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 2023

FINANCIAL HIGHLIGHTS

As at 31 December 2023, the Group recorded the following:

- Revenue was approximately RMB21,836 million, representing a decrease of approximately 11.5% over 2022, in which the hypermarket segment decreased by approximately 22.2%, the supermarket segment decreased by approximately 1.7% and the convenience store segment increased by approximately 6.0%.
- Gross profit was approximately RMB2,781 million, representing a decrease of approximately 17.8% over 2022. Gross profit margin was approximately 12.74%, decreasing by 0.96 percentage point over 2022.
- Distribution and selling expenses and administrative expenses was approximately RMB5,069 million, decreasing by approximately RMB435 million and approximately 7.9% over 2022.
- Consolidated income amounted to RMB5,192 million, representing a decrease of approximately 12.2% over 2022. Consolidated income margin was approximately 23.78%, decreasing by 0.17 percentage point over 2022.
- Operating loss amounted to approximately RMB228 million, the share of loss of associates amounted to approximately RMB361 million. Loss attributable to owners of the Company amounted to approximately RMB791 million. Basic loss per share amounted to approximately RMB0.71.
- The total number of outlets reached 3,356. During the period under review, the Group opened 337 new outlets, including two hypermarkets, 299 supermarkets (including 93 directly-operated stores and 206 franchised stores), and 36 convenience stores (including 12 directly-operated stores and 24 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 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 2023

	notes	**Year ended 31/12/2023** ***RMB'000*** **(audited)**	Year ended 31/12/2022 *RMB'000* (audited and restated)
Revenue	*3*	**21,835,879**	24,681,396
Cost of sales		**(19,054,807)**	(21,299,101)
Gross profit		**2,781,072**	3,382,295
Other revenue	*3*	**1,903,566**	2,058,711
Other income and other gains and losses	*5*	**507,769**	471,145
Impairment recognised under expected credit loss ("**ECL**") model, net of reversal		**(128)**	(1,132)
Distribution and selling expenses		**(4,286,547)**	(4,715,290)
Administrative expenses		**(782,154)**	(788,724)
Other expenses		**(118,928)**	(42,185)
Share of results of associates		**(361,398)**	(111,526)
Finance costs		**(232,641)**	(276,866)
Loss before tax	*6*	**(589,389)**	(23,572)
Income tax expense	*7*	**(124,837)**	(101,503)
Loss and total comprehensive expense for the year		**(714,226)**	(125,075)
(Loss) profit and total comprehensive (expense) income for the year attributable to:			
Owners of the Company		**(791,317)**	(206,527)
Non-controlling interests		**77,091**	81,452
		(714,226)	(125,075)
Loss per share – basic	*8*	**RMB0.71**	RMB0.18

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2023

	notes	31/12/2023 *RMB'000* (audited)	31/12/2022 *RMB'000* (audited and restated)
Non-current assets			
Property, plant and equipment		**3,221,869**	3,463,791
Construction in progress		**14,339**	4,330
Right-of-use assets		**5,022,128**	5,738,461
Intangible assets		**126,477**	123,005
Goodwill		**146,096**	148,017
Interests in associates		**231,382**	592,814
Financial assets at fair value through profit or loss ("**FVTPL**")		**53,851**	42,319
Finance lease receivables-non-current		**57,441**	188,758
Term deposits		**4,278,060**	2,605,420
Deferred tax assets		**77,712**	69,380
Other non-current assets		**157,090**	82,115
		13,386,445	13,058,410
Current assets			
Inventories		**2,431,542**	3,036,797
Finance lease receivables-current		**23,512**	47,895
Prepaid rental		**5,128**	4,727
Trade and bills receivables	*9*	**238,326**	242,853
Deposits, prepayments and other receivables		**486,561**	696,646
Financial assets at FVTPL		**996,485**	867,164
Amount due from an ultimate holding company		**690**	8
Amounts due from fellow subsidiaries		**41,855**	48,633
Amounts due from an associate		**479**	363
Term deposits		**930,500**	1,786,265
Cash and cash equivalents		**2,447,620**	3,198,945
		7,602,698	9,930,296
Total assets		**20,989,143**	22,988,706

(Continued)

	notes	31/12/2023	31/12/2022
		RMB'000	*RMB'000*
		(audited)	(audited and restated)
Capital and reserves			
Share capital		**1,119,600**	1,119,600
Reserves		**(1,047,474)**	(256,157)
Equity attributable to owners of the Company		**72,126**	863,443
Non-controlling interests		**376,221**	382,828
Total equity		**448,347**	1,246,271
Non-current liabilities			
Deferred tax liabilities		**127,613**	148,272
Lease liabilities		**4,305,173**	5,108,859
		4,432,786	5,257,131
Current liabilities			
Trade and bills payables	*10*	**4,402,499**	4,525,669
Tax payable		**203,460**	149,412
Other payables and accruals		**1,756,847**	1,963,901
Lease liabilities		**833,025**	896,096
Contract liabilities		**8,899,355**	8,928,208
Amount due to an ultimate holding company		**–**	6,814
Amounts due to fellow subsidiaries		**12,074**	14,051
Amounts due to associates		**750**	1,153
		16,108,010	16,485,304
Total liabilities		**20,540,796**	21,742,435
Net current liabilities		**(8,505,312)**	(6,555,008)
Total equity and liabilities		**20,989,143**	22,988,706
Total assets less current liabilities		**4,881,133**	6,503,402

NOTES TO THE CONSOLIDATED ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2023

1. GENERAL

Lianhua Supermarket Holdings Co., Ltd. (the "**Company**") is a joint stock limited company incorporated in the PRC with limited liability. The address of its registered office and principal place of business is Room 713, 7th Floors, 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 2023, the Group had net current liabilities of RMB8,505,312,000 (2022: RMB6,555,008,000). 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 RMB2,955,015,000 (2022: RMB1,885,000,000), 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")

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

In the current year, the Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2023 for the preparation of the consolidated financial statements:

HKFRS 17 (including the June 2020 and December 2021 Amendments to HKFRS 17)	Insurance Contracts
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform-Pillar Two model Rules
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies

Except as described below, the application of these new and 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.

2.1 Impacts and changes in accounting policies on application of Amendments to HKAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

The Group has applied the amendments for the first time in the current year. 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* ("**HKAS 12**") so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

In accordance with the transition provision:

(i) the Group has applied the new accounting policy retrospectively to leasing transactions that occurred on or after January 1, 2022;

(ii) the Group also, at January 1, 2022, recognised 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 difference associated with right-of-use-assets and lease liabilities.

The details of the impacts on each financial statement line item and loss per share arising from the application of the amendments are set out under "Impacts of application of amendments to HKFRSs on the consolidated financial statements" in this Note. Comparative figures have been restated.

