailian Group and the government!

Supply Chain Layout Optimization

During the period under review, the Group thoroughly rationalized the supply chain structure to optimize and improve the efficiency of the supply chain. The Group sought high-quality accesses through multiple channels, improved the fresh produce supply chain, strengthened the construction of fresh produce bases, and established a bidding mechanism to strictly control the purchase price. As of the end of 2022, the Group had 165 direct and joint procurement bases for fresh produce, representing a net increase of 16 bases. The bases focused on promoting seasonal fruits and developing popular products. For room temperature products, the Group optimized the structure of product supply chain, accelerated the iteration of new products, improved the structure of product categories, and explored new categories and new products with sales potential, thereby building a differentiated product supply chain to meet market demand.

Digital Transformation

During the period under review, the Group ramped up its efforts to promote its digital stores in external areas, accelerating the process of digital transformation projects. Based on its business, the Group focused on the overall planning of structure, cloud infrastructure, business data governance and coordinated ecological development to create a future-proof, flexible, stable, safe, efficient, agile and innovative digital Lianhua. Through the cooperation among three parties, the Group sought the core architecture strategy and promotion plan for digital transformation, overcame the difficulties in software and hardware, and introduced advanced systems and intelligent hardware to build a set of digital store systems that fit Lianhua and is applicable to front-end stores, driven by online and offline consumer experience enhancement and work efficiency improvement, thereby empowering digital operation capabilities, improving store operation efficiency, and enhancing customer experience in stores and at home.

Employment, Training and Development

As at 31 December 2022, the Group had a total of 28,701 employees, increased by 921 employees during the period under review, and the total labour costs amounted to approximately RMB2,347,317 thousand.

During the period under review, the Group consolidated the foundation, optimized and improved the process, and accelerated the process optimization. The Group comprehensively sorted out and reinvented various management systems and operation processes. In 2022, as a part of the system and process reinvention project under the leadership of the leaders of CPC Committee and top management of the Company, departments and offices in the headquarters fully clarified and rationalized management module and management boundary based on responsibilities of posts, department structure and core indicators. Through the seminars on the systems and processes of various departments, we identified and assembled the left-behind systems and management blind spots, which improved the management capability of the Company's systems, made various management rules and evidence-based, and further improved the standardization of management.

During the period under review, the Group benchmarked itself against the best companies in the industry and implemented organizational integration and staffing optimization, and continued to optimize the organizational structure of the headquarters, staffing of various departments and the functions and responsibilities of the posts. With respect to talent pool development, the Group, focusing on the "Eagle Series", revitalized the development of human resources, and made efforts to develop various reserve talent teams to establish a talent supply chain system that meets the future development needs of Lianhua. The supermarket partnership model continued to be optimized to ensure the vitality of the partnership incentive mechanism.

Consumer Experience and Marketing Improvement

During the period under review, the Group continued to carry out theme-based integrated marketing activities from multiple sources. With the help of community marketing and membership operation, the Group achieved brand image and customer preference enhancement through PR communication. The Group hosted a series of themed integrated marketing activities, such as "Blessings of the Auspicious Year of Tiger – 2022CNY" (福聚虎運年2022CNY), "Better Life-Thirty-first Anniversary of Lianhua" (三十一周年聚享好生活-聯華三十一周年慶), "Summer Fun Day – Summer Life Festival" (縱情夏日 · 聚享生活-縱夏生活節), "Blissful Harmony – Mid-Autumn Festival and National Day" (花好月圓心相聚-中秋國慶) and "Thanksgiving Gathering Living Wholeheartedly – Thanksgiving Life Festival" (感恩相聚 · 用心生活-感恩生活節). At the same time, the Group cooperated with JBP suppliers to create diversified consumption scenarios, and carried out online and offline integrated multi-brand marketing activities, such as Lighting Up Dream Dinner (點亮夢想晚餐), and Lianhua Spark Festival (聯華燃動節). Leveraging the hot topics of the World Cup, the Group organized the first Lianhua Spark Festival, which increased traffic and improved exposure. To boost consumption in Shanghai and drive the economy, the municipal government of Shanghai issued four rounds of electronic consumption vouchers. In addition, Lianhua has launched consumption vouchers worth RMB10 million, which, together with the government consumption vouchers, formed a joint force with the Shanghai municipal government to help restore consumer confidence and promote urban economic growth.

