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 INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

FINANCIAL HIGHLIGHTS

As at 30 June 2016, the Group recorded the following:

- Turnover amounted to RMB14,083 million, representing an increase of approximately 0.04% year on year. The same store sales of the Group increased by approximately 0.70% year on year, in which the hypermarket segment decreased by approximately 0.17%, the supermarket segment decreased by approximately 0.93% and the convenience store segment grew by approximately 18.92%.

- Gross profit amounted to approximately RMB2,021 million, representing a decrease of 4.5% year on year. Gross profit margin was approximately 14.35%. Consolidated income margin was approximately 24.17%.

- Operating profit amounted to approximately RMB173 million and operating profit margin was 1.23%. Profit attributable to shareholders of the Company amounted to approximately RMB2.9 million. Basic earnings per share amounted to RMB0.003.

- The total number of outlets reached 3,796. During the period under review, the Group opened 88 new outlets, including, 1 newly opened hypermarket, 40 newly-opened supermarkets (including 4 direct operation stores and 36 franchised stores), 47 newly-opened convenience stores (including 15 direct operation stores and 32 franchised stores). The Group maintained its No. 1 position in number of outlets and further solidified outlet quality.

Note 1: Consolidated income = Gross profit + Other revenues + Other income

Note 2: Consolidated income margin = (Gross profit + Other revenues + Other income)/Turnover

Note 3: Operating profit = Profit before tax – Share of profits of associates

Note 4: Operating profit margin = (Profit before tax – Share of profits of associates)/Turnover

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2016

		Six months ended 30 June	
		2016	2015
		(Unaudited)	(Unaudited)
	NOTES	***RMB'000***	*RMB'000*
Turnover	*4*	**14,083,485**	14,077,536
Cost of sales		**(12,062,668)**	(11,960,898)
Gross profit		**2,020,817**	2,116,638
Other revenue	*4*	**1,153,741**	1,059,158
Other income and gains	*5*	**230,094**	285,978
Selling and distribution expenses		**(2,904,896)**	(2,942,969)
Administrative expenses		**(312,841)**	(339,021)
Other operating expenses		**(13,861)**	(6,939)
Share of profits of associates		**12,423**	23,517
Finance costs		**(61)**	(79)
Profit before taxation	*6*	**185,416**	196,283
Income tax expense	*7*	**(110,856)**	(113,701)
Profit for the period		**74,560**	82,582
Other comprehensive expenses			
Items that may be reclassified subsequently to profit or loss:			
Share of other comprehensive income of associates		**50**	–
Fair value loss on available-for-sale financial assets		**(1,863)**	–
Income tax relating to items that may be reclassified subsequently		**466**	–
Other comprehensive expense for the period, net of income tax		**(1,347)**	–
Total comprehensive income for the period		**73,213**	82,582

(Continued)

	NOTES	Six months ended 30 June **2016** **(Unaudited)** ***RMB'000***	 2015 (Unaudited) *RMB'000*
Profit for the period attribute to:			
Owners of the Company		**2,944**	21,007
Non-controlling interests		**71,616**	61,575
		74,560	82,582
Total comprehensive income for the period attributable to:			
Owners of the Company		**1,597**	21,007
Non-controlling interests		**71,616**	61,575
		73,213	82,582
Earnings per share – basic and diluted	*9*	**RMB0.003**	RMB0.019

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2016

	NOTES	**30 June 2016 (Unaudited) *RMB'000***	31 December 2015 (Audited) *RMB'000*
Non-current assets			
Property, plant and equipment	*10*	**2,534,682**	2,691,762
Construction in progress	*10*	**849,512**	773,418
Land use rights	*10*	**332,464**	335,580
Intangible assets	*10*	**205,063**	200,294
Interests in associates		**542,443**	535,636
Available-for-sale financial assets	*11*	**74,145**	76,007
Term deposits	*12*		
– restricted		**160,000**	783,000
– unrestricted		**1,523,000**	2,010,851
Prepaid rental		**45,197**	50,152
Deferred tax assets		**69,244**	66,614
Other non-current assets	*13*	**16,480**	17,210
		6,352,230	7,540,524
Current assets			
Inventories		**2,481,231**	2,836,825
Trade receivables	*14*	**89,918**	87,085
Deposits, prepayments and other receivables		**768,002**	995,473
Amounts due from fellow subsidiaries	*15*	**20,903**	14,879
Amounts due from associates	*16*	**100**	173
Available-for-sale financial assets	*11*	**–**	7,000
Financial assets at fair value through profit or loss	*17*	**2,352,076**	538,782
Term deposits	*12*		
– restricted		**1,183,000**	606,000
– unrestricted		**1,984,851**	530,750
Cash and cash equivalents		**1,389,804**	4,447,365
		10,269,885	10,064,332
Total assets		**16,622,115**	17,604,856

(Continued)

	NOTES	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Capital and reserves			
Share capital	18	**1,119,600**	1,119,600
Reserves		**1,797,168**	1,795,571
Equity attributable to owners of the Company		**2,916,768**	2,915,171
Non-controlling interests		**249,757**	283,915
Total equity		**3,166,525**	3,199,086
Non-current liability			
Deferred tax liabilities		**94,362**	96,971
Current liabilities			
Trade payables	19	**3,489,973**	3,804,069
Other payables and accruals	20	**2,181,134**	2,335,085
Coupon liabilities	21	**7,431,549**	7,996,463
Deferred income		**26,098**	26,400
Amounts due to fellow subsidiaries	15	**46,987**	37,259
Amounts due to associates	16	**1,459**	3,040
Amounts due to other related parties		**25,294**	5,082
Bank borrowings		**2,000**	2,000
Tax payable		**156,734**	99,401
		13,361,228	14,308,799
Total liabilities		**13,455,590**	14,405,770
Total equity and liabilities		**16,622,115**	17,604,856
Net current liabilities		**(3,091,343)**	(4,244,467)
Total assets less current liabilities		**3,260,887**	3,296,057

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

AT 30 JUNE 2016

	Attributable to owners of the Company							
	Share capital *RMB'000*	Capital reserve *RMB'000* *(note a)*	Other reserve *RMB'000* *(note b)*	Statutory common reserve fund *RMB'000* *(note c)*	Retained profits *RMB'000*	Total attributable to owners of the Company *RMB'000*	Non-controlling interests *RMB'000*	Total *RMB'000*
At 1 January 2015 (audited)	1,119,600	258,353	(234,842)	540,309	1,718,941	3,402,361	272,025	3,674,386
Profit and total comprehensive income for the period	–	–	–	–	21,007	21,007	61,575	82,582
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	(80,064)	(80,064)
At 30 June 2015 (unaudited)	1,119,600	258,353	(234,842)	540,309	1,739,948	3,423,368	253,536	3,676,904
At 1 January 2016 (audited)	**1,119,600**	**258,353**	**(225,041)**	**559,800**	**1,202,459**	**2,915,171**	**283,915**	**3,199,086**
Profit and total comprehensive (expenses) income for the period	**–**	**–**	**(1,347)**	**–**	**2,944**	**1,597**	**71,616**	**73,213**
Dividends paid to non-controlling shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**(105,774)**	**(105,774)**
At 30 June 2016 (unaudited)	**1,119,600**	**258,353**	**(226,388)**	**559,800**	**1,205,403**	**2,916,768**	**249,757**	**3,166,525**

Notes:

(a) Capital reserve of the Company represents share premium arising from issue of H shares net of share issuance expenses in the prior years.

(b) Other reserve of the Group mainly represents:

i. the fair value difference of a subsidiary's net assets, arising from a business combination in 2005, and the Group's original equity interest in that subsidiary;

ii. the financial impact of adopting merger accounting to account for the acquisition of subsidiaries during the year ended in 2009 and 2011;

iii. acquisition of additional equity interests in subsidiaries;

iv. share of the other comprehensive income of the associates; and

v. the change in fair value of available-for-sale financial asset, net of the corresponding impact of income tax.

(c) Pursuant to the relevant regulations of the People's Republic of China (the "PRC") and the Articles of Association of the companies within the Group, each of the companies within the Group is required to transfer 10% of its profit, as determined under the PRC accounting regulations, to statutory common reserve fund until the fund aggregates to 50% of its registered capital. The transfer to this reserve must be made before distribution of dividends to shareholders.