2.2 Impacts on application of Amendments to HKAS 1 and HKFRS Practice Statement 2 *Disclosure of Accounting Policies*

The Group has applied the amendments for the first time in the current year. HKAS 1 *Presentation of Financial Statements* is amended to replace all instances of the term "significant accounting policies" with "material accounting policy information". Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

HKFRS Practice Statement 2 *Making Materiality Judgements* (the "**Practice Statement**") is also amended to illustrate how an entity applies the "four-step materiality process" to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments has had no material impact on the Group's financial positions and performance but has affected the disclosure of the Group's accounting policies set out in Note 3 to the consolidated financial statements.

Impacts of application of amendments to HKFRSs on the consolidated financial statements

The effects of the changes in accounting policies as a result of application of amendments to HKAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* on the consolidated statement of profit or loss and other comprehensive income and earnings/(loss) per share, are as follows:

	Year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
Impact on loss and other comprehensive expense for the year		
Decrease in income tax expense	**7,113**	7,689
Impact in loss and total comprehensive expense for the year attributable to:		
Owners of the Company	**4,989**	5,220
Non-controlling interests	**2,124**	2,469

	Year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
Impact on basic loss per share		
Basic loss per share before adjustments	**(0.711)**	(0.189)
Net adjustments arising from change in accounting policy in relation to deferred tax impact on leasing transactions	**0.004**	0.005
Reported basic loss per share	**(0.707)**	(0.184)

The effects of the changes in accounting policy as a result of application of amendments to HKAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* on the consolidated statement of financial position as at the end of the immediately preceding financial year, i.e. 31 December 2022 and the beginning of the comparative period, i.e. 1 January 2022, are as follows:

	31 December 2022 (Original stated)	**Adjustment**	**31 December 2022** (Restated)
Deferred tax assets	**8,520**	60,860	69,380
Non-controlling interests	**367,270**	15,558	382,828
Reserves	**(301,459)**	45,302	(256,157)
Total effects on equity	**1,185,411**	60,860	1,246,271

	1 January 2022 (Original stated)	**Adjustment**	**1 January 2022** (Restated)
Deferred tax assets	**8,045**	53,171	61,216
Non-controlling interests	**224,509**	13,089	237,598
Reserves	**(89,712)**	40,082	(49,630)
Total effects on equity	**1,254,397**	53,171	1,307,568

Amendments to HKFRSs in issue but not yet effective

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

Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[1]
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback[2]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current[2]
Amendments to HKAS 1	Non-current Liabilities with Covenants[2]
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangement[2]
Amendments to HKAS 21	Lack of Exchangeability[3]

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

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

[3] Effective for annual periods beginning on or after January 1, 2025.

The directors of the Company anticipate that the application of all these 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 31/12/2023 *RMB'000*	Year ended 31/12/2022 *RMB'000*
Revenue		
Sales of merchandise	**21,835,879**	24,681,396
Services		
Income from suppliers (service income)	**1,379,217**	1,570,291
Franchising income from franchised stores	**39,026**	39,261
Commission income on coupon redemption at other retail shops	**1,856**	10,902
	1,420,099	1,620,454
Total	**23,255,978**	26,301,850

Timing of revenue recognition

	Year ended 31/12/2023 *RMB'000*	Year ended 31/12/2022 *RMB'000*
At a point in time	**21,837,735**	24,692,298
Over time	**1,418,243**	1,609,552
Total	**23,255,978**	26,301,850

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

	Year ended 31/12/2023 *RMB'000*	Year ended 31/12/2022 *RMB'000*
Revenue from contracts with customers – sales of merchandise	**21,835,879**	24,681,396
Other revenue from contracts with customers – services	**1,420,099**	1,620,454
Rental income from leasing of shop premises	**483,467**	438,257
	1,903,566	2,058,711
Total revenue and other revenue	**23,739,445**	26,740,107

(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 logistic 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 31/12/2023 *RMB'000*	Year ended 31/12/2022 *RMB'000*
For operating leases:		
Fixed lease payments	**467,468**	428,714
For finance leases:		
Finance income on the net investment in the lease	**15,999**	9,543
Total revenue arising from leases	**483,467**	438,257

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 revenue		**Segment results**	
	Year ended 31/12/2023	Year ended 31/12/2022	**Year ended 31/12/2023**	Year ended 31/12/2022
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Hypermarket	**10,777,339**	13,650,205	**(40,953)**	143,081
Supermarket	**11,232,233**	11,430,017	**47,609**	164,185
Convenience store	**1,638,780**	1,548,627	**(17,782)**	(25,349)
Other operations	**91,093**	111,258	**(23,593)**	(6,817)
	23,739,445	26,740,107	**(34,719)**	275,100

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

	Year ended 31/12/2023	Year ended 31/12/2022
	RMB'000	*RMB'000*
Segment results	**(34,719)**	275,100
Share of results of associates	**(361,398)**	(111,526)
Gain on disposal of interests in associates	**–**	598
Unallocated interest income	**19,848**	38,046
Unallocated expenses	**(224,685)**	(217,064)
Unallocated gain (loss) on change in fair value of financial assets at FVTPL	**11,565**	(8,726)
Consolidated loss before tax	**(589,389)**	(23,572)

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 policies 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 gain (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 31/12/2023 ***RMB'000***	Year ended 31/12/2022 *RMB'000* (restated)
– Hypermarket	**11,673,099**	12,746,305
– Supermarket	**6,610,379**	6,652,162
– Convenience store	**419,873**	495,596
– Other operations	**180,321**	320,422
Total segment assets	**18,883,672**	20,214,485
Interests in associates	**231,382**	592,814
Deferred tax assets	**77,712**	69,380
Other unallocated assets	**1,796,377**	2,112,027
Total assets	**20,989,143**	22,988,706

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
31/12/2023

	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)*	**335,098**	**379,813**	**65,119**	**65**	**780,095**
Depreciation and amortisation	**684,567**	**574,979**	**65,356**	**11,805**	**1,336,707**
Loss (gain) on disposal of property, plant and equipment	**19,095**	**385**	**(990)**	**1,211**	**19,701**
Net gain on termination of right-of-use assets and lease liabilities	**(23,173)**	**(5,901)**	**(489)**	**–**	**(29,563)**
Interest income on bank balances and term deposits	**(182,520)**	**(73,855)**	**(297)**	**(479)**	**(257,151)**
Interest income on finance lease receivables *(note 3)*	**(15,999)**	**–**	**–**	**–**	**(15,999)**
Finance costs	**152,433**	**76,518**	**3,690**	**–**	**232,641**

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
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

note:

Addition to non-current assets include the additions of RMB130,655,000 to property, plant and equipment (2022: RMB234,476,000), RMB21,215,000 to construction in progress (2022: RMB11,476,000), RMB602,823,000 to right-of-use assets (2022: RMB783,673,000) and RMB25,402,000 to intangible assets (2022: RMB9,464,000).