Cost Control and Efficiency Improvement

During the period under review, the Group further improved its comprehensive budget management system by means of system streamlining, system control and budget management improvement. The Group streamlined and formulated the cost control process to enhance the awareness and responsibility of the departments responsible for cost control. The Group formulated specific cost control measures for each business line, promptly reviewed the expenses incurred by all business segments and the implementation of measures during the year, and promptly put forward management opinions and suggestions to prepare monthly rolling budgets. During the period under review, the operating and management expenses continued to decline year on year. At the same time, the Group strengthened capital operation and improved the return and value of capital to ensure the safety of capital and a higher return on capital use compared to the average market yield. We actively applied for fiscal and tax subsidies to reduce losses from the pandemic. The Group has been actively promoting the integration of business and finance. The finance department has been cooperating with the business departments to provide financial support for new business development, such as the pooling of funds for franchisees and attempts to build a front-end capital management platform, in a bid to support business development while reducing costs, increasing efficiency and improving output.

Major Risks

The business, financial position, operating results and prospects may be affected by risks and uncertainties relating 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 major risks encountered by the Group and the mitigating measures are set out below:

Operational Risk

Factors including slower growth in retail market, increased downward preasure on the economy and changes in consumer habits, have a greater impact on physical stores. With the decrease in birth rate in China, the advantage of demographic dividend is no longer available, resulting in a continuous decline in consumer traffic and a decline in consumer purchasing power. At the same time, due to the weak supply chain integration capability and the lack of obvious effect of category optimisation, the efficiency improvement of fresh food supply chain was insufficient, and the replacement of goods and the introduction of new products were slow, making it difficult to improve comprehensive income. The Group's operations will face greater challenges.

Mitigating Measures

Based on the Yangtze River Delta region, the Group will take advantage of regional advantageous network resources with two major business formats, namely supermarkets and hypermarkets, and integrate the regional and nationwide supply chain system to achieve an integrated online and offline sales network. The Group focuses on the introduction and sales performance of new high-quality products. The Group implements a compulsory commodity elimination system to eliminate the worst-performing products and replace poor-selling products, in order to upgrade commodities to high-quality healthy, convenient products with attractive appearances, accelerating the development of its own brands and helping to improve the performance of its own brands. The Group continues to advance the introduction of suppliers of direct supply, automatic control/purchase and the transition from direct delivery to distribution, and to strengthen cooperation with JBP brands and direct supply partners. The Group strengthens the price negotiation of commodities to improve the comprehensive income of commodities. The Group takes measures to increase the gross profit margin of key categories; and focuses on the product selection and negotiation of the delivery-to-home business to improve the performance of the business. The Group continues to optimize the fresh food supply chain, accelerates the development of self-owned fresh food brands, and take measures to ensure the supply of fresh food. The Group formulates replenishment rules, clarifies the departments responsible for replenishment and develops a full-scenario forecast replenishment model. The Group establishes rules for the entry into warehouse of goods for suppliers, order rules, supply mode rules and performance evaluation rules, and optimise the logistics operation mode to increase the rate of goods entering the warehouse.

Risks of Development of Sales Network

With regular epidemic prevention and control, consumption is changing faster and faster, and with more new businesses entering the market, changes will be exceptionally rapid. At present, most of the stores under business formats of the Company are traditional, and the profitability model for those new stores under each business segment has not yet been well-established, therefore cost of the sales network is relatively high. The Group is subject to the risk of high difficulty in selecting outlet sites and slow development of outlets.

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 neighbourhood centres and regional centres 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. Keeping up with market changes, the Group promptly followed the changes in outlets during the pandemic and the regular epidemic prevention and control so as to optimize strategic layout, explore special channels, establish strategic alliances, develop asset-light model and develop key projects. The Group also improved new outlet project approval standards (business district conditions, land conditions, property conditions, etc.), and strictly controlled low-point projects to prevent investment risks.