The statutory common reserve fund shall only be used to offset previous years' losses, to expand its operations, or to increase its capital. The statutory common reserve fund may be converted into the capital, provided the balance of the reserve fund after such conversion is not less than 25% of the registered capital.

No transfer has been made to the statutory common reserve fund in respect of the net profit for the six months ended 30 June 2016 and 2015 as such transfer will be made, upon directors' approval, at the year-end date based on the annual profit.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Net cash used in operating activities	**(145,840)**	(296,698)
Investing activities		
Placement of unrestricted term deposits	**(1,497,000)**	(3,932,310)
Withdrawal of unrestricted term deposits	**530,750**	778,400
Purchase of financial assets at fair value through profit or loss	**(1,800,000)**	–
Addition of property, plant and equipment and construction in progress	**(169,925)**	(209,826)
Additional available-for-sale financial assets	**–**	(111,764)
Proceeds on redemption of available-for-sale financial assets	**7,509**	324,000
Proceeds on disposal of financial assets at fair value through profit or loss	**30,014**	–
Dividends received from associates	**41**	53
Dividends received from equity investments classified as available-for-sale financial assets	**11**	11,807
Proceed from disposal of an associate	**8,476**	–
Other investing cash inflows	**195**	2,346
Net cash used in investing activities	**(2,889,929)**	(3,137,294)
Cash used in a financing activity		
Dividends paid to non-controlling shareholders	**(21,792)**	(15,541)
Net decrease in cash and cash equivalents	**(3,057,561)**	(3,449,533)
Cash and cash equivalents at 1 January	**4,447,365**	5,145,270
Cash and cash equivalents at 30 June	**1,389,804**	1,695,737

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2016

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (HKAS 34) *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2016 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015.

In the current interim period, the Group has applied, for the first time, the following new amendments to Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKASs") issued by the HKICPA.

Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception

The application of the above new amendments to HKFRSs and HKAS in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and disclosures set out in these condensed consolidated financial statements.

3. SEGMENT INFORMATION

The following is an analysis of the Group's revenue (including turnover and other revenue) and results by reportable and operating segments, which the Group's General Manager, being the Group's chief operating decision maker (the "CODM"), reviews when making decisions about allocating resources and assessing performance:

	Segment revenue (note) Six months ended 30 June		**Segment results Six months ended 30 June**	
	2016	2015	**2016**	2015
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Hypermarkets	**9,578,708**	9,372,112	**77,475**	51,366
Supermarkets	**4,572,238**	4,758,147	**151,158**	175,482
Convenience stores	**1,063,857**	991,264	**(31,914)**	(35,256)
Other operations	**22,423**	15,171	**1,007**	1,030
	15,237,226	15,136,694	**197,726**	192,622

Note: Segment revenue includes both revenue and other income for both periods presented.

A reconciliation of total segment results to consolidated profit before taxation is provided as follows:

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Segment results	**197,726**	192,622
Unallocated interest income	**31,221**	45,669
Unallocated income	**2,809**	4,373
Unallocated expenses	**(58,763)**	(69,898)
Share of profits of associates	**12,423**	23,517
Profit before taxation	**185,416**	196,283

All of the segment revenue reported above is from external customers.

All of the Group's revenue and segment results are attributable to customers in the PRC.

Segment results did not include share of profits of associates, allocation of corporate income and expenses (including certain interest income relating to funds managed centrally). This is the measure reported to the CODM for the purposes of resource allocation and assessment of segment performance.

4. TURNOVER AND OTHER REVENUE

The Group is principally engaged in the operation of chain stores for hypermarkets, supermarkets and convenience stores. Revenues recognised during the period are as follows:

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Turnover		
Sales of merchandises	**14,083,485**	14,077,536
Other revenue		
Incomes from suppliers	**803,041**	716,906
Gross rental income from leasing of shop premises	**326,019**	313,675
Royalty income from franchised stores	**21,595**	23,596
Commission income from coupon redemption at other retailers	**3,086**	4,981
	1,153,741	1,059,158
Total revenue	**15,237,226**	15,136,694

5. OTHER INCOME AND GAINS

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Interest income on bank balances and term deposits	**121,037**	212,106
Government subsidies *(Note i)*	**28,240**	15,259
Fair value change on financial assets at fair value through profit or loss	**43,294**	248
Dividend from financial assets at fair value through profit or loss	**14**	–
Interest income from available-for-sale financial assets	**–**	4,373
Gain on disposal of an associate *(Note ii)*	**2,809**	–
Dividend from unlisted equity investments	**11**	42
Gain on redemption of available-for-sale financial assets	**509**	–
Gain on disposal of property, plant and equipment	**–**	1,781
Salvage sales	**13,849**	12,463
Others	**20,331**	39,706
Total	**230,094**	285,978

Notes:

(i) The Group received unconditional subsidies from the PRC local government as an encouragement for the operation of certain subsidiaries in certain areas.

(ii) During the current interim period, the Group completed the disposal of its 43% equity interest in Lianhua Mei Ri Ling Commercial (Shanghai) Co., Ltd. ("Lianhua Mei Ri Ling") to the other shareholders of Lianhua Mei Ri Ling for a cash consideration of RMB8,476,000. On the date of disposal, the Group's interest in Lianhua Mei Ri Ling was amounted to RMB5,667,000, resulting in a gain on disposal of an associate of RMB2,809,000 credited to profit or loss in the current interim period.

6. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at:

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
After charging:		
Amortisation and depreciation		
Amortisation of other non-current assets	**730**	729
Amortisation of intangible assets – software (included in selling and distribution expenses/administrative expense) *(Note 10)*	**4,977**	4,845
Amortisation of land use rights *(Note 10)*	**3,116**	3,116
Depreciation of property, plant and equipment *(Note 10)*	**207,016**	239,123
	215,839	247,813
Cost of inventories recognised as an expense	**12,062,668**	11,960,898
Minimum lease payments in respect of rented premises	**861,918**	874,593
Staff costs	**1,461,976**	1,448,868
After crediting:		
Share of profits of associates		
Share of profit before taxation	**14,654**	23,026
Less: Share of taxation	**2,231**	(491)
	12,423	23,517

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Current tax on PRC Enterprise Income Tax ("EIT")	**116,560**	112,635
Deferred tax (credit) expense	**(5,704)**	1,066
	110,856	113,701

No provision for Hong Kong profits tax has been made as the Group has no estimated assessable profits subject to Hong Kong profits tax in both periods presented.

Under the Law of the PRC on EIT and Implementation Regulation of the EIT Law, the EIT tax rate of the PRC subsidiaries is 25%. Certain subsidiaries are taxed at preferential rate of 15% as those entities which are located in specific provinces of western China and engaged in specific encouraged industries which enjoy a preferential tax rate of 15% under EIT Law. Since 2013, a group entity is qualified as "High Tech Enterprise" and enjoys a preferential tax rate of 15% under EIT Law and subject to renewal for every three years. In the current period, this group entity computed the EIT with the tax rate of 25%, as the renewal for "High Tech Enterprise" is in process and has not yet been completed as at 30 June 2016.

8. DIVIDEND

The directors do not recommend the payment of an interim dividend for both periods.

9. EARNINGS PER SHARE – BASIC AND DILUTED

The calculation of the basic and diluted earnings attributable to owners of the Company is based on the following data:

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Earnings		
Profit for the period attributable to owners of the Company	**2,944**	21,007

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**1,119,600,000**	1,119,600,000

Diluted earnings per share are the same as basic earnings per share as no potential ordinary shares were outstanding during the two periods.