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 31/12/2023 *RMB'000*	Year ended 31/12/2022 *RMB'000*
Interest income on bank balances and term deposits	**276,999**	261,120
Government grants *(note i)*	**64,495**	85,172
Gain (loss) on change in fair value of financial assets at FVTPL	**35,858**	(3,067)
Dividends from financial assets at FVTPL	**960**	1,471
Net gain on termination of right-of-use assets and lease liabilities	**29,563**	28,173
Salvage sales	**15,758**	24,295
Income from breakage *(note ii)*	**8,015**	15,127
Coupon charges	**11,765**	11,400
Penalty income	**29,276**	12,000
Gain on disposal of interests in associates	**–**	598
Others	**35,080**	34,856
Total	**507,769**	471,145

notes:

i. The Group received unconditional government grants of RMB64,495,000 (2022: RMB83,697,000) from the PRC local government (the "Authorities") as an encouragement for the operation of subsidiaries in certain jurisdictions. In addition, an amount of nil (2022: RMB1,475,000) 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 31/12/2023 *RMB'000*	Year ended 31/12/2022 *RMB'000*
Loss before tax has been arrived at after charging:		
Amortisation and depreciation		
Depreciation of property, plant and equipment	**331,043**	343,049
Depreciation of right-of-use assets	**983,734**	1,034,319
Amortisation of intangible assets	**21,930**	22,474
Total amortisation and depreciation	**1,336,707**	1,399,842
Share of results of associates		
Share of results before tax	**330,286**	110,045
Share of income tax expense	**31,112**	1,481
	361,398	111,526
Auditors' remuneration	**6,149**	6,472
Directors' remuneration	**2,532**	2,642
Salaries, wages and other employee benefits of other staff	**1,975,211**	2,139,840
Retirement benefits scheme contribution of other staff	**193,419**	204,835
Total staff costs	**2,171,162**	2,347,317
Impairment losses recognised under ECL model, net of reversal	**128**	1,132
Write-down of inventories	**650**	2,152
Cost of inventories recognised as expenses	**19,054,157**	21,299,101

7. INCOME TAX EXPENSE

	Year ended 31/12/2023 *RMB'000*	Year ended 31/12/2022 *RMB'000* (restated)
Current tax on the PRC Enterprise Income Tax ("**EIT**")	**161,207**	118,833
Over provision of PRC EIT in prior years	**(7,379)**	(437)
Deferred tax credit	**(28,991)**	(16,893)
	124,837	101,503

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 31/12/2023 *RMB'000*	Year ended 31/12/2022 *RMB'000* (restated)
Loss before tax	**(589,389)**	(23,572)
Tax at PRC EIT tax rate of 25% (2022: 25%)	**(147,347)**	(5,893)
Tax effect of share of results of associates	**90,350**	27,882
Tax effect of expenses not deductible for tax purpose	**725**	331
Tax effect of income not taxable for tax purpose	**(2,635)**	(4,946)
Tax effect of tax losses not recognised	**192,565**	117,584
Tax effect of deductible temporary differences not recognised	**14,225**	1,098
Utilisation of tax losses previously not recognised	**(14,764)**	(25,917)
Over provision of PRC EIT in prior years	**(7,379)**	(437)
Effect of different tax rates of subsidiaries	**(903)**	(510)
Recognition of deductible temporary differences previously not recognised	**–**	(7,689)
Income tax expense for the year	**124,837**	101,503

8. LOSS PER SHARE

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

	Year ended 31/12/2023	Year ended 31/12/2022
	RMB'000	*RMB'000*
Loss for the year attributable to owners of the Company	**(791,317)**	(206,527)

	Year ended 31/12/2023	Year ended 31/12/2022
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 AND BILLS RECEIVABLES

	31/12/2023	31/12/2022
	RMB'000	*RMB'000*
Trade receivables – contracts with customers	**239,429**	250,030
Bills receivables	**6,000**	–
Less: allowance for credit losses	**(7,103)**	(7,177)
	238,326	242,853

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 (2022: 30 to 60 days), presented as follows:

	31/12/2023	31/12/2022
	RMB'000	*RMB'000*
0 – 30 days	**220,292**	229,386
31 – 60 days	**2,968**	3,554
61 – 90 days	**811**	3,468
Over 90 days	**8,255**	6,445
	232,326	242,853

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 following is an ageing analysis of bills receivables, net of allowance for credit losses, presented based on the issue dates of bills receivables.

	31/12/2023	31/12/2022
	RMB'000	*RMB'000*
0 – 180 days	**6,000**	–

The following is a maturity analysis of bills receivables, net of allowance for credit losses, presented based on the remaining dates to maturity of bills receivables at the end of each reporting period.

	31/12/2023	31/12/2022
	RMB'000	*RMB'000*
0 – 180 days	**6,000**	–

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:

	31/12/2023	31/12/2022
	RMB'000	*RMB'000*
1 – 30 days past due	**811**	3,468
More than 30 days past due	**8,255**	6,445
	9,066	9,913

10. TRADE AND BILLS PAYABLES

	31/12/2023	31/12/2022
	RMB'000	*RMB'000*
Trade payables	**2,952,499**	3,525,669
Bills payables	**1,450,000**	1,000,000
	4,402,499	4,525,669

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 (2022: 30 to 60 days), is as follows:

	31/12/2023	31/12/2022
	RMB'000	*RMB'000*
0 – 30 days	**957,899**	1,342,254
31 – 60 days	**623,032**	704,211
61 – 90 days	**349,075**	427,381
Over 90 days	**1,022,493**	1,051,823
	2,952,499	3,525,669

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.

The following is an aging analysis of bills payables presented based on issue dates at the end of each reporting period:

	31/12/2023	31/12/2022
	RMB'000	*RMB'000*
0 – 180 days	**1,350,000**	600,000
Over 180 days	**100,000**	400,000
	1,450,000	1,000,000

The following is an aged analysis of bills payables presented based on maturity date at the end of each reporting period:

	31/12/2023	31/12/2022
	RMB'000	*RMB'000*
0 – 180 days	**1,450,000**	200,000
Over 180 days	**–**	800,000
	1,450,000	1,000,000

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Environment

In 2023, the international situation was full of twists and turns, making a new era of uncertainty and change, and the global economy recovery was struggled to gain traction with insufficient momentum for economic growth. Despite these challenges, China's macro-economy exhibited remarkable resilience. The overall economy showed a gradual and moderate recovery after a series of consumption-promotion policies introduced by the National Development and Reform Commission, the Ministry of Commerce and local governments. The Gross Domestic Product (GDP) reached approximately RMB12.6 trillion, representing a year-on-year growth of 5.2%. Throughout the year, the Consumer Price Index (CPI) increased by 0.2% compared to the previous year. However, during this period, pork prices experienced a decrease of 13.6%, while fresh vegetables prices dropped by 2.6%.

However, the "scarring effect" of the pandemic still existed. The labor market has not yet returned to its ideal level, and both the growth of disposable income and household assets witnessed a slowdown, resulting in a slower recovery in consumer confidence and more rational and cautious spending behaviour. At the same time, consumers are leaning towards seeking discounts and promotions, and shifting towards more price-competitive shopping channels. The intensified competition of emerging channels such as interest-based e-commerce platforms, specialty discount stores, O2O and other new channels posed a greater challenge to most physical retail stores. In terms of market segmentation, the fast-moving consumer goods market in the PRC as a whole recorded poor performance in 2023, with total omni-channel retail sales declining by 0.5% compared to the previous year, and retail sales in the offline market falling by 3.6% compared to the previous year.

