联华超市股份有限公司
LIANHUA SUPERMARKET HOLDINGS CO., LTD.

Stock Code: 0980

ANNUAL REPORT 2016

3,618

Province	Hypermarket	Supermarket	Convenience Store
Shanghai	38	1,343	905
Zhejiang	58	210	173
Jiangsu	27	162	0
Liaoning	0	0	309
Guangxi	5	183	0
Beijing	3	1	126
Anhui	8	30	0
Jiangxi	0	2	0
Henan	8	8	0
Inner Mongolia	0	5	0
Shandong	0	3	0
Sichuan	2	0	0
Heilong jiang	1	0	0
Jilin	0	1	0
Hebei	0	1	0
Fujian	2	0	0
Guangdong	0	2	0
Hubei	0	1	0
Yunnan	0	1	0

Hypermarket Supermarket Convenience Store

Contents

Lianhua Supermarket Holdings Co., Ltd. ("Lianhua Supermarket" or the "Company") commenced its business in Shanghai in 1991. In the past 25 years, it has developed into a nationwide chain retail operator with a full range of retail segments, expanding through a combination of organic growth, franchises and merger and acquisitions. As at 31 December 2016, Lianhua Supermarket and its subsidiaries (the "Group") operated a total of 3,618 outlets (excluding those operated by the Company's associated companies) spanning 19 provinces and municipalities across the nation. The Company has maintained its leading position in the fast moving consumer goods retail industry in the People's Republic of China (the "PRC"). Lianhua Supermarket was one of the first Chinese retail chain operators to be listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), on 27 June 2003.

The Group operates in three main retail segments – hypermarkets, supermarkets and convenience stores, in order to cater for the diverse needs of consumers. These segments operate under the brand names of "Century Mart", "Lianhua Supermarket", "Hualian Supermarket" and "Lianhua Quik", respectively. In recent years, "Lianhua Supermarket", "Hualian Supermarket" and "Lianhua Quik" have been singled out as one of the China Outstanding Franchise Brand by the Franchise Committee of China Chain Store & Franchise Association.

Corporate Information

Directors

Executive Director

Ms. Qi Yue-hong (Vice Chairman)

Non-Executive Directors

Mr. Ye Yong-ming (Chairman)
Mr. Zhang Xuan-song (Resigned on 14 March 2017)
Mr. Zhang Ye
Mr. Zhou Jing-bo
Mr. Qian Jian-qiang
Ms. Zheng Xiao-yun
Mr. Zhang Jing-yi (Resigned on 14 March 2017)
Mr. Wong Tak Hung

Independent Non-Executive Directors

Mr. Xia Da-wei
Mr. Lee Kwok Ming, Don
Mr. Gu Guo-jian (Resigned on 14 March 2017)
Ms. Sheng Yan
Mr. Wang Jin (Resigned on 14 March 2017)
Mr. Zhang Jun

Board Committees

Audit Committee

Mr. Lee Kwok Ming, Don (Chairman)
Mr. Xia Da-wei
Mr. Gu Guo-jian (Resigned on 14 March 2017)
Mr. Zhou Jing-bo
Mr. Wang Jin (Resigned on 14 March 2017)
Mr. Zhang Jun

Remuneration and Appraisal Committee

Mr. Xia Da-wei (Chairman)
Ms. Qi Yue-hong
Mr. Gu Guo-jian (Resigned on 14 March 2017)
Ms. Sheng Yan
Mr. Wang Jin (Resigned on 14 March 2017)
Mr. Zhang Jun

Strategic Committee

Mr. Ye Yong-ming (Chairman)
Mr. Zhang Xuan-song (Resigned on 14 March 2017)
Ms. Qi Yue-hong
Mr. Zhang Ye
Mr. Gu Guo-jian (Resigned on 14 March 2017)
Mr. Qian Jian-qiang

Nomination Committee

Ms. Sheng Yan (Chairman)
Mr. Gu Guo-jian (Resigned on 14 March 2017)
Ms. Qi Yue-hong
Mr. Xia Da-wei
Mr. Wang Jin (Resigned on 14 March 2017)
Mr. Zhang Jun

Supervisors

Mr. Lv Yong (Chairman)
Ms. Tao Qing
Mr. Shi Hao-gang

Joint Company Secretary

Ms. Hu Li-ping
Mr. Stephen Mok

Authorised Representatives

Ms. Qi Yue-hong
Ms. Hu Li-ping

International Auditor

Deloitte Touche Tohmatsu

Legal Advisers to the Company

As to Hong Kong laws
Eversheds

As to PRC laws
Grandall Law Firm (Shanghai)

Investors and Media Relations Consultant

Christensen China Limited

Principal Bankers

Industrial and Commercial Bank of China
Pudong Development Bank
China Merchants Bank

Registered and Business Office

Registered Office in the PRC

Room 713, 7th Floor
No. 1258 Zhen Guang Road
Shanghai, PRC

Place of Business in the PRC

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Shareholder's Enquiries

Contact Information of the Company

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Hong Kong Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Share Information

Listing Place

The Stock Exchange of Hong Kong Limited

Listing Date

27 June 2003

SEHK Stock Code

980

Number of H shares Issued

372,600,000 H shares

Year-end Date

31 December

Results Announcements

Interim Results for 2016 were published on 25 August 2016
Annual Results for 2016 were published on 29 March 2017

Dividends

Interim Dividends: Nil
per share Proposed Final Dividends: Nil

2016 Annual General Meeting

To be convened at 10:00 a.m. on Monday, 12 June 2017

Major Achievements

JAN

Members of the Shanghai Municipal Commission of Commerce visited the Central store of the Shanghai Century Lianhua Supermarket Development Co., Ltd. ("Century Lianhua"), a subsidiary of the Company, to inspect and conduct an on-site commodities tracking inquiry with regards to the tracking system for aquatic products, cereals and livestock products, and were satisfied with the inquiry results.

FEB

Liu Zi Ying, an employee of Guangxi Lianhua Supermarket Joint Stock Co., Ltd. ("Lianhua Guangxi Co."), a subsidiary of the Company, was granted the title of "National Outstanding Rural Migrant Worker" by the Leading Group of the State Council for Rural Migrant Workers.

MAR

Ma Chen Bao, an employee from Shanghai Lianhua Quik Convenience Stores Company Limited ("Lianhua Quik"), a subsidiary of the Company, was granted the title of "2014 -2015 Advanced Individual of Shanghai Rural Migrant Workers" by the Shanghai Municipal Leading Group for Rural Migrant Workers.

The Trade Union Distribution Center of Hangzhou Lianhua Huashang Group Co., Ltd.("Hangzhou Lianhua Huashang"), a subsidiary of the Company, was granted the title of "The National Model Home of Workers" by All-China Federation of Trade Unions.

The cashier section of Peace Shopping Mall under Hangzhou Lianhua Huashang was granted the title of "Workers' Pioneer" by the Hangzhou Federation of Trade Unions.

On 22 March, the Group proceeded with Phase 2 of the Hundred-day Project Plus and Store Transformation Launching Meeting.

APR

The Trade Union of Lianhua Guangxi Co. was granted the title of "The Model Home of Workers" in Liuzhou Municipal. Zhong Qiu Qiong, chairman of the Trade Union, was granted the title of "Outstanding Cadre of the Trade Union" by the Liuzhou Municipal Federation of Trade Unions.

MAY

The Jiangyan store of Lianhua Supermarket (Jiangsu) Co., Ltd. ("Lianhua Jiangsu Co."), a subsidiary of the Company, was granted the title of "2015 Advanced Unit for the Administration of Fire Safety Control" in Jiangyan District, Taizhou.

On 19 May, all staff members of the Company assistance to the Company in launching its online operation; the business of Zhong Hong stores, the first e-commerce 1.0 shop of Lianhua Quik, commenced officially on the same day.

On 11 May, Shanghai Lianhua Logistics Co., Ltd.("Lianhua Logistics") organized the meeting for mid-level cadres at the newly constructed Jiangqiao logistics base, which marked the official integration of the logistics system.

JUN

On the day of "6.17 Big Promotion", one of the marketing events for the Group's 25th Anniversary achieved fruitful outcomes. All stores at various places were crowded by customers, setting a single day sales record for the Group, with 17 stores having turnover of more than RMB1 million on the day.

On 17 June, the launching ceremony of Lianhua Supermarket Food Safety Publicity Week with the theme of "Joint Governance and Sharing of Food Safety with Virtue according to the Law" was held at the Bailian Zhonghuan Commerce Shopping Plaza.

2016

Major Achievements

JUL

On 21 July, the Company held a working conference in the first half of 2016, which reviewed the operation during the first half of the year and devised the key scope of works for the second half of the year.

AUG

Pan Yu and Chu Yun, employees of the store of Lianhua Jiangsu Co. at Nantong Road in Jiangsu ranked third and fourth in the first "Professional Show "held in Taizhou and were granted the title of "The Most Beautiful Salespersons in Taizhou for Year 2016".

On 5 August, Lianhua Supermarket 1.0 version Premium Lifestyle Pavilion commenced business as scheduled at the Nanhui store of Century Lianhua, which marked the Company's attempt to transform and upgrade.

From 11 to 12 August, the Products Display for Fall by the Group was held at the Taopu logistics center of the Company, which was characterized by hundreds of new products. This new concept has introduced a new experience for customers.

SEP

During the G20 Summit, Hangzhou Lianhua Huashang undertook the most important job of safeguarding food supply by the master warehouse, which included setting up the master warehouse, purchasing, distributing and supplying food to 52 hotels for the B20 and G20 Summit, and satisfying the individual dietary requirements of heads of state. It was successful in providing high-quality, premium ingredients to the G20 Summit and received appreciation and acclamation from various parties and Lianhua Huashang won honorary titles of Work Advanced Collective of Zhejiang Province G20 Hangzhou Summit, Outstanding Contribution Collective of Service Guarantee G20 Hangzhou Summit, Hangzhou Model Collective and Advanced Collective of Service Guarantee G20 Hangzhou Summit.

During the Shanghai Shopping Festival, the Group held various activities online and offline activities with closely connected highlights and favours for Shencheng.

On 18 September, the first location for receiving deliveries of selected goods from Hangzhou Lianhua Huashang was set up at the store of Hangzhou Dinglan Plaza. This marked the effective implementation of the physical store for the O2O business of the Company.

OCT

On 20 October, the Group's 2016 "Strainer Cup" radio gymnastic exercise and badminton competition were held successfully.

The optimized structural integration of the headquarters of the Company with Century Lianhua and Shanghai Lianhua Supermarket Development Co.,Ltd ("New Supermarket") in Shanghai officially commenced.

NOV

On 8 November, the 2016 Seminar on the Issues of Food Sampling and Substandard Food of Food Business Operators organized by the China Chain Store & Franchise Association and the China Food and Drug Administration and co-organized by the Company, alongside the Research and Exchange Conference on World Wildlife Fund Project of Food Safety and Sustainable Supply Chain for Poultry, were convened at the headquarters of Lianhua Supermarket.

From 4 to 6 November, "Lianhua" and "Hualian" as honorable exhibitors took part in the Shanghai municipal government-led professional chain exhibition – the 25th Shanghai International Franchise Exhibition (Fall).

Four warehouses of the Company at Jiangqiao were smoothly integrated into one warehouse, the beginning of the overall business integration of the Group in Shanghai.

DEC

On 23 December, Yonghui Superstores Co., Ltd. ("Yonghui Superstores"), the former shareholder of the Company, entered into the Equity Transfer Agreement with Shanghai Yiguo E-Commerce Co., Ltd. ("Shanghai Yiguo") to sell all of the shares of the Company held by Yonghui Superstores to Shanghai Yiguo. On 28 December, parties completed the registration procedure in respect of the equity transfer at China Securities Depository and Clearing Corporation Limited.

LEADING

Chairman's Statement

The primary goal of the Group in 2017 is to achieve a reduction in loss and an increase in profit. With a customer-oriented focus, the Group will be innovation-driven and will strive to expedite its transformation, strengthen all channels, control resources, reinforce the supply chain, and place emphasis on product quality, operational efficiency and customer experience, so as to create value for consumers. As such, the Group will utilize a people-oriented approach with innovative reform, while remaining realistic, pragmatic, and focusing on reducing losses and increasing profit to achieve comprehensive development in 2017.

Dear Valued Shareholders,

I am pleased to present the annual results of Lianhua Supermarket Holdings Co., Ltd. for the year ended 31 December 2016.

2016 was a difficult yet fruitful year. The difficulty was a result of challenges arising from the "New Normal" of the Chinese economy, changes in consumer behavior, and various difficulties we faced in adjusting our systems and mechanisms to the new environment. We also encountered difficulties in the process of deepening reforms and transformation. Fortunately, the management and all employees fulfilled their duties while focusing on the concept of "reducing loss and creating profits". As a result, we reduced losses by RMB47,036 thousand compared with 2015. Thus, the 2016 was a fruitful year in which the upgrade and transformation were promoted steadily.

In 2016, the Group put efforts towards new ways of development and innovation to promote the upgrade and transformation of all outlets. We also realized breakthroughs in operational orientation, layout design and shopping experience, which has allowed us to set a clear target for store upgrades.

The Group's Fresh Procurement Department became more market-oriented and customer-oriented, improved service awareness. At the same time, we diversified our portfolio of fresh products, expanded our sourcing channels, set reasonable prices and expanded our sales of single products, thus achieving a clear improvement in operational quality of fresh products. The Normal Temperature Procurement Department actively pushed forward market-oriented reform and adjusted the structure of our procurement business. The Group carried out an omni-channel strategy and strove to develop "Delivery to Homes", "Buy Online and Pick up in Stores" and "B2C" businesses. Currently, over 500 stores in Shanghai have realized O2O online operations and achieved total sales revenue of over RMB100 million.

In terms of management, the Group streamlined the management and established the Shanghai Operation Center and other functional departments, including the Strategic Investment Department, the Network Development Department and the Investment Attraction Management Department, creating an operation control system based on regional operations.

In the supply chain, the Group realized the formal operation of Jiangqiao Logistics Center through its bold integration of businesses, systems and organizations. In terms of talent construction, in order to avoid a shortage of medium and senior level talents, the Group introduced such talents into our core team and optimized the structure of the core team through market-oriented recruitment.

In 2016, the Group actively fulfilled its social responsibility. Hangzhou Lianhua Huashang Group Co., Ltd. ("Hangzhou Lianhua Huashang") successfully undertook the supply of food to the G20 Summit in Hangzhou, and was awarded by the Government and highly praised. Additionally, in 2016, the Group enhanced its supervision and operation while maintaining a high level of social responsibility, intensified efforts in raising awareness of safety among all functional departments and actively fulfilled its duty of guaranteeing safety. No major safety accidents were recorded in 2016. In 2016, the Group recorded a revenue of approximately RMB26,666 million, representing a decrease of 2.0% form the previous year. The operating loss was approximately RMB220 million. The annual loss attributable to the shareholders of the Company was approximately RMB450 million. The loss per share amounted to approximately RMB0.40.

In 2017, the international situation will be more complicated, unstable and uncertain. China's economy will still remain stable at a low level of growth. Pursuing growth while ensuring stability will be the keynote of the year. Under the 'New Normal', China's economic structure will maintain stable growth in the process of restructuring. Consumption will play an ever more important role in this economy, and upgrading consumption structure will bring more market opportunities for retailers.

We see that the value of offline retail stores is now being reevaluated as consumers shift their attention again to offline shopping which is now a 'new' attraction. On 2 November, 2016, the Chinese government issued the "Opinions on Promotion Innovation and Transformation of Physical Retail Industry" which re-confirms the important role of the offline retail industry in the national economy, and provides a new direction for its development. It calls for a return to the previous road of retail and a customer-oriented service, and suggests upgrades in shopping experience, technology, supply chains and sales channels through innovative transformation, which is the ultimate growth path for traditional retailers.

Looking into 2017, the Group will follow its established strategy and will continue to focus on the working principles of "people oriented, innovation and reform, and reducing loss and increasing profits".

In 2017, the Group will focus on generating profits, accelerate the market reform of the procurement business, innovate our value chain, enhance our supply chains. The Group shall focus on deepening the construction of bases, develop compliance bases, accelerate the localization of the base and build a stable and quality network of bases for fresh products. The Group will expand cooperation with KeyAccount (KA), explore new channels and source of procurement and channels around the world in order to promote upgrading of commodity and transformation of stores.

In 2017, the Group will continue to upgrade its capability for fresh products. On one hand, we will accelerate the construction of a central kitchen and the processing business, enrich the added value of fresh products. On the other hand, the operation model of stores shall be revitalized, the standard management for fresh products shall be enhanced and the loss and consumption shall be reduced to improve quality of fresh product operation.

In 2017, the Group will actively explore new channels based on its development strategy. Firstly, we will accelerate the integration of online and offline stores by focusing on "Delivery to Homes", promote integration of online and offline warehouses and actively build a new retail model. Secondly, our Shanghai Lianhua Quik Convenience Stores Company Limited ("Lianhua Quik") will develop new channels, such as direct sales, joint ventures, franchise and merger and will actively explore other new areas. Through integrating regional market resources, we will pursue joint and collaborative development. Thirdly, we will grasp market opportunities arising from the changes in consumption in order to promote the improvement of segments and the upgrading of channel.

In 2017, the Group will control expenses and reduce cost, with the goal of reducing losses and increasing profits. The Group will streamline its positions and reasonably reduce the number of employees and control human resources costs through integrating its internal structure, function and flow. We will reduce commodity wastage through upgrading our management, lower inventory cost through accelerating circulation of goods, reduce our cost on rent through active negotiation, Simultaneously control investment cost and operation costs.

In 2017, the Group will focus on innovating new concepts and cultivating new culture in order to improve its ability in organization. We advocate performance in our forward strategy, and we look to build a scientific performance evaluation system and organize teams by building up our own culture. We will also establish a team concept that will recognize our goals, undertake our responsibilities, coordinate with others and share profits. By building an organization that advocates learning and a team that is innovative and creative, we will share with them our common goals, explore new starting points and set foot on a new journey.

In 2017, the Group will align its services to customers' demand, and develop itself through innovative reform. The Group will also accelerate transformation and enhance its supply chain. We will advocate quality, efficiency, and create the values for customers. We will be pragmatic in our work while pursuing every details and implementing concrete work. We will emphasize quality and results and will pay back to all shareholders with our hard efforts.

Finally, on behalf of the Board of Directors, I would like to extend my heartfelt thanks to our management team and all our employees for their efforts and contribution as well as our shareholders and business partners for their continued support.

By order of the Board

Ye Yong-ming
Chairman

29 March 2017, Shanghai, the PRC

GROWING

Five Years Financial Highlights

Unit: RMB'000 For the year ended 31 December	**2016**	2015	2014	2013	2012
Turnover	**26,666,069**	27,222,699	29,152,454	30,383,420	28,987,545
Hypermarkets	**16,291,815**	16,612,065	17,513,911	18,234,857	17,253,783
– Percentage to turnover (%)	**61.10**	61.02	60.08	60.02	59.52
Supermarkets	**8,323,560**	8,623,925	9,544,941	10,151,879	9,819,043
– Percentage to turnover (%)	**31.21**	31.68	32.74	33.41	33.87
Convenience stores	**1,982,848**	1,968,663	2,013,456	1,934,450	1,837,821
– Percentage to turnover (%)	**7.44**	7.23	6.91	6.37	6.34
Other businesses	**67,846**	18,046	80,146	62,234	76,898
– Percentage to turnover (%)	**0.25**	0.07	0.27	0.20	0.27
Gross profit	**3,937,505**	4,021,565	4,241,145	4,362,590	3,929,064
Gross profit margin (%)	**14.77**	14.77	14.55	14.36	13.55
Consolidated income margin (%) (Note 1)	**24.51**	24.50	24.46	24.02	24.68
Operating (loss) profit (Note 1)	**(220,251)**	(148,831)	241,816	265,805	512,487
Operating (loss) profit margin (%) (Note 1)	**(0.83)**	(0.55)	0.83	0.87	1.77
(Loss) profit attribute to shareholders of the Company	**(449,955)**	(496,991)	31,033	52,953	339,947
Comprehensive (expenses) profit attributable to shareholders of the Company	**(451,284)**	(487,190)	31,033	52,953	339,947
Net (loss) profit margin (%) (Note 1)	**(1.69)**	(1.83)	0.11	0.17	1.17
(Losses) earnings per share (RMB)	**(0.40)**	(0.44)	0.03	0.05	0.30
Interim dividend per share (RMB) (Note 2)	**–**	–	–	–	0.08
Final dividend per share (RMB) (Note 2)	**–**	–	–	–	0.07

Unit: RMB'000 As at 31 December	**2016**	2015	2014	2013	2012
Net assets	**2,753,879**	3,199,086	3,674,386	3,648,620	3,768,680
Total assets	**17,458,012**	17,604,856	18,428,359	20,520,759	20,804,186
Total liabilities	**14,704,133**	14,405,770	14,753,973	16,872,139	17,035,506
Net cash flow	**(1,271,465)**	(697,905)	267,777	2,288,339	(2,977,217)
Average (loss) return on total assets (%)	**(2.57)**	(2.76)	0.16	0.26	1.65
Average (loss) return on net assets (%)	**(16.73)**	(15.73)	0.92	1.56	10.12
Gearing ratio (%) (Note 3)	**0.01**	0.01	0.01	0.01	0.01
Liquidity ratio (times)	**0.79**	0.70	0.77	0.73	0.67
Turnover of trade payables (days)	**61**	59	58	59	59
Turnover of inventories (days)	**43**	41	40	40	37

Notes:

1. Consolidated income margin (%) = (Gross profit + Other income + Other revenues)/Turnover
   Operating (loss) profit = (Loss) profit before tax – Share of profits associates
   Operating (loss) profit margin (%) = ((Loss) profit before tax – Share of profits associates)/Turnover
   Net (loss) profit margin (%) = (Loss) profit attribute to shareholders of the Company/Turnover

2. The total shares of the Company increased to 1,119,600,000 shares from 622,000,000 shares due to the bonus issue effective in September 2011. Meanwhile the directors do not recommend the payment of the final dividend for the year ended 31 December 2016 at the Board meeting held on 29 March 2017.

3. Gearing ratio (%) = Loans/Total assets

Management Discussion and Analysis

Operating Environment

Based on the data from the National Bureau of Statistics, in 2016, China's gross domestic product (GDP) achieved a year-on-year growth of 6.7%, representing a decrease of 0.2 percentage point compared to last year. China achieved the same level of GDP growth in the fourth quarter, 6.8%, an increase of 0.01 percentage point compared with the first three quarters. In 2016, the Chinese government continued to promote supply-side structural reforms in order to prevent various financial risks and stimulate the real economy while securing stable growth through tax reduction. China's economic growth showed an L-shaped path of slow recovery, however, judging from data from various fields, there was no concrete foundation for economic recovery. It was very difficult to secure stable growth as downward pressure weighed.

Based on the data from the National Bureau of Statistics, in 2016, total retail sales of consumer goods nationwide had a nominal year-on-year growth of 10.4%, representing a decrease of 0.3 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 8.1%, representing an increase of 0.3 percentage point compared to the same period of 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, nationwide disposable income per capita had an actual growth of 6.3% in 2016, representing a year-on-year slowdown of 1.1 percentage point and also 0.4 percentage point less than the GDP growth rate. Based on the data from the National Bureau of Statistics, nationwide CPI in 2016 had a year-on-year increase of 2.0%, representing an increase of 0.6 percentage point compared to the same period last year. As indicated by results of a questionnaire for 20,000 depositors in

50 cities conducted by People's Bank of China for the fourth quarter of 2016, Chinese consumers had more rational expectations for future employment, income and personal consumption while downward pressure weighed, among which, 23.1% of households are inclined to engage in more consumption.

In 2016, because of the continuous increase of operation costs, adjustment of consumption demand and rapid development of the online retail industry, the physical 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 0.5% in 2016, representing a drop of 0.3 percentage point compared to the growth rate in the same period of 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 26.2%, representing a drop of 7.1 percentage points from the 33.3% growth rate in the same period of last year.

In order to promote healthy development of the physical retail industry, the "*Opinions on Promoting Innovation and Transformation of Physical Retail Industry*" was issued by Office of the State Council of the People's Republic of China on 2 November 2016, providing a series of policies and measures against problems faced by the physical retail industry. In circumstances that the Chinese government strives to boom real economy, physical retailers are now preparing for a new round of development. With the slowdown of online retail growth, the gap between the online and physical retail industries has gradually narrowed with regards to price, product and service, and the physical retail industry is now regaining its value. Consumers are turning to physical retail stores and the trend of pursuing a real purchasing experience is beginning to resurface.

While the consumption demand of consumers gradually increases, the physical retail industry continues to accelerate its transformation and upgrade. Against the backdrop of an accelerated integration of the online and physical retail industries, physical retail enterprises have enhanced their investments in channels, integrated online and physical marketing resources, deepened their understanding of customers' voice and guided customers' demand, thus improving the overall consumption experience in order to attract customers and increase sales.

Financial Review

Turnover & Consolidated Income

During the period under review, the Group's turnover was approximately RMB26,666 million, decreased by RMB557 million when comparing with corresponding period of last year (a decrease of approximately 2.0% year over year). In particular, same store sales fell by approximately 1.23% when comparing with corresponding period of last year. It was mainly due to: (1) online sales still grew rapidly while total volume of offline sales kept shrinking; (2) expansion of new stores slowed down, resources of network was streamlined and stores with unsatisfactory performance were closed, and total number of stores decreased by 265; (3) promoting restructuring of commodity categories and expanding sales scales and proportion of fresh produce, further, the unit price for fresh produce is rather low compared with other categories, making it hard to lift the unit price; and (4) in the latter half of 2016, the plan of transformation and upgrading of stores was gradually implemented, and the sales of stores during the period of transformation and upgrading showed negative growth.