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

Affected by the downward pressure on the economy and the impact of the post-epidemic era, the Group is facing severe tests such as the rising withdrawal rate and vacancy rate with hardware of the stores being old and the customer flow declining, making the rental premium capacity of investment continue to decline. Self-owned merchant brand base of Lianhua is not fully mature, and its ability to plan and implement business solicitation needs to be further improved.

Mitigating Measures

The Group will gradually optimize, rationalize and improve the business process of merchant solicitation, and establish management standards and standards for tenants to continuously reduce the vacancy rate and help stores reduce costs and increase efficiency. Based on the principle of sharing the risk of the pandemic, and considering the requirements of rental reduction and exemption policies, the Company retained tenants and guaranteed investment returns.

Risk related to Employees

There is a lack of clarity in the positioning of the headquarters and the management of the business format, capacity in the management and operation of the functional departments of the head office is insufficient; and there are difficulties such as ageing staff structure, overall low income of staff, insufficient operational capacity of the partners of the stores and insufficient incentive in remuneration. Although the incentive mechanism has covered all employees, it is still different from the intended outcome.

Mitigating Measures

On the one hand, we will continue to promote the organizational integration between the corporate headquarters and the business format headquarters, optimize staffing and process, continuously improve management efficiency, and reduce labour costs; and on the other hand, we will promote all employees to complete the performance appraisal and optimize the performance appraisal of management personnel. We will continue to integrate the organizational structure, promote organizational reform, further define the responsibilities of departments, and clarify the boundaries of departments to improve management efficiency. We will optimize store organization and staffing model to improve personnel efficiency; implement contract-based management for core positions, further optimize the incentive system for performance better than the required level, and will optimize the remuneration management system for front-line employees in stores. We will deepen the iterative calculation of the rights and responsibilities and interests of partners, and accelerate the promotion of the fresh food partnership system and other methods to improve the enthusiasm of employees.

Digital Transformation Risk

Digitalization is an important constraint on merchandise management, inventory management and promotion management. The existing hardware equipment cannot meet the development of innovative applications, business iteration and rapid deployment. At present, the existing system and new digital system of Lianhua are co-existing within a certain period of time. Those have led to the high cost of overall investment in the digital transformation and prolonged transformation period.

Mitigating Measures

We will continuously implement system iteration, accelerate the establishment of digital stores, formulate and improve plans for go-live of those stores, hardware preparation and training. We will launch the digital transformation project, create a digital transformation blueprint and plan, and implement the same in stages. At the same time, we will improve the team's digital cognition, and leverage the digitalization and digital intelligence to improve operation and management of the enterprise.

Compliance Risk Management

The Corporate Compliance Team of the Group, together with the Group's legal advisers, regularly reviews compliance with relevant laws and regulations, compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), disclosure requirements and compliance with the Group's standards of monitoring practices.

Strategy and Planning

2023 is the first year for the full implementation of the spirit of the 20th National Congress of the Communist Party of China. With the full lifting of the epidemic prevention and control policies, production and living will gradually return to normal, the domestic macroeconomic environment will be improved, and the domestic consumption is expected to recover. The Group believes that, in 2023, with the in-depth implementation of the strategy of expanding domestic demand, and the accelerated construction of the new development paradigm featuring dual circulation, in which domestic and overseas markets reinforce each other, with the domestic market as the mainstay, Chinese government will take active measures to revitalize economy, resume and expand consumption, and create more new consumption scenarios, unleashing new vitality into consumption.

In 2023, the Group will continue with its 3 + 1 annual strategic priorities and five supporting guarantee systems. The Group will focus its strategic efforts on business transformation. We will establish a profit model for the hypermarket segment. For the supermarket segment, we will accelerate the promotion of new supermarkets and the iteration of franchise stores, and achieve an industry-leading position in the delivery-to-home business. The Group will focus on category optimisation as its strategic work. We will optimize supply chain and category structure to improve category consolidation and extension as well as product management mechanism, and accelerate the introduction and replacement of products. The Group will prioritise system upgrade as its strategic work and implement Lianhua's digitalization strategy step by step through upgrading systems for its four centers. The Group will take talent development and incentives as its strategic priority. We will foster our core teams, implement contractual management, and improve the performance appraisal system.