Financial Review

Revenue

During the period under review, the Group's revenue was approximately RMB21,836 million, representing a year-on-year decrease of approximately RMB2,845 million, or approximately 11.5%. During the period under review, the speed of recovery in the supermarket industry was slower than that of the food and beverage and other consumer industries, which exerted an impact on the number of store visitors, with more rational consumption among the general public, and significant trend in consumption downgrading. At the same time, due to the impact of the pandemic at the beginning of the year on the peak-sale season of the Spring Festival, the revenue decreased year-on-year. Among them, the delivery-to-home online business showed steady growth, with online sales increasing by 12% year on year.

Gross Profit

During the period under review, the Group's gross profit was approximately RMB2,781 million, representing a year-on-year decrease of approximately RMB601 million, or approximately 17.8%. During the period under review, the overall gross profit margin of the Group was approximately 12.74%, representing a decrease of approximately 0.96 percentage point as compared with the gross profit margin of 13.70% for the corresponding period of last year, which was mainly due to the increase in marketing efforts after the pandemic as well as low loss and high gross profit margin of fresh produce in which the sales for ensuring commodities supply accounted for a large proportion in the same period last year.

Other Revenue

During the period under review, the Group's other revenue was approximately RMB1,904 million, representing a year-on-year decrease of approximately RMB155 million, or approximately 7.5%. During the period under review, the Group actively carried out merchant solicitation after the pandemic while optimizing and adjusting the layout of shops. The occupancy rate of shops has been gradually increasing, and our revenue from merchant solicitation increased by approximately RMB45 million compared with the same period last year. Due to the decline in revenue, related income from suppliers decreased by approximately RMB191 million compared with the same period last year.

Other Income and Other Gains and Losses

During the period under review, the Group's other income and other gains and losses amounted to approximately RMB508 million, representing a year-on-year increase of approximately RMB37 million, or approximately 7.8%. During the period under review, the Group's interest income on bank balances and term deposits, gain on change in fair value of financial assets at FVTPL and dividends from financial assets at FVTPL increased by approximately RMB54 million year on year.

Distribution and Selling Expenses

During the period under review, the Group's distribution and selling expenses amounted to approximately RMB4,287 million, representing a year-on-year decrease of approximately RMB429 million, or approximately 9.1%. The Group continued to refine the details of comprehensive budget management and standardized control over the entire process of expenses in all business sectors, and strengthened its line control efforts, resulting in a continuous decline in operation expenses.

Administrative Expenses

During the period under review, the Group's administrative expenses amounted to approximately RMB782 million, representing a year-on-year decrease of approximately RMB7 million, or approximately 0.8%.

Other Expenses

During the period under review, the Group's other expenses amounted to approximately RMB119 million, representing a year-on-year increase of approximately RMB77 million, which was mainly due to the increase in impairment provision for the closure of some hypermarkets in the Anhui and Jiangsu regions based on the Group's overall strategic adjustments.

Share of Results of Associates

During the period under review, the Group's share of losses of associates amounted to approximately RMB361 million, representing a year-on-year increase in losses of approximately RMB250 million. During the period under review, Shanghai Carhua Supermarket Co., Ltd. ("Shanghai Carhua"), an associate of the Group, provided for significant expected credit losses on the non-trade financial assets of its major related parties in addition to normal operating losses. The credit impairment of these financial assets was mainly due to the financial difficulties of Shanghai Carhua's related parties and there was no realistic prospect of recovery. The Group recognized its share of losses of Shanghai Carhua under the equity method in profit or loss of approximately RMB367 million, representing an increase in loss of approximately RMB255 million year on year. The Group's interest in Shanghai Carhua has been reduced to zero using the equity method in accordance with the accounting policy of the Group.

Loss before Tax

During the period under review, the Group's loss before tax amounted to approximately RMB589 million, representing a year-on-year increase in loss of approximately RMB566 million.

Income Tax Expense

During the period under review, the Group's income tax expense was approximately RMB125 million, representing a year-on-year increase of approximately RMB23 million.

Loss Attributable to Owners of the Company

During the period under review, the Group's loss attributable to owners of the Company amounted to approximately RMB791 million, representing a year-on-year increase in loss of approximately RMB585 million. During the period under review, the net loss rate was approximately 3.62%, representing a year-on-year increase in loss rate of 2.78 percentage points. Based on the 1,119.6 million shares issued by the Group, the basic loss per share was approximately RMB0.71.

Liquidity and Financial Resources

As at 31 December 2023, the Group's cash and balance at the bank amounted to approximately RMB7,656 million. During the period under review, the net increase of the Group's cash and balance at the bank amounted to approximately RMB66 million.

For the year ended 31 December 2023, the trade payable turnover period of the Group was 57 days, and the inventory turnover period was approximately 44 days.

During the period under review, the Group did not use any financial instrument for hedging purposes. As at 31 December 2023, there were no arbitrage financial instruments in issue by the Group.

Gearing Ratio

As at 31 December 2023, 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 2022: 0.0%).

Growth of Each Retail Business

Hypermarkets

During the period under review, the revenue of the hypermarket segment amounted to approximately RMB9,646 million, representing a year-on-year decrease of approximately RMB2,750 million, or 22.2%, and accounting for approximately 44.2% of the Group's revenue. During the period under review, the number of store visitors was affected, along with the slow recovery in consumer confidence, more rational and cautious spending and the reduction of stockpiling after the pandemic, which resulted in a significant decrease in customer orders and weaker performance on the overall sales.

During the period under review, the hypermarket segment recorded a gross profit of approximately RMB1,343 million, representing a year-on-year decrease of approximately RMB416 million. Gross profit margin decreased by 0.27 percentage point year on year to 13.92%. During the period under review, benefiting from the increase in the store occupancy rate due to the adjustment of outlets and the layout of stores, the rental income of hypermarkets was approximately RMB379 million, representing a year-on-year increase of approximately RMB27 million. During the period under review, the hypermarkets recorded a comprehensive income of approximately RMB2,793 million, representing a year-on-year decrease of approximately RMB517 million, and the consolidated income margin increased by 2.25 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 RMB2,569 million, representing a year-on-year decrease of approximately RMB376 million. The rationalization of outlets and the whole-process standardized process helped to effectively reduce operating expenses. The hypermarket segment recorded an operating loss of approximately RMB41 million, representing a year-on-year decrease in profit of approximately RMB184 million. Operating profit margin decreased by 1.57 percentage points year on year to -0.42%.