During the period under review, affected by the year-on- year drop of its turnover, the Group's gross profit amounted to approximately RMB3,938 million, decreased by approximately RMB84,060 thousand when comparing with corresponding period of last year (a decrease of approximately 2.1% year over year). The gross margin remains the same when compared with that of last year, reaching 14.77%. The decrease of gross margin was mainly due to the decrease of the sales for the segment of hypermarkets.

During the period under review, Consolidated Income of the Group was approximately RMB6,535 million, decreased by about RMB134 million when comparing with the corresponding period of last year (a decrease of approximately 2.0% year over year). The decrease was mainly attributable to the decrease of the gross profit amount and the decrease of other income by approximately RMB96,486 thousand year over year. During the period under review, the annual yield of the financial market lowered. Though the Group regulated the structure of financial products while containing risks in order to alleviate impact of downturn annual yield, the capital earnings decreased year over year against the background that the operation capital and annual yield declined. During the period under review, the capital earning reached approximately RMB332 million.

Operating cost and net profit

During the period under review, the total distribution cost and administrative expenses of the Group amounted to approximately RMB6,670,337 thousand, decreased by approximately RMB113,888 thousand year over year. The decrease was mainly attributable to: (1) offsetting the rigid growth of expenses on human resources through integration organization structures of Shanghai and streamlining of personnel, thus realizing decrease of expense on human resources of approximately RMB7,537 thousand year over year; (2) during the period under review, the rental expense decreased by approximately RMB106,053 thousand due to closing of stores and reduction of rental fees in partial areas. At the same time, after the policy of replacing business tax with VAT the rental expenses was cut by approximately RMB24,547 thousand by means of strengthening management of invoices; and (3) energy expenses saving of approximately RMB41,918 thousand via promotion of investment in energy-saving equipment.

During the period under review, the Group had expenses on other businesses of approximately RMB84,386 thousand, increased by RMB51,551 thousand year over year. It was mainly due to: (1) the accrued provision of goodwill impairments of the subsidiary Shanghai Lianhua Hypermarket Supermarket Development Co., Ltd. was approximately RMB22,198 thousand; and (2) the additional accrued provision of four marketplaces of the segment of hypermarkets was approximately RMB60,326 thousand.

During the period under review, the Group had an operating loss of approximately RMB220 million, increased in operating loss by approximately RMB71,420 thousand year over year. It was mainly due to the decrease in gross profit and other income, and increase in other operating expenses.

During the period under review, the associates' loss attributable to the Group was approximately RMB687 thousand with a year-on-year decrease of approximately RMB3,540 thousand. The associates of the Group were also affected continuously by online sales, in which Shanghai Carhua Supermarket Co., Ltd ("Shanghai Carhua") had a significant decrease in profit during the period under review. As of 31 December, 2016, there were a total of 30 stores operated by Shanghai Carhua.

During the period under review, the tax expense of the Group was approximately RMB115 million, decreased by approximately 54.7% year over year. Taking no account of the impact of refunding the deferred income tax asset for the previous year, the tax expense decreased by approximately RMB16 million year over year.

During the period under review, the net loss of the Group attributable to the shareholder of the Company was approximately RMB450 million, decreased loss by approximately RMB47,036 thousand year over year. Based on the 1,119.6 million shares issued by the Company as at the end of the period under review, basic loss for each share is approximately RMB0.40. The rapid growth of online retails helps occupy market shares of offline retail industry. Therefore, during the period under review, the Group conquered difficulties and made its breakthroughs and followed the working principle of increasing income and cutting expenditure. On one hand, the "O2O" experience zone for the segment of hypermarkets was promoted and new models of sales featuring interaction between the online and offline stores of "Bailian Daojia", and the commodity category structure was optimized and the amount of customers coming back to buy fresh produce was increased. The transformation of stores was accelerated and the contemporary retail consumption experience was created to enhance our performance and the

operation capability in attracting investment. On the other hand, the special projects for controlling expenses were established in order to control expenses on human resources, energy, rental fees and other relevant expenses. In the latter half of the year, the operation performance changed the continuing trend of dropping.

Cash flow

During the period under review, the net cash outflow of the Group was approximately RMB1,271,465 thousand, mainly due to the purchase of financial assets at fair value through profit or loss increasing by RMB1,370 million. The cash and various balance at bank as at the end of the period was approximately RMB6,684,751 thousand.

As at 31 December 2016, the accounts payable turnover days of the Group were 61 days, and the inventory turnover days were approximately 43 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 31 December 2016.

Retail business operation

Hypermarkets

During the period under review, the hypermarket segment of the Group recorded a turnover of approximately RMB16,291,815 thousand, accounting for approximately 61.1% of the Group's turnover, with a decrease of approximately RMB320,250 thousand year over year, which represented a year-on-year decrease of approximately 1.9%. Same store sales had a year-on-year decrease of approximately 2.79%, mainly due to the impact of expanding shares of online sales in traditional retail markets. The hypermarket segment of the Group tried to promote the rising of retail sales by successively adopting the those special projects such as stores renovation and transformation, business cooperation and structural adjustment of product offerings to attract customers as well as online and offline "Bailian Daojia". Some transformed stores have witnessed a rebound of sales and performance in Shanghai. During the period under review, the hypermarket segment recorded a gross profit of approximately RMB2,354,741 thousand with a decrease of approximately RMB88,559 thousand year over year. The gross profit margin decreased by 0.26 percentage point year over year to 14.45%. The consolidated income was approximately RMB4,168,267 thousand. The consolidated income margin increased by 0.80 percentage point to 25.59%. During the period under review, operating loss of the hypermarket segment was approximately RMB148,818 thousand.

As of 31 December	2016	2015
Gross Profit Margin (%)	**14.45**	14.71
Consolidated Income Margin (%)	**25.59**	24.79
Operating Profit Margin (%)	**-0.91**	-0.44

Supermarkets

During the period under review, the turnover of the Group's supermarket segment reached approximately RMB8,323,560 thousand, accounting for approximately 31.2% of the Group's turnover with a decrease of approximately RMB300,365 thousand year over year, which represented a year-on-year decrease of approximately 3.5% mainly affected by the net reduction in stores. In particular, same store sales increased by approximately 0.61%. During the period under review, supermarket segment, on one hand promoted the implementation of the online and offline project of "Bailian Daojia" and slowed down the declining of same store sales; On the other hand, after the integration of warehouses of Jiangqiao Warehouse, the resources of suppliers were integrated and the purchasing price of commodities was lowered, thus increasing the commodity revenue year over year. During the period under review, the supermarket segment recorded a gross profit of approximately RMB1,242,313 thousand with an decrease of approximately RMB19,251 thousand year over year, which represented a year-on-year decrease of 1.5%. The gross profit margin increased by 0.30 percentage point year over year to 14.93%. The consolidated income was approximately RMB1,822,733 thousand. The consolidated income margin decreased by 1.22 percentage points year over year to 21.9%. During the period under review, the operating profit of supermarket segment was approximately RMB101,605 thousand with a year-on-year increase of approximately RMB35,468 thousand, mainly due to the reduction in costs. The operating profit margin increased by 0.45 percentage point to approximately 1.22%.

As of 31 December	2016	2015
Gross Profit Margin (%)	**14.93**	14.63
Consolidated Income Margin (%)	**21.90**	23.12
Operating Profit Margin (%)	**1.22**	0.77

Convenience Stores

During the period under review, the Group's convenience store segment recorded a turnover of approximately RMB1,982,848 thousand with a year-on-year increase of approximately RMB14,185 thousand, which represented a year-on-year increase of approximately 0.7%, and accounting for 7.4% of the Group's turnover. In particular, the same store sales had an increase of approximately 6.31%. During the period under review, the convenience store segment recorded a gross profit of approximately RMB330,114 thousand with a year-on-year increase of approximately RMB7,426 thousand, which represented a year-on-year increase of 2.3%. The gross profit margin increased by 0.26 percentage point year over year to 16.65%. The consolidated income was approximately RMB445,364 thousand with a year-on-year decrease of approximately RMB8,099 thousand, which represented a year-on-year decrease of 1.8%. The consolidated income margin decreased by 0.57 percentage point year over year to 22.46%. The distribution cost and administrative expenses increased by approximately RMB21,208 thousand year over year, mainly including the rigid growth of labour cost of approximately RMB11,238 thousand due to the impact of the policy of increasing the minimum salary standards. The convenience store segment suffered an operating loss of approximately RMB114,812 thousand with a year-on-year increase of loss approximately RMB28,550 thousand. The operating profit margin lowered by 1.41 percentage points, reaching approximately -5.79%.

As of 31 December	2016	2015
Gross Profit Margin (%)	**16.65**	16.39
Consolidated Income Margin (%)	**22.46**	23.03
Operating Profit Margin (%)	**-5.79**	-4.38

Capital Structure

As at 31 December 2016, the Group's case equivalent was 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 borrowings.

During the period under review, the equity interest of the shareholders of the Group decreased from approximately RMB3,199,086 thousand to approximately RMB2,753,879 thousand, mainly due to the loss for the period amounting to approximately RMB336,042 thousand, the dividend distributed to non-controlling interests amounting to approximately RMB106,286 thousand and the increase of capital reserve by approximately RMB2,879 thousand.

Details of the Group's pledged assets

As of 31 December 2016, the Group did not pledge any assets.

Foreign Exchange Risks

Most of the income and expenditures of the Group are denominated in Renminbi. During the period under review, the Group did not experience any material difficulties or negative effects on its operations or liquidity as a result of fluctuation in currency exchange rates. The Group neither entered into any agreements nor purchased 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 31 December 2016, the issued share capital of the Company was as follows:

Class of Shares	Number of Issued Shares	Percentage
Domestic Shares	**715,397,400**	63.90
Unlisted foreign shares	**31,602,600**	2.82
H Shares	**372,600,000**	33.28
Total	**1,119,600,000**	100.00

Contingent Liabilities

As at 31 December 2016, the Group did not have material contingent liabilities.

Operating Review

Development of Network

During the period under review, the Group followed a quality-oriented development strategy. On one hand, the Group actively opened new outlets in key areas to enhance our market position. On the other hand, the Group adapted to market conditions and reorganized stores that recorded deficits, thus improving the overall quality of physical stores. In 2016, the Group opened 212 new stores and closed 477 stores, of which 395 were franchised stores.

		Newly opened stores during the period under review		Closed stores during the period under review	
		Count	Operating Areas	Count	Operating Areas
Region	**Segment**		*(m^2)*		*(m^2)*
Major East China Zone	Hypermarkets	1	11,300	3	30,948
	Supermarkets	94	19,688	257	74,203
	Convenience Stores	60	2,990	142	6,242
North China Zone	Hypermarkets	0	0	2	18,130
	Supermarkets	0	0	4	1,020
	Convenience Stores	10	491	15	793
Northeast China Zone	Supermarkets	1	950	0	0
	Convenience Stores	21	869	24	947
Middle China Zone	Supermarkets	4	8,900	13	5,133
South China Zone	Hypermarkets	0	0	1	3,980
	Supermarkets	20	6,936	15	5,031
Southwest China Zone	Supermarkets	1	3,800	1	200
Total		212	55,924	477	146,627

During the period under review, the Group adopted a strategy of prudent development of hypermarkets and reorganized stores that recorded deficits, upgraded network and operation structure through adjusting and optimizing stores, and upgraded stores with potentials periodically. The Group also improved overall store environment, upgraded equipment and enhanced our image in order to improve operational quality and economic benefits of stores. During the period under review, one new hypermarket was opened and 6 stores were closed.

During the period under review, the Group adopted a development strategy of "Exploring markets in a more detailed manner and consolidating existing market shares" for the supermarket segment. The direct sales business mainly focused on transformation and we put more emphasis on improving the operational quality of existing stores. The franchised business mainly focused on sustainable development and accelerated the improvement of support systems for franchised businesses, thus increasing the proportion of income from franchised businesses for the Group. During the period under review, the supermarket segment had 120 new stores opened, in which 10 were directly-operated stores and 110 were newly franchised stores. The supermarkets segment still maintains its advantages in Shanghai.

During the period under review, the Group adopted a development strategy featuring stable growth for the convenience store segment. On one hand, the Group unified labels, improved its image, upgraded and transformed equipment, and expanded fresh produce operation, sales of imported commodities and self-made commodities. At the same time, the Group introduced more new commodities, advocated innovative marketing, upgraded service, accelerated E-commerce operation and continuously improved operating quality and brand image of existing stores. On the other hand, the convenience store segment began to explore models for brand new convenience stores, securing a successful model on which to build future stores. During the period under review, 91 new stores were opened in the convenience store segment, of which 35 were directly-operated stores and 56 were franchised stores.

During the period under review, the actual investment of the Group was approximately RMB453.84 million, among which, RMB38.03 million was for the new store development, RMB107.44 million was for the upgrade and reform of stores, RMB188 million was for Yangxunqiao logistics project, RMB114.6 million for the Jiangqiao logistics project and RMB5.77 million for Lianhua logistics business electronic project.

As of 31 December 2016, the Group owned a total of 3,618 stores, which was 265 less than that in 2015. The number of franchised stores decreased by 216, mainly due to having to face the same unfavorable market conditions as the directly-operated stores did, and the Group standardized its franchise management. Approximately 81.73% of the Group's stores are located in East China.

	Hypermarkets	Supermarkets	Convenience Stores	Total
Directly-operated	152	569	805	1,526
Franchised	–	1,384	708	2,092
Total	152	1,953	1,513	3,618

Note: The above-mentioned data was as of 31 December 2016.

Strengthening Channels

During the period under review, the Group followed its target to consolidate channels and the guideline of "Driving development by performance and making breakthroughs by innovation", regarded transformation of stores as a main tool in consolidating channels, continues to deepen for the "One Hundred Days Action" and fulfill transformation of stores. In accordance with the principle of market segmentation, the overall orientation of the market changed from featuring "comprehensive categories and large areas" and "one-stop shopping" to currently "professional and outstanding community service center". The overall orientation of the marketplace has also changed from a previous focus that "self-operated marketplace dominates and business attraction plays a subsidiary role" to the current one featuring "portfolio operation focusing on meeting comprehensive livelihood and service demand of the community". We have focused on making our marketplaces and produce display categories active, fashionable and vigorous. Through arrangement and display of function sections and theme sections, the Group has improved shopping experience and stimulated additional purchase Additionally, we regrouped store managers. Previously, our store managers were selected based on their qualification and experience. Now, they are selected based on competency. We established a competence evaluation system to help promote qualified managers through competition.

During the period under review, the Group's hypermarket segment focused on promoting the upgrade and reform of stores, through upgrading assets, improving quality, introducing lower prices and improving services. The hypermarket segment expanded the areas and product categories of fresh produce, accelerated product upgrade, and introduced the shop-within-a-shop to achieve brand improvements. The special category zone, 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. At the same time, operating areas were rearranged, areas for attracting investment were expanded, the costs were

reduced and inventory and human resources costs were cut, thus facilitating reduction of losses and increase of profits in stores recording deficits.

During the period under review, the supermarket segment focused on supply of vegetables for residents by means of introducing, improving and enriching the product categories of fresh produce. The supermarket segment 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 enhanced the freshness and quality of fresh produce. The supermarket segment reinforced skills training for the supermarket operation teams, improved the approach of performance appraisal, motivated tier-one personnel enthusiasm towards promoting fresh produce, enhanced daily routine maintenance, and promoted persistent improvements in the management and operational level of fresh produce in stores by means of streamlining operations. The supermarket segment introduced elements related to health, trend and quality, thus optimizing commodity structure and shopping environment to attract more customers.

During the period under review, the convenience store segment continued to streamline its functions and increase its capability, while accelerated the introduction of new products and expanded sales of fresh produce, imported commodities and branded produce. The segment accelerated exploration of a transformation model for stores and opened many convenience stores with unique features. The structure of customers turned younger during the year.

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 improving the competitiveness of key products and realizing growth of benefits through establishing interior and exterior supply chain system and workflow system. The Group also closely studied consumption trend to build an appropriate product category strategy and determine goals for optimizing categories. The purchase was organized with clear purpose and the proportion for direct purchase was expanded. The product development was explored and the new product portfolio was created to increase sales proportions of self-made branded commodities and imported commodities. Joint purchase was expanded, nationwide commodity resources were shared and the purchase cost were reduced. The introduction of new products was accelerated and supply of new products increased.

During the period under review, the Group was committed to the enhancement of the strategic fresh produce supply. The department for fresh produce procurement directly meets demands of markets and customers in order to improve their service quality and diversify their portfolio of fresh produce. The Group established a nationwide procurement team and sorted out procurement management flow, regulated management processes, improved procurement quality and reduced procurement costs. It also enhanced the performance of the procurement team's expertise and professional capability and increased capability of base procurement and source procurement in order to accelerate introduction of new products with advantages and new categories with shorter cycles of development and sales. The operation for packaged vegetables and fruits were enhanced and the prices were fixed at a reasonable level to expand sales of individual products and continue to improve local supply chains for fresh produce. and the Group also accelerated the establishment of a central kitchen through integrating market resources in an effort to offset its weakness in fresh produce supply chains.

During the period under review, the Group aimed at the market opportunities resulting from consumption upgrades and established the Premium Lifestyle Pavilion as well as developed and attracted more exquisite products The Group also explored potential transformation of brands operation. By making breakthroughs in the traditional procurement model for self-made products and through market-focused operation, the Group enhanced coordination between marketing and procurement, and actively promoted the "Premium Lifestyle Pavilion" (優品生活館), the "Ichiban Good Products" (一番良品) and Disney. Overall, the brand image of self-made products was markedly improved.

Cost Control and Efficiency Enhanced

During the period under review, the Group achieved significant cost reductions and expense control. Confronted with the rigid increasing trend of labor cost and rental cost, through optimizing business flow, reasonably arranging employment and improving human resources efficiency, the Group was able to save on labor costs by means of rearranging operation plans, reasonably determining rental areas and rediscussing rental fees, the rental cost was reduced. The Group enhanced scientific management over its investment and output and enacted strict control over expenditure in order to keep all costs for operation within a reasonable range. These efforts achieved significant results in expense control.

During the period under review, the Group was strict in saving energy and reducing consumption. The Group provided guarantee in terms of organization and appointed personnel in charge of reducing energy and consumption, optimized management system for saving energy and enhanced enforcement for energy saving, improved awareness of staff to save energy and guided staff to save energy in a

routine manner. The Group introduced innovative energy saving technology and products that save energy, mastered new energy-saving and consumption reduction technology and successfully promoted such technology. It was guaranteed that there was no blind areas for energy saving and consumption reduction, thus further enhancing fruits in energy saving and consumption reduction. The Group explored ways of demonstration and established Display Hypermarkets to Save Energy in order to advertise and promote the results. After summing up experiences, an energy saving model that can be copied and promoted can be established.

During the period under review, the Group further explored potentials in order to guarantee its effective control over assets and project investment. The budget management was enhanced and the budget enforcement and follow-up analysis were carefully made in a detailed manner, thus effectively guaranteeing that investment does not go beyond budget. The Group enhanced the control before, in and after the project investment and assets and strengthened the compilation and enforcement of standards. The Group compared market procurement prices, improved its selection in bidding and enhanced its comparison in project bidding in an effort to reduce procurement cost. The Group strictly followed the approvals and price auditing rules for projects, enhanced argumentation over maintenance schemes, on-site confirmation of maintenance projects and the annual price list system for maintenance projects. Also, the Group enhanced its comparison and selection in bidding, upgraded quality and reduced costs for projects.

Solid Foundation

During the period under review, the Group proactively implemented the optimization of organization structure and improvement of human resources and deepened regional reform in accordance with the principle of market-focused, professional and flat organization structure. Levels of management for headquarter in Shanghai were reduced in order to build a new structure that is market-oriented, professional, clear in responsibility and rights and prompt in reaction and to cope with slowdown in growth of the traditional retail industry, fast market changes and diversified consumption needs. It clarified that companies in various localities shall be the main body liable for independent operation and accounting to build a new operational management system with regional operation as the base. The Group also adopted an employment method of competition for a post among all management staff. At the same time, the Group combined the market-oriented employment and internal training to introduce senior talents for key posts and diversify the core team.

During the period under review, the Group, in accordance with the requirements of markets and professional performance, realized separation of the procurement business and management of procurement and optimized the business structure. Based on needs for commodity strategy and the trend of development of product categories, the Group arranged independent categories for imported, branded products and products for infants and children. The Group also determined the guidance for future investment attraction, unified strategies of attracting investment, supported transformation of stores, streamlined the stores we attracted and introduced new stores.

During the period under review, the Group, in accordance with the principle of market-focused and professional, pushed forward the optimization of internal organization. During the period under review, the Group targeted horizontal organization, functions with clear responsibilities, professional arrangement of posts, market-oriented capability and reasonable size of personnel force and smoothly finished the integration of the Shanghai operation center, thus establishing a structure of its headquarter with clear responsibilities, prompt reaction and a market-oriented system.

During the period under review, the Group accelerated its integration of logistics. It built a project panel and completed business and system integration by means of unifying the commodity codes, supplier codes and contracts and through modifying business rules, integrating business flows and upgrading the business management information system. Based on this, through order and continuous efforts, the offline stores, online stores and fresh produce stores for marketplaces, standard supermarkets and convenience stores formally started the operation. Thus, the physical shift of stores of Jiangqiao Logistic Center was smoothly finished. Also, the system sharing, inventory sharing and resources sharing have

provided a powerful guarantee for the improvement of efficiency of supply chains in Shanghai.

During the period under review, the Group was active in undertaking social responsibilities. One of our affiliates, Lianhua Huashang, was responsible for supplying food to the G20 summit in Hangzhou. Lianhua Huashang successfully and excellently completed its task of supplying food to the summit with its outstanding coordination and joint efforts and was highly appreciated by the attendees. Satisfaction levels for the event was 100%, and Lianhua Huashang was awarded by the Government for its efforts.

During the period under review, the Group focused on supervision, standard operation and guarded against critical accidents. During the period under review, the Group established the safety quality management department to enhance its guidance, supervision and inspection over food security, fire safety, shopping safety and occupational safety. All of its affiliated companies and stores have all strengthened their awareness of safety and actively fulfilled their safety duties.

Employment, Training and Development

As of 31 December 2016, the Group had a total of 44,033 employees, a decrease of 3,590 employees during the period under review. Total employment expenses amounted to approximately RMB2,957,507 thousand.

During the period under review, the Group aimed to motivate employees, retain and attract talents and proactively improved reforms on the incentive mechanism. Through combining horizontal reform, following the principle of fairness and justice, respecting markets, gradually regulating the salary system and redesigning salary levels, the Group continued to build towards a salary system that is market-oriented.

During the period under review, the Group, in accordance with its own development strategy, established a better training system to facilitate the improvement of operation and management. The Group focused on pushing forward a group of key training projects in order to provide guarantee for the career development of employees. The Group also organized training for operation posts to enhance actual capability of tier-one employees in terms of operational management. The Group also sought resources for interior and exterior training cooperation and organized training that fitted certain employee's skills, diversified training resources, provided training resources support for the business department and improved training results. The Group continued to carry out cooperation projects with colleges and universities, enhanced construction of training bases and accelerated reserve of talents and talent pool building.

Strategy and Planning

The year 2017 is an important year for the 13th Five-year Plan of the Chinese government and will be a year to deepen supply-side structural reform. In 2017, China's economy will face an ever greater downward pressure. However, with the gradual formation of new growth drivers, China's economy is expected to achieve L-shape development and maintain a growth rate of about 6.5%. Under such circumstances, the Chinese government will focus on pushing forward reforms and accelerating transformation of the economy as the critical factors in the economic area.

The Chinese government is now focusing on the booming of real economy and issuing a series of policies to support the development of retails stores. According to the 2017 Report on Investigation of Consumption Trends of Chinese Urban Youth conducted by an independent big data analysis organization Standard Ranking Institute, 70% of urban youth are willing to pay for health. To spend money on health, leisure time and entertainment are new consumption trends of Chinese urban youth being the new generation. With the improvement in urban residents' livelihood, the need of urban consumers has changed, and they now pursue quality, healthy and safe consumption. With the influence of supply-side structural reform and the trend of pursuing quality consumption and selective consumption, the quality branded products, well-known brands and food that is healthy, green and imported maintained fast sales growth. For entity retail stores, this is an opportunity as well as a challenge.

Therefore, in 2017, the Group will follow the previously set strategy and realize guidance focusing on human resources, innovation and reform, pragmatic performance and reduction of loss and increase of profits. The Group will aim at meeting the needs of customers and focus on control of upstream resources, consolidating channels and expanding channels. The Group will also push forward upgrading of brands, categories and channels. The Group will steadily carry out expansion of sales and increase of profits, reduction of cost and increase of efficiency, thus improving customer satisfaction levels, employees' confidence and diversities.

In 2017, the Group will focus on human resources, develop an incentive model and improve organization capability. The Group will optimize structure and streamline responsibility and rights in order to clarify the relations between regional organizations and headquarters and strengthen regional reform. The main body for maintaining the budget shall be made clear in a detailed manner and the financial responsibility shall be clarified. The incentive mechanism shall be innovative to build a scientific performance evaluation system, and the Group will push forward construction of enterprise culture and motivate employees' enthusiasm and activeness, thus realizing independent and active action by employees and enhancing the power of teams.