10. MAJOR CAPITAL EXPENDITURE

	Property, plant and equipment *RMB'000*	Construction in progress *RMB'000*	Land use rights *RMB'000* *(Note)*	Intangible assets		
				Goodwill *RMB'000*	**Software** *RMB'000*	**Subtotal** *RMB'000*
Opening carrying amount as at 1 January 2015 (audited)	2,924,276	443,667	348,044	151,941	44,528	196,469
Additions	137,716	94,673	–	–	105	105
Transfers	9,282	(12,100)	–	–	2,818	2,818
Disposals	(2,757)	–	–	–	–	–
Depreciation/amortisation charge *(Note 6)*	(239,123)	–	(3,116)	–	(4,845)	(4,845)
Impairment	(3,000)	–	–	–	–	–
Closing carrying amount as at 30 June 2015 (unaudited)	2,826,394	526,240	344,928	151,941	42,606	194,547
Opening carrying amount as at 1 January 2016 (audited)	**2,691,762**	**773,418**	**341,812**	**151,941**	**48,353**	**200,294**
Additions	**54,630**	**89,904**	**–**	**–**	**1,380**	**1,380**
Transfers	**5,444**	**(13,810)**	**–**	**–**	**8,366**	**8,366**
Disposals	**(7,525)**	**–**	**–**	**–**	**–**	**–**
Depreciation/amortisation charge *(Note 6)*	**(207,016)**	**–**	**(3,116)**	**–**	**(4,977)**	**(4,977)**
Impairment	**(2,613)**	**–**	**–**	**–**	**–**	**–**
Closing carrying amount as at 30 June 2016 (unaudited)	**2,534,682**	**849,512**	**338,696**	**151,941**	**53,122**	**205,063**

Note: Land use rights were further analysed for reporting purposes as:

	30 June 2016 (Unaudited) ***RMB'000***	31 December 2015 (Audited) *RMB'000*
Non-current assets	**332,464**	335,580
Current assets (included in deposits, prepayments and other receivables)	**6,232**	6,232
	338,696	341,812

11. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	30 June 2016 (Unaudited) *RMB'000*	31 December 2015 (Audited) *RMB'000*
Non-current		
Legal person shares, at cost *(Note a)*	**312**	312
Unlisted equity investments, at cost *(Note b)*	**67,023**	67,023
Listed equity investments, at fair value *(Note d)*	**6,810**	8,672
	74,145	76,007
Current		
Unlisted debt investments, at cost *(Note c)*	**–**	7,000
Total	**74,145**	83,007

Notes:

(a) These represent investments in legal person shares of certain PRC listed companies. The legal person shares are measured at cost less any identified impairment loss at the end of the reporting period because the range of reasonable fair value estimates is so significant that directors are of the opinion that their fair values cannot be measured reliably.

(b) These represent investments in certain unlisted companies in the PRC. The unlisted equity investments are measured at cost less any identified impairment loss at the end of the reporting period because the range of reasonable fair value estimates is so significant that directors are of the opinion that their fair values cannot be measured reliably.

(c) The investments were managed by licensed financial institutions in the PRC to invest principally in certain financial assets including notes or bonds issued and circulated in the PRC in accordance with the entrusted agreements entered into between the parties involved. The entrusted institutions undertake return of principal and a yield rate of approximately 4.85% per annum upon maturity. The investments had been redeemed upon its maturity during the current interim period and the Group received RMB7,014,000 in upon redemption.

(d) The investments are listed equity investment which are measured at fair value as at 30 June 2016 and 31 December 2015.

12. TERM DEPOSITS

Term deposits placed with banks in the PRC are denominated in Renminbi. Deposits having a maturity period over 3 months but within 1 year are presented as current assets whilst deposits having a maturity period over 1 year but not exceeding 5 years are presented as non-current assets.

As at 30 June 2016, restricted term deposits amounting to RMB1,343,000,000 (31 December 2015: RMB1,389,000,000) are placed by the Group, with certain banks as a security for coupons issued to customers and are not available for other use by the Group.

The effective interest rates on term deposits range from 1.55% to 4.80% (31 December 2015: from 2.10% to 6.80%) per annum. The carrying amounts of the term deposits approximate their fair value.

13. OTHER NON-CURRENT ASSETS

Other non-current assets of the Group represent prepayment for the leasing of certain buildings from the PRC government and are amortised over the shorter of the contractual periods and the estimated useful lives of the buildings.

14. TRADE RECEIVABLES

The aging analysis of the trade receivables net of allowance for doubtful debts at the end of the reporting period, arising principally from sales of merchandise to franchised stores and wholesalers with credit terms ranging from 30 to 60 days (31 December 2015: 30 to 60 days), is as follows:

	30 June 2016 (Unaudited) ***RMB'000***	31 December 2015 (Audited) *RMB'000*
Within 30 days	**83,273**	69,751
31 – 60 days	**2,044**	258
61 – 90 days	**221**	11
91 days – one year	**4,380**	17,065
	89,918	87,085

15. AMOUNTS DUE FROM (TO) FELLOW SUBSIDIARIES

Amounts due from (to) fellow subsidiaries are trade in nature, unsecured, interest free, with credit terms ranging from 30 to 60 days (31 December 2015: 30 to 60 days). As at 30 June 2016, balances of both amounts due from (to) fellow subsidiaries are all aged within 60 days (31 December 2015: 60 days).

16. AMOUNTS DUE FROM (TO) ASSOCIATES

Amounts due from/to associates represent balances arising from expenses paid by the Group on behalf of certain associates and purchases of merchandise from associates respectively. Balances are all aged within 90 days (31 December 2015: 90 days) and the credit terms of the trade balances range from 30 to 90 days (31 December 2015: 30 to 90 days). Such balances with associates are unsecured and interest free.

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2016 (Unaudited) *RMB'000*	31 December 2015 (Audited) *RMB'000*
Equity securities listed in Shanghai Stock Exchange	**2,019**	2,688
Unlisted financial products *(Note)*	**2,350,057**	536,094
Total	**2,352,076**	538,782

Note: The investments are managed by licensed financial institutions in the PRC to invest principally in certain financial assets including bonds, trusts, cash funds, bond funds or unlisted equity investment issued and are circulated in the PRC in accordance with the entrusted agreements entered into between the parties involved. The investments were measured at fair value at the end of the reporting period, with corresponding gain on change in fair value of RMB43,294,000 (30 June 2015: RMB248,000), credited to "other income and gains" in the current interim period.

18. SHARE CAPITAL

	Number of share *RMB1.00 each*	**Share capital** *RMB'000*
Registered:		
As at 1 January 2015, 31 December 2015 and 30 June 2016	1,119,600,000	1,119,600
Issued and fully paid:		
As at 1 January 2015, 31 December 2015 and 30 June 2016	1,119,600,000	1,119,600

19. TRADE PAYABLES

The aging analysis of trade payables at the end of the reporting period, arising mainly from purchase of merchandise with credit terms ranging from 30 to 60 days (31 December 2015: 30 to 60 days), is as follows:

	30 June 2016 (Unaudited) *RMB'000*	31 December 2015 (Audited) *RMB'000*
Within 30 days	**1,393,820**	1,924,636
31 – 60 days	**677,959**	680,459
61 – 90 days	**343,855**	327,625
91 days – one year	**1,074,339**	871,349
	3,489,973	3,804,069

20. OTHER PAYABLES AND ACCRUALS

	30 June 2016 (Unaudited) ***RMB'000***	31 December 2015 (Audited) *RMB'000*
Payroll, staff welfare and other staff cost payable	**246,189**	316,393
Value added tax and other payable	**31,739**	145,883
Rental payable	**806,226**	839,469
Deposits from lessees, franchisees and other third parties	**196,137**	200,885
Dividend payable to a non-controlling shareholder	**87,342**	3,360
Amount payable to other retailers upon customers' redemption of coupon issued by the Group	**13,563**	6,191
Prepayments received from franchisees and other third parties	**365,043**	307,369
Payables for acquisition of property, plant and equipment and low value consumables	**166,099**	209,902
Store closure provision	**13,292**	11,153
Accruals	**192,397**	132,170
Advance from customers	**42,202**	110,664
Other miscellaneous payables	**20,905**	51,646
	2,181,134	2,335,085

21. COUPON LIABILITIES

The Group insures coupon liabilities when coupons are sold and the coupon liabilities decreased upon redemption as a result of sales of the Group's merchandises, the value of which is recognised as revenue in the profit or loss for the period the transactions taken place. Coupon liabilities redeemed in exchange for products or services of other retailers are settled after deducting the Group's commission based on the agreements entered into between the Group and the retailers.