	As at 31 December	
	2023	2022
Gross Profit Margin (%)	**13.92**	14.19
Consolidated Income Margin (%)	**28.95**	26.70
Operating Profit Margin (%)	**–0.42**	1.15

Supermarkets

During the period under review, the supermarket segment recorded a revenue of approximately RMB10,514 million, representing a decrease of approximately RMB177 million or approximately 1.7% year on year, and accounting for approximately 48.2% of the Group's revenue. During the period under review, the supermarket segment targeted fresh produce supermarkets in selected communities, and strived to increase customer adhesion by focusing on community services and enriching marketing activities in line with consumer needs.

During the period under review, the supermarket segment recorded a gross profit of approximately RMB1,242 million, representing a year-on-year decrease of approximately RMB205 million or 14.2%. During the period under review, the loss of fresh produce in the supermarket segment increased while the efforts made in marketing and promotion activities were stepped up, and the gross profit margin decreased by 1.73 percentage points year on year to 11.81%. The Group developed the merchant solicitation business in the supermarket segment to reduce the vacancy rate, and the rental income was approximately RMB102 million, an increase of approximately RMB19 million or 23.0% year on year. During the period under review, the supermarket segment recorded a consolidated income of approximately RMB2,097 million, representing a decrease of approximately RMB199 million year on year. The consolidated income margin decreased by 1.52 percentage points year on year.

During the period under review, the supermarket segment recorded an operating profit of approximately RMB48 million, representing a decrease of approximately RMB116 million year on year. The operating profit margin decreased by 1.09 percentage points to approximately 0.45%.

	As at 31 December	
	2023	2022
Gross Profit Margin (%)	**11.81**	13.54
Consolidated Income Margin (%)	**19.95**	21.47
Operating Profit Margin (%)	**0.45**	1.54

Convenience stores

During the period under review, the convenience store segment recorded a revenue of approximately RMB1,587 million, representing an increase of approximately RMB91 million or approximately 6.0% year on year, and accounting for approximately 7.3% of the Group's revenue. During the period under review, the convenience store segment focused on strengthening the fresh produce function of stores and opening up the circulation link of cold chain products to speed up the refresh rate, leading to a gradual recovery of customer visits and customer orders.

During the period under review, the convenience store segment recorded a gross profit of approximately RMB177 million, representing an increase of approximately RMB7 million or approximately 4.4% year on year. Affected by the lower gross profit of fresh produce and the increase in marketing and promotional activities, the gross profit margin decreased by 0.18 percentage point to 11.16%. The convenience store segment recorded a consolidated income of approximately RMB241 million, representing a year-on-year increase of approximately RMB7 million, and the consolidated income margin decreased by 0.44 percentage point year on year to 15.22%.

During the period under review, due to the impact of the pandemic, the operating loss of the convenience store segment was approximately RMB18 million, representing a year-on-year decrease in losses of approximately RMB7 million from the same period of last year, and the operating profit margin increased by 0.57 percentage point to -1.12%.

	As at 31 December	
	2023	2022
Gross Profit Margin (%)	**11.16**	11.34
Consolidated Income Margin (%)	**15.22**	15.66
Operating Profit Margin (%)	**–1.12**	–1.69

Financial Performance Analysis

	Twelve months ended 31 December		
	RMB million		
	2023	2022	YoY change (%)
Revenue	**21,836**	24,681	–11.5
Gross profit	**2,781**	3,382	–17.8
Consolidated income	**5,192**	5,912	–12.2
Operating (loss) profit	**–228**	88	–359.2
Income tax expense	**125**	102	23.0
Loss for the period attributed to owners of the Company	**–791**	–207	283.2
Basic loss per share *(RMB)*	**–0.71**	–0.18	283.2
Dividend per share *(RMB)*	**Nil**	Nil	N/A

Capital Structure

As at 31 December 2023, 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 RMB863 million to approximately RMB72 million, which was primarily due to the loss of approximately RMB791 million recorded in the period.

Details of the Group's Pledged Assets

As at 31 December 2023, 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 2023, 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 2023, the Group did not have any material contingent liabilities.

Outlet Development – Segment Integration and Improvement

During the period under review, the Group focused on the "15-minute community living circle" to build small-scale, community-based stores. Through the construction of life services and ancillary facilities, the Group commenced joint construction with the community and neighborhood to grow customer base and achieve the functional transformation of supermarkets to enter the community. For the supermarket segment, we accelerated the iteration of store types, explored the models of selected stores and fresh produce stores, optimized store categories, enhanced the self-operating capability in fresh produce, deepened the transformation results, and continued its upgrading. Regarding the franchisee, the Group carried out in-depth cultivation in three aspects of outlet expansion, product supply chain and management empowerment, and strengthened the exploration of a closely-franchised model to promote positive development. In terms of convenience stores, we enriched the functions of directly-operated stores, accelerated the updating of product categories, and increased revenue.

During the period under review, the Group strived to maintain the scale of its outlets by horizontal and vertical integration. We opened a total of 337 new stores, including 107 directly-operated stores and 230 new franchised stores. 247 of the new stores were located in the Yangtze River Delta region, accounting for 73% 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, 333 stores were closed, of which 76 were directly-operated stores and 257 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	3,127.00	15	64,979.00
	Supermarkets	241	105,363.43	200	62,894.57
	Convenience stores	35	2,159.39	88	4,744.45
North China	Supermarkets	7	3,760.00	0	0.00
	Convenience stores	0	0.00	6	442.76
Northeast China	Convenience stores	1	46.50	10	520.00
Central China	Supermarkets	7	13,830.00	0	0.00
South China	Hypermarkets	0	0.00	1	9,630.00
	Supermarkets	29	10,790.00	13	4,447.51
Southwest China	Supermarkets	3	5,790.00	0	0.00
Northwest China	Supermarkets	12	23,000.00	0	0.00
Total		337	167,866.32	333	147,658.29

Note: The above information is as at 31 December 2023.

During the period under review, the Group focused on the development of key cities and optimized the outlet deployment in Jiangsu, Anhui and other regions based on its overall strategic adjustments. It opened two new stores for the hypermarket segment in Shanghai, and closed sixteen stores for the segment, including two in Shanghai, one in Zhejiang Province, 10 in Jiangsu Province, two in Anhui Province and one in external area. The Group continued to iterate the 2.0 selected supermarket model for the hypermarket segment in an attempt to build small-scale and community-based stores around the 15-minute community living circle, with category breakthrough, merchant solicitation enrichment, online and offline integration as the three major focuses. Starting from the three aspects of store, home and private domain, the Group adopted a store-by-store, step-by-step transformation strategy. With convenience, freshness and neighborhood sharing centers as the key words, the Group tailored community neighborhood stores, community life center stores and community-based quality life selected stores, realizing the transformation and iteration from “traditional hypermarkets” to community-based life centers.

During the period under review, the Group accelerated segment optimization through in-depth results transformation and iteration for supermarkets, the core segment of the Group. For the supermarket segment, a total of 299 new stores were opened, including 93 directly-operated stores and 206 franchised stores. 213 stores were closed, including 39 directly-operated stores and 174 franchised stores. The number of stores recorded a net increase of 86 stores. During the period under review, the Group completed transformation and upgrading of community-based fresh produce stores and attempted the new 1+N model for the supermarket segment. At present, the "supermarket + category" integrated model has been completed in 23 stores, combining community-based stores with the brand through layout adjustments, category optimization and other refined management methods to better complement each other and effectively enhance the service capacity of the transformed stores and revenue.

