

[For immediate release]



Lianhua Supermarket Announces 2012 Annual Results
Facing the Competition and Rising to the Challenges
Revenue rises by 5.33% to RMB 29 billion
Net profit reaches RMB 340 million

Financial and Business Highlights

Financial performance

- Turnover was approximately RMB 28.99 billion, an increase of 5.33% year on year.
- Gross profit amounted to approximately to RMB 3.93 billion. Gross profit margin was 13.55%
- Consolidated income was RMB 7.15billion, an increase of 1.13% year on year. Consolidated income margin was 24.68%.

Increasing fixed costs put pressures on operation

- Operating profit was RMB 512 million and operating profit margin was 1.77%,
- Profit attributable to shareholders of the Company was approximately RMB 340 million. Basic earnings per share amounted to RMB 0.30.
- The board of directors proposed the distribution of a final dividend of RMB 0.07 per share (tax included). Payout ratio for the year was 50%.

Outlet development focused on both quantity and quality to maintain market position.

As at 31 December 2012, the Group had a total of 4,698 outlets. The hypermarket segment continued its expansion in Eastern China, the dominant region of the company, with an enhanced development model. In the supermarket segment, the quality of outlets improved, as a result of franchised store rationalization under the franchised store optimisation programme. The convenience store segment grew steadily with a focus on high-end outlets and upgrades to existing outlets. Approximately 84% of the Group's outlets were located in Eastern China.

Sales increased on marketing strategy improvement. The Group formed strategic alliances with its suppliers and launched joint promotion campaigns. Sales increased as a result of higher customer traffic attracted by theme marketing and promotions of daily necessities. The Group improved quality and price perception with respect to fresh produces with the expansion of direct sourcing from farms, the establishment of self-operated fresh produce processing and the "Central Kitchen".

Increased competitiveness through Innovation. The Group upgraded its business practices by expanding into large scale hypermarket business that offers more functions. The Group further improved its membership system and information gathering system and implemented precision marketing based on extensive analysis of its membership data. The Group continued to refine its online shopping platform "Lianhua Mart" and its cosmeceutical stores "Sakura Kobo", and exploited their synergies with existing business segments to cultivate new growth drivers.

Accelerated internal transformations to improve management. The Group optimized its management systems for merchandise, information technology and settlement. The Group also accelerated the construction of logistics centres to improve logistics and increase operation efficiency.

Built talent pool and enhanced strategic execution. The Group optimized workflow and specified responsibilities of each function. The Group also improved its compensation system and promoted a performance-oriented corporate culture in order to enhance overall efficiency.

(March 26, 2013 – Hong Kong) Lianhua Supermarket Holdings Co., Ltd. (“Lianhua Supermarket” or the “Company”, together with its subsidiaries, collectively the “Group”; HKEx stock code: 980) today announced its annual results for the year ended 31 December 2012 (the “Review Period” or the “Period”).

Lianhua Supermarket grew steadily in 2012. Turnover of the Group amounted to RMB 28.99 billion, representing an increase of 5.33% year on year. The Group’s same store sales decreased by 0.72% over 2011 on fierce competition, economic slowdown in China, consumer behavior changes due to higher consumption costs, restructuring of certain popular items’ sales model for stricter regulations, as well as the rapid development of e-commerce. Consolidated income increased by 1.12% year on year to RMB 7.15 billion mainly because of the addition of new hypermarkets which generated additional sales, income from suppliers, and rental income from sub-leasing. Consolidated income margin was 24.68%, representing a decrease of 1.03 percentage points, mainly due to increasing procurement costs and fierce competition, while reductions in certain fees charged by supermarkets to their suppliers under new regulations further pressured consolidated income margin.

Operating profit reached RMB 512 million and operating profit margin was 1.77%. Profit attributable to shareholders decreased by 45.77% to approximately RMB 340 million. Basic earnings per share was RMB 0.30 based on 1,119.6 million shares outstanding. The board of directors proposed the distribution of a final dividend of RMB 0.07 per share (tax included) for the year ended 31 December 2012. The proposed total dividend for the year amounts to RMB 0.15 per share, representing a 50% payout ratio.