22. CAPITAL COMMITMENTS

	30 June 2016 (Unaudited) ***RMB'000***	31 December 2015 (Audited) *RMB'000*
Capital expenditure in respect of acquisition of property, plant and equipment, construction of buildings and land use rights:		
– contracted for but not provided	**402,018**	421,749

23. OPERATING LEASE

(1) The Group as lessee

The Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	30 June 2016 (Unaudited) ***RMB'000***	31 December 2015 (Audited) *RMB'000*
Within one year	**1,574,789**	1,607,250
In the second to fifth years inclusive	**5,194,462**	5,330,822
Over five years	**6,430,203**	6,883,873
	13,199,454	13,821,945

(2) The Group as lessor

The Group had contracted with tenants for the following future minimum lease payments:

	30 June 2016 (Unaudited) ***RMB'000***	31 December 2015 (Audited) *RMB'000*
Within one year	**292,454**	248,051
In the second to fifth years inclusive	**465,117**	443,806
Over five years	**323,904**	337,774
	1,081,475	1,029,631

The minimum lease receipts mainly relate to leasing of shop premises which are entered into primarily on a short-term or medium-term basis.

24. RELATED PARTY TRANSACTIONS

Save as elsewhere disclosed in the condensed consolidated financial statements, the Group also entered into the following significant related party transactions during the current interim period:

(1) Related party transactions

		Six months ended 30 June	
	Notes	**2016**	2015
		(Unaudited)	(Unaudited)
		RMB'000	*RMB'000*
Sales to fellow subsidiaries	*(a)*	**22,775**	–
Purchases from associates	*(a)*	**2,943**	4,581
Purchases from fellow subsidiaries	*(a)*	**41,643**	50,941
Rental expenses and property management fee paid to fellow subsidiaries	*(b)*	**47,225**	49,246
Rental income from fellow subsidiaries	*(c)*	**11,101**	6,251
Commission income received from fellow subsidiaries	*(d)*	**362**	370
Commission income arising from the redemption of coupon liabilities with a fellow subsidiary	*(e)*	**4,453**	9,746
Commission charges arising from the redemption of coupon liabilities with a fellow subsidiary	*(e)*	**6,041**	2,550
Interest income earned from a fellow subsidiary	*(f)*	**10,056**	8,800
Capital increase in fellow subsidiary	*(g)*	**–**	11,765
Purchases from shareholder Yonghui Superstores Co., Ltd. ("Yonghui Superstores")	*(h)*	**25,816**	–
Management fee incurred with Yonghui Superstores	*(h)*	**202**	–
Logistics fee incurred with Yonghui Superstores	*(h)*	**186**	–

Fellow subsidiaries referred above are subsidiaries of Bailian Group Co., Ltd. ("Bailian Group"), the ultimate holding company of the Company.

Note: Baiqing Investment Co., Ltd ("Baiqing Investment"), as shareholder of the Company prior to 17 April 2015, and Yonghui Superstores have entered into an equity transfer agreement on 17 April 2015, pursuant to which, Baiqing Investment agreed to transfer its ownership of the Company's 237,029,400 unlisted domestic shares, representing approximately 21.17% equity interest of the Company, to Yonghui Superstores at the consideration of HKD3.92 per domestic share. Yonghui Superstores since then became a substantial shareholder of the Company, which have had a substantial influence to the Group.

Notes:

(a) This represents sales to and purchase from Bailian Group and purchase from associates in respect of various kinds of merchandise, including but not limited to food products, daily products and electrical appliances, which were determined in accordance with the terms of underlying agreement at the market price.

(b) These represent rental expenses and property management fee of certain hypermarkets paid to fellow subsidiaries. The rentals and fee were charged in accordance with the terms of the underlying agreements at the market price.

(c) Certain areas of the Group's hypermarkets are rented to fellow subsidiaries which were charged in accordance with the terms of the underlying agreements at the market price.

(d) The commission income was received from fellow subsidiaries controlled by Bailian Group in relation to the redemption of the coupons issued by the Group and a fellow subsidiaries controlled by Bailian Group in retail outlets of these related companies. The commissions were charged at a rate of 0.5% to 1% (2015: 0.5% to 1%) of the sales made through the coupons in the retail outlets of these companies.

(e) According to the business agreement on the settlement of coupon liabilities entered into between the Group and a fellow subsidiary controlled by Bailian Group, when the coupons issued by one party are redeemed in exchange for products or services to the retailers contracted by the other party or when the coupon liabilities are settled through the other party's network, a commission would be charged at a rate of 0.5% (2015: 0.5%) as agreed by the two parties, based on the gross transaction amount on a monthly basis. The gross transaction amount owed by each other and the related commission income/charge are settled on a net basis each month.

(f) According to the financial services agreement entered into between the Group and a fellow subsidiary controlled by Bailian Group, the fellow subsidiary will provide deposits service to the Company at a deposit rate equal to or more favourable than those offered by other major commercial banks in the PRC in respect of comparable deposits and loans.

(g) Lianhua E-Business, a wholly owned subsidiary of the Company, injected a further capital of RMB11,765,000 to Bailian E-Commerce in cash on 12 March 2015.

(h) These represent purchase from Yonghui Superstores in respect of various kinds of merchandise, and management fee and logistics fee paid/payable to Yonghui Superstores. The transaction amounts were all determined in accordance with the terms of underlying agreement at the market price.

(2) Related party balances

The Group entered into a financial services agreement with a fellow subsidiary controlled by Bailian Group on 28 February 2013. Pursuant to the agreement, the fellow subsidiary agreed to provide the Group with the deposit services at a deposit rate equal to or more favourable than those offered by other major commercial banks in the PRC in respect of comparable deposits and loans for a period till 31 December 2015. The related financial services agreement has been renewed with the same terms on 8 December 2015 for a period starting from 1 January 2016 till 31 December 2018. The summary of cash and cash equivalents and unrestricted term deposits placed to the fellow subsidiary is set out below:

	30 June 2016 (Unaudited)	31 December 2015 (Audited)
	RMB'000	*RMB'000*
Cash and cash equivalents in a fellow subsidiary	**134,698**	237,182
Unrestricted term deposits in a fellow subsidiary	**420,000**	415,000

(3) Transactions/balances with other government related entities in the PRC

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("Government Related Entities") including Bailian Group. Apart from the transactions with fellow subsidiaries disclosed above, the Group has also entered into various transactions, including sales, purchase, and deposits placement, with other Government Related Entities.

In view of the nature of the retail business operated by the Group, the directors are of the opinion that it is impracticable to identify the identities of the counterparties from the sales of merchandise as to whether they are Government Related Entities.

During the two periods, significant amount of the Group's purchase were from Government Related Entities and most of the Group's deposits and borrowing are placed with banks which are also Government Related Entities.

(4) Key management compensation

The remuneration of directors and other members of key management during the period was as follows:

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Salaries and other short-term employee benefits	**1,785**	4,640
Post-employment benefits	**125**	181
Other long-term benefits	**121**	207
	2,031	5,028

The remuneration of key management is determined having regard to the performance of individuals and market trends.

25. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets	**Fair value as at**		**Fair value hierarchy**	**valuation technique(s) and key input(s)**	**Significant unobservable input(s)**
	30/06/2016 ***RMB'000***	31/12/2015 *RMB'000*			
1) Investments in bank financial products classified as financial assets at fair value through profit or lost in the condensed consolidated statement of financial position	**Assets – 2,350,057**	Assets – 536,094	Level 3	Discounted cash flow. Future cash flows are estimated based on expected applicable yield of the underlying investment portfolio, discounted at a rate that reflects the credit risk of various counterparties	Actual yield of the underlying investment portfolio and the discount rate
2) Investment in equity shares listed in Shanghai Stock Exchange classified as financial assets at fair value through profit or lost in the condensed consolidated statement of financial position	**Assets – 2,019** **Equity securities:** **– Real estates (1,996)** **– Agricultural (23)**	Assets – 2,688 Equity securities: – Real estates (2,659) – Agricultural (29)	Level 1	Quoted bid prices in an active market	N/A

Financial assets	Fair value as at		Fair value hierarchy	valuation technique(s) and key input(s)	Significant unobservable input(s)
	30/06/2016	31/12/2015			
	RMB'000	*RMB'000*			
3) Investment in equity shares listed in Shanghai Stock Exchange classified as available-for-sales in the condensed consolidated statement of financial position	**Assets – 6,810**	Assets – 8,672	Level 1	Quoted bid prices in an active market	N/A

Fair value measurements and valuation process

The Chief Financial Officer ("CFO") of the Group determines the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available, the Group engages third party qualified valuers to perform the valuation. The CFO works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The CFO reports the findings to the board of directors of the Company at the end of each reporting period to explain the cause of fluctuations in the fair value of the assets and liabilities.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed above.