In 2017, the Group will realize growth of sales equal to last years through innovative marketing, coordinated supply chains and guaranteeing supply. The Group will actively change our philosophy, bring out innovative marketing approaches and improve our communication with customers, thus realizing marketing through all employees and transmitting our operation concept. We will continue to aim at meeting the needs of customers and fulfill traditional marketing aspects such as posters and multi-level marketing. By targeting to provide services to business districts, we will go into districts and actively plan and organize marketing and promotion activities with clear goals. We will thoughtfully organize marketing in festivals and holidays, theme marketing and other large marketing activities. We will actively organize supply and maintain focus on offering competitive prices, thus enhancing loyalty and satisfaction levels of our customers.

In 2017, the Group will accelerate upgrading of stores through innovative operations and will consolidate our sales channels. Based on continuous analysis, checking and optimization of existing stores, we will explore new ways of upgrading and diversify the purpose of upgrading stores. At the same time, we will organize and arrange our advantageous resources and carefully plan and make overall arrangements to push forward the transformation of supermarkets, improve input-output ratio and maintain the improved efficiency of transformed stores. We will accelerate the transformation and upgrading of the convenience stores segment through innovative service functions, integrated market chains and enhanced fresh food categories.

In 2017, the Group will continue its reform on the establishment of innovative supply chains and consolidation of supply chains, thus improving the quality of procurement. Guided by the principle of "Generating profits from sales and creating revenue with gross interest", we will accelerate market reform for the procurement business, focus on responsibility of the checking body through clarifying responsibility and rights of the budget enforcement body, motivating the activeness and creativeness of procurement personnel and strengthening competitiveness, thus creating conditions for integrating marketing and procurement and reducing procurement costs. We will speed up construction of a central kitchen and push forward the comprehensive upgrading of our fresh produce operation from raw to cooked products. We will adopt product category

management technology to improve output and accelerate survival-of-the-fittest in order to improve sound cycling of commodities. We will accelerate the transformation of self-made operations to OEM production in order to improve independent operation capability and realize differential competitiveness. We will allocate quality resources to attract new businesses, support transformation and upgrading of stores and increase income from attracting new businesses.

In 2017, the Group will continue to adapt to market conditions, enhance management of regulations and improve operation quality. We will actively promote the role of the Sales Promotion Department, guide procurement personnel to face markets demand and enhance coordination of marketing and procurement. We will adapt to the transformation of our fresh produce from raw to cooked products. We will focus on various sections in fresh produce operation and improve the operation quality of fresh produce. We will enhance standardized operational management, enhance supervision and inspection of rules related to the operation of stores, integrate rewards with punishment, fulfill reform and modification, thus realizing an overall improvement of operational management.

In 2017, the Group will continue to integrate the online and offline businesses and promote upgrading of channels. We will depend on physical stores and take advantage of E-commerce technology to explore online sales channels in order to adapt to changes of consumption behavior. We will focus on "delivery to home, buy online and pick up in stores". Through building complete O2O value chains, the customers, commodities, logistics, information and capital will interact and be integrated, building synergies between the online and offline operation, while optimizing the supply chains, commodity structure, supplier structure, business flow and marketing.

In 2017, in order to grasp the market opportunities arising from the rapid development of community businesses and consumption upgrades, the Group will give the same priority to direct sales, franchised stores and mergers, and accelerates development of supermarkets and convenience stores. The convenience store segment will enter into new zones. At the same time, boutique supermarkets will be established and transformation and upgrades of convenience stores 2.0 version will be explored.

In 2017, the total capital expenditure budget of the Group amounts to approximately RMB1,141.82

million, among which, the investment in new store development amounts to approximately RMB455.29 million. the investment in store upgrading and reform amounts to approximately RMB436.53 million and the investment in Yangxunqiao logistic project amounts to approximately RMB250 million.

In 2017, the Group will seek more ways to control expenses and cut costs, and will cut human resources cost through integrating interior structures, functions and flows, streamlining posts and reasonably cutting employees. We will reduce consumption through improving our management and will reduce our rental costs through active negotiations. Also, we will reduce inventory costs through accelerating cycling of commodities. We will control investment costs through a careful budget and will reduce transportation expenses through a detailed plan. We will cut cost for IT development through sorting out and optimizing the existing system.

In 2017, the Group will steadily push forward reform of the salary system, improve the training system, enhance expertise of our staff and accelerate training of talents in various fields, thus guaranteeing the sustainable development of our enterprise. We will speed up the construction of support system for logistics, improve the operation quality of logistic systems and support the expansion of sales and increase of efficiency of stores. We will strengthen the construction of support system for supply chains, push forward the transformation and upgrading of franchised stores and improve the quality of franchised business. We will push forward ERP and OA projects in an orderly manner in order to improve management efficiency and will give priority to safety in order to fulfill our duty to society.

Information about Financial Assets at Fair Value through Current Profit or Loss

Information about Financial Products Subscribed in 2016

The financial products refer to the non-guaranteed financial products subscribed by Hangzhou Lianhua Huashang from commercial banks, in aggregated year-end fair value of approximately RMB1,975,371 thousand (accounting for approximately 11.31% of the total assets of the Company), details of which are set out as follows:

Commercial Banks	Name of Financial Products	Term	Principal (RMB)	Yield To Maturity (RMB)	Expected Annual Yield	Effective Annual Yield	Profit and Loss from Fair Value Changes Recognized as at 31 December 2016 (RMB)	Total (RMB)
Bank Of Wenzhou Co., Ltd. Hangzhou Branch	"Jinlu Wealth Management – Fortune" Bank Wealth Management Plan No. 16002	Jan. 7, 2016 ~ Jan. 6, 2017	100,000,000	5,000,000	5.00%	5.00%	4,932,000	104,932,000
Bank Of Wenzhou Co., Ltd. Hangzhou Branch	"Jinlu Wealth Management – Fortune" Bank Wealth Management Plan No. 16005	Jan. 12, 2016 ~ Jan. 11, 2017	100,000,000	5,000,000	5.00%	5.00%	4,863,000	104,863,000
Bank Of Wenzhou Co., Ltd. Hangzhou Branch	"Jinlu Wealth Management – Fortune" Bank Wealth Management Plan No. 16008	Jan. 15, 2016 ~ Jan. 13, 2017	100,000,000	4,986,000	5.00%	5.00%	4,835,000	104,835,000
Bank Of Hangzhou Co., Ltd. Huanbei Sub-Branch	Scheduled 365 Days "Fortune 99" Profit Making Wealth Management Product No. 16026	Jan. 15, 2016 ~ Jan. 14, 2017	100,000,000	4,500,000	4.50%	4.50%	4,340,000	104,340,000
Bank Of Wenzhou Co., Ltd. Hangzhou Branch	"Jinlu Wealth Management – Prime" Wealth Management Product No. 16002	Jan. 25, 2016 ~ Jan. 24, 2017	200,000,000	9,600,000	4.80%	4.80%	8,995,000	208,995,000
Shanghai Pudong Development Bank Co., Ltd. Hangzhou Branch	High Interest Wealth Management Product for Corporate Client No. 16HH009	Feb. 1, 2016 ~ Feb. 6, 2017	300,000,000	14,027,000	4.60%	4.60%	12,461,000	312,461,000
Bank Of Wenzhou Co., Ltd. Hangzhou Branch	"Jinlu Wealth Management – Prime" Wealth Management Product No. 16003	Feb. 15, 2016 ~ Feb. 14, 2017	200,000,000	9,600,000	4.80%	4.80%	8,443,000	208,443,000
Shanghai Pudong Development Bank Co., Ltd. Hangzhou Branch	High Interest Wealth Management Product for Corporate Client No. 16HH0016	Feb. 16, 2016 ~ Feb. 16, 2017	400,000,000	18,450,000	4.60%	4.60%	16,087,000	416,087,000
China Zheshang Bank Co., Ltd. Hangzhou Branch	364 Days Wealth Management Product No. 1 (Product code Z16065)	Mar. 25, 2016 ~ Mar. 24, 2017	215,000,000	9,112,000	4.25%	4.25%	7,079,000	222,079,000
China Zheshang Bank Co., Ltd. Hangzhou Branch	364 Days Wealth Management Product No. 1 (Product code Z16066)	Mar. 25, 2016 ~ Mar. 24, 2017	85,000,000	3,606,000	4.25%	4.25%	2,799,000	87,799,000
Bank Of Hangzhou Co., Ltd. Huanbei Sub-Branch*	Scheduled 365 Days Profit Making Wealth Management Product No. 16534	Nov. 9, 2016 ~ Nov. 9, 2017	100,000,000	N/A	3.70%	N/A	537,000	100,537,000
Total Assets Scale			1,900,000,000				75,371,000	1,975,371,000

*Note: As the yield to maturity is not yet recorded, the yield related information are not yet available.

All amounts are in RMB and have been rounded to the nearest thousand RMB, except where indicated.

Strategy, Performance and Prospect of Financial Products

These financial products are mainly invested in low-volatility financial products such as bonds, trusts, money market funds, bond funds, interbank deposits, etc., which are issued and traded within China. They belong to non-guaranteed moderate type of financial products, with the credit rating being PR2 or R2. Financial products of commercial banks generally have five risk levels, of which PR2 or R2 belongs to the second level. They provide no protection for the principal, but the probability of principal loss and the failure to achieve the expected yield are both relatively low, so they are regarded as low-risk products. If the Company continues to use its idle fund to subscribe for financial products, the investment strategy is expected to proceed with same type of financial products.

The Company's non-guaranteed financial products have been recorded into the financial assets at fair value through profit or loss, and according to past experience, similar products in the past years have been able to reach the expected annual yield not less than that specified in the product contracts. In the meantime, through communication with relevant banks, the Company is given to understand that no abnormality occurred to the relevant investments, and the management considers these financial products are able to reach the yield to maturity according to the expected yield as specified in the product contracts. Therefore, the Company identified the investment returns on these financial products by reference to the expected yield as set out in the product contracts, and recorded into the profit and loss at fair value with adjustments.

The financial products recorded in early 2016 matured within 2016, while those subscribed in 2016 will mature in 2017. The Company reviewed the investment returns of financial products matured in 2016, and confirm that their effective yields are generally able to reach the expected yields set out in the product contracts.

Moreover, the Company has reviewed the effective yields of the financial products matured before the date of the financial report in 2017, which conform with the expected yields as specified in the product contracts (please refer to the above table). Therefore, the management's expectation for gaining the yield to maturity according to the expected yield specified in the product contracts is reasonable.

MOVING

Profiles of Directors, Supervisors and Senior Management

Executive Director

Ms. Qi Yue-hong, aged 47, an economist, is the vice chairman and secretary of CPC committee of the Company. Ms. Qi graduated from Fudan University in cultural heritage and museology and international economic law in August 1993. From September 1993 to February 2002, she was a store management staff, the deputy manager of the eastern building management department and the director of the supervision and audit office of Shanghai No. 1 Department Store Co., Ltd. (上海市第一百貨商店股份有限公司, a company used to be listed on the Shanghai Stock Exchange who changed its name to Shanghai Bailian Group Co., Ltd and was incorporated into Shanghai Bailian in 2011). She was the assistant to general manager of Shanghai No. 1 Yao Han Co., Ltd. (上海第一八佰伴有限公司) from February 2002 to January 2003. She was the deputy manager of the personnel department of Shanghai Yibai (Holdings) Company Ltd. from January 2003 to March 2004. She was the deputy general manager of Orient Shopping Centre Ltd. (東方商廈有限公司) from March 2004 to September 2005. She was the general manager of Changsha Bailian Orient Shopping Centre Ltd. (長沙百聯東方商廈有限公司) from September 2005 to March 2007. She was the general manager and secretary of party general branch of Shanghai New Hua Lian Mansion Co., Ltd. (上海新華聯大廈有限公司) from March 2007 to January 2008. She was the general manager and secretary of party general branch of Shanghai Bailian Xijiao Shopping Centre Co., Ltd. (上海百聯西郊購物中心有限公司) from January 2008 to March 2010. She was the deputy general manager of Shanghai Bailian Group Co., Ltd. (上海百聯集團股份有限公司, a company formerly listed on the Shanghai Stock Exchange) from March 2010 to March 2012 and was appointed as vice general manager of Shanghai Bailian from December 2015 to December 2016. Ms. Qi was the deputy general manager of the Company from March 2012 to November 2015, and has been appointed as an executive director of the Company since June 2013 and vice chairman of the Company since November 2015. Ms.Qi was appointed as the General Manager of the Company on 3 January 2017.

Non-Executive Directors

Mr. Ye Yong-ming, aged 52, is a member of the Communist Party of China and holder of master's degree in EMBA with China Europe International Business School. Mr. Ye has been the secretary of Party Committee, chairman of the Board and president of Bailian Group since September 2015, and has been chairman of the Board of Shanghai Bailian Group Co., Ltd. since December 2015. He has served successively as a vice president of SAIC Motor (Shanghai Automatic Industrial Corporation Motor, 上海汽車集團股份有限公司, a company listed on the Shanghai Stock Exchange with stock code 600104), general manager of SAIC General Motors Corporation Limited, deputy general manager, general manager and deputy secretary of Party Committee of SAIC Sales Co., Ltd. (上海汽車工業銷售總公司), executive manager of Shanghai Volkswagen, general manager of SAIC-Volkswagen Sales Co., Ltd. (上海上汽大眾汽車銷售有限公司), vice president (in charge of vehicle services) and a member of the Party Committee of SAIC Motor. Mr. Ye has been appointed as a non-executive Director and chairman of the Board since November 2015.

Mr. Zhang Xuan-song (Note), aged 45, is currently the chairman & legal representative of Yonghui Superstores Co., Ltd. ("Yonghui Superstores"), (永輝超市股份有限公司, a company listed on the Shanghai Stock Exchange with Stock No. 601933). Mr. Zhang is concurrently a deputy director of

China Chain Store & Franchise Association (中國經營連鎖協會), vice chairman of the Fujian Provincial Federation of Enterprises and Entrepreneurs (福建省企業與企業家聯合會) and vice chairman of the Fujian Association of Public Companies (福建省上市公司協會). Mr. Zhang has served successively as manager of Gule Convenience Store and manager of Rongda Supermarket in Gulou District, Fuzhou City, manager of Yonghui Supermarket in the railway station area of Fuzhou City, Fujian province, executive director, general manager & legal representative of Fuzhou Yonghui Supermarket Co., Ltd. (福州永輝超市有限公司), executive director, general manager & legal representative and chairman & legal representative of Fujian Yonghui Group Co., Ltd. (福建永輝集團有限公司). Mr. Zhang was a delegate to the 11th People's Congress of Fujian Province. He has been honoured with a series of titles such as an "Outstanding Entrepreneur of China", a "Distinguished Entrepreneur of Fujian Province with Prominent Contributions" and a "Distinguished Figure from Non-public-owned Economy of Fujian Province with Outstanding Contribution to Public Services". Mr. Zhang Xuan-song has been appointed as a non-executive Director of the Company since November 2015. Mr. Zhang Xuan-song resigned the position of a non-executive Director of the Company on 14 March 2017.

Mr. Zhang Ye, aged 46, graduated from Shanghai Jiaotong University in 1993 with a bachelor degree in Industrial Foreign Trade and Computer Science Application and obtained his EMBA at Cheung Kong Graduate School of Business in 2009. From 1999 to present, Mr. Zhang Ye was the founder and the chairman of Enmore Holdings Co., Ltd (上海易貿科技控股有限公司). Mr. Zhang Ye was one of the founders of Shanghai Yiguo E-commerce Co., Ltd (上海易果電子商務有限公司). From 2014 to present, Mr. Zhang Ye was the chairman and the chief executive officer of Shanghai Yiguo E-commerce Co., Ltd. Mr. Zhang Ye was appointed as a non-executive director of the Company on 14 March 2017.

Mr. Zhou Jing-bo, aged 34, graduated from Fudan University with a bachelor degree of Economics in Finance in 2005. From July 2005 to April 2015, Mr. Zhou served as vice president of the investment banking department and executive director and head of East China of growth enterprise investment banking department in China International Capital Corporation Limited (中國國際金融有限公司). From April 2015 to May 2016, Mr. Zhou served as managing director of group mergers & acquisitions centre in Greenland Holding Group Limited (綠地控股集團有限公司). Since May 2016, Mr. Zhou has been deputy executive director of strategic investment department in Bailian Group Co., Ltd (百聯集團有限公司). Since August 2016, Mr. Zhou has been appointed as a director of Shanghai No.1 Pharmacy Co., Ltd. (上海第一醫藥股份有限公司), a company listed on the Shanghai Stock Exchange, stock code: 600833. Since December 2016, Mr. Zhou has been appointed as a director of Shanghai Commercial Investment Co., Ltd. (上海市商業投資(集團)有限公司). Mr. Zhou has good experience in the field of investment, mergers and acquisitions and capital markets. Mr. Zhou Jing-bo was appointed as a non-executive director of the Company on 14 March 2017.

Mr. Qian Jian-qiang, aged 55, is a postgraduate in in Economic Management with Graduate School of Party School of the Central Committee of C.P.C. Mr. Qian has been the general manager, deputy secretary of the Party Committee and a director of Shanghai Bailian Group Co., Ltd ("Shanghai Bailian", a company listed on the Shanghai Stock Exchange with Stock No. 600827) since June 2015. Mr. Qian once worked in the Organization & HR Department of Shanghai Foreign Supply Co., Ltd. (上海對外供應公司), and has been a manager of the Department Store of Shanghai Friendship Store, general manager of Shanghai Friendship Supply Co., Ltd. (上海友誼供貨有限公司), a director and general manager of Shanghai Friendship South Mall Co., Ltd. (上海友誼南方商城有限公司), assistant to the general manager of the Shopping Centre Department of Shanghai Bailian, assistant to the general manager of Shanghai Bailian, vice general manager of Shanghai Bailian, vice general manager of Shanghai Friendship Incorporated Company (上海友誼集團股份有限公司, now known as Shanghai Bailian, a company listed on the Shanghai Stock Exchange with Stock No. 600827), vice general manager and deputy secretary of the Party Committee of Shanghai Bailian, vice general manager and deputy secretary of the Party Committee. Mr. Qian possesses abundant experience in operation and management of retail commerce. Mr. Qian has been appointed as a non-executive Director of the Company since November 2015.

Ms. Zheng Xiao-yun, aged 54, is a senior accountant and postgraduate majoring in accounting of the Chinese University of Hong Kong. She has been the financial director and secretary of the Board of Shanghai Bailian since June 2015. Ms. Zheng once served as an accountant, assistant to the manager and vice manager of the Financial Department in Shanghai Forever Co., Ltd. (上海永久股份有限公司). She has served successively as financial director of Shanghai Advertisement & Decoration Co., Ltd. (上海市廣告裝潢公司), vice manager of the Financial Department of Shanghai Yibai (Group) Co., Ltd. (上海一百（集團）有限公司), financial director of Shanghai Quanfang Investment Management Co., Ltd. (上海全方投資管理有限公司), financial director of the Comprehensive Business Department of Shanghai Bailian, financial director of Shanghai Bailian Investment Management Co., Ltd. (上海百聯投資管理有限公司), financial director of Shanghai Bailian Group Asset Operation & Management Co., Ltd. (上海百聯集團資產經營管理有限公司) and director of Shanghai Baihong Trading Co., Ltd. (上海百紅商業貿易有限公司) and chairman of Hualian Group Asset Trust Co., Ltd. (華聯集團資產託管有限公司), and financial director of Bailian E-commerce Co., Ltd. (百聯電子商務有限公司). Ms. Zheng possesses abundant experience in financial management. Ms. Zheng has been appointed as a non-executive Director of the Company since November 2015.

Mr. Zhang Jing-yi (Note), aged 57, is a senior economist. He completed the on-the-job postgraduate course for the major of International Economic Law in East China University of Political Science and Law. From August 2009 till now, he has been the secretary to the board of directors of Yonghui Superstores. He successively served as the deputy head of the education department, the director of the party committee office and the secretary to the board of directors of Shanghai San'aifu New Materials Co., Ltd. (上海三愛富新材料股份有限公司, a company listed on the Shanghai Stock Exchange with Stock Code: 600636), a director of Shanghai Coatings Co., Ltd. (上海塗料公司), the secretary to the board of directors of Changshu San'aifu Fluorine Chemical Co., Ltd. (常熟三愛富氟化工有限公司), the secretary to the board of directors of Changshu San'aifu Zhonghao New Materials Co., Ltd. (常熟三愛富中昊新材料有限公司), a director of Shanghai Fluorine Fine Chemical Co., Ltd, the chairman of Inner Mongolia San'aifu Fluorine Chemical Co., Ltd. (內蒙古三愛富氟化工有限

公司) and a director of Zhongbai Holdings Group Co., Ltd. (中百控股集團股份有限公司, a company listed on the Shenzhen Stock Exchange with Stock Code: 000759). Mr. Zhang Jing-yi was awarded the title of the Gold Medal Board Secretary by the news media several times from 2011 to 2013. Mr. Zhang Jing-yi has been appointed as a non-executive Director of the Company since November 2015 and resigned the position of a non-executive Director on 14 March 2017.

Mr. Wong Tak Hung, aged 65, is the president of Wong Sun Hing Investment Co., Ltd. (王新興投資有限公司). From 1970 to 1978, Mr. Wong was the manager of Sun Hing Textile Factory (新興毛紡織造廠), and from 1978 to 1990, he was the managing director of Wong Sun Hing Company Limited (王新興有限公司). Since 1990, he has been the president of Wong Sun Hing Group (王新興集團). He has also been the chairman of Shenzhen Xin Xing Entrepreneurship Guarantee Company Limited (深圳新興創業擔保有限公司) since 2003 and he has been acting as the chairman of Guangzhou Wanling Properties Company Limited (廣州市萬菱置業有限公司) from 2004. Since 2005, he has also been acting as the chairman of Wanling Industrial (Guangdong) Company Limited (萬菱實業(廣東)有限公司). Mr. Wong Tak Hung joined the Group in April 1997, and he has over 30 years of business experience.

Independent Non-Executive Directors

Mr. Xia Da-wei, aged 64, is a professor and a doctoral tutor of Shanghai National Accounting Institute and deputy chairman of the Chinese Industrial Economic Association (中國工業經濟學會), consultant of China Accounting Standards Committee of the Ministry of Finance (財政部會計準則委員會), chairman of Shanghai Accounting Association, honorary professor of The Chinese University of Hong Kong (香港中文大學), part-time professor of the School of Management of Fudan University and member of the listing committee of Shanghai Stock Exchange. Mr. Xia is also an independent director of Baosteel Holdings Co., Ltd (寶鋼股份有限公司) (a company listed on the Stock Exchange), an independent director of Shanghai Electric Power Co., Ltd. (上海電力股份有限公司) (a company listed on the Shanghai Stock Exchange) and an independent director of China United Network Communications Limited (中國聯合網絡通信股份有限公司) (a company listed on the Shanghai Stock Exchange). He joined the Group in September 2004.

Mr. Lee Kwok Ming, Don, aged 59, is the financial controller of Stella International Holdings Ltd. (九興控股有限公司), which is listed on the Stock Exchange. He is a fellow of the Hong Kong Institute of Certified Public Accountants (香港會計師公會) and an associate of the Chartered Institute of Management Accountants in the United Kingdom (英國特許管理會計師公會). He holds a Master's degree of science in business administration from the University of Bath (英國巴富大學). Mr. Lee has held the position of financial controller in various listed companies on the Stock Exchange. Mr. Lee has more than 30 years of financial management experience and extensive experience in mergers and acquisitions, as well as corporate finance. He joined the Group in May 2003.

Mr. Gu Guo-jian (Note), aged 62, studied in the department of trade and economics of Shanghai University of Finance and Economics from August 1979 to July 1983. From July 1983 to August 1985, Mr. Gu served as a staff member of Shanghai Textiles Co., Ltd. (上海市紡織品公司). From August 1985 to June 2014, Mr. Gu worked with Shanghai Business School, serving as a professor since 1999. From 2003 till now, Mr. Gu has served as the director of Shanghai Research Institute of Chain Operation (上海連鎖經營研究所). Mr. Gu has devoted to the study of chain operation of supermarkets for over 20 years with remarkable achievements in various fields, in particular the procurement by supermarkets of live and fresh produce directly from farms, the direct sales from farms to supermarkets, the docking of domestic and foreign trades and joint purchasing, and has proactively promoted the transformation of business practice in the domestic supermarket industry and organised joint purchasing activities for various supermarket operators. From 1995 till now, Mr. Gu has published a series of academic works such as "Prospects and Coping Strategies of Shanghai Supermarket Development","Chain Operation Management of Supermarkets", "Study on Hot Issues in Retail Industry" and "Returning to Commercial Essence". Mr. Gu joined the Group as an independent non-executive director in November 2015 and resigned the position of independent non-executive director on 14 March 2017.

Ms. Sheng Yan, aged 48, received her degree in Master of Business Administration from the Hong Kong University of Science and Technology. From 1991 to 1994, Ms. Sheng was a software engineer of China Southern Airlines Hubei Branch (中國南方航空公司湖北分公司). From 1994 to 1998, Ms. Sheng was a co-founder of Guangzhou Jiatu Electronics Co., Ltd (廣州嘉圖電子有限公司). From 2000 to 2002, Ms. Sheng was a senior consultant of Arthur Anderson Inc (安達信管理諮詢有限公司). From 2002 to 2006, Ms. Sheng was a consultant manager of BearingPoint Inc (畢博管理諮詢有限公司). Since 2006, Ms. Sheng was a global partner and executive vice president of Greater China of HayGroup Management Consulting (Shanghai) Co., Ltd (合益集團管理諮詢（上海）有限公司), which was acquired by KornFerry in 2015 and Ms. Sheng was a senior partner of KornFerry Shanghai Limited (光輝國際（人才）上海有限公司). Ms. Sheng has good knowledge, background and project experience in areas of executive team building, leadership development, leadership coaching, strategic decoding, operating model and job system, executive team performance appraisal and incentive scheme, corporate culture development, corporation innovation and so forth. Ms. Sheng Yan was appointed as an independent non-executive director of the Company on 14 March 2017.