Financial highlights by segments

Hypermarkets: Turnover of the hypermarket segment increased by approximately 7.29% year on year to RMB 17.25 billion, which accounted for approximately 59.52% of the Group’s total turnover. Same store sales decreased by approximately 2.77%. During the period under review, the Group increased the number of hypermarkets and launched more sales promotions in stores to retain customer traffic and gain market share. Consolidated income margin decreased by 0.63 percentage point year on year to 24.32%. Operating profit was approximately RMB 234 million, a decrease by 33.72% as compared with 2011, mainly due to the increase in costs, including labor and rents. Operating profit margin was 1.35%.

Supermarkets: The turnover of the supermarket segment increased by approximately 2.10% year on year to RMB 9.82 billion, which accounted for approximately 33.87% of the Group’s total turnover. Same store sales increased by approximately 2.38%. Gross profit

amounted to approximately RMB1.43 billion. Gross profit margin decreased by 0.95 percentage point to 14.60% year on year, mainly due to the increase of promotions to attract customer traffic with higher discounts. While maintaining the growth momentum of sales and same store sales, these promotions also put pressures on gross profit margin. Also, the increase in wholesales to franchised stores partly affected the gross profit margin of the segment. Consolidated income margin decreased by 0.87 percentage point to 23.76%. Operating profit decreased by 20.76% to RMB 285 million. Operating profit margin was approximately 2.90%.

Convenience Stores: In 2012, the convenience store segment responded actively to the competition. Turnover of the convenience store segment reached RMB 1.84 billion, accounting for 6.34% of the Group's turnover. Same store sales increased by 5.80%, higher than the annual inflation rate. During the period under review, the Group selected 135 quality outlets for transformation and entered the high-end market through further merchandise optimization. These initial investments met the Group's expectations, increasing market share and laying a solid foundation for accelerating the transformation of existing outlets in middle to high-end business districts. The sales and same store sales recorded growth. Gross profit margin decreased by 0.52% to 14.89% as compared to 2011.

Mr. Ma Xinsheng, Chairman of Lianhua Supermarket commented, "In 2012, the retail industry was operating in a complicated and volatile global economy. Chinese retail chains were facing fierce competition and increasing costs. Meanwhile, rising awareness of food safety, tightened regulations on the chargeable fees on suppliers, and competition from e-commerce also pressured sales growth. Facing challenges, the Group further optimized its operation model to improve sales, selling capabilities and profitability through adjustment in product mix. The Group also made adjustments to its franchised outlets and improved the overall quality of outlets to enhance the brand image of "Lianhua". Improvement in incentive programs and staff evaluation system further enhanced execution and efficiency. We continued to innovate and tested new business models to cultivate new growth drivers. The Group maintained its market position by operating carefully in a tough environment, and also nursed strengths for its future development."

Outlet development: focusing on both quantity and quality for in-depth development

The Group continuously adhered to the guiding strategy of "Becoming a Regional Leader and a National Strong Player", and executed its strategy of focused development to maintain its leading position in the Yangtze Delta area and further increase revenue at each store. Meanwhile, the Group emphasized quality in new outlets and sub-new outlets in order to ensure the operational success of the new outlets. The optimization of outlets in various business segments helps enhancing operational competitiveness and is positive for the long-term development of the Group

During the period under review, the Group opened 12 hypermarkets (4 in Shanghai, 3 in Zhejiang Province, 2 in Jiangsu Province, 2 in Henan Province and 1 in the Guangxi Zhuang Autonomous Region), 156 supermarkets (21 directly-operated stores and 135 franchised stores). The Group proactively optimized the quality of franchised stores by closing certain franchised outlets; therefore, the quality of the Group's franchised outlets was significantly enhanced, effectively reducing operational risk. Following its strategy of balancing development, transformation and high end outlets, the Group opened 226 convenience stores (78 directly-operated stores, including 11 newly opened high-end

outlets, and 148 franchised stores). The company also completed the transformation and enhancement of 135 existing stores.