26. AUTHORISATION FOR THE ISSUE OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These unaudited condensed consolidated financial statements were authorised for issue by the Company's board of directors on 25 August 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Environment

Based on the data from the National Bureau of Statistics, in the first half of 2016, China's gross domestic product (GDP) achieved a year-on-year growth of 6.7%, representing a decrease of 0.3 percentage point compared to last year. Notably, China achieved the same level of GDP growth in both the first and second quarter, 6.7%, respectively. China's economy in persistent dip showed an L-shaped path. Judging from operational data, there was no concrete foundation for economic recovery. It was very difficult to secure stable growth as downward pressures weighed.

Based on the data from the National Bureau of Statistics, in the first half of 2016, total retail sales of consumer goods nation-wide had a nominal year-on-year growth of 10.3%, representing a decrease of 0.1 percentage point compared to the same period last year. In particular, the retail sales of consumer goods of enterprises above a designated size had a year-on-year growth of 7.5%, representing an increase of 0.1 percentage point compared to the same period last year.

Due to the slowdown in economic growth, income growth in China has slowed down. Based on the data from the National Bureau of Statistics, nation-wide disposable income per capita had an actual growth of 6.5% in the first half of 2016, representing a year-on-year slowdown of 1.1 percentage points and also 0.2 percentage point less than the GDP growth rate. As indicated by Nelson's China consumer confidence index report for the second quarter of 2016, Chinese consumers had more rational expectations for future employment and income, among which, 49% of the households indicated that they would maintain their family consumption levels in the second quarter, an increase of 4.0 percentage points compared to that of the previous quarter, while the proportion of households willing to increase spendings dropped.

In the first half of 2016, because of the continuous economic slowdown with stagnant demand, the retail industry was negatively pressured. According to the data from the China National Commercial Information Center, the retail sales of 50 major large-scale retail enterprises in the PRC had an accumulated year-on-year drop of 3.1% in the first half of 2016, representing a drop of 4.2 percentage points compared to the growth rate in the same period last year. Additionally, the online retail growth rate also retreated from its highs. Based on the data from the National Bureau of Statistics, online retail growth was 28.2%, representing a drop of 10.9 percentage points from the 39.1% growth rate in the same period last year.

In light of the slowdown in physical retail industry development, various commercial retail enterprises increased their omni-channel investments in the first half of 2016, with more enterprises expediting small segment outlet development. The retail industry has changed from its traditional price-oriented sales promotion model to the adoption of thematic event marketing, feature marketing, new media marketing and internet celebrity marketing, enhancing consumer experiences and so on to attract customers and increase sales.

Financial Review

Turnover and consolidated income

During the period under review, the Group endeavored to extend its industrial chain, strengthen its supply chain, and integrate its market chain. The Group continued to deepen innovation and reform of the enterprise, vigorously promoting e-commerce, emphasizing the improvement of both business and management, and focusing on adjusting the business model of various segments. On the supply and marketing side, the Group explored synergetic models incorporating marketing and purchasing, expedited supply chain construction, and improved supporting systems. The Group recorded a turnover of approximately RMB14,083 million, with a year-on-year growth of 0.04%, and same store sales increased by 0.70%.

During the period under review, the Group strengthened efforts in marketing and sales promotion. However, under the circumstances of the stagnant demand and the aggravating competition, the Group recorded gross profit of approximately RMB2,021 million, with a year-on-year drop of 4.5%, and the Group's gross profit margin decreased by 0.69 percentage points to 14.35%.

During the period under review, the Group's consolidated income was approximately RMB3,405 million, with a year-on-year drop of 1.7%, mainly due to the year-on-year decrease in the gross profit of commodities.

During the period under review, the Group maintained solid cash flow and continued to improve management capabilities prudently.

Operating cost and net profit

During the period under review, the total distribution cost and administrative expenses of the Group recorded a year-on-year decrease of approximately RMB64,254 thousand and amounted to approximately RMB3,217,736 thousand, representing a year-on-year decrease of 2.0%, which was mainly attributable to (1) the year-on-year decrease of approximately RMB12,675 thousand for leasing expenses upon implementing the negotiation for reducing the store rent or cancelling leases; (2) the depreciation expenditure decreased by approximately RMB32,107 thousand as a result of winding-up stores and expiry of assets depreciation; and (3) energy expenses decreased by approximately RMB23,802 thousand through energy saving and winding-up of stores.

During the period under review, the Group recorded an operating profit of approximately RMB172,994 thousand, with a year-on-year growth of approximately 0.1% and an operating profit margin of 1.23%, roughly remained flat over the same period last year.

During the period under review, associates' revenue attributable to the Group was RMB12,423 thousand, with a year-on-year decrease of 47.2%. The associates of the Group were also adversely affected by the economic downturn, slowdown in income growth and stagnant demand, leading to a decline in sales. This, coupled with increasing labor cost and rental cost, led to decreasing profit. As of 30 June 2016, Shanghai Carhua Supermarket Company Limited ("Shanghai Carhua") recorded an operating profit of approximately RMB18,403 thousand, with a year-on-year drop of 64.5%, and had a total of 30 outlets.

During the period under review, the tax expenses of the Group was approximately RMB111 million, representing a year-on-year decrease of approximately 2.5%. During the first half of 2016, the Group undertook various initiatives to minimize the impact of the latest taxation policy on enterprise, and sought to obtain financial support funds from various local governments in order to further lower the tax rate of the Group.

During the period under review, affected by the on-going slowdown in economic growth, stagnant demand and rise in online shopping, the overall performance of the chain supermarket industry recorded a declining trend. Despite the tremendous efforts made by the Group with respect of innovative reform and implementation of measures, the group's gross profit was adversely affected due to the increasing frequencies of sales promotion. Moreover, the Group's return on investment continued to decline, which led to a year-on-year drop in net profit. During the period under review, the Group recorded total net profit of RMB2,944 thousand attributable to shareholders, representing a year-on-year drop of 86.0%. The net profit margin attributable to shareholders was 0.02%. Based on the 1.1196 billion shares issued by the Group, the basic earnings per share was approximately RMB0.003.

Cash flow

During the period under review, the net cash outflow of the Group was RMB3,057,561 thousand, mainly impacted by the increase of term deposit and purchase of financial assets at fair value through profit or loss. Cash and various balances at bank as at the end of the period were RMB6,240,655 thousand.

As of 30 June 2016, the accounts payable turnover period of the Group was 59 days, and the inventory turnover period was approximately 42 days.

During the period under review, the Group did not use any financial instruments for hedging purposes and did not issue any hedging instruments as at 30 June 2016.

Retail businesses operations

Hypermarkets

During the period under review, confronted with business environment changes such as the macro-economic downturn and changes in consumers shopping habits, the hypermarket segment of the Group endeavored to promote the improvement of stores with potentials, upgrade the management level of fresh produce, and optimize the structure of product categories to attract customer flow and increase sales. The hypermarket segment recorded a turnover of approximately RMB8,809,028 thousand, with a year-on-year growth of 1.4%, accounting for approximately 62.5% of the Group's turnover. The gross profit was approximately RMB1,209,375 thousand, and the gross profit margin decreased by 1.22 percentage points to 13.73%. Same store sales decreased by 0.17%. The consolidated income margin was 23.57% with a year-on-year drop of 1.23 percentage points. The operating profit of the segment was approximately RMB77,475 thousand, with a year-on-year increase of approximately 51.0%. The operating profit margin increased year on year by 0.29 percentage points to 0.88%. The hypermarket segment will continue to promote the operational enhancement of stores with potentials, focus on turning stores suffering losses into profit-making; expand and strengthen the operation of fresh produce, and enhance store capabilities in driving traffic. The segment will also focus on core commodities, brand name commodities and imported commodities, and make use of product categories management techniques to increase shelf throughput and space productivity. Meanwhile, the segment will develop the business of online ordering for collection at stores and online ordering for delivery from stores, and cultivate new business growth points. The Group will also re-plan leased space and increase the area for attracting merchants, so as to increase income from attracting merchants.