Mr. Wang Jin (Note), aged 43, graduated from the Computer Science and Technology Department of Tsinghua University with a bachelor degree and subsequently received his master's degree from the Institute of Computing Technology of Chinese Academy of Science. Mr. Wang Jin currently attends an on-the-job course from the PBC School of Finance of Tsinghua University. He currently holds various positions, including the director of E-commerce Research Office in the Research Institute of Information Technology of Tsinghua University (清華大學信息技術研究院電子商務研究室主任), the technical advisor for the Organizing Committee of China Chuangyi Competition of Soong Ching Ling Foundation (宋慶齡基金會中國創翼大賽組委會技術顧問) and the person-in-charge of Big Data on Cloud Computing of China Wearable Computing Alliance

(中國可穿戴計算產業聯盟). He previously served as the CEO and chairman of the board of directors of Wangbo Network Technology (Beijing) Co., Ltd. (網博網絡技術(北京)有限公司) and worked at the Public Business Information Service Promotion Center of the Ministry of Commerce of the People's Republic of China (中華人民共和國商務部公共商務信息服務推廣中心) as a deputy director and a chief engineer. Mr. Wang Jin is an independent director of Yonghui Superstores. Mr. Wang Jin has 10 years of experience in technical design and development of financial transaction products and 12 years of experience in the technology development of internet e-commerce and internet finance as well as the research of profit model and management model. Mr. Wang Jin joined the Group in November 2015 and resigned the position of independent non-executive director on 14 March 2017.

Mr. Zhang Jun, aged 41. Mr. Zhang Jun obtained his double bachelor degrees in Accounting and Applied Mathematics, respectively, from Shanghai Jiaotong University in 1998, and he holds the title and qualification of certified public accountant of The Chinese Institute of Certified Public Accountants. Mr. Zhang Jun has over 18 year experience in accounting & finance and operation & management. Mr. Zhang Jun currently holds the position as president & chief operation officer at PizzaExpress China, and had served as chief financial officer with this company from December 2015 to December 2016. Prior to joining PizzaExpress China, from August 1998 to July 2002, Mr. Zhang Jun was an auditor and senior auditor of Arthur Andersen (Shanghai Office) (安達信•華強會計師事務所上海分所). From July 2002 to August 2005, Mr. Zhang Jun was a senior auditor and audit manager of PriceWaterhouseCoopers (PRC) (普華永道中天會計師事務所有限公司). From August 2005 to October 2006, Mr. Zhang Jun was a financial manager and controller of Shanghai Shen Mei Food and Beverage Co., Ltd. (Coca-Cola bottling facility) (上海申美飲料食品有限公司(可口可樂瓶裝廠)). From October 2006 to August 2007, Mr. Zhang Jun was a chief accounting officer of Home Inns & Hotels Management Inc. (如家快捷酒店管理有限公司), a company listed on Nasdaq, stock code: HMIN. From August 2007 to November 2014, Mr. Zhang Jun worked at Xiaonanguo Restaurants Holdings Limited (小南國餐飲控股有限公司), a company listed on the mainboard of the Stock Exchange, stock code: 03666, as a chief financial officer from August 2007 to December 2013, as chief strategy officer and vice president of supply chain from January 2014 to November 2014. From November 2014 to December 2015, Mr. Zhang Jun was a chief financial officer and senior vice president of Shanghai Pankoo Restaurants Management Co. Ltd (上海盤古餐飲管理有限公司). Mr. Zhang Jun was appointed as an independent non-executive director of the Company on 14 March 2017.

Supervisors

Mr. Lv Yong, aged 59, graduated with a Bachelor's degree in economics in Shanghai University of Finance and Economics. Since October 2015, he has been the chief financial officer and member of the party committee of Bailian Group. He served as chief officer of infrastructure audit department of Shanghai Municipal Audit Bureau, deputy officer of training center of Shanghai Municipal Audit Bureau, deputy principal of SHTVU (Shanghai TV University), Shanghai Municipal Audit Bureau Branch, deputy director and director of general office of Shanghai Municipal Audit Bureau, chief accountant and chief financial officer of Shanghai Yibai (Holdings) Company Ltd. (上海一百（集團）有限公司), chief financial officer of Shanghai Brilliance (Group) Co., Ltd. (上海百聯（集團）有限公司), and chief financial officer of Bailian Group. Mr. Lv has extensive experiences in corporate management. Mr. Lv has been appointed as a Supervisor and Head of the Supervisors Committee the Company in December 2015.

Ms. Tao Qing, aged 52, graduated from the Party School of C.C. of C.P.C. (中央黨校) with master degree in economy management. Ms. Tao served for the finance department of Shanghai Hualian successively as clerk, section member, chief member and deputy section chief from September 1985 to June 1996. She was the manager of the finance division of Shanghai New Hua Lian Mansion Co., Ltd. (上海新華聯大廈有限公司) ("New Hua Lian Mansion") from June 1996 to June 1999, the deputy manager of the finance department of Shanghai Hualian Co., Ltd and the chief financial officer of New Hua Lian Mansion from June 1999 to February 2000, and promoted as general manager of the finance department of Shanghai Hualian Co., Ltd and the chief financial officer of New Hua Lian Mansion in February 2000. She took the role of chief financial officer of Shanghai Jinzhao International Trading Co., Ltd. (上海金照國際商貿有限公司) from January 2001 to January 2004. Ms. Tao has been the director assistant of the auditing center, manager of the No.1 auditing division, deputy director and director of the auditing center of Bailian Group since January 2004. Ms. Tao was a supervisor of Shanghai Bailian between October 2011 and June 2015. Ms. Tao has been appointed as supervisor of the Company since June 2014.

Mr. Shi Hao-gang, aged 59, is a political work instructor. Mr. Shi graduated from Macao University of Science and Technology with a major in Business Administration in August 2001, and holds a postgraduate degree. From April 1976 to January 1979, Mr. Shi served as a platoon leader and the Youth League secretary of Nanhui Chaoyang Farm (南匯朝陽農場). From February 1979 to October 1995, Mr. Shi served as an officer of Shanghai Silk Weaving Factory No. 6 (上海絲織六廠). From November 1995 to May 2010, Mr. Shi worked in Hualian Supermarket Holdings Co., Ltd., where he had successively served as a key officer, deputy manager, and manager of human resources department, the assistant to the general manager and the general manager of Shanghai operations, the assistant to the general manager and the general manager of East China operations, the manager of the operation management department and the deputy general manager. From June 2010 to February 2012, Mr. Shi served as the deputy general manager of Shanghai Lianhua Supermarket Development Co., Ltd. From March 2012 to March 2014, Mr. Shi has served as the general manager and deputy party secretary of Shanghai Lianhua Supermarket Development Co., Ltd. From April 2014 to November 2015, Mr Shi served as the deputy general manager of the Company and served as the executive director of the Company from June 2014 to November 2015. Mr. Shi was appointed as supervisor of the Company in November 2015.

Company Secretary

Ms. Hu Li-ping. aged 52, graduated from Macau University of Science and Technology with a Master's Degree in Business Administration in September 2003. She is an accountant as approved by the Ministry of Finance of the PRC in 1998. She served as the Deputy Manager, Manager of Financial Department and the Chief Financial Officer of Hualian Supermarket Co., Ltd from 1992 to November 2013. Ms. Hu was also the Chief Financial Officer of Shanghai Lianhua Supermarket Development Co., Ltd (a subsidiary of the Company) from July 2010 to November 2013. She has been the Chief of Financial Administration Department of the Company since November 2013. She was also appointed as the Chief of Securities Affairs Department of the Company from August 2014. Ms. Hu has been appointed as joint company secretary of the Company since 16 October 2014 and has been chief financial officer of the Company since June 2015.

Mr. Mok Chung Kwan Stephen, aged 52, is a solicitor as defined in the Legal Practitioners Ordinance and currently a partner of Eversheds. Mr. Mok graduated from the University of New South Wales in Australia with Bachelor of Commerce (Accounting)/Bachelor of Laws degrees. Mr. Mok possesses qualifications as a practicing solicitor in England and Wale, New South Wales of Australia, and Hong Kong. Mr. Mok has extensive experience in general business practices and corporate financial transactions, such as assisting corporations on listing their shares on the Stock Exchange, merger and acquisitions, corporate restructuring, organising joint ventures, and compliance with the Listing Rules and securities-related laws of Hong Kong. Mr. Mok was the joint company secretary of the Company for the period from 7 June 2004 to 9 March 2011 and has been the legal adviser of the Company since the listing of the Company on the main board of the Stock Exchange in 2003. Mr Mok was appointed as the joint company secretary of the Company on 30 December 2013. Mr. Mok is currently the joint company secretary of Datang International Power Generation Co., Ltd. (listed on the Hong Kong Stock Exchange, London Stock Exchange and Shanghai Stock Exchange) and Beijing Capital International Airport Company Limited (listed on the Hong Kong Stock Exchange).

Senior Management

Mr. Lin Song (Note), aged 41, general manager of the Company. Mr. Lin has substantial experience in business management and corporate operations and has been in the supermarket retail industry for nearly ten years. From February 2006 to September 2014, Mr. Lin was engaged in supermarket operations management at Yonghui Superstores. Co., Ltd. successively serving as manager of the fresh produce division of Fujian Liming Store, assistant to store manager of Fujian Rongqiao Store, store manager of Fujian University City Store, general manager of Fuqing District, Changle City, Fujian and chief executive of Jin'an District, Fuzhou City, Fujian. From September 2014 to July 2015, Mr. Lin was the vice general manager of Yonghui Superstores' e-commerce company. Mr. Lin has been appointed as general manager of the Company since August 2015 and resigned as the General Manager of the Company for personal reasons since 3 January 2017.

Mr. Liang Bao-long, aged 52, is a senior operator and a logistician. Mr. Liang graduated from Tongji University in management engineering. From January 1999 to December 2001, he pursued a postgraduate degree at Shanghai Academy of Social Sciences, majoring in economics. From July 1984 to February 2003, Mr. Liang was a deputy section chief of the catering department, a deputy section chief and section chief of the general affairs office, and general manager of the logistics service centre of Shanghai Materials & Equipment School (上海市物資學校). From February 2003 to March 2012, he was the assistant to general manager and deputy general manager of Shanghai Modern Logistics Development & Investing Co., Ltd. (上海現代物流投資發展有限公司), he has concurrently worked as the general manager and deputy secretary of party general branch of Shanghai Changqiao Logistics Co., Ltd. (上海長橋物流有限公司), and the chairman of board and the party secretary of Shanghai Bailian Distribution Co., Ltd. (上海百聯配送實業有限公司). He has been the deputy general manager of the Company since March 2012.

Mr. Jiang Xiao-fei (Note), aged 46, a senior economist, is a deputy general manager of the Company. Mr. Jiang graduated from Shanghai University of Finance and Economics in January 1996, holding a master's degree in International Business Management. From February 1996 to September 1997, Mr. Jiang was assistant to head of general manager office with Inner and Overseas General Trading Company, From October 1997 to September 1999, he was assistant director of investment department, assistant to head of general manager office of Shanghai Friendship Group. From October 1999 to January 2001, Mr. Jiang was manager of Eastern China Investment Development Department of Carrefour. From February 2001 to August 2003, he was development director of the Company. From September 2003 to December 2005, he was deputy general manager of the Company, and also deputy general manager of Shanghai Supermarket Administration Department from November, 2003. From January 2006 and March, 2012, he was general manager, deputy secretary of CPC committee and secretary for CPC committee of Hualian GMS Shopping Center Co., Ltd.. From March 2012 to May 2012, he was deputy general manager of Shanghai Century Mart Development Co., Ltd and from May 2012 till now, he has been the secretary of CPC committee and general manager of Shanghai Century Mart Development Co., Ltd. He has been appointed as deputy general manager of the Company since March 2015. Mr. Jiang resigned as deputy general manager of the Company in December 2016.

Mr. Chang Yu-bing, aged 44, senior operator, undergraduate. From September 1994 to October 2000, Mr. Chang worked in Shanghai Trading Co., Ltd., Shanghai Overseas Joint Trading Company and Shanghai Lianhua Supermarket Co., Ltd. From November 2000 to July 2003, he served as deputy minister of outlets development department, minister of asset management headquarters of Lianhua Supermarket Co., Ltd, and minister of asset-engineering management headquarters of the Company. From August 2003 to October 2008, he served as general manager of the northeast region and development director of Shanghai Century Lianhua Supermarket Development Co., Ltd.. From November 2008 to March 2014, he served as assistant general manager and director of merchandise of the Company. Since April 2014, he has been the general manager of Shanghai Lianhua Supermarket Development Co., Ltd., and has also served as deputy party secretary of Shanghai Lianhua Supermarket Development Co., Ltd. since August 2015. He has been appointed as deputy general manager of the Company since May 2016.

Ms. Zhang Hui-qin, aged 43, held a master degree in Quality Management in the Hong Kong Polytechnic University. Since July 2015, she has been vice-chairman, party secretary and general manager of Hangzhou Lianhua Huashang Group Co., Ltd. From August 1996 to June 2000, Ms. Zhang worked with Jiayou Supermarkets of Hangzhou Department Stores Headquarters as deputy superintendent of operation department, store manager of Wensan Store, Chief of Qingchun Store and vice manager of operation department. From July 2000 to June 2015, Ms. Zhang worked with Hangzhou Lianhua Huashang Group Co., Ltd. as manager of operation department, assistant to the general manager, deputy general manager, standing deputy general manager and general manager. She has abundant operation and management experience in the retail commercial field. She has been appointed as deputy general manager of the Company since June 2016.

Mr. Xi Yu, aged 38, has a lawyer qualification and economist title. Mr. Xi graduated from Heilongjiang School of Business with a bachelor's degree in Economic Law in 2001 and got his master's degree of Management Engineering in Wuhan University in 2010. From September 2001 to October 2003, Mr. Xi was with Hualian Group Limited successively holding the posts of personnel clerk, personnel host clerk and assistant manager. From October 2003 to November 2016, Mr. Xi was with Bailian (Group) Co., Ltd., successively holding the posts of manager, deputy minister and deputy executive director of Human Resources Department. He has been appointed as deputy general manager of the Company since December 2016.

Ms. Xu Ling-yun, aged 46, graduated from the International Relations Institute of the People's Liberation Army in 1991 with an undergraduate degree in English. From 1992 to 1999, Ms. Xu was the Procurement Manager of Shenzhen Park'N Shop Co., Ltd.. From 1999 to 2000, Ms. Xu was the Key Account Manager of Maybelline (Suzhou) Cosmetics Co., Ltd.. From 2000 to 2001, Ms. Xu served as the Procurement Director of Beijing Hualian Supermarket Co., Ltd. From 2001 to November 2016, Ms. Xu was with China Resources Vanguard Co., Ltd. successively holding the posts of Senior Procurement Director, Assistant General Manager of Central Procurement Department from 2001 to 2010, General Manager of VIVO division (pharmaceutical store) from 2010 to 2012, and the General Manager of National Commercial Center from 2012 to September 2016. She has been appointed as deputy general manager of the Company since December 2016.

Note: The profiles of the Directors, supervisors and senior management who have resigned are as at the effective dates of their respective resignation.

Shareholding Structure

H Shares

33.28%

Bailian (Group) Co., Ltd.

22.70%

Shanghai Yiguo E-commerce Co., Ltd.

21.17%

Shanghai Bailian Co., Limited

20.03%

Wong Sun Hing Investment Co., Ltd.

2.82%

REAPING

Report of the Directors

The Board is pleased to present to the shareholders its report of the Company for the year ended 31 December 2016.

Principal activities and business review

The principal activities of the Group include the operation of hypermarkets, supermarkets and convenience stores in the PRC, mainly under four major brands of "Century Mart", "Lianhua Supermarket", "Hualian Supermarket" and "Lianhua Quik". The principal activities and other particulars of the subsidiaries are set out in note 18 and note 43 to the consolidated financial statements of the annual report.

Further discussion and analysis of these activities, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, can be found in the Management Discussion and Analysis as set out on pages 32 to 35 of the annual report. These discussions form part of this directors' report.

The analysis of the principal activities of the Group during the financial year are set out in note 5 to the financial statements.

Major suppliers and customers

Percentages of purchases and sales attributable to major suppliers and customers of the Company during the year are as follows:

	2016 Percentage	2015 Percentage
Purchases		
Largest supplier	2.14	1.87
Five largest suppliers	8.36	4.41
Sales		
Largest customer	0.09	0.07
Five largest customers	0.34	0.28

During the year ended 31 December 2016, to the best knowledge of the Directors, none of the Directors ("Directors"), the supervisors ("Supervisors") of the Company, their respective associates, nor any shareholders of the Company (which to the knowledge of the Directors own more than 5% of the number of issued shares of the Company) had any direct or indirect interest in the share capital of the Group's suppliers and customers mentioned above.

Five-year financial summary

A summary of the results and of the assets and liabilities of the Group for the latest five financial years is set out on pages 16 to 17 of the annual report.

Accounts

The audited results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of profit or loss and other comprehensive income on page 110 of the annual report.

The financial condition of the Group as at 31 December 2016 is set out in the consolidated statement of financial position on pages 111 to 112 of the annual report.

The cash flow of the Group for the year ended 31 December 2016 is set out in the consolidated statement of cash flow on pages 114 to 115 of the annual report.

Dividend distribution

The Board recommends not to distribute final dividend for the year ended 31 December 2016.

Reserves

Details of the movements in reserves during the period under review are set out in the consolidated statement of changes in equity on page 113 of the annual report.

Fixed assets

Movements of fixed assets during the period under review are set out in note 13 to the consolidated financial statements of the annual report.

Charitable donations

Charitable donations made by the Group during the financial year amounted to RMB169,880.

Bank loans, overdrafts and other borrowings

As at 31 December 2016, the Group had no other bank borrowings, except for existing borrowings of RMB2,000,000 due within one year from a non-wholly owned subsidiary of the Group.

Capitalised interest

During the period under review, no interest of construction in progress has been capitalised.

Listing of shares and changes

H shares of the Company were listed on the Main Board of the Stock Exchange on 27 June 2003.

The Company placed 34,500,000 new H shares on 4 October 2004. Accordingly, the total number of shares of the Company in issue increased from 587,500,000 shares to 622,000,000 shares. H shares in issue increased from 172,500,000 shares to 207,000,000 shares, representing approximately 33.28% of the Company's total share capital.

The Company issued 8 additional shares to the shareholders whose names appeared on the register of shareholders of the Company on the record date, i.e. 28 June 2011, for every 10 shares held by them by way of capitalization of the capital reserve fund on 8 September 2011. The total number of shares of the Company in issue increased from 622,000,000 shares to 1,119,600,000 shares. H shares in issue increased from 207,000,000 shares to 372,600,000 shares, representing approximately 33.28% of the Company's total share capital. Please refer to the circular of the Company dated 13 May 2011 for the details of the share issuance.

Information on the performance of H shares of the Company in 2016:

Highest trading price per H share during the year	HK$3.83
Lowest trading price per H share during the year	HK$2.03
Total turnover volume of H shares during the year	271 million shares
Closing price per H share as at 30 December 2016	HK$3.05

Public float

The Company confirms that the Company's public float during the period under review complied with the applicable requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Share capital

As at 31 December 2016, the classes and number of shares of the Company are as follows:

Class of shares	No. of issued shares ('000 shares)	Percentage (%)
Domestic shares	715,397.4	63.90
Attributable to:		
Bailian Group Co., Ltd.	254,160	22.70
Shanghai Bailian Group Incorporated Company	224,208	20.03
Shanghai Yiguo E-commerce Co., Ltd.	237,029.4	21.17
Unlisted foreign shares	31,602.6	2.82
Attributable to:		
Wong Sun Hing Investment Company Limited	31,602.6	2.82
H shares	372,600.0	33.28
Total	1,119,600.0	100

Number of shareholders

As at 31 December 2016, details of shareholders as recorded in the register of shareholders of the Company are as follows:

Total number of shareholders	34
Shareholders of domestic shares	3
Shareholders of unlisted foreign shares	1
Shareholders of H shares	30

Legal status of unlisted foreign shares

Set out below is the summary of legal opinions given by Grandall Law Firm (Shanghai) on the rights attached to unlisted foreign shares (the "Unlisted Foreign Shares"). Although the Prerequisite Clauses for Articles of Association of Companies to be Listed Overseas (the "Prerequisite Clauses") provides the definitions of "domestic shares", "foreign shares" and "overseas listed foreign shares" (these definitions have been adopted in the Articles of Association of the Company ("Articles of Association")), the rights attached to the Unlisted Foreign Shares, which are subject to certain restrictions on transfer as referred to the Prospectus and may become H shares of the Company (the "H Shares") upon obtaining the requisite approvals from, among others, the China Securities Regulatory Commission (the "CSRC") and the Stock Exchange, are not expressly provided under the existing PRC laws or regulations. However, the Company's creation of Unlisted Foreign Shares and the subsistence of the Unlisted Foreign Shares does not contravene any PRC laws or regulations.

At present, there are no express laws and regulations in the PRC governing the rights attached to Unlisted Foreign Shares. Grandall Law Firm (Shanghai) advised that until new laws or regulations are introduced in this aspect, holders of the Unlisted Foreign Shares shall be treated the same as holders of domestic shares ("Domestic Shares") of the Company (in particular, in respect of the rights to attend and vote at general meetings and class meetings and to receive notice of such meetings in the same manner as holders of Domestic Shares), except that the holders of the Unlisted Foreign Shares enjoy the following rights to which the holders of Domestic Shares are not entitled:

(a) to receive dividends declared by the Company in foreign currencies; and

(b) in the event of winding up of the Company, to remit their respective shares of the remaining assets (if any) of the Company out of the PRC in accordance with the applicable foreign exchange control laws and regulations of the PRC.

No provision is made for the settlement of disputes between holders of Unlisted Foreign Shares and holders of Domestic Shares in the Prerequisite Clauses or the Articles of Association. According to the PRC laws, in case of disputes between holders of Unlisted Foreign Shares and holders of Domestic Shares and the parties failed to reach any settlement after negotiation or mediation, either party may choose to resort to an arbitration commission in the PRC or any other arbitration commission to conduct arbitration for dispute resolution pursuant to a written arbitration agreement. If there is no prior arbitration agreement and the parties are not able to reach an agreement in respect of their dispute, either party may initiate legal proceedings in a competent PRC court.

According to the requirements under Clause 163 of the Prerequisite Clauses and the Articles of Association, in general, disputes between holders of H Shares and holders of Domestic Shares are required to be settled through arbitration. Such dispute resolution requirements are also applicable to disputes between holders of H Shares and holders of Unlisted Foreign Shares.

As advised by Grandall Law Firm (Shanghai), the Unlisted Foreign Shares can be converted into new H Shares subject to satisfaction of the following conditions:

(a) the expiry of a period of one year from the date on which the Company was converted from a limited company into a joint stock limited company and listed on the Stock Exchange;

(b) approvals from the original approval authority or authorities in the PRC for the establishment of the Company obtained by holders of Unlisted Foreign Shares for the conversion of Unlisted Foreign Shares into H shares;

(c) approval from the CSRC obtained by the Company for the conversion of Unlisted Foreign Shares into new H Shares;

(d) approval granted by the Stock Exchange for the listing and trading of the new H Shares converted from the Unlisted Foreign Shares;

(e) approval granted by the shareholders of the Company at a general meeting and the holders of H Shares, Domestic Shares and Unlisted Foreign Shares at their respective class meetings to authorize the conversion of Unlisted Foreign Shares into new H Shares in accordance with the Articles of Association; and

(f) full compliance with relevant PRC laws, rules, regulations and policies governing companies incorporated in the PRC and seeking permission for listing of shares outside the PRC and with the Articles of Association and any agreement among the shareholders.

Upon satisfaction of all the conditions mentioned above and other conditions as may be imposed from time to time by the Stock Exchange, Unlisted Foreign Shares may be converted into new H Shares.

Disclosure of interests

Directors, Chief Executive Officer and Supervisors of the Company

As at 31 December 2016, other than Mr. Xia Da-wei (an independent non-executive Director) who held 8,694 ordinary shares of Shanghai Bailian (representing approximately 0.0005% of the total issued shares of the Shanghai Bailian), none of the Directors, Supervisors or chief executive officer of the Company had any interests and short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (as defined in Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are regarded or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the Company's register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules.

As at 31 December 2016, (i) Mr. Ye Yong-ming, the chairman and a non-executive Director of the Company, was the chairman and president of Bailian Group and the chairman of Shanghai Bailian; (ii) Ms. Qi Yue-hong, the vice chairman and an executive Director of the Company, was the vice general manager of Shanghai Bailian; (iii) Mr. Qian Jian-qiang, a non-executive Director, was a director and the general manager of Shanghai Bailian; (iv) Ms. Zheng Xiao-yun, a non-executive Director, was the chief financial officer and secretary of the board of Shanghai Bailian; (v) Mr. Zhang Xuan-song, a non-executive Director, was the chairman of Yonghui Superstores; (vi) Mr. Zhang Jing-yi, a non-executive Director, was the secretary of the board of Yonghui Superstores; (vii) Mr. Lv Yong, a Supervisor of the Company, was a director of Bailian Group; (viii) Mr. Wang Jin, an independent non-executive Director, was an independent director of Yonghui Superstores; and (ix) Ms. Tao Qing, a Supervisor of the Company, was the director of the auditing center of Bailian Group. As disclosed below, Bailian Group, Shanghai Yiguo and Shanghai Bailian had interests in the shares of the Company as at 31 December 2016 as recorded in the register required to be kept under section 336 of the SFO.