During the period under review, 36 new convenience stores were opened, including 12 directly-operated stores and 24 franchised stores. 104 stores were closed, including 21 directly-operated stores and 83 franchised stores. The number of stores recorded a net decrease of 68 stores. For the convenience store segment, the Group continued to upgrade its sub-new stores, while accelerating the development of quality outlets with a focus on schools, hospitals and other special business districts to enhance its development momentum. With respect to resources display and functional promotion, the Group enhanced its brand affinity, utilized internet buzzwords to attract the attention of young customers, improved the shopping experience of consumers, and diligently implemented the brand slogan of "Quik, My Happy Moment".

As at 31 December 2023, the Group had a total of 3,356 stores, representing a net increase of 4 stores as compared to the end of 2022. Approximately 84.06% of the Group's stores are located in Greater Eastern China.

	Hypermarkets	**Supermarkets**	**Convenience Stores**	**Total**
Directly-operated	123	823	342	1,288
Franchised	–	1,531	537	2,068
Total	123	2,354	879	3,356

Note: The above information is as at 31 December 2023.

Enhancement of Online Operation Capabilities

During the period under review, the Group achieved a double-digit growth in online sales by strengthening online traffic conversion, enhancing product power, optimizing user experience, empowering innovative businesses and other means and strategies. To capture traffic, the Group employed resource exchanges with third-party platforms, precise coupon distribution and community promotions to effectively increase the traffic of the main website. At the same time, the Group seized market hot spots and increased the output of innovative contents for public domain traffic to attract target fans and realize traffic feedback. The Group also focused on customer experience by synchronizing the launch of new products both online and offline, securing the quality of fulfillment, optimizing the after-sale process, and optimizing the display of quality activities on the homepage in order to improve consumer satisfaction and enhance consumer loyalty. Product improvement was another priority, involving enhancements to product descriptions, increasing the exposure of Lianhua's selected products and increasing the replacement rate of products in order to improve the core competitiveness of products. Fourthly, we paid attention to the incremental volume and launched new businesses, such as the home delivery Alipay applet, smart selection and the B2C third-party platform project, etc. to optimize customer experience, expand the coverage area, and empower the business with the aim to increasing sales.

Consumer Experience and Overall Marketing

During the period under review, the Group created seasonal and festive marketing themes based on consumer demand along with supply chain advantages and strengthened content marketing by utilizing digital tools and empowering innovative campaigns. We continued to cultivate Lianhua's thematic IP campaigns, organizing the 2nd Lianhua Spark Festival（聯華第二屆燃動節）, integrating the hot spot of the Shanghai Masters Tennis Tournament, and promoting the overall marketing through home-based, community-based, Xiaohongshu, TikTok and other self media, offline materials and external communication to reach out to different customer groups. The exchange of traffic on platforms also realized effective reach and consumer insights, achieving high-quality improvement in both brand reputation and brand influence. The Group refined the membership management system, strengthened the refined operation of the private sector, integrated resources, attracted traffic through multiple channels, and utilized a variety of methods to achieve a whole-chain and closed-loop interaction between the brand and consumers, thus realizing consumer-oriented online and offline cross-scenario interactions and over marketing.

Focus on Changes in Product Categories and Development of Proprietary Brands

During the period under review, the Group achieve initial results in the launch of product categories that can increase brand awareness and the development of proprietary brands. On the one hand, the Group accelerated the changes in product categories to fill the category gaps and enhance its market competitiveness. On the other hand, the Group focused on new product innovation and creativity, responded to the changes in consumers' shopping mindset, explored co-branding operational model and new product launch model, and launched its proprietary brand products that meet the needs of consumers with benchmarking value. With the 3 LOVE strategy, the Group integrated Lianhua's concept of quality, healthier, and high value-for-money products into supply chain and product adjustments, and fully defined Lianhua's products as "quality in manufacturing, sense and price" with the five major brand products. At the same time, the Group also combined the proprietary product plan to create co-branded products. We optimized the supply chain by direct procurement from the source to lower the end prices, enabling customers to truly experience value for money. Keeping abreast with the new consumer trends, the Group promoted its proprietary brands on the self-media such as TikTok, Meituan and Xiaohongshu to achieve more penetration, strengthen its proprietary brands and build up Lianhua's unique competitiveness.

Supply Chain Layout Optimization

During the period under review, the Group continued to optimize its supply chain management, explored the parallel implementation of various supply chain business models, conducted a comprehensive assessment of the "profitability and efficiency" of the ambient supply chain optimization, and replaced inefficient suppliers to enhance the competitive edge of its supply chain. The Group deepened its cooperation with JBP suppliers, focused on the introduction of new brands and new suppliers, and carried out in-depth practices of the JBP national joint work model to create greater benefits together. We promoted the internal and external development of the fresh produce supply chain. For the external supply chain, we adopted strategies such as direct sourcing, introduction of new products and development of proprietary brands to better control the source of goods, reduce the procurement costs and enhance the competitiveness of product differentiation. Regarding the internal supply chain, we optimized the distribution of large warehouses and the collection process of goods in stores to improve logistics efficiency, reduce losses and lower operating costs, as well as provide strong protection for the promotion of fresh produce cold chain products. The Group strengthened its base construction and the development of proprietary brands to better control the product quality and provide consumers with better quality fresh produce. We developed digitalization and visibility technologies in the supply chain to establish an efficient, convenient, economical, reliable and dynamic supply chain network system in order to enhance operational efficiency and accuracy towards sustainable development.

Digital Transformation

During the period under review, the Group fully activated the digitization project and launched the display and procurement digitization systems, significantly optimizing the operation model and streamlining the business processes. The Group re-activated the logistics WMS system integration project and completed the system upgrade of the financial Jindie EAS system, while promoting the optimization of integrated business and financial processes. In terms of the internal supply chain system, we realized the centralized return function, automatic replenishment function, visualization of requisition and inventory data at the headquarters, as well as the construction of LHWIN supply chain board, which improved the synergetic efficiency and data management of the internal supply chain. Our digital store system has been constructed based on stable system operation. We continued to improve the stability and reliability of the system through product iteration. The advancement of digital transformation has enhanced the accuracy and traceability of system data, which has significantly improved the intelligence, standardization and management efficiency of the Group's overall business and laid a solid foundation for the Group's further digital reform and transformation.

Employment, Training and Development

As at 31 December 2023, the Group had a total of 25,735 employees. The total labor costs amounted to approximately RMB2,171,162 thousand.