As of 30 June	**2016**	2015
Gross Profit Margin (%)	**13.73**	14.95
Consolidated Income Margin (%)	**23.57**	24.80
Operating Profit Margin (%)	**0.88**	0.59

Supermarkets

During the period under review, the turnover of the Group's supermarket segment reached approximately RMB4,247,142 thousand with a year-on-year decrease of approximately 4.4%, accounting for approximately 30.2% of the Group's turnover. Same store sales decreased by 0.93%. During the period under review, the supermarket segment expedited store transformation and upgrades, strengthened fresh produce, optimized the structure of product categories, improved the marketing and sales promotion approach, and procured the increase of customer purchase orders, leading to an improvement in consolidated results. The gross profit was approximately RMB642,111 thousand, with a year-on-year drop of approximately 3.0%. The gross profit margin was 15.12%, with a year-on-year increase of 0.23 percentage points. The consolidated profit margin of the supermarket segment was 24.85%, with a year-on-year increase of 1.76 percentage points. The operating profit of the segment was approximately RMB151,158 thousand. The operating profit margin was 3.56%. The supermarket segment will continue to promote the transformation and upgrading of the stores, strengthen fresh management, and enhance sales of core commodities, so as to further enhance the operating results of the segment.

As of 30 June	**2016**	2015
Gross Profit Margin (%)	**15.12**	14.89
Consolidated Income Margin (%)	**24.85**	23.09
Operating Profit Margin (%)	**3.56**	3.95

Convenience Stores

During the period under review, the turnover of the Group's convenience store segment recorded a year-on-year increase of approximately 8.0% to reach RMB1,008,305 thousand, which accounted for approximately 7.2% of the Group's turnover. In particular, same store sales had a year-on-year growth of 18.92%. During the period under review, the convenience store segment reinforced the reform of existing stores, increased investment in the facilities of convenience services, optimized the product structure and enhanced the sales of core products. Concurrently, the segment began to explore the brand new convenience store 1.0 version, conducted in-depth optimization in product category structure, integrated online and offline resources to vigorously promote core commodities and core services, and utilized the advantages of outlets to increase value-added services, thereby achieving growth in both overall sales and same store sales. The gross profit of the convenience store segment was approximately RMB163,372 thousand,the gross profit margin was 16.20%, with a year-on-year drop of 0.46 percentage points. The consolidated income margin was 22.65% with a year-on-year drop of 0.99 percentage points. Since labor costs grew steadily and rental costs remained high, operating profit remained at a comparatively lower level. The segment recorded an operating loss of approximately RMB31,914 thousand. The convenience store segment will continue to optimize product structure, and improve value-added services, accelerate exploration for new operating models, and promote the new convenience store 1.0 version so as to seek new profit growth points.

As of 30 June	**2016**	2015
Gross Profit Margin (%)	**16.20**	16.66
Consolidated Income Margin (%)	**22.65**	23.64
Operating Profit (Loss) Margin (%)	**-3.17**	-3.77

Capital structure

As of 30 June 2016, the Group's cash equivalents were mainly held in Renminbi. Except for the bank borrowings of RMB2,000 thousand by a non-wholly-owned subsidiary of the Group, there were no other bank borrowings.

During the period under review, equity interest of shareholders of the Group decreased from approximately RMB3,199,086 thousand to approximately RMB3,166,525 thousand, which was mainly due to the profit for the period of approximately RMB74,560 thousand, dividend payment to non-controlling interests amounting to approximately RMB105,774 thousand, and the decrease of capital reserve by approximately RMB1,347 thousand.

Details of the Group's pledged assets

As of 30 June 2016, the Group did not pledge any assets.

Exposure to foreign exchange risk

Most of the income and expenditure projects of the Group were 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 currency exchange rates. The Group neither entered into any agreements nor purchased any financial instruments to hedge its foreign exchange risk. The Directors believe that the Group is able to meet its foreign exchange requirements.

Share capital

As of 30 June 2016, the issued share capital of the Company was as follows:

Class of shares	**Number of shares in issue**	**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 of 30 June 2016, the Group did not have any material contingent liabilities.

Outlet Development

During the period under review, the Group continued to adhere to a stable development strategy and adopted the dual-model of "direct-operation and franchise" to proactive develop markets in the region of the Yangtze River Delta. In the first half of 2016, the Group had 88 new stores including 68 franchised stores, with 69.3% or 61 new stores in the region of the Yangtze River Delta.

During the period under review, the Group continued to optimize the outlet structure by closing 175 stores including 136 franchised stores, among which, 134 stores located in the region of the Yangtze River Delta, mainly due to the expiry of tenancy agreements and difficulties in operation.

As of 30 June 2016, the Group has owned 3,796 stores in total, a decrease of 87 stores compared to the end of 2015, mainly due to the adjustment of franchised stores. Approximately 82.5% of the Group's stores are located in the eastern regions of the PRC.

	Hypermarkets	**Supermarkets**	**Convenience Stores**	**Total**
Direct operation	156	578	810	1,544
Franchised operation	–	1,495	757	2,252
Total	156	2,073	1,567	3,796

Note: The above figures are as of 30 June 2016.

In order to seek new breakthroughs and new profit drivers, the Group values the innovation of its business segments, particularly the convenience store segment. During the period under review, the Group first began to explore the new potential convenience store models version 1.0, which integrates services such as diversified e-commerce elements with the provision of a Wechat Business, Alipay, online and offline interaction, and i-Bailian online ordering for collection at the store. Additionally, the Group explored various kinds of beverages prepared upon ordering, imported commodities and wines, direct delivery services of fresh vegetables and fruit, and introduced brand new e-cards as well as offering internet services for customers to enjoy. The first version of these new stores performed much better than expected, and has strengthened the Group's confidence in developing convenience stores of brand new styles.

Strengthening Channels

During the period under review, the Group, in compliance with the requirements for channels strengthening plan and the overall analysis of existing stores, determined the transformation direction which consists of the brand new hypermarket model, the fresh produce supermarket model, and the "Internet + the convenience store" 1.0 model. The Group also formulated a store upgrade and reform plan, adjusted supermarket layout according to the principle of "one strategy for one store", optimized the product portfolio, enriched varieties of fresh produce, enhanced professional management for attracting merchants, improved the shopping environment and proactively pushed forward the transformation and upgrades of existing stores.

During the period under review, the Group's hypermarkets focused on promoting the upgrade and reform of stores, while expanding the areas and product categories of fresh produce, accelerated products upgrade, and introduced the shop-within-a-shop to achieve brand improvements. The pilot O2O experience zone and the innovative multi-scenario marketing atmosphere reinforced interaction with customers, which helped improve shop popularity and increased orders from customers, boosting revenue and profit per square feet of floor area.

During the period under review, the supermarket segment achieved store transformation and upgrade by means of strengthening fresh produce operation. The supermarket segment focused on introducing, improving and enriching the product categories of fresh produce. Supermarkets continued to increase the supply of vegetables, fruits, meat and eggs from production bases to provide consumers with non-processed products, increased the proportion of direct delivery from source bases to shorten the supply chain, and enhance the freshness and quality of fresh produce. Personnel-wise, the supermarket segment reinforced the skills training for the supermarket operating team, improved the approach of performance appraisal, motivated tier-one personnel enthusiasm towards promoting fresh produce, enhance daily routine maintenance, and promoted the persistent improvement in the management and operational level of store fresh produce by means of streamlining operations.

During the period under review, the convenience store segment continued to follow the concept of "Asset Light and Capacity Enhancement", expedited new product introductions as well as upgrades, increased the sales of fresh produce, imported commodities and the "Little-Q" brand products, and additionally, expedited exploration into new store models, pioneering the brand new "1.0 version convenience store".