Substantial Shareholders of the Company

So far as the Directors are aware, as at 31 December 2016, the following persons (not being a Director, chief executive officer or Supervisor of the Company) had interests in the shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of shareholders	Class of shares	No. of Domestic Shares/Unlisted Foreign Shares/ H Shares	Approximate percentage of total voting rights of the Company	Approximate percentage of voting rights of domestic shares and unlisted foreign shares	Approximate percentage of voting rights of H shares	Capacity of Interest
Shanghai Bailian (Note 1)	Domestic Shares	224,208,000	20.03%	30.01%	–	Beneficial owner
Shanghai Yiguo (Note 2)	Domestic Shares	237,029,400	21.17%	31.73%	–	Beneficial owner
Bailian Group (Note 1)	Domestic Shares	478,368,000	42.73%	64.03%	–	Beneficial owner/ Interest of corporation controlled
Citigroup Inc.	H Shares	43,518,614 (L) 2,000,000 (S) 19,748,489 (P)	3.89% 0.18% 1.76%	– – –	11.68 (L) 0.54 (S) 5.30 (P)	Custodian/Approved lending agent/ Interest of corporation controlled/Person having a security interest in shares
China Galaxy International Asset Management (Hong Kong) Co., Limited (Note 3)	H Shares	36,593,000 (L)	3.27%	–	9.82 (L)	Interest of corporation controlled/Investment manager
China Galaxy International SPC (acting for and on behalf of China Galaxy Value Fund I SP)	H Shares	33,914,000 (L)	3.03%	–	9.10 (L)	Interest of corporation controlled
FIL Limited	H Shares	29,828,000 (L)	2.66%	–	8.01% (L)	Investment manager
UBS Group AG	H Shares	18,827,989 (L) 656,105 (S)	1.68% 0.06%	– –	5.05% (L) 0.18% (S)	Person having a security interest in shares/Interest of corporation controlled
ICBC International Asset Management Limited	H Shares	18,690,000 (L)	1.67%	–	5.02% (L)	Investment manager
JPMorgan Chase & Co.	H Shares	17,644,340 (L) 975,000 (S) 13,189,000 (P)	1.58% 0.09% 1.18%	– – –	4.74% (L) 0.26% (S) 3.54% (P)	Interest of corporation controlled

(L) = Long position
(S) = Short position
(P) = Lending pool

Notes:

1. As at 31 December 2016, Bailian Group directly and indirectly holds approximately 51.16% of the shares in Shanghai Bailian. As at 31 December 2016, Shanghai Bailian held 224,208,000 shares of the Company. Thus Bailian Group directly and indirectly holds approximately 478,368,000 shares of the Company, or 42.73% in proportion.

   As at 31 December 2016, (i) Mr. Ye Yong-ming, the chairman and a non-executive Director of the Company, was the chairman and president of Bailian Group and the chairman of Shanghai Bailian; (ii) Ms. Qi Yue-hong, the vice chairman and an executive Director of the Company, was the vice general manager of Shanghai Bailian; (iii) Mr. Qian Jian-qiang, a non-executive Director, was a director and the general manager of Shanghai Bailian; (iv) Ms. Zheng Xiao-yun, a non-executive Director, was the chief financial officer and secretary of the board of Shanghai Bailian; (v) Mr. Lv Yong, a Supervisor, was a director of Bailian Group.

2. The Company has been informed that Yonghui Superstores Co., Ltd. (永輝超市股份有限公司, a company listed on the Shanghai Stock Exchange with the Stock code: 601933, "Yonghui Superstores"), a shareholder of the Company, has entered into an equity transfer agreement (the "Equity Transfer Agreement") with Shanghai Yiguo E-commerce Co., Ltd. (上海易果電子商務有限公司, "Shanghai Yiguo") on 23 December 2016. The Company has been informed on 28 December 2016 by Shanghai Yiguo and Yonghui Superstores that the equity transfer registration procedures in respect of the equity transfer at China Securities Depository and Clearing Corporation Limited were completed and the equity transfer was completed.

3. China Galaxy International Assets Management (Hong Kong) Co., Limited holds 100% of the shares in China Galaxy International SPC (acting for and on behalf of China Galaxy Value Fund I SP). China Galaxy International SPC (acting for and on behalf of China Galaxy Value Fund I SP) held 33,914,000 shares of the Company. Thus, China Galaxy International Assets Management (Hong Kong) Co., Limited directly and indirectly holds approximately 36,593,000 shares of the Company, or 3.27% in proportion.

4. As the Company issued 8 additional shares to the shareholders whose names appeared on the register of shareholders of the Company on the record date, i.e. 28 June 2011, for every 10 shares held by them by way of capitalization of the capital reserve fund on 8 September 2011, the numbers of H shares of the Company held as at 31 December 2016 by holders of H shares have been adjusted accordingly, if necessary.

Save as disclosed above, the Directors are not aware of any persons holding any interests or short positions in the shares or underlying shares of the Company which were required to be recorded in the register pursuant to section 336 of the SFO as at 31 December 2016.

Competing Interests

As at 31 December 2016, according to the Listing Rules, other than the Directors disclosed below, none of the Directors had any interest in any businesses which are considered to compete or are likely to compete, either directly or indirectly, with the business of the Group.

Name of Director	Name of entity whose business are considered to complete or likely to compete with the business of the Group	Description of businesses of the entity which are considered to compete or likely to compete with the business of the Group	Nature of interest of the Director in the entity
Zhang Xuan-song	Yonghui Superstores	hypermarket and supermarket	Director
Wang Jin	Yonghui Superstores	hypermarket and supermarket	Independent Director

Controlling company

As at the date of this report, Bailian Group, a company incorporated in the PRC with limited liability, is the holding company of Shanghai Bailian. Accordingly, Bailian Group is the controlling company of the Company.

Pre-emptive rights

There are no provisions under the Articles of Association of the Company or any applicable laws and regulations requiring the Company to offer pre-emptive rights of new shares to its existing shareholders in accordance with the proportion of their respective shareholdings.

Management contracts

No contracts for the management and administration of the whole or any substantial part of any business of the Company existed or was entered into during the year ended 31 December 2016.

Purchase, sale or redemption of shares

From 27 June 2003, the date of listing of the Company's shares on the Stock Exchange, to the date of this report, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the shares of the Company.

Material acquisitions and disposals of subsidiaries and affiliated companies

Save as notes to the consolidated financial statements set out in note 18 to the consolidated financial statements, there were no material acquisitions and disposals of subsidiaries and associated companies during the financial year.

Share capital interests held by the Directors and Supervisors

As at 31 December 2016, except Mr. Xia Da-wei (an independent non-executive Director) holds 8,694 ordinary shares of Shanghai Bailian (representing approximately 0.0005% of the total issued shares of the Shanghai Bailian), none of the Directors, Supervisors or chief executive officer of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation (as defined in the SFO) which were required by section 352 of the SFO to be recorded in the register referred to therein, or required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors and Supervisors

The Directors and Supervisors during the period under review and up to the date of this report were as follows:

Executive Director:

Ms. Qi Yue-hong (Vice Chairman)

Non-executive Directors:

Mr. Ye Yong-ming (Chairman)
Mr. Zhang Xuan-song (Note 1)
Mr. Zhang Ye (Note 2)
Mr. Zhou Jing-bo (Note 3)
Mr. Qian Jian-qiang
Ms. Zheng Xiao-yun
Mr. Zhang Jing-yi (Note 4)
Mr. Wong Tak Hung

Independent Non-executive Directors:

Mr. Xia Da-wei
Mr. Lee Kwok Ming, Don
Mr. Gu Guo-jian (Note 5)
Ms. Sheng Yan (Note 6)
Mr. Wang Jin (Note 7)
Mr. Zhang Jun (Note 8)

Supervisors:

Mr. Lv Yong (Chairman)
Ms. Tao Qing
Mr. Shi Hao-gang

Notes:

1. Mr. Zhang Xuan-song resigned from the office of non-executive director on 14 March 2017 due to changes in nominated shareholders of the Company.

2. Mr. Zhang Ye was appointed as non-executive director on 14 March 2017.

3. Mr. Zhou Jing-bo was appointed as non-executive director on 14 March 2017.

4. Mr. Zhang Jing-yi resigned from the office of non-executive director on 14 March 2017 due to changes in nominated shareholders of the Company.

5. Mr. Gu Guo-jian resigned from the office of independent non-executive director on 14 March 2017 due to anticipated absence from the PRC in long-term.

6. Ms. Sheng Yan was appointed as independent non-executive director on 14 March 2017.

7. Mr. Wang Jin resigned from the office of independent non-executive director on 14 March 2017 due to pursuing in personal endeavours in developing his own business.

8. Mr. Zhang Jun was appointed as independent non-executive director on 14 March 2017.

Details of the profile of the Directors, Supervisors and senior management of the Company are set out on pages 40 to 49. Save as disclosed in this annual report, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules

Directors' and Supervisors' service contracts

The Company has entered into service contract with each of the executive Directors and independent non-executive Directors with a term ending on the date of conclusion of the annual general meeting of the Company for the year 2016, and such term is renewable subject to applicable laws. Neither the Directors, nor the Supervisors have a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

Directors' and Supervisors' interests in contracts

No transaction, arrangement or contract of significance (as defined in the Listing Rules, and which remained effective during the year or at the end of the year) to the business of the Company to which the Company or its fellow subsidiaries was a party and in which a Director or Supervisor or an entity connected with a Director or Supervisor had material interests, either directly or indirectly, subsisted as at balance sheet date or at any time during the period under review.

Interest in shares or debentures acquired by the Directors and Supervisors

During the period under review, no arrangement was entered into by the Company or its fellow subsidiaries which enabled the Directors or Supervisors to acquire the shares or bonds of the Company.

Permitted Indemnity Provision

A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the financial year. The Company has taken out and maintained appropriate insurance cover in respect of potential legal actions against its Directors and officers.

Directors' Remuneration

The Company's policy on remuneration is to maintain fair and competitive packages based on business needs and industry practice. For determining the remuneration packages of each Director, market rates and factors such as each Director's workload and required commitment will be taken into account. In addition, factors comprising economic and market situations, individual contributions to the Group's results and development as well as individual's potential are considered when determining the remuneration packages of executive Directors.

Independence of the independent Directors

The Company has received written confirmation from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules concerning their independence. The Company considers that all existing independent non-executive Directors comply with the provisions of Rule 3.13 of the Listing Rules and are independent.

Highest paid individuals

All the five highest paid individuals of the Company during the period under review included one of the senior management of the Company. Details of their remuneration are set out in note 11 to the consolidated financial statements in this annual report.

Retirement pension schemes

In accordance with applicable laws and regulations in the PRC, full-time employees of the Group participate in various defined contribution retirement benefit schemes established by the relevant municipal and provincial governments of the PRC, under which the Group and the employees were required to make monthly contributions to these schemes at a particular percentage of the employees' salaries during the relevant periods. Forfeited contributions may not be used by the Company to reduce the existing level of contributions.

Please refer to note 37 to the consolidated financial statements of the Company for details of the retirement benefit plans.

Change of auditors

During the past three years, there had not been any change of the auditors of the Company.

Significant litigation

During the period under review, the Company had not engaged in any significant litigation.

Connected and related party transactions

During the year, the Group had significant transactions with related parties (as detailed in note 42 to the consolidated financial statements), certain of which fall into connected or continuing connected transactions within the meaning of Charter 14A of the Listing Rules, the details of which are set out below:

(a) Connected and related party transactions

	2016 RMB'000	2015 RMB'000
Sales to fellow subsidiaries	67,639	2,463
Purchases from fellow subsidiaries	107,760	112,943
Rental expenses and property management fee paid to fellow subsidiaries	95,505	107,073
Rental expenses and property management fee paid to fellow subsidiaries (in accordance with the straight-line method)	98,965	98,111
Rental income from fellow subsidiaries	17,795	14,195
Commission income received from fellow subsidiaries	659	631
Commission income arising from the redemption of coupon liabilities with a fellow subsidiary	8,663	10,294
Commission charges arising from the redemption of coupon liabilities with a fellow subsidiary	11,161	11,659
Interest income from fellow subsidiaries	23,376	1,285
Purchase from shareholder Yonghui superstores	146,378	3,006
Management fee paid to Yonghui superstores	491	2,041
Logistics fee incurred with Yonghui superstores	3,803	-
Capital injection in a fellow subsidiary	-	11,765
Platform usage fee paid to fellow subsidiaries	1,859	-
Transaction amounts transferred from the Group's relevant account into a fellow subsidiary's settlement account	3,521	-
Transaction amounts transferred from a fellow subsidiary's settlement account into the Group's relevant account	1,593	-
Financial Services Agreement-Deposits in a fellow subsidiary	966,729	691,857

The Company confirms that it has complied with the applicable disclosure requirements, in respect of the above transactions, in accordance with Chapter 14A of the Listing Rules. Please refer to the subsequent section headed "Connected transactions" for details of the above transactions.

(b) Related party transactions not falling into connected transactions

	2016 RMB'000	2015 RMB'000
Purchases from associates – Shanghai Lianhua Supermarket, Food Co., Ltd., Shanghai Gude Commercial Trading Co., Ltd., Sanming Taige Information Technology Co., Ltd. and Shantou Lianhua South Purchase and Distribution Co., Ltd.	7,205	12,257

Fellow subsidiaries referred above are other subsidiaries of Bailian Group.

Connected transactions

The following transactions of the Group constitute connected and continuing connected transactions under Chapter 14A of the Listing Rules, mainly concerning:

Continuing Connected Transactions – Financial Services Agreement

On 17 November 2015, the Company, Bailian Group and Bailian Group Finance Co., Ltd. (百聯集團財務有限責任公司) ("Bailian Finance") entered into the financial services agreement (the "Financial Services Agreement"), pursuant to which Bailian Finance agreed to provide the Group with deposit services, loan services and other financial services subject to the terms and conditions provided therein for a term commencing from 1 January 2016 to 31 December 2018.

The major terms of the agreement are set out as follows:

1. Deposit cap: the maximum daily balance of the Group's deposits with Bailian Finance for each of the three years ending 31 December 2018 is RMB1.2 billion (including any interest accrued therefrom).

2. Bailian Finance has undertaken to adhere to the principles below in relation to the provision of the financial services to the Group:

   (i) the interest rate payable by Bailian Finance to the Group for any deposits shall not be lower than the unified interest rate for comparable deposits as announced by the PBOC and shall not be lower than the interest rate paid by other major commercial banks in the PRC for comparable deposits;

   (ii) the interest rate to be charged for loans to be granted to the Group by Bailian Finance shall not be higher than the unified lending rate as announced by the PBOC during the same period and shall not be higher than the lending rate charged by other major commercial banks in the PRC for comparable loans;

   (iii) the service fees to be charged by Bailian Finance for the provision of other financial services to the Group, other than the deposit and loan services, shall not be higher than the service fees charged by other financial institutions in the PRC for comparable services, and the total service fees to be charged by Bailian Finance for the provision of other financial services to the Group shall not be more than RMB3 million per year; and

   (iv) the terms of services to be provided to the Group by Bailian Finance shall be no less favourable than those of comparable services provided by other financial institutions in the PRC.

3. The Company and Bailian Finance will enter into individual financial services agreements setting out specific terms including the type of services to be provided, the interest rate, the service fees, the payment terms and schedules. Such terms will be consistent with the principles and the terms of the Financial Services Agreement. If there is any conflict between the terms of an individual financial services agreement and the Financial Services Agreement, the latter shall prevail.

Bailian Group is a substantial shareholder of the Company and Bailian Finance is a subsidiary of Bailian Group. Accordingly, Bailian Finance and Bailian Group are connected persons of the Company. Therefore, the Financial Services Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in relation to the provision of deposit services under the Financial Services Agreement is more than 25%, the provision of deposit services under the Financial Services Agreement constitutes a major transaction of the Company and is subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As two of the applicable percentage ratios for the provision of deposit services under the Financial Services Agreement is more than 5%, the provision of deposit services under the Financial Services Agreement are subject to the reporting, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The loan services to be provided by Bailian Finance to the Group under the Financial Services Agreement will constitute financial assistance to be provided by a connected person for the benefit of the Group. As such services are on normal commercial terms which are similar to or even more favourable than those offered by other commercial banks for comparable services in the PRC, and no security over the assets of the Group will be granted in respect of the loan services, the loan services are exempt under Rule 14A.90 of the Listing Rules from all reporting, announcement and independent Shareholders' approval requirements.

The Company expected that each of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) of the total fees payable by the Company to Bailian Finance in respect of the provision of other financial services under the Financial Services Agreement would fall within the de minimis threshold as stipulated under Chapter 14A of the Listing Rules. The Company will comply with the reporting, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules if the total fees payable by the Company to Bailian Finance for the provision of other financial services under the Financial Services Agreement exceed the relevant de minimis threshold.

The Financial Services Agreement and the continuing connected transactions and the annual caps contemplated thereunder were approved by the independent Shareholders of the Company at the extraordinary general meeting on 28 December 2015.

Please refer to the announcement of the Company dated 17 November 2015 and the circular of the Company dated 8 December 2015 respectively for relevant details of the transactions.

Continuing connected transactions – framework agreements between the Company and Bailian Group from 2016 to 2018

On 17 November 2015, the Company entered into various framework agreements with Bailian Group Co., Ltd. (百聯集團有限公司) ("Bailian Group") in respect of various transactions from 2016 to 2018, including transactions of supply of goods, smart cards arrangement, supply of resources, leasing and property management respectively. Specific details are as follows:

Agreement	Transaction Particulars	Principal Terms	Annual Cap
Supply of goods framework agreement	Bailian Group and/or its associates agreed to supply various kinds of goods, including but not limited to dried meat products, electrical appliances, electrical components, sports products, kitchen products, cosmetic and sanitary products and sports products, for sale in the sales outlets of the Company.	The pricing for the supply of goods under the supply of goods framework agreement is determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties with reference to the market price of such goods from time to time. Such transactions will be conducted in the ordinary and usual course of business of the Company, on normal commercial terms and on terms not less favourable to the Company than terms provided by independent third parties.	The maximum aggregate annual amount of the transactions under the supply of goods framework agreement for each of the three years ending 31 December 2018 is RMB150 million.
	The Company and/or its subsidiaries and Bailian Group and/or its associates will enter into individual supply of goods contracts setting out specific terms including the specific goods to be supplied, the price, the payment terms and schedules and other terms of delivery of goods. Such terms will be consistent with the principles and the terms of the supply of goods framework agreement. If there is any conflict between the terms of an individual supply of goods contract and the supply of goods framework agreement, the latter shall prevail.	Bailian Group and/or its associates shall pay sales rebates to the Company for the actual sale of the goods by Bailian Group and/or its associates to the Company under the supply of goods framework agreement. Such sales rebates to be paid by Bailian Group and/or its associates to the Company is determined principally by arm's length commercial negotiations between the parties according to the principles of fairness and reasonableness between the relevant parties with reference to the policy of determining sales rebates in the market. However, in any event, such sales rebates shall not be less than 1% of the actual sales figures of such particular type of goods to be supplied by Bailian Group and/or its associates to the Company under the supply of goods framework agreement. There is no maximum amount nor percentage of sales rebate under the supply of goods framework agreement.	

Agreement	Transaction Particulars	Principal Terms	Annual Cap
		Depending on the specific conditions or transactions contemplated under the individual supply of goods contracts, the actual payment for the sale of the goods under the supply of goods framework agreement is to be made on a monthly or agreed period basis (which period shall be determined by the market practice of the payment period of such particular type of goods purchased and shall not be less favourable than those provided by independent third parties). Details of payment terms shall be set out in the individual supply of goods contracts to be entered into between both parties with reference to the normal commercial terms of Bailian Group and/or its associates and on terms not less favourable than those available from independent third parties. In the event that such payment is made on an agreed period basis, the actual payment day shall be at least 15 days after the date of delivery of goods.	
Smart cards arrangement agreement	Each of the Company and Bailian Group has its own smart cards system which enables its customers to make purchases by using smart cards with prepaid values. Pursuant to the smart cards arrangement agreement, the parties agreed to accept all payments of purchases from the customers by using the smart cards issued by the other party within their respective sales networks.	Each party shall charge the other party a management service fee of not more than 0.5% of such transaction amounts which are attributable to the other party. Such percentage shall be determined by arm's length commercial negotiations between the relevant parties with reference to the gross margin level of companies using smart cards system for settlement of customers' purchases, size of transaction, application conditions and business operation conditions and set out in the individual smart cards arrangement contracts.	The maximum fee payable by Bailian Group to the Company for each of the three years ending 31 December 2018 is RMB20 million, whereas the maximum fee payable by the Company to Bailian Group for each of the three years ending 31 December 2018 is RMB20 million.

Agreement	Transaction Particulars	Principal Terms	Annual Cap
	The relevant subsidiaries of the parties will enter into individual smart cards arrangement contracts setting out specific terms for the arrangement, including the technologies required, operation details, settlement arrangements and the fees and charges. Such terms will be consistent with the principles and the terms of the smart cards arrangement agreement. If there is any conflict between the terms of an individual smart cards arrangement contract and the smart cards arrangement agreement, the latter shall prevail.	The fee payable under the smart cards arrangement agreement is to be made by cash on a monthly basis.	
Supply of resources framework agreement	Bailian Group agreed to supply various kinds of resources, including office utilities, electrical appliances, industrial products, equipment, resources and components parts for the daily operation of the Company.	The pricing for the supply of resources under the supply of resources framework agreement is determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties with reference to the market price of such resources from time to time.	The maximum aggregate annual amount of the transactions under the supply of resources framework agreement for each of the three years ending 31 December 2018 is RMB10 million.
	The parties and/or its subsidiaries will enter into individual supply of resources contracts setting out specific terms of supply of resources including the specific goods to be supplied, the price, the payment terms and schedules and other terms of delivery of goods. Such terms will be consistent with the principles and the terms of the supply of resources framework agreement. If there is any conflict between the terms of an individual supply of resources contract and the supply of resources framework agreement, the latter shall prevail.	Depending on the specific conditions of transactions contemplated under the individual supply of resources contract, the fee payable under the supply of resources framework agreement is to be made by cash on a monthly, quarterly basis or agreed period basis and shall be consistent with the market payment terms of purchasing such particular type of resources.	

Agreement	Transaction Particulars	Principal Terms	Annual Cap
		Transactions contemplated under the supply of resources framework agreement will be conducted in the ordinary and usual course of business of the Company and Bailian Group on normal commercial terms and on terms not less favourable from independent third parties.	
Leasing framework agreement	Pursuant to the leasing framework agreement, Bailian Group agreed to lease certain premises to the Company for the Company's establishment of various operations, including but not limited to supermarkets, convenience stores, warehouses and offices, but excluding hypermarkets.	The rent for leasing certain premises under the leasing framework agreement is determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties with reference to the market rent of similar properties in the relevant area from time to time.	The maximum aggregate annual amount of the transactions under the leasing framework agreement for each of the three years ending 31 December 2018 is RMB9 million.
	The parties will enter into individual leasing contracts setting out specific terms of leasing including the details of the relevant premises, the principles of rent determination, settlement method, payment terms and timing of payment. Such terms will be consistent with the principles and the terms of the leasing framework agreement. If there is any conflict between the terms of an individual leasing contract and the leasing framework agreement, the latter shall prevail.	Depending on the specific conditions of transactions contemplated under the individual leasing contracts, the fee payable under the leasing framework agreement is to be made by cash on a monthly, quarterly, half-yearly or annual basis.	
		Transactions contemplated under the leasing framework agreement will be conducted in the ordinary and usual course of business of the Company and Bailian Group on normal commercial terms and on terms not less favourable from independent third parties.	

Agreement	Transaction Particulars	Principal Terms	Annual Cap
Property management framework agreement	Pursuant to the property management framework agreement, Bailian Group agreed to provide property management services, including but not limited to cleaning and sanitary services, maintenance and repair services, security and safety services and environmental greening and planting services to certain premises of the Company including offices and retail stores for a term of three years commencing from 1 January 2016 to 31 December 2018.	The fee for the provision of property management services under the property management framework agreement is determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties with reference to the property management fees of similar properties in the market from time to time.	The maximum aggregate annual amount of the transactions under the property management framework agreement for each of the three years ending 31 December 2018 is RMB18 million.
	The parties and/or its subsidiaries will enter into individual property management contracts setting out specific terms of the provision of property management services including the principles of property management fee determination, settlement method, payment terms and timing of payment. Such terms will be consistent with the principles and the terms of the property management framework agreement. If there is any conflict between the terms of an individual property management contract and the property management framework agreement, the latter shall prevail.	Depending on the size and the scale of the annual property management fee of the relevant premises and the business scale of the relevant service providers, the fee payable under the property management framework agreement is to be made by cash on a monthly or quarterly basis.	
		Transactions contemplated under the property management framework agreement will be conducted in the ordinary and usual course of business of the Company and Bailian Group on normal commercial terms and on terms not less favourable from independent third parties.	