During the period under review, the Group further consolidated the overall organizational structure of the headquarters, continued to focus on operations, optimized internal core business processes and continuously enhanced the efficiency of operations and management. The Group strengthened the centralized advantages of the headquarters by integrating the regional merchant solicitation, finance and other functions into the unified management at the headquarters; optimized the management structure by adjusting the segment departments and clarifying their functions; strengthened the staffing by leveraging on the measures of ongoing transformation of digital stores, further streamlining the frontline processes, optimizing the staffing standards of the hypermarket and the supermarket stores, and enhancing the operational efficiency of the stores, with the aim of improving labor efficiency and reducing the labor costs.

During the period under review, the Group introduced the contract-based management for core positions which featured dynamic adjustments to the staffing level, and set up the Company's key project assessment program to encourage our managers and employees to share and achieve their goals together. We optimized the incentive system for superior performance to create and share value, thereby improving the income of front-line employees. At the same time, on the one hand, we activated multi-modal iteration of stores to deepen the partnership mechanism. We introduced new partners in the fresh produce category while expanding the scope of partnership, aiming to strengthen our ability to open up new sources of income and cut down on expenses. On the other hand, we also tried out a new management mode known as store consignment, which helped us improve operating performance through the separation of ownership and operation rights.

During the period under review, the Group increased its investment in talent acquisition and cultivation. By leveraging its advantages in coordination, the Group established a platform for the exchange and sharing of talent recruitment information and gradually achieved a balanced allocation of surplus human resources to meet the shortfall among its subordinate enterprises. The Group insisted on recruitment of management trainees for our stores and headquarters, which has laid a solid foundation for the back-up of core positions at our headquarters and frontline stores; we selected young talents to participate in specialized training and development programs and projects, aiming to empower and cultivate them; we insisted on the post rotation mechanism, and determinedly appointed those who rendered outstanding performance in the appraisal, so as to accelerate the build-up of young managers; we conducted in-depth investigation into the reserve of management of our subordinate enterprises to overcome the challenges we faced together and gradually reshaped a new talent echelon, aiming to optimize our whole-chain cultivation approach covering "selection, cultivation, utilization, and retention".

Cost Control and Efficiency Improvement

During the period under review, the Group utilized digital tools to implement the annual budget control objectives, strengthened its awareness and capability in funds management, strictly examined the budget requirements, planned the use of funds in a rational manner, improved the return on funds, and achieved cost reduction and efficiency enhancement. We continued to promote the development of business and finance integration, using financial analysis tools to evaluate new and transformation projects. Through budget alerts, progress and performance analysis, we identified operational problems and put forward management and control proposals to provide strong support for operational decision-making. We fully implemented the requirements of "strong headquarters, strong support, strong enforcement", advanced the systematic construction of targeted, effective and enforceable systems and processes, standardized store operations, and enhanced the level of digital management, in order to achieve efficient operation and sustainable development of the enterprise.

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

As it still takes time to reflect the macroeconomic recovery in residents' employment and income, there is still room for further release of the consumption power of residents and consumer confidence. The sales of the supermarket retail industry declined due to the impact of intensified channel competition, and there is still room for improvement for the profitability model of the industry. The integration capacity of the supply chain remained weak, with a lack of competitive advantages in fresh produce. The insignificant effect of product introduction and replacement resulted in slow updating of the product structure and unsatisfactory improvement of the overall consolidated income. The Group's operations will face greater challenges.

Mitigating Measures

The Group, on the one hand, will actively carry out transformation, iteration and innovation for existing sectors, focus on core areas, deepen the transformation results, and adjust the product lists by considering the sales for the hypermarket sector and the supermarket sector to upgrade the scenarios of key categories. On the other hand, the Group will proactively step up the deployment of new stores by developing potential stores in the city, filling in the gaps in the high-quality vacant areas, fostering capable franchised stores in other provinces and cities, and transform the closely-franchised outlet network in an orderly manner. The Group will integrate marketing, strengthen the conversion of online traffic, and change user acquisition from "passive action" to "front interception"; reduce costs and increase efficiency through budget control; improve the quality of the supply chain, focus on product categories that can increase brand awareness, and focus on the development of proprietary brands; fully activate digitalization projects; enhance organizational capabilities and deepen assessment and incentives.

Risks of Development of Sales Network and Merchant Solicitation

In the post-pandemic era, the lack of sufficient momentum for revitalization and barely satisfactory performance of new stores resulted in a slowdown in expansion. The Group is still required to adjust the layout strategy of Lingang and the five major new cities, and optimize the assessment model of new stores. The merchant solicitation policy has been tightened, together with the increased control of merchant solicitation of the state-owned enterprises, which lead to an increase in the risks of uncertainty in lease renewal and a rise in rents.

Mitigating Measures

The Group will consider market changes to maintain scale, reduce costs and increase efficiency; optimize outlet layout and develop community-based fresh produce stores; accelerate the expansion of closely-franchised model and carry out in-depth cooperation with special channels; develop an assessment model for the selection of new store locations, starting from cities and developing the blank areas in order to improve the estimation accuracy of new stores.

The Group will formulate a merchant solicitation model, equip the model with comprehensive brands and product categories, promote the grid-like network development of merchant solicitation, increase the proportion of branded merchants, continuously optimize and adjust the layout of the classification of the merchant solicitation sector, enhance the stability of the customer base; and achieve the reform of double change and dual enhancement in revenue.

Risks of Organization and Incentive Plan

The organization and processes are required to be further improved. We are still facing difficulties such as ageing staff structure, overall low income of staff and insufficient incentives in remuneration. The talent shortage in key positions still exists. There is a challenge to strike a balance between talent reserve and labor control.

Mitigating Measures

The Group will strive to promote organizational reform, fully extend business decision-making; establish a self-driven and agile organization and management system to eliminate redundant staff; reshape the process and authorization decision-making system to enhance decision-making efficiency and strengthen the centralized advantages of the headquarters; optimize the structure of the core cadres, expand the channels for talent acquisition, diversify the forms of internal selection, and identify the direction of core talent introduction; strengthen the appraisal and incentives, complete the performance appraisal of all employees, implement contractual management; optimize and adjust the remuneration of employees, increase the percentage of flexible workers; and implement product category diversification, key store enhancement, 52-week merchandising, and the iteration of the super partnership model.

Digital Transformation and Process Recreation

The Group has fully activated the digitization project. However, there is still room for improvement for the business process and operational model supported by the new system. Business rules are required to be urgently improved. The business reform and model innovation have not been updated simultaneously.

Mitigating Measures

In line with the new system, the Group will optimize and iterate the new business rules under the support of the digital system, and establish digital SOP, while establishing supporting processes and systems; advance the optimization of integrated business and financial processes, integration of the logistics system, enhancement of product digitalization, and optimization of the internal supply chain. The business of Lianhua will adopt the online cloud platform management system, gradually abandon the paper and manual processes, and complete the centralized construction, so as to achieve business integration, sharing and centralized management. The system upgrade, process optimization and digital empowerment will drive the improvement in the overall business efficiency and contribute to high-quality development and sustainable growth.