Control of Upstream Resources

During the period under review, the Group, in accordance with the planning requirements for "Control of Upstream Resources", proactively established the industrial chain and optimized the supply chain, continued the optimization of the supply chain channel for major product categories by means of optimizing the structure of suppliers, further promoted purchasing from fresh produce bases, and increased the proportion of tier-one agents and distributors for imported commodities. The Group enhanced the performance of supplier management by utilizing the advantages of centralized resources from nation-wide suppliers and upgrading the supply chain. The Group expedited the introduction of highly cost-effective new products by adhering to customer demands, and increasing capability of base procurement and source procurement of 100% fresh produce, in-house brand commodities, and imported commodities.

During the period under review, the Group reformed the commodity purchasing organization model, in particular set up the nation-wide joint purchasing department for centralized management of the purchasing authority for major brands of various product categories, and improved the negotiation capability of purchasing personnel to enhance performance. Emphasizing innovation and reform of product categories, the purchasing department for imported commodities focused on the direct procurement and introduction of new products abroad.

During the period under review, the Group focused on the reforming the purchasing model, put into practice the functional separation of the purchasing business from the purchasing management, and enhanced market orientation, strategic guidance and risk control. The Group also implemented the system of holding the merchandiser responsible, emphasized the guiding ideology of "revenue focused and gross profit driven", improved negotiation strategy, and adopted an innovative marketing approach to increase gross profit and income. Meanwhile, purchasers were prompted to look for new, unique and special commodities by means of increasing the purchaser's power of making decision and simplifying the purchasing flow process, so as to enhance the shelf sales ratio of the commodities.

During the period under review, the Group made sufficient use of internal and external supplier resources, and focused on creating a professional and market-oriented open-end direct purchasing and joint purchasing platform. Through the benchmarking of major commodities with Yonghui Superstores Co., Ltd. ("Yonghui Superstores"), nearly 2,000 units of coincide commodities were selected for purchase benchmarking analysis. The Group implemented advantageous resources sharing and complementarity and enlarged the room for price negotiation by benchmarking the contract purchase price resources of daily necessity brands. Additionally the launch of an internal joint purchase matchmaking meeting of the subsidiaries of the Company has obtained new channel resources for enhancing the product categories of the private-label brands of the Group and benchmarking of the purchase prices.

During the period under review, the Group was committed to the enhancement of the fresh produce supply chain for core competitiveness. It continued to deepen the enhancement effects of the fresh produce operation of the last year by seeking breakthroughs in fresh produce operation. The Group also extended the fresh produce proprietary operation project from Shanghai to Jiangsu, Anhui and other regions, enhanced the concept of full-time fresh produce operation, and fully utilized the selling of fresh produce vegetable baskets. The Group strengthened the interaction between operation and procurement, focused on the standardization and normalization of fresh produce operation at stores, enhanced fresh produce operations, optimized the display standards in different periods, reduced losses and increased the single-product management, while expediting the development of fresh produce bases and enriching the product varieties of source bases.

During the period under review, by means of promoting "supply side-oriented" change of private-label brand operation, the in-house brand department designed and implemented various major projects such as the "Ichiban Good Products" (一番良品) and the "Premium Lifestyle Pavilion" (優品生活館) to bring notable enhancements to consumers' shopping experience. In addition, the special establishment of the "baby & children corner" took advantage of the changing trend of the consumer market under the "universal two-child policy".

Cost Control and Efficiency Enhanced

During the period under review, the Group set the target of reducing cost and increasing profit, and set up a project work group to proactively reduce cost and control expenses. Confronted with the rigid increasing trend of labor cost and rental cost, the Group placed greater emphasis on reasonable employment. By means of diversifying employment means, stores were able to make reasonable arrangements for employment according to the changes in sales volume. At the same time, the Group enhanced labor performance and cut labor cost by optimizing flow process, increasing labor efficiency, and streamlining posts.

During the period under review, through lowering rent and deploying a light asset operation mode, the Group managed to save on rental costs. The Group also reduced fresh produce losses by refining targets, enhancing supervision and control, and improving appraisal procedures. The Group reduced energy costs by imposing control on the use of electricity at stores in different periods, adjusting the calculation of electricity charges, and installing energy-saving equipment. At the same time, the Group effectively cut the cost of store reform through reasonable adjustments in the cost structure of supermarket decorations, and optimization of asset allocation.

During the period under review, the Group identified the major target of reducing losses, and unswervingly stove to become profit making. The Group focused on reducing loss and turning loss into profit in various major stores by means of "One Strategy for One Store", and subsequently drove other stores to reduce loss or turn profit-making. The Group also re-planned leased venues, arranged area of operations, and increased the lease area for introducing merchants, which increased lease income.

Solid Foundation

During the period under review, the Group completed the initial construction of Jiangqiao logistics. The project acceptance and the trial run of major equipment were launched smoothly. The Group also completed developing LCS, WMS and TMS, the three major logistics core systems of Jiangqiao logistics and finished operation training for staff. Meanwhile, based on the request for the intensive management of the major business group, the Group set up a project panel, streamlined the business system, integrated the head office together with the major business group and the relevant information systems, and established a connection with the Jiangqiao logistics system to lay a solid foundation for the forthcoming logistics distribution and integration project.

During the period under review, the Group proactively implemented the optimization of flow process and adjusted organization structure. According to the professional and horizontal principle, the regional reform, the integration of functional departments at the head office, the positioning for departmental duties and responsibility, the post setting, the flow process optimization and system upgrades were pushed forward in an orderly manner.

During the period under review, the Group strengthened the supervision of internal auditing, reinforced internal control, streamlined and simplified the enterprise hierarchy, normalized operational conduct, reduced operation risks, improved the capability of preventing operational risks, further strengthened auditing control and auditing supervision of engineering projects, reduced investment cost and implemented various investment risk control.

During the period under review, the Group focused on strengthening safety management, improved various levels of safety responsibility, supervised and checked the substantiation of safety management, anti-loss and anti-theft systems, strictly adhered to the laws and regulations of food, production safety and the rules and regulations of the Company, organized and launched a series of activities for the "National Food Safety Awareness Week" to enhance the food safety awareness of all staff, and launched various safety inspection to enhance the standards of accident prevention.

Employment, Training and Development

As of 30 June 2016, the Group had a total of 45,353 employees, a decrease of 2,270 employees during the period under review. Total employment expenses amounted to RMB1,461,976 thousand.

During the period under review, the Group continued to push forward and improve reforms on the incentive mechanism to fully motivate employees' enthusiasm and creativity thus promoting sales and enhancing efficiency.

During the period under review, the Group established a training plan based on the actual need of employees and emphasized solution to various types of business problems. The Group focused on enhancing the actual operation and management capabilities of tier-one store personnel to help boost operational performance, persistently pushed forward the skill training of tier-one personnel, and expedited the gradient cultivation of talents through appraisal, apprenticeship and so on.

Significant Event

On 30 March 2016, the Company entered into an agreement with Bailian Group Co., Ltd., to purchase 75% equity interest in Yiwu City Life Supermarket Co., Ltd. and the entire equity interest in Hualian Group Jimaisheng Shopping Centre Company Limited for a total consideration of RMB998,075,785.15. For details of the transaction, please refer to the announcement and circular of the Company dated 30 March 2016 and 25 April 2016, respectively.

As at the date of this announcement, the transaction is still subject to the approval by the independent shareholders of the Company.

Strategy and Planning

In the second half of 2016, China's investment growth rate is expected to continue to slow down, the foreign trade situation remains grim, and demand in the domestic market faces further downward pressure. The steady slowdown of economic growth will remain the general trend. To maintain steady growth, the Chinese government is expected to continue implementing financial stimulus policies and a relatively loose monetary environment, strengthen supply side structural reform, and expedite the cultivation of new growth drivers.

According to the research findings of BCG Center for China's Consumer and Customer Insight (CCI), 75% of the consumers in the PRC will maintain or upgrade their consumption level in 2016, representing a slight drop compared to the proportion of 81% in 2015. The consumer market is in the process of shifting gradually from the pursuit of consumption of product to services, quality and experiences. This consumption upgrade will brings new market opportunities for retailers. Personalized and premium consumption channels will have high growth potential, alongside leisure and recreational products and services.