The parties will enter into individual contracts in respect of the transactions of supply of goods, smart cards arrangement, supply of resources, leasing and property management. Such terms will be consistent with the principles and the terms of each of the supply of goods framework agreement, the smart cards arrangement agreement, the supply of resources framework agreement, the leasing framework agreement or the property management framework agreement.

Bailian Group is a substantial shareholder of the Company. Accordingly, Bailian Group is a connected person of the Company and the abovementioned framework agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As each of the percentage ratios in respect of the respective aggregate annual amount of the transactions of the abovementioned framework agreements from 2016 to 2018 entered between the Company and Bailian Group is more than 0.1% but less than 5%, the abovementioned framework agreements are only subject to the reporting, annual review and announcement requirements but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Please refer to the announcement of the Company dated 17 November 2015 for relevant details.

Continuing Connected Transactions – Sales Framework Agreements

On 28 December 2015, the Company entered into the sales framework agreement ("Sales Framework Agreement") with Hualian GMS Shopping Center Co., Ltd (華聯集團吉買盛購物中心有限公司) ("Hualian GMS,") pursuant to which, the Company agreed to supply various kinds of goods, including but not limited to fresh produce and foods, to Hualian GMS commencing from 1 January 2016 and ending on 31 December 2016.

On 5 December 2016 the Company entered into another sales framework agreement ("Sales Framework Agreement 2016") with Hualian GMS, pursuant to which, the Company (and/or its subsidiaries) agreed to supply various kinds of goods to Hualian GMS (and/or its subsidiaries), including but not limited to fresh produce and foods, to Hualian GMS commencing from 1 January 2017 and ending on 31 December 2019.

Under the Sales Framework Agreement and the Sales Framework Agreement 2016, the business departments of the parties will enter into individual supply of goods contracts setting out specific terms of supply of goods including the goods to be supplied, price, amount, delivery method and payment arrangement. Such terms will be consistent with the principles and the terms of the respective agreements. If there is any conflict between the terms of an individual supply of goods contract and the respective agreements, the latter shall prevail.

The price for the goods to be supplied under the Sales Framework Agreement or the Sales Framework Agreement 2016 is determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties with reference to the purchasing costs of such goods from time to time and the operation costs (including administrative costs and labour costs, etc) incurred by the Company for supplying goods to Hualian GMS under the Sales Framework Agreement or the Sales Framework Agreement 2016. The fee payable under the individual supply of goods contracts is to be made according to the terms of the individual supply of goods contracts. The prices for the goods to be supplied by the Company to Hualian GMS will not be less favourable than those available from independent third parties to the Company in similar transaction.

The maximum annual transaction amount for the financial year ended 31 December 2016 is RMB30,000,000 according to the Sales Framework Agreement dated 28 December 2015; the maximum annual transaction amount for the financial year ending 31 December 2017, 31 December 2018 and 31 December 2019 under the Sales Framework Agreement 2016 dated 5 December 2016 is RMB30,000,000, RMB33,000,000 and RMB36,000,000, respectively.

Bailian Group is a substantial Shareholder of the Company and Hualian GMS is a subsidiary of Bailian Group. Hualian GMS is therefore a connected person (as defined in Chapter 14A of the Listing Rules) of the Company. Accordingly, the transactions contemplated under the Sales Framework Agreement and the Sales Framework Agreement 2016 constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As each of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the transactions contemplated under the Sales Framework Agreement or the Sales Framework Agreement 2016 is more than 0.1% but less than 5%, the transactions contemplated under the Sales Framework Agreement or the Sales Framework Agreement 2016 are subject to the reporting, annual review and announcement requirements but are exempted from the independent Shareholders' approval requirement of the Company under Chapter 14A of the Listing Rules.

Please refer to the announcements of the Company dated 28 December 2015 and 5 December 2016 respectively for relevant details of the transactions.

Continuing Connected Transactions – Purchase Framework Agreement and Supplemental Purchase Framework Agreement, Logistic Framework Agreement

On 28 December 2015, the Company entered into the purchase framework agreement ("Purchase Framework Agreement") with Yonghui Superstores Co., Ltd. (永輝超市股份有限公司) ("Yonghui Superstores"), pursuant to which, the Company agreed to purchase various kinds of goods, including but not limited to fresh produce and foods, from Yonghui Superstores commencing on 1 January 2016 till the effective date of the purchase framework agreement for 2017 to be entered into between the same parties.

Due to the anticipated closer business relationship and increasing cooperation between the Company and Yonghui Superstores in the future for the improvement of the Company's operating results, the Board expected that the Group will purchase more goods from Yonghui Superstores and hence, the annual caps (as set out in the announcement of the Company dated 28 December 2015 and set out below) will not be sufficient for the expected sales of the Group for the years ending 31 December 2016 and 2017. The Company therefore proposed to revise the annual caps for the years ending 31 December 2016 and 2017 to the revised annual caps and accordingly, the Company and Yonghui Superstores entered into the supplemental purchase framework agreement on 28 April 2016 ("Supplemental Purchase Framework Agreement"), pursuant to which (i) the term of the Purchase Framework Agreement is extended to three years commencing from 1 January 2016 till 31 December 2018; and (ii) the annual caps for the years ending 31 December 2016 and 2017 to be increased to the revised annual caps (i.e. RMB660,000,000 and RMB900,000,000) and to set the new annual cap for the year ending 31 December 2018 (i.e. RMB1,000,000,000).

In relation to the transactions contemplated under the Purchase Framework Agreement, the business departments of the parties will enter into individual purchase of goods contracts setting out specific terms of purchase of goods including the goods to be purchased, price, amount, delivery method and payment arrangement under the Purchase Framework Agreement. Such terms will be consistent with the principles and the terms of the Purchase Framework Agreement. If there is any conflict between the terms of an individual purchase of goods contract and the Purchase Framework Agreement, the latter shall prevail.

The price for the goods to be purchased under the Purchase Framework Agreement is determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties with reference to the market price of such goods from time to time. The fee payable under the individual purchase of goods contracts is to be made according to the terms of the individual purchase of goods contracts. The prices for the goods to be purchased by the Company from Yonghui Superstores will not be less favourable than those available from independent third parties in similar transactions. The maximum annual transaction amount payable by the Company for the financial years ending 31 December 2016 and 31 December 2017 under the Purchase Framework Agreement is RMB130,000,000 and RMB20,000,000, respectively.

In relation to the transactions contemplated under the Supplemental Purchase Framework Agreement, the business departments of the parties will enter into individual purchase of goods contracts setting out specific terms of purchase of goods including the goods to be purchased, price, amount, delivery methods and payment arrangement under the Supplemental Purchase Framework Agreement. Such terms will be consistent with the principles and the terms of the Supplemental Purchase Framework Agreement. If there is any conflict between the terms of an individual purchase of goods contract and the Supplemental Purchase Framework Agreement, the latter shall prevail.

The price for the goods to be purchased under the Supplemental Purchase Framework Agreement is determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties with reference to the market price of such goods from time to time. The fee payable under the individual purchase of goods contracts is to be made according to the terms of the individual purchase of goods contracts. The prices for the goods to be purchased by the Company from Yonghui Superstores will not be less favourable than those available from Independent Third Parties in similar transactions. For the financial years ending 31 December 2016, 2017 and 2018, the maximum annual transaction amount payable by the Company under the Supplemental Purchase Framework Agreement is RMB660,000,000, RMB900,000,000 and RMB1,000,000,000, respectively.

On 28 April 2016, the Company also entered into a logistic framework agreement ("Logistic Framework Agreement") with Yonghui Superstores, pursuant to which, Yonghui Superstores agreed to provide logistic services, including but not limited to providing delivery services, allocation services and dealing with the return of goods within the city of Shanghai, and providing delivery services and warehousing services outside the city of Shanghai, to the Group on a non-exclusive basis.

The business departments of the parties will enter into individual logistic services contracts setting out specific terms of services including price, settlement method, payment arrangement and time for payment under the Logistic Framework Agreement. Such terms will be consistent with the principles and the terms of the Logistic Framework Agreement. If there is any conflict between the terms of an individual logistic services contract and the Logistic Framework Agreement, the latter shall prevail.

The price for the logistic services under the Logistic Framework Agreement is determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties with reference to the market price of such services from time to time. The fee payable under the individual logistic services contracts is to be made according to the terms of the individual logistic services contracts. The prices for the services to be provided by Yonghui Superstores to the Company will not be less favourable than those available from Independent Third Parties in similar transactions. The maximum annual transaction amount payable by the Company for the financial years ending 31 December 2016, 2017 and 2018 under the Logistic Framework Agreement is RMB18,000,000, RMB25,000,000 and RMB28,000,000, respectively.

Yonghui Superstores is a substantial Shareholder of the Company, and is therefore a connected person (as defined in Chapter 14A of the Listing Rules) of the Company. Accordingly, the transactions contemplated under the Purchase Framework Agreement, the Supplemental Purchase Framework Agreement and the Logistic Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As each of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the transactions contemplated under the Purchase Framework Agreement is more than 0.1% but less than 5%, the transactions contemplated under the Purchase Framework Agreement are subject to the reporting, annual review and announcement requirements but are exempted from the independent Shareholders' approval requirement of the Company under Chapter 14A of the Listing Rules.

Since the Supplemental Purchase Framework Agreement and the Logistic Framework Agreement are entered into with the same connected person and are related, the Supplemental Purchase Framework Agreement and the Logistic Framework Agreement (as defined under Rule 14.07 of the Listing Rules) would have to be aggregated for the purpose of considering the Company's compliance obligations under the Listing Rules pursuant to Rule 14A.81 of the Listing Rules.

As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the aggregate annual caps for the Supplemental Purchase Framework Agreement and the Logistic Framework Agreement exceeds 5%, the Supplemental Purchase Framework Agreement and the Logistic Framework Agreement would be subject to the reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Supplemental Purchase Framework Agreement and the continuing connected transactions and the annual caps contemplated thereunder, and the Logistic Framework Agreement and the continuing connected transactions and the annual caps contemplated thereunder were approved by the independent Shareholders of the Company at the annual general meeting on 13 June 2016.

Please refer to the announcements of the Company dated 28 December 2015, 28 April 2016 and 13 June 2016 respectively, and the circular of the Company dated 26 May 2016 for relevant details of the transaction.

Continuing Connected Transactions – Sales Agency Framework Agreement

On 29 January 2016, the Company entered into a sales agency framework agreement ("Sales Agency Framework Agreement") with Bailian Omni-channel E-commerce Co., Ltd. (百聯全渠道電子商務有限公司) ("Bailian Omni-channel"), pursuant to which, Bailian Omni-channel agreed to sell goods (including but not limited to food and commodities) on behalf of the Group through its e-commerce platform for a term of three years commencing from 1 January 2016 to 31 December 2018.

The parties and/or its subsidiaries will enter into individual sales agency contracts setting out specific terms including the transaction price determination, settlement method, payment terms and timing of payment. Such terms will be consistent with the principles and the terms of the Sales Agency Framework Agreement. If there is any conflict between the terms of an individual sales agency contract and the Sales Agency Framework Agreement, the latter shall prevail.

The price for the goods sold by Bailian Omni-channel and/or its subsidiaries on behalf of the Group is determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties with reference to the market price of such goods. The relevant transactions will be conducted on normal commercial terms and on terms not less favourable than those to be provided by other independent third parties.

The Company agrees to pay Bailian Omni-channel the platform usage fee which is equivalent to 4% of the total transaction amount of goods sold by Bailian Omni-channel and/or its subsidiaries on behalf of the Group through their e-commerce platforms during the term of the Sales Agency Framework Agreement.

Depending on the specific conditions of transactions contemplated under the individual sales agency contracts, the platform usage fees and the prices for the supply of goods payable under the individual sales agency contracts are to be made by bank transfer on a monthly or agreed period basis and shall be consistent with the market payment terms of purchasing such particular type of goods.

The transactions contemplated under the Sales Agency Framework Agreement will be conducted in the ordinary and usual course of business of the Company and Bailian Omni-channel on normal commercial terms and on terms not be less favourable than those available from independent third parties. The maximum aggregate annual transaction amounts in respect of the goods to be sold by Bailian Omni-channel and/or its subsidiaries on behalf of the Group under the Sales Agency Framework Agreement for the three years ending 31 December 2018 is RMB300 million, RMB450 million and RMB 100 million, respectively; the maximum platform usage fee payable by the Group under the Sales Agency Framework Agreement for the three years ending 31 December 2018 is RMB12 million, RMB18 million and RMB24 million, respectively.

Bailian Group is a substantial shareholder of the Company, Bailian Omni-channel is a wholly-owned subsidiary of Bailian Group. Accordingly, Bailian Omni-channel is connected persons of the Company. Therefore, the transactions under the Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one of the applicable percentage ratios for the transactions under the Sales Agency Framework Agreement is more than 5%, the transactions under the Sales Agency Framework Agreement are subject to the reporting, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Sales Agency Framework Agreement and the continuing connected transactions and the annual caps contemplated thereunder were approved by the independent Shareholders of the Company at the annual general meeting on 13 June 2016.

Please refer to the announcements of the Company dated 29 January 2016 and 13 June 2016 respectively, and the circular of the Company dated 29 February 2016 for relevant details of the transaction.

Continuing Connected Transactions – Membership Points Agency and Settlement Service Agreement

On 29 January 2016, the Company entered into a membership points agency and settlement service agreement ("Membership Points Agency and Settlement Service Agreement") with Bailian Finance, pursuant to which, Bailian Finance agreed to provide the Group with deposit, withdrawal and settlement services for the membership points of the Company for a term of three years commencing from 1 January 2016 to 31 December 2018.

According to the Membership Points Agency and Settlement Service Agreement, Bailian Finance will (i) in accordance with the instructions of the Company, withdraw corresponding fees from the Company's relevant account in Bailian Finance and transfer the same to Bailian Finance's settlement account based on the membership points granted by the Company; and (ii) in accordance with the instructions of the Company, transfer corresponding fees to the

Company's relevant account in Bailian Finance from Bailian Finance's settlement account based on the membership points received by the Company. The membership points granted by the Company and Bailian Group and their respective subsidiaries can be used by customers in purchasing goods or services from the Company and Bailian Group and their respective subsidiaries.

The parties and/or its subsidiaries will enter into individual membership points agency and settlement service contracts setting out specific terms of the provision of deposit, withdrawal and settlement services for membership points including the principles of service fee determination, settlement method, payment terms and timing of payment. Such terms will be consistent with the principles and the terms of the Membership Points Agency and Settlement Service Agreement. If there is any conflict between the terms of an individual membership points agency and settlement service contract and the Membership Points Agency and Settlement Service Agreement, the latter shall prevail.

The maximum aggregate annual transaction amounts to be withdrawn from the Company's relevant account in Bailian Finance to Bailian Finance's settlement account under the Membership Points Agency and Settlement Service Agreement for each of the three years ending 31 December 2018 is RMB50 million. The maximum aggregate annual amounts to be transferred from Bailian Finance's settlement account to the Company's relevant account in Bailian Finance under the Membership Points Agency and Settlement Service Agreement (including the interests to be paid by Bailian Finance) for each of the three years ending 31 December 2018 is RMB50 million.

Bailian Group is a substantial shareholder of the Company, Bailian Finance is a subsidiary of Bailian Group. Accordingly, Bailian Finance is connected persons of the Company. Therefore, the transactions under the Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As all of the applicable percentage ratios for the transactions under the Membership Points Agency and Settlement Service Agreement are more than 0.1% but less than 5%, the transactions contemplated under the Membership Points Agency and Settlement Service Agreement are subject to the reporting, annual review and announcement requirements but are exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

Please refer to the announcement of the Company dated 29 January 2016 for relevant details of the transaction.

Continuing Connected Transactions – Property Leasing Framework Agreement

On 30 March 2016, the Company entered into a property leasing framework agreement ("Property Leasing Framework Agreement") with Bailian Group, pursuant to which, the Company (and/or its subsidiaries) agreed to lease properties to Bailian Group (and/or its subsidiaries) for use as offices or other purposes for a term of three years commencing from 1 January 2016 to 31 December 2018.

The parties will enter into individual property lease agreements setting out specific terms including the transaction price determination, settlement method, payment terms and timing of payment. Such terms will be consistent with the principles and the terms of the Property Leasing Framework Agreement. If there is any conflict between the terms of an individual property lease agreements and the Property Leasing Framework Agreement, the latter shall prevail.

The rental of the properties leased by the Company to Bailian Group is determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties with reference to the market rental of comparable properties. The relevant transactions will be conducted on normal commercial terms and on terms not less favourable than those to be provided by other independent third parties.

Depending on the specific conditions of transactions contemplated under the individual property lease agreements, the rental of lease properties payable under the property lease agreements are to be made by bank transfer on a monthly, quarterly, half-yearly or yearly basis and shall be consistent with the market payment terms of comparable properties.

The transactions contemplated under the Property Leasing Framework Agreement will be conducted in the ordinary and usual course of business of the Company and Bailian Group on normal commercial terms and on terms not less favourable than those available from independent third parties.

For each of the three years ending 31 December 2018, the maximum annual transaction amount is RMB5,000,000.

Bailian Group is a substantial Shareholder of the Company. Accordingly, Bailian Group is a connected person of the Company. Therefore, the transactions under the Property Leasing Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As all of the applicable percentage ratios for the transactions under the Property Leasing Framework Agreement are more than 0.1% but less than 5%, the transactions contemplated under the Property Leasing Framework Agreement are subject to the reporting, annual review and announcement requirements but are exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

Please refer to the announcement of the Company dated 30 March 2016 for relevant details of the transaction.

Major and Connected Transactions – Agreement in relation to the Share Swap Transaction

On 30 March 2016, the Company entered into an agreement with Bailian Group (the "Agreement"), pursuant to which the Company conditionally agreed to purchase, and Bailian Group conditionally agreed to sell, the 75% equity interest in Yiwu City Life and the entire equity interest in Jimaisheng for a total consideration of RMB998,075,785.15 (equivalent to approximately HK$1,189,601,651) which shall be settled by way of: (i) a transfer of the entire equity interest in Lianhua Logistics by the Company to Bailian Group within 30 days from the Completion Date; (ii) an assignment of the rights under the Shareholder's Loan of an amount of RMB599,122,586.03 (equivalent to approximately HK$714,091,283) by the Company to Bailian Group at Completion; and (iii) a cash payment of RMB167,920,646.05 (equivalent to approximately HK$200,143,797) by the Company to Bailian Group within 30 days from the Completion Date (the "Share Swap Transaction"). Upon completion of the Registration Procedures, Yiwu City Life will become a non-wholly owned subsidiary of the Company and Hualian Group Jimaisheng Shopping Centre Company Limited（華聯集團吉買盛購物中心有限公司）("Jimaisheng") will become a wholly-owned subsidiary of the Company whereas Lianhua Logistics will cease to be a subsidiary of the Company.

As the Share Swap Transaction involves both an acquisition and a disposal, pursuant to Rule 14.24 of the Listing Rules, it will be classified by reference to the larger of the acquisition or disposal and subject to the reporting, announcement and/or shareholders approval requirements applicable to that classification.

Bailian Group, together with its subsidiaries, Shanghai Bailian, collectively holds 42.73% of the total issued shares of the Company. Accordingly, Bailian Group is a connected person of the Company by virtue of it being a controlling Shareholder. Further, as one or more of the applicable percentage ratios of the Acquisition are over 25% but are less than 100% and one or more of the applicable percentage ratios of the Disposal are over 25% but are less than 75%, the Share Swap Transaction constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and a connected transaction of the Company under Chapter 14A of the Listing Rules. Therefore, the Share Swap Transaction is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules.

The total consideration was determined after arm's length negotiation between the Company and Bailian Group on normal commercial terms after taking into account a number of factors including but not limited to, the valuation on the properties owned by Yiwu City Life and Lianhua Logistics prepared by an independent property valuer, the valuation on Yiwu City Life, Jimaisheng and Lianhua Logistics by an independent valuer, the audited report issued in accordance with the relevant accounting principles and regulations applicable to enterprises established in the PRC and valuation on the Shareholder's Loan, the historical performance of Yiwu City Life, Jimaisheng and Lianhua Logistics and the expected contribution of Yiwu City Life and Jimaisheng to the Company.

On 6 June 2016, the Company issued the announcement that the Board had received requests from some of the Shareholders that they would like to have more time to consider to vote for or against the relevant resolutions regarding the Agreement and the transactions contemplated thereunder and the continuing connected transactions (i.e. the ordinary resolutions nos. 7, 8 and 9 set out in the notice of AGM (the "Resolutions"). In light of the foregoing, the Board is of the view that it would be expedient and beneficial to allow more time for the Shareholders to consider thoroughly the potential implications of the Share Swap Transactions and the related continuing connected transactions and therefore would not put forward the Resolutions for consideration and approval by the Shareholders at the AGM and the Resolutions would be deleted accordingly in the Notice of AGM.

On 31 October 2016, the Company issued the announcement that, after careful consideration, the Company had decided not to proceed with the Share Swap Transaction and the continuing connected transactions in view of the uncertainties in the market and immature transaction conditions. As such, the EGM would no longer be convened for the Shareholders' consideration of the relevant resolutions. The Board considers that the termination of the Agreement and the continuing connected transactions agreements would not have any material adverse impact on the existing business, financial and operational position of the Group.

On 15 November 2016, the Company issued the announcement that, after careful consideration, the Company had decided not to proceed with the Share Swap Transaction and the continuing connected Transactions in view of the uncertainties in the market and immature transaction conditions. To further elaborate on the reasons considered by the Company in arriving at the decision, the Company considered, among other factors, the role of Lianhua Logistics on the future development of the Group's business, the transaction price and views from independent Shareholders. In consideration of all relevant factors, the Company decided not to proceed with the Share Swap Transaction and the continuing connected transactions.

Please refer to (i) the circular of the Company dated 25 April 2016; and (ii) the announcements of the Company dated 30 March 2016, 6 June 2016, 31 October 2016 and 15 November 2016 respectively for relevant details of the transaction.

Continuing Connected Transactions – Logistic Framework Agreement

On 30 March 2016, the Company and Bailian Group entered into the Agreement in relation to the Share Swap Transaction. Upon completion of the relevant registration procedures of Lianhua Logistics, Lianhua Logistics would become a wholly-owned subsidiary of Bailian Group and a connected person of the Company and, the continuing transactions between Lianhua Logistics and the Group or their respective associates will become continuing connected transactions of the Company under Chapter 14A of the Listing Rules. On 30 March 2016, the Company entered into the logistic framework agreement ("Logistic Framework Agreement") with Bailian Group, pursuant to which Bailian Group and its subsidiaries (including Lianhua Logistics) will provide logistic distribution and storage services to the Group after Completion for the period ending 31 December 2018.

The Logistic Framework Agreement is conditional on the completion and obtaining the approval from the independent Shareholders at the AGM and will be effective from the completion date to 31 December 2018, which can be renewed on terms to be agreed upon between parties stated therein subject to compliance with the applicable Listing Rules.

The Logistic Framework Agreement is a framework agreement which contains general terms and conditions upon which the parties stated therein are to carry out the transaction contemplated thereunder. Members of Bailian Group (including Lianhua Logistics) and the Company may from time to time enter into specific agreements in respect of the services received by the Company, provided that the terms of such detailed agreements are not inconsistent with the terms of the Logistic Framework Agreement. The actual services received by the Company are subject to such detailed agreement entered into between the relevant members of Bailian Group and the Company from time to time during the terms of the Logistic Framework Agreement.

The service fees payable under the Logistic Framework Agreement by the Company are to be agreed and determined on an arm's length basis between parties therein from time to time, which shall be comparable to, or no less favourable to the Company than, the fair market prices for similar services offered by independent third parties to the Company. The amount to be paid by the Company to Bailian Group for the provision of logistic distribution and storage services under the Logistic Framework Agreement for the financial year ended 31 December 2016 would not exceed RMB100 million, and for the financial year ending 31 December 2017 and 2018 will not exceed RMB330 million and RMB363 million, respectively.

On 6 June 2016, the Company issued the announcement that, the Company would not put forward the Resolutions for consideration and approval by the Shareholders at the AGM and the Resolutions will be deleted accordingly in the Notice of AGM.

On 31 October 2016, the Company issued the announcement that, the EGM would no longer be convened for the Shareholders' consideration of the relevant resolutions.

On 15 November 2016, the Company issued the announcement that, the Company decided not to proceed with the Share Swap Transaction and the continuing connected transactions.

Please refer to (i) the circular of the Company dated 25 April 2016; and (ii) the announcements of the Company dated 30 March 2016, 6 June 2016, 31 October 2016 and 15 November 2016 respectively for relevant details of the transaction.

Continuing Connected Transactions – Supply of Goods Agreement and Supplemental Supply of Goods Agreement

As disclosed in the announcement of the Company dated 17 November 2015, the Company entered into a supply of goods framework agreement ("Supply of Goods Agreement") with Bailian Group, pursuant to which, Bailian Group agreed to supply various kinds of goods, including but not limited to, dried meat products, electrical appliances, electrical components, kitchen products, cosmetic products, sanitary products, household products and sports products, for sale in the sales outlets of the Group for a term of three years commencing from 1 January 2016 to 31 December 2018. Please refer to the announcement of the Company dated 17 November 2015 for more details.

The annual caps for each of the three years ending 31 December 2018 is RMB150 million.

Bailian Group had been supplying various kinds of goods to Jimaisheng. Upon completion of the relevant Registration Procedures of Jimaisheng, Jimaisheng will become a wholly-owned subsidiary of the Company and the continuing transactions between Jimaisheng and Bailian Group will become continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

On 30 March 2016, the Company entered into a supplemental supply of goods framework agreement ("Supplemental Supply of Goods Framework Agreement") with Bailian Group, pursuant to which the annual caps under the Supply of Goods Agreement will be revised, in order to take into account of the transaction amounts contemplated under the transactions between Bailian Group and Jimaisheng for the supply of goods upon Completion.