Sales increased on marketing strategy improvement

Facing competition and price pressure, the Group promptly expanded its strategic alliance with suppliers, jointly launching a variety of large-scale marketing events to attract customers and boost sales. During the period under review, the Group continued its investment on key outlets to increase their profit contribution; increased direct sourcing from farms and established a proprietary fresh produce system and “Central Kitchen” to improve the quality and price perception of fresh produces; expanded the procurement and sales of imported merchandise and private label products to improve the profit margin.

Increased competitiveness through Innovation

During the period under review, the Group launched large scale hypermarket business that offered more functions and opened two such outlets, one in Hangzhou, Zhejiang Province with approximately 39,000 square meters and one in Yuqiao, Shanghai with over 40,000 square meters, improving customer experience and built a new path for future development.

The Group also improved its membership system - expanding its member cards from just adding rewards credits to data analysis. Precision marketing based on data analysis of members achieved positive results.

During the period under review, the Group’s “Lianhua Mart” furthered to adjust product mix and system to improve customer service, therefore it strengthened the trust of consumers of online. And the Group also provided better services to its clients through improved customer management and by leveraging a better integration of online and offline network, including distribution and collection from multiple physical locations. Currently, the average sales per transaction already exceeded RMB 160, which demonstrates sound development in the e-commerce industry. During the period under review, after careful market research and planning, it opened 4 cosmeceutical stores “Sakura Kobo” in order to seek new growth point and received positive responses from customers. With the gradual optimization of Sakura Kobo, the Group would create its synergies with main segments in subleasing commercial area and opportunities for introducing cosmeceutical merchandise into other Lianhua stores shall emerge.

Accelerated internal transformations to improve management.

The Group improved its operation efficiency by strengthening various resources in procurement, operations and logistics systems and integrating application systems in all segments. As a part of the Group’s B2B supply chain management platform, the Group launched certification and credit information services to collect and save various types of licenses and certificates of suppliers, and further extended the application of the platform from the hypermarket segment to the supermarket and convenience store segments. At the same time, the Group completed an upgrade of the information systems of all franchised supermarket stores and provided extra “Guarantee” to assure food safety. The Group also further improved its core business system platform to support centralized procurement, maximize the integration of existing resources and improve the efficiency of merchandise and marketing management. The Group, through a unified settlement platform, launched an online unified settlement system to enhance the analysis and evaluation of supplier

information. This unified settlement platform further improved centralized cash management and capital budgeting. Meanwhile, the Group achieved significant breakthroughs in its Jiangqiao logistics center project. The roof of main structure was completed and is striving to commence trial operation by the end of 2013.

Built talent pool and enhanced strategic execution. During the period under review, the Group optimized human resource management and continuously improved services through a variety of measures. The Group focused on improving processes with adjusted staff deployment. Meanwhile it adjusted the standards of assessment system and focused on the quality of daily operations and management of subsidiaries and enhance the performance of the overall operation and management of the Group. The Group also adjusted remuneration and improved incentives policies to further enhance the execution of the team. At the same time, the Group strengthened training for trainees and establishment of corporate culture in order to gather pulling power of continuous development.

Prospects

Looking forward, Mr. Ma said, “Opportunities and challenges shall coexist for the Group in 2013. As for challenges, the Group may face fierce peer competition and internal reforms. However, despite these challenges, the Chinese economy is still growing. Urbanization and government policies to improve people’s wellbeing and stimulate consumption will become the main economic drivers of the retail market. We will further enhance outlets quality and raise the brand image of “Lianhua”. Meanwhile, we will adjust remuneration and the staff evaluation system to improve execution of the Group and develop new growth potential businesses based on market demand in order to seek new growth and create more values for shareholders, employees and society.”

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About Lianhua Supermarket

Lianhua Supermarket Holdings Co., Ltd is a nationwide chain retail operator with a full range of retail segments. Established in Shanghai in 1991, the Group has maintained its leading position in the fast moving consumer goods retail industry in PRC. It operates the “Century Mart” chain of hypermarkets, “Lianhua” & “Hualian” supermarkets and “Lianhua Quik” convenience stores. As of December 31, 2012, the Group operated 4,698 stores in 19 provinces and municipalities.

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