In 2023, with the development and investment promotion as the support and guarantee, the Group will focus on the expansion of network in key cities in key regions across various business segments to stabilize the scale; clarify the investment promotion planning, standardize the investment promotion process and enhance the investment promotion performance management. The Group will take the optimization of internal supply chain as the support and guarantee, establish a unified replenishment team, and standardize the mode of operations in warehouses. The Group will take the enhancement of its overall marketing capability as the support and guarantee, facilitating its overall marketing through multi-dimensional reach. With the support of comprehensive budget management and improvement of management efficiency, the Group will strengthen comprehensive budget control through information system. The Group will take the capability and strong execution of the headquarters as support and guarantee to clarify the responsibilities of the headquarters and improve the efficiency of decision-making, thus strengthening the execution capability of the headquarters.

In 2023, the Group will grasp the development trend and characteristics, seek to make further breakthroughs in business development, with a focus on the sales improvement and proportion of imported goods. Centering on building a "15-minute community life circle", we will comprehensively deepen reform and innovation, promote high-quality development and sustainable growth, and gather the wisdom and strength of all the associates to make practical changes with courage and determination.

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 2022.

Final Dividend

The board of Directors (the "**Board**") of the Company recommends not to distribute final dividend for the year ended 31 December 2022.

Audit Committee

The Audit Committee has reviewed the annual results of the Group for the year ended 31 December 2022 and confirmed that they are prepared in accordance with the applicable accounting standards, laws and regulations and appropriate disclosures have been made.

Scope of Work of Messrs. Deloitte Touche Tohmatsu

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2022 as set out in this preliminary announcement have been agreed by the auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the audited consolidated financial statements of the Group for the year as approved by the Board on 28 March 2023. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

Compliance with Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules

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

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

The Board is pleased to confirm that except for the matters as set out below, the Company has complied with all the code provisions in the Corporate Governance Code (the "**Code**") under Appendix 14 of the Listing Rules during the period under review. Apart from the following deviations, none of the Directors is aware of any information that would reasonably indicate that the Company is not or was not for any time of the period under review in compliance with the Code. Details of the deviations are set out as follows:

The code provision 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.

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.

Ms. Zhang Shen-yu, a non-executive Director, was unable to attend the tenth meeting of the seventh session of the Board convened on 16 June 2022 by the Company due to her other business commitments.

Ms. Zhang Shen-yu, a non-executive Director, was unable to attend the eleventh meeting of the seventh session of the Board convened on 30 August 2022 by the Company due to her other business commitments.

Ms. Zhang Shen-yu, a non-executive Director, Mr. Dong Xiao-chun, a non-executive Director and Mr. Wong Tak Hung, a non-executive Director, were unable to attend the twelfth meeting of the seventh session of the Board convened on 1 December 2022 by the Company due to their other business commitments.

Ms. Zhang Shen-yu, a non-executive Director, was unable to attend the 2021 annual general meeting of the Company convened on 16 June 2022 (the "**2021 AGM**") due to her other business commitments.

Ms. Zhang Shen-yu, a non-executive Director, Mr. Dong Xiao-chun, a non-executive Director and Mr. Wong Tak Hung, a non-executive Director, were unable to attend the 2022 extraordinary general meeting of the Company convened on 1 December 2022 (the "**2022 EGM**") due to their other business commitments.

Ms. Zhang Shen-yu, a non-executive Director and Mr. Xia Da-wei, an independent non-executive Director, were unable to attend the thirteenth meeting of the seventh session of the Board convened on 28 March 2023 by the Company due to their 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 meetings subsequently to all members of the Board to enable the Directors who were unable to attend the meetings to understand the resolutions passed at the meetings.

Moreover, the Company has provided the relevant materials relating to the 2021 AGM and 2022 EGM (collectively referred to as the "**2022 General Meetings**") to all members of the Board before the 2022 General Meetings. All ordinary resolutions considered at the 2022 General Meetings were passed smoothly. The Company sent the related minutes of the 2022 General Meetings to all members of the Board after the 2022 General Meetings so that the Directors who were was unable to attend the meeting was able to understand the resolutions passed at the meeting.

Publication of Annual Report

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

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

Shanghai, the PRC, 28 March 2023

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.*