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

2024 marks the 75th anniversary of the founding of the PRC and is a critical year for the implementation of the "14th Five-Year Plan". Although China's economic growth is faced with challenges such as heightened global geopolitical risks, insufficient effective demand and weak social expectations, the Group is confident that under the principle of "striving for progress while maintaining stability", along with the sustained reinforcement of various growth stabilization policies and a series of economic measures, the fundamental trend of China's long-term economic growth will remain unchanged, and the consumption potential is expected to continue to be released.

Looking forward to 2024, consumers will become increasingly savvy and rational, with healthy, good-value-for-money and differentiated products dominating the consumption decision-making. The rational mindset seeking for low-priced products will become the mainstream, and the lower-tier markets will become a blue ocean. There will be a continuous increase in online consumption with stratified and differentiated consumer groups. The health demands will also continue to evolve. In 2024, the Group will actively keep abreast with the trend of changes in the retail industry, and continue to adhere to the annual work focus of 3+1 and the five major support and guarantee systems. We will focus on revenue improvement, cost reduction and efficiency enhancement to achieve our goals on the basis of the following six key areas:

- (1) Segments and channel development. Starting from cities, we will develop underserved areas, improve the estimation accuracy of new stores, and optimize merchant solicitation. At the same time, we will explore the main models of segments, focus on the positioning of store types, and provide different consumer groups with more customized and differentiated services and a high-quality shopping experience.

- (2) Supply chain and product development. Starting from the five aspects of creating products, developing product categories that can increase brand awareness, building proprietary brands, optimizing product categories and improving the self-operating capability in fresh produce, the Group will create a product and supporting supply chain system that meets consumers' needs and mindset, with Lianhua's unique characteristics and differentiated competitive advantages, so as to enhance brand influence.

- (3) Omni-channel development. We will build an online and offline marketing system. Through interest-based e-commerce, payment platforms, and content communication, the Group will create a closed loop for overall marketing to exchange and introduce the traffic. From the integration of consumer insights and precise marketing, we will commence in-depth thematic brand marketing, in order to reshape the price system of Lianhua by linking with the JBP rights and benefits sharing. We will also create advantageous product categories to achieve a closed loop of the whole-chain brand consumers formed by the feedback of consumer insights, thereby upgrading the Lianhua brand.

- (4) Logistics efficiency improvement. Through the implementation of the logistics system integration project, the number of inventory turnover days, distribution quota and order fulfillment rate will be improved, thus realizing a reduction in logistics costs.

- (5) Digital efficiency enhancement. We will advance the overall online work by implementing the three key projects, namely, "merchandise digitization enhancement, internal supply chain optimization and logistics system integration", so as to truly realize visualization, online operations and integration in order to facilitate high-quality development and sustainable growth of the enterprise.

- (6) Organization and talent efficiency enhancement. We will strive to promote organizational reform and establish a self-driven and agile organization and management system; expand the channels for talent acquisition, diversify the forms of internal selection and strengthen the talent pool; control organizational details at all levels, introduce the contract-based management for core positions and enhance human resources efficiency of the enterprise; implement product category diversification, key store enhancement and iteration of the super partnership model for the partnership projects.

In 2024, the Group will continue to focus on high-quality development, leverage on its advantages, integrate market opportunities, center on the goal of sustainable development of its business, further carry out in-depth reform and innovation, and strive to advance the planning and implementation of key projects. The Group will exert every effort to achieve revenue growth!

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 2023.

Final Dividend

The board of Directors (the "**Board**") of the Company recommends not to distribute final dividend for the year ended 31 December 2023.

Audit Committee

The Audit Committee has reviewed the 2023 Annual Results and confirmed that they are prepared in accordance with the applicable accounting standards, laws and regulations and appropriate disclosures have been made.

Scope of Work of Messrs. Deloitte Touche Tohmatsu

The figures in respect of the Group's consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2023 as set out in this announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu ("**Deloitte**"), to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Deloitte in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements, or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Deloitte on this announcement.

Compliance with Model Code for Securities Transactions by Directors of Listed Issuers in Appendix C3 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 C3 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 C1 to 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**") as set out in Part 2 of Appendix C1 to 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 ("**Articles of Association**") 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, 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.

Ms. Hu Xiao, a non-executive Director, was unable to attend the second meeting of the eighth session of the Board convened on 29 August 2023 by the Company due to her other business commitments.

Mr. Pu Shao-hua, a non-executive Director, and Mr. Xia Da-wei, an independent non-executive Director, were unable to attend the third meeting of the eighth session of the Board convened on 21 December 2023 by the Company due to their other business commitments.

Mr. Xu Pan-hua, the then non-executive Director, was unable to attend the 2022 annual general meeting of the Company convened on 15 June 2023 (the "**2022 AGM**") due to his other business commitments.

Mr. Pu Shao-hua, a non-executive Director, and Mr. Xia Da-wei, an independent non-executive Director, were unable to attend the 2023 extraordinary general meeting of the Company convened on 21 December 2023 (the "**2023 EGM**") due to their other business commitments.

Mr. Pu Shao-hua, a non-executive Director, and Mr. Xia Da-wei, an independent non-executive Director, were unable to attend the 2023 Class Meeting of Holders of Domestic Shares and Unlisted Foreign Shares of the Company convened on 21 December 2023 (the "**2023 Class Meeting of Holders of Domestic Shares and Unlisted Foreign Shares**") due to their other business commitments.

Mr. Pu Shao-hua, a non-executive Director, and Mr. Xia Da-wei, an independent non-executive Director, were unable to attend the 2023 Class Meeting of Holders of H Shares of the Company convened on 21 December 2023 (the "**2023 Class Meeting of Holders of H Shares**") due to their other business commitments.

Ms. Hu Xiao, a non-executive Director, Mr. Wong Tak Hung, a non-executive Director, and Mr. Chen Wei, an independent non-executive Director, were unable to attend the fourth meeting of the eighth session of the Board convened on 27 March 2024 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 or special matters and all resolutions were passed smoothly. The Company sent the related minutes of the relevant meeting subsequently to all members of the Board to enable the Directors who were unable to attend the meeting to understand the resolutions passed at the meeting.

Moreover, the Company has provided the relevant materials and all necessary information relating to the 2022 AGM, 2023 EGM, 2023 Class Meeting of Holders of Domestic Shares and Unlisted Foreign Shares and 2023 Class Meeting of Holders of H Shares (collectively referred to as the "**2023 General Meetings**") to all members of the Board before the 2023 General Meetings. Save as the special resolution in relation to the proposed amendments to the Articles of Association was not passed at the 2023 Class Meeting of Holders of H Shares, all ordinary resolutions considered at the 2023 General Meetings were passed smoothly. The Company sent the related minutes of the 2023 General Meetings to all members of the Board after the 2023 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 owners 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, 27 March 2024

As at the date of this announcement, the directors of the Company are:

Executive directors:	*Chong Xiao-bing and Zhang Hui-qin;*
Non-executive directors:	*Pu Shao-hua, Hu Xiao, 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.*