The Supplemental Supply of Goods Framework Agreement is conditional (i) on the completion of the Share Swap Transaction; and (ii) upon the approval by the independent Shareholders at the AGM. Pursuant to the Supplemental Supply of Goods Framework agreement, the annual caps under the Supply of Goods Agreement will be revised as RMB190 million for the year ended 31 December 2016; and RMB200 million for each of the two years ending 31 December 2017 and 2018.

On 6 June 2016, the Company issued the announcement that, the Company will not put forward the Resolutions for consideration and approval by the Shareholders at the AGM and the Resolutions will be deleted accordingly in the Notice of AGM.

On 31 October 2016, the Company issued the announcement that, the EGM will no longer be convened for the Shareholders' consideration of the relevant resolutions.

On 15 November 2016, the Company issued the announcement that, the Company decided not to proceed with the Acquisition and the Continuing Connected Transactions.

Please refer to (i) the circular of the Company dated 25 April 2016; and (ii) the announcements of the Company dated 30 March 2016, 6 June 2016, 31 October 2016 and 15 November 2016 respectively for relevant details of the transaction.

Continuing Connected Transactions – Zhejiang Yiwu Leasing Agreement

On 15 July 2015, Zhejiang Century Lianhua Supermarket Co., Ltd.. (浙江世紀聯華超市有限公司) ("Zhejiang Century Lianhua") entered into the Zhejiang Yiwu Leasing Agreement with Yiwu City Life Supermarket Co., Ltd. (義烏都市生活超市有限公司) ("Yiwu City Life"), pursuant to which, Zhejiang Century Lianhua agreed to lease the the property located at No. 168 Wang Dao Lu, Yiwu, Zhejiang Province, the PRC ("the Yiwu Property") from Yiwu City Life commencing on 15 July 2015 to 14 July 2016 (both days inclusive).

The rent payable by Zhejiang Century Lianhua under the Zhejiang Yiwu Leasing Agreement for the period from 15 July 2015 to 14 July 2016 is RMB54,000,000 per annum.

The rent is payable by Zhejiang Century Lianhua by way of cash on a monthly basis, which amounts to RMB4,500,000 per month.

In the event that the shop of Zhejiang Century Lianhua at Yiwu Property operates at a loss, Yiwu City Life agreed to provide a rental reduction of no more than one third of the annual rental payable by Zhejiang Century Lianhua under the Zhejiang Yiwu Leasing Agreement, i.e. the rental reduction shall be no more than RMB18,000,000 per annum.

The actual amount to be paid by Zhejiang Century Lianhua to Yiwu City Life under the Zhejiang Yiwu Leasing Agreement shall therefore ranges between RMB36,000,000 to RMB54,000,000 per annum, depending on the amount of profit or loss generated by Zhejiang Century Lianhua each month.

On 15 July 2016, Zhejiang Century Lianhua entered into the renewed Zhejiang Yiwu Leasing Agreement with Yiwu City Life, pursuant to which, Zhejiang Century Lianhua agreed to lease the the Yiwu Property from Yiwu City Life commencing on 15 July 2016 to 14 July 2017 (both days inclusive).

The rent payable by Zhejiang Century Lianhua under the Zhejiang Yiwu Leasing Agreement for the period from 15 July 2016 to 14 July 2017 is RMB54,000,000 per annum. The rent is payable by Zhejiang Century Lianhua by way of cash on a monthly basis, which amounts to RMB4,500,000 per month.

In the event that the shop of Zhejiang Century Lianhua at Yiwu Property operates at a loss, Yiwu City Life agreed to provide a rental reduction of no more than one third of the annual rental payable by Zhejiang Century Lianhua under the Zhejiang Yiwu Leasing Agreement, i.e. the rental reduction shall be no more than RMB18,000,000 per annum. The actual amount to be paid by Zhejiang Century Lianhua to Yiwu City Life under the Zhejiang Yiwu Leasing Agreement shall therefore ranges between RMB36,000,000 to RMB54,000,000 per annum, depending on the amount of profit or loss generated by Zhejiang Century Lianhua each month.

Bailian Group, together with its subsidiary Shanghai Bailian, collectively holds 42.73% of the total issued shares of the Company, which makes Bailian Group a substantial Shareholder of the Company. As Yiwu City Life is a wholly-owned subsidiary of Bailian Group, it is therefore a connected person (as defined in Chapter 14A of the Listing Rules) of the Company. Consequentially, the transactions contemplated under the Zhejiang Yiwu Leasing Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As each of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the transactions contemplated under the Zhejiang Yiwu Leasing Agreement is more than 0.1% but less than 5%, the transactions contemplated under the Zhejiang Yiwu Leasing Agreement are subject to the reporting, annual review and announcement requirements but is exempted from the independent Shareholders' approval requirement of the Company under Chapter 14A of the Listing Rules.

Please refer to the announcements of the Company dated 15 July 2015 and 15 July 2016 for relevant details of the transaction.

Continuing connected transactions – lease agreements

The lease agreement dated 30 September 2003 was entered into between Century Lianhua as the lessee and Shanghai Bailian Xijiao Shopping Centre Co., Ltd. ("Bailian Xijiao", 上海百聯西郊購物中心有限公司), formerly known as Shanghai Friendship Shopping Centre Development Co., Ltd. (上海友誼購物中心發展有限公司), as the lessor in respect of the leasing of No. 88, Xian Xia West Road, Chang Ning District, Shanghai, the PRC. The annual rent under this lease agreement for each of the three years ended 31 December 2011 is subject to an annual cap of RMB16,700,000, details of which are set out in the announcement of the Company dated 28 November 2008. Century Lianhua is a subsidiary of the Company and Bailian Xijiao is a subsidiary of Shanghai Friendship, a direct holding company of the Company and thus such transactions constitute continuing connected transactions of the Company.

On 28 November 2011, the Board announced that the estimate annual rental payable (including the basic rent, the supplementary rent calculated at 2.5% of the turnover in excess of an average daily turnover of RMB640,000 of the hypermarket operating under the lease agreement payable by Century Lianhua ("Turnover Rent") and management fees) under the lease agreement for each of the three years ended 31 December 2014 will be subject to an annual cap of RMB20,000,000, after taking into account the following factors: (i) the 5% increment of the basic rent; (ii) the management fees of RMB2,400,000 per year; and (iii) the expected Turnover Rent payable by Century Lianhua for the three years ending 31 December 2014.

Please refer to the announcement of the Company dated 28 November 2011 for relevant details.

The lease agreement dated 3 December 2002 and the supplemental lease agreement dated 31 December 2008 were entered into between Century Lianhua as the lessee and Homemart Decoration and Materials Co., Ltd. ("Homemart", 好美家裝潢建材有限公司) as the lessor in respect of the leasing of No. 645, Xie Tu Road, Lu Wan District, Shanghai, the PRC (the "Lease Transaction"). The annual rent (inclusive of management fee of RMB1,125,000 per year payable to Homemart) of the premises for the periods from 1 January 2009 to 25 July 2012, from 26 July 2012 to 25 July 2017 and from 26 July 2017 to 25 July 2022 are RMB3,150,000 per year, RMB3,307,500 per year and RMB3,472,875 per year, respectively, details of which are set out in the announcement of the Company dated 31 December 2008. On 16 April 2012, Century Lianhua, Homemart and Shanghai Century Lianhua Supermarket Luwan Co., Ltd. (上海世紀聯華超市盧灣有限公司) ("Century Lianhua Luwan Company", a wholly-owned subsidiary of Century Lianhua) entered into a supplementary agreement to agree that Century Lianhua Luwan Company was to replace Century Lianhua to undertake all the related rights and obligations of Century Lianhua under the Lease Transaction with effect from the date of registration with the business registration office. Since Homemart is a subsidiary of Shanghai Friendship, a direct holding company of the Company and thus such transactions constitute continuing connected transactions of the Company.

The lease agreement dated 13 February 2004 and the supplemental lease agreement dated 26 June 2009 were entered into between Century Lianhua as the lessee and Homemart as the lessor in respect of the leasing of No. 1875, Ji Yang Lu, Pudong New District, Shanghai, the PRC. Pursuant to the supplemental lease agreement, the annual rent and management fees of the premises will be reduced from RMB6,300,000 to RMB6,090,000 from 1 July 2009, with the same increment percentage as agreed in the lease agreement dated 13 February 2004. The rent will be payable by Century Lianhua directly to Shanghai Di Lin Trading Company Limited ("Shanghai Di Lin", 上海荻林工貿有限公司), the landlord of the premises, instead of Homemart and the management fees will continue to be paid by Century Lianhua to Homemart. The annual caps under the supplemental lease agreement is set out as follows:

	Annual caps under the supplemental lease agreement (RMB)
for the year ending 31 December 2009	6,195,000.00
for the year ending 31 December 2010	6,166,125.00
for each of the two years ending 31 December 2012	6,394,500.00
for the year ending 31 December 2013	6,474,431.30
for each of the two years ending 31 December 2015	6,714,225.20
for the year ending 31 December 2016	6,798,153.00
for each of the two years ending 31 December 2018	7,049,936.40
for the year ending 31 December 2019	7,138,060.60
for each of the two years ending 31 December 2021	7,402,433.20
for the year ending 31 December 2022	5,551,824.90

Details of the above supplemental lease agreement are set out in the announcement of the Company dated 26 June 2009.

Given that each of the percentage ratios of the aggregate rent payable by Century Lianhua to Bailian Xijiao and Homemart under the aforementioned lease agreements is less than 5%, the above lease agreements are only subject to the reporting, annual review and announcement requirements but is exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

The lease agreement dated 15 September 2006 was entered into between Century Lianhua as the lessee and Shanghai Bailian Central Shopping Plaza Co., Ltd. ("Bailian Central", 上海百聯中環購物廣場有限公司), formerly known as Shanghai Bailian De Hong Shopping Mall Co., Ltd. (上海百聯德泓購物中心有限公司), as the lessor in respect of the leasing of portion of area located within Bailian Central Shopping Plaza at No.1288 Zhenguang Road, Shanghai, the PRC for a term from 21 December 2006 to 20 December 2026. The annual rent of the premises is RMB11,988,750 per year from the first year to the third year, and starting from the fourth year onwards, a 5% increment is calculated based on the previous three-year period for every three-year period thereafter, and the management fee of the premises is RMB3,011,250 per year, details of which are set out in the announcement of the Company dated 2 March 2009. Since Bailian Central is a subsidiary of Bailian Group, an holding company of the Company's substantial shareholder, Shanghai Friendship, and thus such transaction constitutes continuing connected transactions of the Company.

The lease agreement dated 1 July 2010 was entered into between Century Lianhua as the lessee and Shanghai Bailian Nanqiao Shopping Centre Co., Ltd. (上海百聯南橋購物中心有限公司) ("Bailian Nanqiao") as the lessor in respect of the property located at room G41-B01-1-001 at B1 floor and a portion of area at first and second floors of Shanghai Bailian Nanqiao Shopping Centre, No. 228-288 Bai Qi Lu, Shanghai, the PRC. The maximum annual amount of the transaction payable by Century Lianhua under this lease agreement are set out as follows:

Period	**Maximum Amount** (RMB)
From 1 January 2010 to 31 December 2010 (Note 1)	1,410,000
From 1 January 2011 to 31 December 2011	4,220,000
From 1 January 2012 to 31 December 2012	4,220,000
From 1 January 2013 to 31 December 2013	4,400,000
From 1 January 2014 to 31 December 2014	4,400,000
From 1 January 2015 to 31 December 2015	4,400,000
From 1 January 2016 to 31 December 2016	4,580,000
From 1 January 2017 to 31 December 2017	4,580,000
From 1 January 2018 to 31 December 2018	4,580,000
From 1 January 2019 to 31 December 2019	4,770,000
From 1 January 2020 to 31 December 2020	4,770,000
From 1 January 2021 to 31 December 2021	4,770,000
From 1 January 2022 to 31 December 2022	4,970,000
From 1 January 2023 to 31 December 2023	4,970,000
From 1 January 2024 to 31 December 2024	4,970,000
From 1 January 2025 to 31 December 2025 (Note 2)	2,490,000

Note 1: The maximum amount of the transaction represents the amount of the transaction for the period after the end of the rent-free period, i.e., from 28 September 2010, to 31 December 2010.

Note 2: The maximum amount of the transaction represents the amount of the transaction from 1 January 2025 to the expiration of the term, i.e., 27 May 2025.

The relevant details are set out in the announcement of the Company dated 1 July 2010. Century Lianhua is a subsidiary of the Company, and Bailian Nanqiao is accounted and consolidated as a subsidiary of Bailian Group. As Bailian Group is the controlling shareholder of Shanghai Friendship (a substantial shareholder of the Company), such transactions constitute continuing connected transactions of the Company.

The lease agreement dated 1 July 2010 was entered into between Century Lianhua as the lessee and Shanghai Bailian Jinshan Shopping Centre Co., Ltd. ("Bailian Jinshan", 上海百聯金山購物中心有限公司), formerly known as Shanghai Jinshan Baibei Shopping Centre Co., Ltd. (上海金山百倍購物中心有限公司), as the lessor in respect of the property located at room 1-101 at B1 floor and rooms 1-102 & 1-103 at the first floor of Shanghai Jinshan Baibei Shopping Centre, No.18 West Wei Qing Lu, Shanghai, the PRC. The maximum annual amount of the transaction payable by Century Lianhua under this lease agreement are set out as follows:

Period	**Maximum Amount** (RMB)
From 1 January 2010 to 31 December 2010 (Note 1)	2,410,000
From 1 January 2011 to 31 December 2011	7,230,000
From 1 January 2012 to 31 December 2012	7,230,000
From 1 January 2013 to 31 December 2013	7,540,000
From 1 January 2014 to 31 December 2014	7,540,000
From 1 January 2015 to 31 December 2015	7,540,000
From 1 January 2016 to 31 December 2016	7,870,000
From 1 January 2017 to 31 December 2017	7,870,000
From 1 January 2018 to 31 December 2018	7,870,000
From 1 January 2019 to 31 December 2019	8,220,000
From 1 January 2020 to 31 December 2020	8,220,000
From 1 January 2021 to 31 December 2021	8,220,000
From 1 January 2022 to 31 December 2022	8,580,000
From 1 January 2023 to 31 December 2023	8,580,000
From 1 January 2024 to 31 December 2024	8,580,000
From 1 January 2025 to 31 December 2025 (Note 2)	3,580,000

Note 1: The maximum amount of the transaction represent the amount of the transaction for the period after the end of the rent-free period, i.e., from 28 September 2010 to 31 December 2010.

Note 2: The maximum amount of the transaction represent the amount of the transaction from 1 January 2025 to the expiration of the term, i.e., 27 April 2025.

The relevant details are set out in the announcement of the Company dated 1 July 2010. Century Lianhua is a subsidiary of the Company, and Bailian Jinshan is accounted and consolidated as a subsidiary of Bailian Group. As Bailian Group is the controlling shareholder of Shanghai Friendship (a substantial shareholder of the Company), such transactions constitute continuing connected transactions of the Company.

Given that each of the applicable percentage ratios in respect of the aggregated annual rent payable by Century Lianhua to Bailian Group and its subsidiaries under the aforementioned lease agreements is below 5%, the above lease agreements are only subject to the reporting, annual review and announcement requirements but is exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Continuing connected transactions – lease agreements

Shanghai Century Lianhua Yuqiao Shopping Centre Ltd. ("Lianhua Yuqiao", 上海世紀聯華禦橋購物廣場有限公司) as the lessor and Shanghai Bailian, being merged into Shanghai Friendship, as the lessee entered into a lease agreement in respect of the property located at the first to third floors of Century Lianhua Yuqiao Shopping Centre, No. 2420 Hu Nan Road, Pudong New District, Shanghai, the PRC. The maximum annual amount of the transactions payable by Shanghai Bailian under this lease agreement are set out as follows:

Period	Maximum Amount (RMB)
For each of the three years from 1 January 2012 to 31 December 2014	13,000,000
For each of the three years from 1 January 2015 to 31 December 2017	20,000,000
For each of the three years from 1 January 2018 to 31 December 2020	27,000,000
For each of the three years from 1 January 2021 to 31 December 2023	33,000,000
For each of the three years from 1 January 2024 to 31 December 2026	46,000,000

The relevant details are set out in the announcement of the Company dated 15 July 2011. Lianhua Yuqiao is a subsidiary of the Company, and Shanghai Bailian is a subsidiary of Bailian Group. As Bailian Group is the controlling shareholder of Shanghai Friendship (a substantial shareholder of the Company), such transactions constitute continuing connected transactions of the Company. Given that each of the applicable percentage ratios in respect of the aggregated annual rent and management fees under the aforementioned lease agreement is below 5%, the lease agreement is only subject to the reporting, annual review and announcement requirements but is exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The independent non-executive Directors have reviewed the above transactions and confirmed that the transactions have been entered into:

(1) in the ordinary and usual course of business of the Group;

(2) on normal commercial terms (to the extent that there are comparable transactions) or if there are no comparable transaction to determine whether they are on normal commercial terms, on terms not less favourable to the Group than terms provided by or to (if applicable) independent third parties and conducted during the year under review; and

(3) in accordance with the respective agreements and on fair and reasonable terms and in the interests of the shareholders of the Company as a whole.

The auditors of the Company have reviewed the above transactions and given written notice to the Board to confirm that the above transactions:

(1) have been approved by the Board;

(2) have been conducted in accordance with the relevant agreements;

(3) were in accordance with the pricing policies of the Company; and

(4) did not exceed the respective cap for each transaction.

By order of the Board

Ye Yong-ming
Chairman

29 March 2017
Shanghai, the PRC

Report of Corporate Governance

The Group fully acknowledges its obligations to its shareholders and investors. Since its listing in 2003, the Company has been in strict compliance with the relevant requirements of the applicable laws, regulations and rules of domestic or overseas securities regulatory authorities and has been committed to improving the transparency of its corporate governance and the quality of information disclosure. The Group also attaches great importance on communication with its shareholders and investors and strives to ensure the timeliness, completeness and accuracy of its information disclosure to its shareholders and investors and to the protection of the interests of investors. The Board has strictly complied with the principles of corporate governance and is dedicated to improving the management quality of the Company and the standard of corporate governance continually in order to protect and enhance value for shareholders. To this end, the Company has adopted the principles in the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules since 1 January 2005 with an aim to enhance the quality of corporate governance of the Group. Such adoption was reflected in the Company's Articles of Association, internal rules and regulations and the corporate governance implementation practices.

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 on Corporate Governance Practices.

For Provision A.6.7 of the Code:

Mr. Zhang Xuan-song, the then non-executive Director at that time, Mr. Wong Tak Hung, non-executive Director, and Mr. Gu Guo-jian, the then independent non-executive Director at that time, were unable to attend the 11th meeting of the fifth session of the Board convened on 30 March 2016 by the Company due to their other work engagements.

Mr. Zhang Xuan-song, the then non-executive Director at that time, and Mr. Wong Tak Hung, non-executive Director were unable to attend the 12th meeting of the fifth session of the Board convened on 25 August 2016 by the Company due to their other work engagements.

Mr. Zhang Xuan-song, the then non-executive Director at that time was unable to attend the 13th meeting of the fifth session of the Board convened on 10 November 2016 by the Company due to his other work engagements.

Mr. Zhang Xuan-song, the then non-executive Director at that time, was unable to attend the 14th meeting of the fifth session of the Board convened on 5 December 2016 by the Company due to his other work engagements.

Mr. Zhang Xuan-song, the then non-executive Director at that time, was unable to attend the extraordinary general meeting of the Company convened on 5 December 2016 due to his other work engagements.

After receiving the relevant materials for the Board meetings, the above mentioned Directors have authorized other Directors of the Company to attend the meetings and vote on their behalf. The matters considered at the Board meetings were ordinary matters and all resolutions were passed smoothly. The Company had sent the related minutes of the relevant meeting subsequently to all members of the Board to enable the Directors who were unable to attend the meeting to understand the resolutions passed at the meeting.

Moreover, the Company has provided the relevant materials and all necessary information relating to the extraordinary general meeting (the "EGM") to all members of the Board before the EGM. All ordinary resolutions and special resolutions considered at the EGM were passed smoothly. The Company had sent the related minutes of the EGM to all members of the Board after the EGM so that 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. Zhang Xuan-song, the then non-executive Director at that time, Mr. Qian Jian-qiang, 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 engagements. 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 and special 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.

Board

During the period under review, the Board consists of 11 Directors, one of whom is executive Directors and six of whom are non-executive Directors (including the Chairman of the Board) and four of whom are independent non-executive Directors. The number of independent non-executive Directors accounts for at least one third of the number of Directors of the Company. At least one of the independent non-executive directors holds appropriate professional qualifications or accounting or related financial management expertise. Profiles and particulars of the chairman of the Company and other Directors are set out under the section headed "Profiles of Directors, Supervisors and Senior Management" in this report.

As approved at the annual general meeting on 27 June 2014, the fifth session of the Board was established and the term of office of each Director (including non-executive Directors) is three years, which will expire on the date of conclusion of 2016 annual general meeting of the Company. Corresponding to the term of office, all executive Directors have entered into service contracts, which are valid for a term ending on the date of conclusion of the annual general meeting of the Company for the year 2016, and such term is renewable subject to the applicable laws. The names of Directors referred herein are members of the fifth session of the Board as at the date of this report.

The principal responsibilities of the Board include:

- to formulate overall strategies, monitor operating and financial performance and determine proper policies to manage risks exposures arising in the course of achieving the Group's strategic goals;

- to be responsible for the internal control system of the company and overseeing and reviewing its efficiency;

- to be ultimately responsible for the preparation of accounts of the Company and to assess the Company's performance, financial position and prospects in a balanced, clear and comprehensible manner during the preparation of the quarterly, interim and annual reports of the Company, other price-sensitive announcements issued and the financial information disclosed under the Listing Rules, reports submitted to the regulatory authorities and information disclosed under legal requirements;

- the executive Directors/officers in charge of various aspects of the operations of the Company are responsible for the day-to-day management of business of the Company. The Board is responsible for the policies, financial and shareholders' affairs affecting the overall strategy of the Company, including financial statements, dividends policies, material changes in accounting policies, annual operating budget, material contracts, major financing arrangements, major investments and risk management policies;

- the management has received clear directions and instructions in respect of their authorities, particularly in relation to the matters such as the circumstances under which they should report to the Board and seeking the Board's approval prior to making any decision or entering into any undertaking on behalf of the Company; and

- to review its responsibilities functions and authorities delegated to the executive Directors/officers on a regular basis and to ensure such arrangements are appropriate.

Board Meetings and General Meetings

The Company held four Board meetings, 2015 annual general meeting and one extraordinary general meeting during the year. Attendance record of the Directors is as follows:

	Meetings Attended/Held		
Directors	Board Meetings	2015 Annual General Meeting	Extraordinary General Meeting
Executive Directors			
Ms. Qi Yue-hong (vice chairman)	4/4	1/1	1/1
Non-executive Directors			
Mr. Ye Yong-ming (chairman)	4/4	1/1	1/1
Mr. Zhang Xuan-song	0/4	0/1	0/1
Mr. Qian Jian-qiang	4/4	0/1	1/1
Ms. Zheng Xiao-yun	4/4	1/1	1/1
Mr. Zhang Jing-yi	4/4	1/1	1/1
Mr. Wong Tak Hung	2/4	0/1	1/1
Independent Non-executive Directors			
Mr. Xia Da-wei	4/4	1/1	1/1
Mr. Lee Kwok Ming, Don	4/4	0/1	1/1
Mr. Gu Guo-jian	3/4	1/1	1/1
Mr. Wang Jin	4/4	1/1	1/1

Note:

1. The attendance of the Directors by proxies (other Directors) has not been counted.

In addition to the abovementioned regular Board meetings during the year, the Board would also hold meetings whenever Board's decision on any specific matter was required. All Directors will receive the notice of meeting, detailed agenda of the meeting and the relevant information at least 14 days prior to the meeting.

The members of the Board fully acknowledge their own duties and obligations in treating all shareholders on an equal basis and protecting the interests of all investors. The Company ensures that documents and information relating to the businesses of the Group are provided to Board members on a timely basis. The independent non-executive Directors perform their duties in compliance with relevant laws and regulations and safeguard the interests of the Company and its shareholders as a whole. The Company has received confirmation letters from each of the independent non-executive Directors in respect of their independence pursuant to Rule 3.13 of the Listing Rules.

To the best knowledge of the Board, no relationship (including financial, business, family or other material, relevant relationship(s)) exist between members of the Board.

Trainings of Directors

All Directors shall participate in continuous professional development to develop and update their knowledge and skills to ensure that they are equipped with all the information and can continue to contribute to the Board when required.

During the period under review, the Company has arranged trainings on the Listing Rules for its Directors. Relevant training materials have been also sent to the Directors who were unable to attend the trainings for their reference.