In order to conform to the consumption trend, in the second half of 2016, the Group will expedite outlet development, implement a pilot close-relationship franchise business model, selectively introduce commodities to franchised stores, set up a green passage for introducing new products required by franchised stores, unify the establishment of main products of franchised stores, and integrate and improve the information system of the franchised business. Additionally, the Group will optimize the management team for the franchised business, and selectively cooperate with well managed leading franchisees, and particularly foster franchisees, which are of strength and emphasizing quality in the region to expedite development of franchised stores.

In the second half of 2016, the Group will continue to optimize the transformation, upgrade and reform of stores according to the strategic requirements for reinforcing traditional channels. The hypermarket segment will place importance on the improvement of stores suffering bigger losses, with a focus on improving store performance by means of adjusting operating layout, optimizing operating structure, and enhancing floor efficiency. Concurrently, promoting and deepening the cooperation between stores in surrounding stores and Yonghui Superstores, and leveraging on the strength of Yonghui Superstore's supply chain, the hypermarket segment will improve the supply of commodities and enhance its operating capability for fresh produce. The supermarket segment will continue to strength the fresh produce business, enriching the "vegetables baskets" of community residents, and reinforce the community services positioning of supermarkets. The convenience store segment will continue to optimize its commodity structure, increase the sales scale of fresh produce, imported commodities and "Little-Q" brand products, increase the consolidated revenue and maintain the trend of sales growth, as well as duplicating and accelerating the roll-out of our new "version 1.0" stores.

In the second half of 2016, the Group will continue to strengthen the construction of its supply chain, and increase the revenue contribution proportion of single product. The Group will increase the introduction of new, highly cost-effective products based on customer demand, enhance the rate of product updates and shelf sales ratio, and optimize the product category structure. The Group will explore and optimize the joint purchasing model connecting nation-wide suppliers, set up a joint purchasing platform, emphasize the relationship management of suppliers, deepen strategic cooperation relationship with KA, promote new products, conduct joint launch of new media marketing, optimize the supply chain cooperation and so on to achieve win-win outcomes. The Group will also proactively launch various overseas direct purchasing channels to increase the proportion of tier-one agents and distributors for imported commodities as well as the proportion of sales from core product categories such as imported commodities and private-label commodities.

In the second half of 2016, the Group, in accordance with the strategic requirements for control of upstream resources, the Group will expedite the constructing of the central kitchen, the lunch box factory and the plant bakery to increase the sales of processed foodstuff. The Group will further improve the supply system of the fresh produce bases, enrich the product varieties of source procurement, increase the scale of source procurement, shorten the supply chain, and reduce purchasing cost. At the same time, the Group will proactively launch skill training for fresh produce and sales follow-up analysis, further enhancing fresh produce operational techniques, reduce fresh produce loss, and increase the gross profit of fresh produce.

In the second half of 2016, the Group will continue to push forward online business development, deepen the digital reform of stores, increase the varieties of online commodities, carry out innovative marketing, fully leverage the economies of scale of physical outlets, enhance the efficiency of online warehousing operations, improve the ability for consumers to purchase online for collection at stores as well as delivery from stores and so on, in order to provide more convenient services for consumers.

In the second half of 2016, the Group will emphasize the stable inventory transfer of Jiangqiao logistics, enhance the logistics efficiency of the Company, further streamline the product main file to ensure the smooth launch of Jiangqiao distribution. The Group will continue to upgrade and improve the LCS system according to business requirements, strengthen the operational training and skilled application of the follow-up system for all staff, properly streamline inventory and stabilize inventory transfer, and expedite the construction of the logistics system. Additionally, the Group will improve the online warehousing operation model, initiate a pilot online ordering and joint distribution business with offline stores to realize the sharing of distribution resources, adjust and optimize transportation routes, and make use of GPS to reinforce the en-route management of distribution vehicles.

In the second half of 2016, the Group will continue to optimize organizational structure, flatten management hierarchy, optimize management posts, streamline authority, responsibility and interest, simplify the flow process and decision-making process, and enhance organization and operation efficiency and quality in accordance with professional and horizontal principle. Meanwhile, the Group will continue to implement regional reform across its stores, and, in accordance with the implementation plan, complete regional reform in Shanghai and Anhui. The Group will also support the supply chain of Jiangsu, thus consolidating regional reform, cutting losses and increasing profits.

In the second half of 2016, the Group will aim to further motivate employees, enhance employment efficiency and cut employment costs by refining manpower performance analysis, optimizing work flow, and post setting, and promoting the brand new employee payment model. The Group will continue to impose strict cost control, monitor project expenditure and major indices to ensure the effective implementation of cost-cutting and profit-increasing projects.

Interim Dividend

The board of directors of the Company (the "Board") does not recommend the distribution of interim dividend for the six months ended 30 June 2016.

Purchase, Sale or Redemption of Shares

From 27 June 2003, the date of listing of the Company's shares on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), to the date of this announcement, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company.

Audit Committee

The audit committee of the Company (the "Audit Committee") has considered and reviewed the accounting principles and practices adopted by the Group and has discussed the matters in relation to internal control and financial reporting with the management, including the review of the unaudited condensed interim accounts for 2016 of the Company. The Audit Committee considered that the interim accounts for the six months ended 30 June 2016 is in compliance with the relevant accounting standards, the requirements of the Stock Exchange and the Laws of Hong Kong, and the Company has made appropriate disclosures thereof.

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

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

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

The Board is pleased to confirm that save and except for the matters as set out below, the Company has complied with all the code provisions in the "Corporate Governance Code" (the "Code") under Appendix 14 of the Listing Rules during the period under review. Apart from the following deviation, 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 deviation are set out as follows:

Provision A4.2 of the Code requires that every director (including those appointed for a specific term) of a listed issuer shall be subject to retirement by rotation at least once every three years. The articles of association of the Company provides that each director shall be appointed at the general meeting of the Company and for a term of not more than 3 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 deviating from the aforementioned provision of the Code.

For Provision A.6.7 of the Code, Mr Zhang Xuan-song, non-executive director, Mr. Wong Tak Hung, non-executive director, and Mr. Gu guo-jian, independent non-executive director, were unable to attend the eleventh meeting of the fifth session of the Board convened on 30 March 2016 by the Company due to other work duties. After receiving the relevant materials for the Board meeting, he has authorized other directors of the Company to attend the meetings and vote on his behalf. The matters considered at the Board meeting were ordinary matters and all resolutions were passed smoothly. The Company had sent the related minutes to all members of the Board after the Board meeting so any director who was unable to attend the meeting was able to understand the resolutions passed at the meeting.

For Provision A.6.7 of the Code, Mr. Zhang Xuan-song, non-executive director, was unable to attend the twelfth meeting of the fifth session of the Board convened on 25 August 2016 by the Company due to other work duties. After receiving the relevant materials for the Board meeting, he has authorized other directors of the Company to attend the meeting and vote on his behalf. The Board meeting considered and approved ordinary matters and all resolutions were passed smoothly. The Company had sent the related minutes to all members of the Board after the Board meeting so any director who was unable to attend the meeting was able to understand the resolutions passed at the meeting.

For Provisions A.6.7 and E.1.2 of the Code, Mr. Qian Jian-qiang, non-executive director, Mr Zhang Xuan-song, non-executive director, Mr. Wong Tak Hung, non-executive director, and Mr. Lee Kwok Ming, Don, independent non-executive director, were unable to attend the 2015 annual general meeting of the Company convened on 13 June 2016 due to their other work duties. The Company has provided the relevant materials relating to the 2015 annual general meeting to all members of the Board before the meeting. All ordinary resolutions were passed smoothly at the annual general meeting. The Company had sent the related minutes to all members of the Board after the annual general meeting so any director who was unable to attend the meeting was able to understand the resolutions passed at the meeting.

By order of the Board
Lianhua Supermarket Holdings Co., Ltd.
Ye Yong-ming
Chairman

Shanghai, 25 August 2016

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

Executive directors:
Qi Yue-hong;

Non-executive directors:
Ye Yong-ming, Zhang Xuan-song, Qian Jian-qiang, Zheng Xiao-yun, Zhang Jing-yi and Wong Tak Hung;

Independent non-executive directors:
Xia Da-wei, Lee Kwok Ming, Don, Gu Guo-jian and Wang Jin.