Directors	Perusing the Training Materials on the Listing Rules	Participating in the Trainings on the Listing Rules Organised by the Company	Participating in the Trainings on the Listing Rules Organised by Other Organisations
Executive Directors			
Qi Yue-hong	√	√	
Non-executive Directors			
Ye Yong-ming	√	√	
Zhang Xuan-song	√		
Qian Jian-qiang	√	√	
Zheng Xiao-yun	√	√	
Zhang Jing-yi	√	√	
Wong Tak Hung	√		
Independent Non-executive Directors			
Xia Da-wei	√	√	
Lee Kwok Ming, Don	√		√
Gu Guo-jian	√		
Wang Jin	√	√	

Board Diversity Policy

During the period under review, the Board adopted a board diversity policy (which was embodied in the terms of reference of the Nomination Committee) setting out the approach to achieve diversity on the Board. The Company considered diversity of Board members can be achieved through consideration of a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

The Nomination Committee has set measurable objectives based on four focus areas: gender, age, ethnicity and professional experience to implement the board diversity policy. The Nomination Committee will review the board diversity policy, as appropriate; and review the measurable objectives that the Board has set for implementing the board diversity policy, and the progress on achieving the objectives, to ensure its continued effectiveness from time to time. The Nomination Committee considers that the Board has already fulfilled the diversified and balanced portfolio, suitable to the Group's business.

Duties of the Board and the management of the Company

During the period under review, the position of Chairman is assumed by Mr. Ye Yong-ming. the position of Manager (equivalent to "chief executive officer" under the Listing Rules) of the Company was assumed by Mr. Lin Song, which complies with the requirement of Provision A.2.1 of the Code requiring that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Chairman leads the Board and is responsible for approving and supervising the policies and strategies of the Group, approving annual budget and business plan, assessing the performance of the Company and supervising the work of the management of the Company. The Manager is responsible for the day-to-day operations of the Group and leads the management of the Company to exercise the powers conferred by the Articles of Association and delegated by the Board.

The Manager of the Company reports to the Board and performs the following duties:

(1) takes charge of the production, operation and management affairs and implementation of the resolutions of the Board;

(2) implement the annual business plans and investment plans of the Company;

(3) formulates the internal organizational structure plan of the Company;

(4) formulates the basic management system of the Company;

(5) formulates the basic rules of the Company;

(6) makes recommendations in respect of the appointment or removal of deputy manager and financial officer;

(7) appoints or removes management personnel except those required to be appointed or removed by the Board;

(8) personally (or appoints a deputy manager to) convenes and chairs the management meetings to be attended by the manager, deputy manager and other members of senior management;

(9) determines matters of the Company relating to the reward or punishment, promotion or demotion, pay-rise or pay-cut, recruitment, employment, removal and dismissal of staff; and

(10) exercises other powers conferred by the Articles of Association or delegated by the Board.

Board Committees

The Board established the first session of Board Committees in 2003, including (1) the Remuneration and Appraisal Committee which establishes and determines the Company's reward and appraisal system; (2) the Strategic Committee which conducts consultation, survey, research and assessment on the Company's future investment strategies, and to enhances the Company's core competitiveness; (3) the Nomination Committee which optimizes the composition of the Board and the management of the Company; and (4) the Audit Committee which reviews the financial reporting procedures, internal control system and the completeness of financial reports of the Company.

As approved by ordinary resolutions at the annual general meeting on 27 June 2014, the fifth session of the Board was established. On the same day, the Board established the fifth session of the Board Committees in accordance with the requirements of the Code. During the period under review, members of the fifth session of the Board Committees are as follows:

Board Committees	**Members**			
The fifth session of the Audit Committee	Mr. Lee Kwok Ming, Don (Chairman)	Mr. Xia Da-wei	Mr. Gu Guo-jian	Mr. Wang Jin
The fifth session of the Remuneration and Appraisal Committee	Mr. Xia Dawei (Chairman)	Mr. Gu Guo-jian	Mr. Wang Jin	Ms. Qi Yue-hong
The fifth session of the Strategic Committee	Mr. Ye Yong-ming (chairman)	Mr. Zhang Xuan-song	Ms. Qi Yue-hong	Mr. Gu Guo-jian
The fifth session of the Nomination Committee	Mr. Gu Guo-jian (chairman)	Mr. Xia Da-wei	Mr. Wang Jin	Ms. Qi Yue-hong

Note: The term of those directors above will end on the date of the 2016 annual general meeting of the Company.

The Board has authorised the committees to formulate their respective terms of reference.

To further enhance the independence of the Board Committees, written terms of reference of each of the committees had been formulated under the authorization of the Board.

Audit Committee

The Board passed a resolution on 27 June 2014 to establish the fifth session of the Audit Committee. The Audit Committee currently comprises four members, including three independent non-executive Directors (including the Chairman) and one non-executive director. The Board confirms that each member of the Audit Committee has extensive business experience and the Audit Committee has a desirable mix of operational, accounting and financial expertise. The primary duties, roles and functions of the Audit Committee of the Company are:

(a) be responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and ratifying the remuneration and terms of engagement of the external auditor, as well as settling any questions raised by the resignation or dismissal of such auditor;

(b) review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The committee should discuss with the auditor the scope of the audit including the engagement letter. The Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences. The external audit fees are to be negotiated by management, and presented to the committee for review and approval annually;

(c) to develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, "external auditor" includes any entity that is under common control, ownership or management with the audit firm, or any entity as to a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

(d) to monitor the integrity of the Company's financial statements and annual report and accounts, interim report and, if prepared for publication, quarterly reports, and to review financial statements and significant financial reporting judgements contained above mentioned reports. In reviewing the reports before submission to the Board, the committee should focus particularly on: (1) any changes in accounting policies and practices; (2) major judgmental areas; (3) significant adjustments to accounts resulting from the audit; (4) the on-going concern assumptions and any qualifications; (5) compliance with accounting and auditing standards; and (6) compliance with the Listing Rules and legal requirements;

(e) with regard to (d) above: (1) members of the committee should liaise with the Board and senior management, and the committee must meet, at least twice a year, with the external auditor; and (2) the committee should consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts, it should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors;

(f) review with the Group's management, external auditors and internal auditors, the adequacy of the Group's policies and procedures regarding internal controls (including financial, operational and compliance controls), risk management system and any statement by the Directors to be included in the annual accounts prior to endorsement by the Board;

(g) discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;

(h) review the findings of internal investigations and management's response into any suspected frauds or irregularities or failures of internal controls or infringements of laws, rules and regulations and to consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

(i) review and monitor the scope, effectiveness and results of internal audit function, ensure co-ordination between the internal and external auditor and ensure that the internal audit function is adequately resourced and has appropriate standing within the group;

(j) review the Group's financial and accounting policies and practices and be familiar with the financial reporting principles and practices applied by the Group in preparing its financial statements;

(k) discuss with external auditors any recommendations arising from the audit (if necessary in the absence of management); and review the draft management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control including management's response to the points raised;

(l) ensure that the Board will provide a timely response to issues raised in the external auditor's management letter;

(m) report to the Board on any matters in relation to the code provision relating to the audit committee set out in the Corporate Governance Code of the Listing Rules;

(n) review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters and ensure proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;

(o) act as the key representative body for overseeing the Company's relations with the external auditor;

(p) review the draft representation letter prior to submission to the Board for approval;

(q) evaluate the cooperation received by the external auditors from the management, including the external auditors' access to all requested records, data and information; obtain the comments from management regarding the responsiveness of the external auditor to the Group's needs; inquire into whether there have been any disagreements between external auditors and management which, if not satisfactorily resolved, would result in the issuance of a qualified report with reservation on the group's financial statements;

(r) seek from external auditors, on an annual basis, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including provision of non-audit services and requirements regarding rotation of audit partners and staff;

(s) the engagement of the external auditor to perform non-audit services is in general prohibited except for tax-related services. If a compelling reason exists to engage the external auditor due to their unique expertise in a particular area, prior approval from the committee is required;

(t) apprise the Board of significant progresses in the course of performing the above duties;

(u) recommend to the Board any appropriate extensions to, or changes in, the duties of the committee;

(v) reach agreement with the Board the Company's policy relating to the hiring of employees or former employees of the external auditor and monitor the applications of such policy. The committee will consider whether such hiring will bring any impairment to the auditor's judgment or independence in respect of an audit;

(w) make available the terms of reference of the committee, explaining its role and the authority delegated to it by the Board by including them on the website of the Stock Exchange and the Company; and

(x) consider other topics, as requested and delegated by the Board.

During the year ended 31 December 2016, the Audit Committee held two meetings and performed major work including review of annual and interim financial reports, internal control, continuing connected transactions and maintaining proper relationship between the Group and external and internal auditors etc.

The Audit Committee of the Company held a meeting on 14 March 2016 to review and discuss matters such as the internal control of the Group, annual financial reports, remuneration and reappointment of domestic and international auditors and continuing connected transactions for 2015, including the review of the Company's annual financial report prepared in accordance with the Hong Kong Financial Reporting Standards (the "HKFRS"). The Audit Committee was of the view that the annual financial report of the Group for the year 2015 had complied with the accounting standards and requirements of the Stock Exchange and the relevant laws and had made adequate disclosures. The Audit Committee also conducted a review on the risk management and internal control system of the Company and its subsidiaries and was of the view that the Group had an effective risk management and internal control system. The Audit Committee was of the view that domestic and international auditor of the Company had carried out their work with professionalism and independence, and agreed to make recommendations to the Board in respect of their remuneration for 2015 and suggested to re-appoint the domestic and international auditors for 2016. The Audit Committee confirmed that the continuing connected transactions of the Company in 2015 did not exceed their respective caps.

The Group's chief financial officer, auditors and internal auditors also attended the meeting to address queries raised by the Audit Committee.

The Audit Committee of the Company held a meeting on 12 August 2016 to review and discuss with the management the matters such as internal controls and interim financial report, including review of the Company's condensed interim report prepared in accordance with the HKFRSs. The Audit Committee was of the view that the Group's interim financial report as at 30 June 2016 had complied with the applicable accounting standards, requirements of the Stock Exchange and legal requirements, and had made adequate disclosures. In relation to its review of the Group's internal audit function and risk management, internal control, the Audit Committee concluded that the Group's internal audit function, risk management and internal control system were effective.

The Group's chief financial officer, auditors and internal auditors also attended the meeting to address queries raised by the Audit Committee.

Set out below is the attendance record of the meetings of the Audit Committee in 2016:

Name	14 March 2016	12 August 2016
Independent Non-executive Directors		
Mr. Lee Kwok Ming, Don (Chairman)	Present	Present
Mr. Xia Da-wei	Present	Present
Mr. Gu Guo-jian	Present	Present
Mr. Wang Jin	Present	Present

Remuneration and Appraisal Committee

On 27 June 2014, the Board passed a resolution to establish the fifth session of the Remuneration and Appraisal Committee. The Remuneration and Appraisal Committee currently comprises four members, including three independent non-executive Directors (including the Chairman) and one executive Director. The primary duties, roles and functions of the Remuneration and Appraisal Committee are:

(a) formulate and determine the remuneration plans or schemes of individual executive Directors and senior management based on their job scope, responsibilities, significance and remuneration levels of similar position in other similar companies;

(b) remuneration plans or schemes include but not limited to performance appraisal criteria, procedures, assessment system, and plan and system for awards and punishments;

(c) review the fulfilment of duties of Directors (non-independent Directors) and senior management and appraise their annual performance;

(d) monitor the implementation of remuneration system of the Company;

(e) make recommendations to the Board on the Company's policy and structure for all Directors' and senior managements' remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

(f) review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;

(g) determine with the delegated responsibility the remuneration packages of individual executive Directors and senior management; this should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;

(h) make recommendations to the Board on the remuneration packages of non-executive Directors;

(i) consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;

(j) review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive for the Company;

(k) review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate;

(l) ensure that no Director or any of his associates is involved in deciding his own remuneration;

(m) have access to independent professional advice if necessary; and

(n) consider other responsibilities authorized by the Board.

During the year ended 31 December 2016, the Remuneration and Appraisal Committee held one meetings and performed major work including determining the policy for the remuneration of Directors, assessing the performance of executive Directors and senior management of the Company and reviewing and making recommendations to the Board on their remuneration packages etc.

The Remuneration and Appraisal Committee held a meeting on 14 March 2016. Having taken into account the factors including, but not limited to, the remuneration paid by comparable companies, amount of time required to be spent by the Director and the Director's duties, remuneration packages of other positions within the Group and performance-based remuneration, the Committee made recommendations to the Board on the remuneration packages of all executive Directors and approved the remuneration to six executive Directors, a Supervisors, the senior management formed by general managers and deputy general managers for 2015.

Set out below is the attendance record of the meetings of the Remuneration and Appraisal Committee in 2016:

Name	**14 March 2016**
Independent Non-executive Directors	
Mr. Xia Da-wei (Chairman)	Present
Mr. Gu Guo-jian	Present
Mr. Wang Jin	Present
Executive Director	
Ms. Qi Yue-hong	Present

Nomination Committee

On 27 June 2014, the Board passed a resolution to establish the fifth session of the Nomination Committee. The Nomination Committee currently comprises four members, including three independent non-executive Directors (including the Chairman) and one executive Director. The primary duties, roles and functions of the Nomination Committee are:

(a) review the structure, size and diversity (including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(b) consider the skills mix needed in respect of the appointed directors with due regard for the benefits of diversity on the Board, and make recommendations to the Board;

(c) study the criteria and procedures in selecting directors and managers and make appropriate suggestions to the Board;

(d) broadly search for and identify qualified candidates for directors and managers;

(e) review, comment and make recommendation to the Board on the candidates for directors and managers;

(f) review and comment on the candidates for other senior management, whose employment are subject to the approval of the Board;

(g) review regularly the time to be committed by each director in order to perform their duties;

(h) assess the independence of independent non-executive directors;

(i) review the board diversity policy, as appropriate; and review the measurable objectives that the Board has set for implementing the board diversity policy, and the progress on achieving the objectives;

(j) make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors,in particular the chairman and the chief executive; and

(k) deal with other responsibilities authorized by the Board.

During the year ended 31 December 2016, the Nomination Committee held four meetings and performed major work including determining the policy for nomination of directors, reviewing, commenting and making recommendation to the Board on the candidates for Directors, members of the Board Committees and other senior management, and reviewing regularly the time to be committed by each Director in order to perform their duties, and the structure, size and composition of the Board of the Company, etc.

The Nomination Committee of the Company held a meeting on 14 March 2016 to review the time committed by each Director in order to perform their duties, and the structure, size and composition of the Board of the Company in 2015. The Nomination Committee of the Company agreed that the current Board in accordance with the company strategy of the Company, there is no need to change the members of the Board and all the members of the Board had spent sufficient time to perform their duties in 2015.

The Nomination Committee of the Company held a meeting on 3 May 2016. In the demand of business development and as recommended by the general manager of the Company, the Nomination Committee of the Company agreed to nominate Mr. Chang Yu-bing to the Board as a candidate of deputy general manager.

The Nomination Committee of the Company held a meeting on 13 June 2016. In the demand of business development and as recommended by the general manager of the Company, the Nomination Committee of the Company agreed to nominate Ms. Zhang Hui-qin to the Board as a candidate of deputy general manager.

The Nomination Committee of the Company held a meeting on 5 December 2016. In the demand of business development and as recommended by the general manager of the Company, the Nomination Committee of the Company agreed to nominate Mr. Xi Yu and Ms. Xu Ling-yun to the Board as a candidate of deputy general manager.

Set out below is the attendance record of the meetings of the Nomination Committee in 2016:

Name	14 March 2016	3 May 2016	13 June 2016	5 Dec 2016
Independent Non-executive Directors				
Mr. Gu Guo-jian (chairman)	Present	Present	Present	Present
Mr. Xia Da-wei	Present	Present	Present	Present
Mr. Wang Jin	Present	Present	Present	Present
Executive Director				
Ms. Qi Yue-hong	Present	Present	Present	Present

Corporate Governance Functions

During the period under review, the Board and Board Committees of the Company performed the corporate governance duties as below:

(i) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

(ii) to review and monitor the training and continuous professional development of Directors and senior management;

(iii) to review and monitor the Company's policies and practices on compliance with all legal and regulatory requirements;

(iv) to develop, review and monitor the code of conduct and compliance manual applicable to the employees and Directors of the Company; and

(v) to review the Company's compliance with the Code on Corporate Governance and disclosure requirements in the Corporate Governance Report.

Directors' and auditors' responsibilities for the accounts

The Directors hereby confirm their responsibilities for the preparation of the accounts of the Company. The Directors confirm that the preparation of the financial statements of the Company for the year complied with the relevant laws and applicable accounting standards and that the Company will publish the financial statements of the Company on timely basis. The responsibilities of external auditors to the shareholders are set out on pages 108 to 109.

Compliance with Model Code

The Company has adopted the Model Code as code of conduct for securities transactions by all Directors of the Company. After making 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 year ended 31 December 2016.

Remuneration of auditors

The Audit Committee of the Company is responsible for considering the appointment of auditors and reviewing their remuneration. For the year under review, RMB5,782,000 was payable by the Company to the external auditors (including the PRC and international auditors) as service charge for their audit and due diligence consultancy services. For the year under review, the external international auditors had not provided any non-auditing service to the Company.

Company Secretary

Ms. Hu Li-ping and Mr. Mok Chung Kwan, Stephen (a partner of Eversheds) were appointed as the joint company secretary of the Company with effect from 16 October 2014. Ms. Hu Li-ping, joint company secretary and secretary to the Board of the Company, is the main internal liaison between Mr. Mok Chung Kwan, Stephen and the Company.

In compliance with Rule 3.29 of the Listing Rules, during the year ended 31 December 2016, Ms. Hu Li-ping received not less than 15 hours of the relevant professional training.

Risk management and internal supervision

The Board confirms its responsibility to monitor the Group's and its subsidiaries' risk management and internal control systems on an on-going basis and to review their effectiveness at least annually through the Audit Committee. The Audit Committee assists the Board of Directors in the performance of its regulatory and corporate governance role in the Group's financial, operational, compliance, risk management and internal controls, as well as financial and internal audit functions.

The Company has established an organizational structure featured with a clear level of accountability and reporting procedures. The Group's Internal Audit Department assists the Board and/or the Audit Committee to continuously review the effectiveness of the Group's risk management and internal control systems. The Directors are regularly informed and reported through such committees of significant risks which may affect the performance of the Group, hence, supplementing and improving risk control and management measures.

The structure also includes appropriate policy and monitoring being established and formulated to ensure that the secured assets will not be used or disposed of without authorisation, the Group would comply with the relevant rules, and that reliable financial and accounting records are maintained in accordance with the relevant accounting standards and regulatory requirements, as well as the proper identification and management of the major risks that may affect the performance of the Group. Relevant systems and internal controls can only make reasonable but not absolute assurance against major misrepresentations or losses, and are designed to manage rather than eliminate the risk of failing to meet business objectives.

Scope of Internal review

The Company's internal audit department coordinates corporate risk management and reviews the Group's significant risk management areas and is responsible for assessing the adequacy and effectiveness of the Group's risk management and risk monitoring systems and providing impartial advice on the system and reporting to the Audit Committee, the Chairman and the relevant senior management to ensure that all issues have been satisfactorily resolved, depending on the nature of the business of the individual business unit and the risks incurred. The scope of the internal audit department covers the review of all important aspects of internal control (including finance, operation, information, risk management, legal and compliance controls, etc.). The management of the Group regularly evaluates it and shall at least annually verify that the relevant matters are properly and effectively operated. The Company believes that this will strengthen its future corporate governance and business practices.

The internal audit department will meet at least once a year with the audit committee to review the potential risks identified by the internal audit department and possible risks. According to the annual internal control and internal audit plan, the internal audit department will submit the Group's risk assessment and internal control report to the audit committee and the board of directors, and with the relevant end-of-year approval.

Review the effectiveness of risk management and internal monitoring systems

The Group's internal audit department provides independent assurance to the Board of Directors, the Audit Committee and the Executive Management of the Group as to whether the Group's internal controls are adequate and effective. The senior management of the Group is responsible for the design, implementation and monitoring of risk management and internal control systems with the assistance of the internal audit department of the Group and the submission of periodic reports on the effectiveness of such systems to the Board and/or the Audit Committee.

In 2016, the internal audit department worked closely with the operating units, senior management and directors to strengthen the risk management system. The works include, but are not limited to, increasing the number of training sessions; further harmonizing the internal control and risk assessment methods; normalizing internal control and risk assessment; and making the internal monitoring and evaluation more closely aligned with their potential risks, which are considered as conducive. Moreover, the internal audit department collects potential risk information from operating units and assess the level of risk based on which an implementation of risk management measures would be facilitated, all of which form part of the process used by the Company to identify, evaluate and manage potential material risk. The key risks identified, managed and monitored during the year included downward pressure on China's economy and action plans to effectively respond to the identified risks were formulated and implemented during the year accordingly. The internal audit department has submitted to the Board and the Audit Committee the latest report on the monitoring of risk management during the year and to assist the Directors in reviewing the effectiveness of the Group's risk management and internal control systems.

In 2016, the Group's internal audit department conducted a selection review on the effectiveness of the Group's risk management and internal control systems in terms of financial, operational and compliance monitoring, focusing on intangible asset management, information system maintenance, inventory management, and procurement expenses as a process used to review the effectiveness of risk management and internal control system. In addition, the responsible person of the main business and business functions need to make their own major monitoring matters for self-assessment. The results are reviewed by the Group's internal audit department and reported to the audit committee. The Audit Committee then reviews the information and reports it to the Board. The Audit Committee and the Board of Directors have not found any matter or failure which will require significant attention relating to the Group's financial condition or results of operations. In case any material internal control defects are identified, internal audit department, the responsible unit and the Board will discuss and assess the cause of the defect and an action plan will be formulated to rectify the defects. The Board has conducted a review and it is also considered that the risk management and internal control system as a whole are adequate and effective, including in the areas of accounting, internal audit and the Group's processes for financial reporting and compliance with the Listing Rules are effective. There are sufficient resources, staff qualifications and experience in the financial reporting function, as well as adequate staff training courses and budgets.

Inside information

The board of directors of the Company is the governing body of the Company's inside information. The chairman of the board takes the main responsibility of the company's inside information management. The disclosure committee is composed of the chairman of the board of directors and the executive director of the board of directors. It is responsible for managing the disclosure of the inside information. Company secretary is responsible for the Company's inside information monitoring, disclosure and insider registration, filing and other daily management work. The office of the board of directors is the only information disclosure department of the Company. It is responsible for the record management, the disclosure and the registration of inside information and the daily custody of relevant information materials as soon as inside information arises. Without the approval of the disclosure committee, review and consent of the Company secretary, any department and individual of the Company must not disclose, report or transmit the contents concerning the Company's inside information and information disclosure to any person prohibited by applicable laws and regulations.

Liability Insurance

The Company has insured directors and senior management responsibility insurance to protect the directors and senior management of the Company from potential liability.

Organizational structure

The Group has established an organizational structure, which sets out the relevant operating policies and procedures, duties and authorities.

Authorities and controls

Executive Directors and senior management have been authorized to deal with relevant matters in respect of corporate strategies, policies and contractual liabilities. Budget controls and the budgets for operation of the financial reporting systems are formulated by relevant departments and are subject to review by Directors in charge before implementation. The Group has formulated relevant procedures to assess, review and approve significant capital and recurrent expenses, while operating results will be compared against the budgets and reported to executive Directors on a regular basis.

Training on internal control

Directors and senior management have participated in internal control training programmes provided by the Group, which are designed to equip them with proper and full knowledge on internal control, and provide guidance to them to apply internal control systems on a consistent basis.

Accounting system management

The Group has put in place a comprehensive accounting management system, so as to provide the management with indicators to evaluate its financial and operating performance and financial information for reporting and disclosure purposes. Any deviation from expected objectives will be analysed and explained, or the expected objectives will be amended correspondingly in line with the change in business.

The Group has set up appropriate internal control procedures to ensure comprehensive, proper and timely recording of accounting and management information, which will be reviewed and inspected on a regular basis to ensure the financial statements are prepared in accordance with generally accepted accounting principles, accounting policies of the Group and applicable laws and regulations.

Internal audit

In order to assess the efficiency of the internal control system in a more effective manner, the internal audit department of the Company inspected, supervised and evaluated the disclosure of financial information, operations and internal controls of the Group and its associated companies on a regular basis and whenever required based on the potential risks and significance of the internal control systems of various businesses and procedures of the Group, with the aims to ensure the transparency of the Company in respect of information disclosure, operating efficiency and the effectiveness of its corporate control mechanisms, as well as to provide an independent and objective opinion and advice in the form of an audit report. Internal audit staff shall be entitled to full access of all information of the Group and to make enquiries with relevant staff. The manager of the audit department shall directly report to the chairman of the Board on the results and advice of such work.

The Company has put in place the systems and procedures to identify, measure, manage and control risks, including legal, credit, market, centralisation, operation, environment, behavior and other risks which may affect the development of the Company.

Continuing operation

During the year, there are no material events or conditions that may affect the operation of the Group as an on-going concern.

Investor relations

The Company reports to the shareholders on the corporate information of the Group on a timely and accurate basis. Printed copies of the 2015 annual report and 2016 interim report have been sent to all shareholders.

The Company places great emphasis on communication with shareholders and investors of the Company and the improvement of the Company's transparency. As such, a dedicated department has been set up and designated officers are assigned to handle relations with investors and analysts. During the period under review, the Company received 28 batches of fund managers and analysts and patiently answered their relevant inquiries. Site visits to stores were arranged for them so as to enhance their understanding of the Company's operation and also its latest business developments. The Company made disclosures in a careful, true, accurate, complete and timely manner in strict accordance with applicable laws and regulations, the Articles of Association and the Listing Rules; at the same time, the Company places great emphasis on collecting and analysing various comments and recommendations from analysts and investors on the Company's operation, which will be compiled into reports regularly and adopted selectively in its operation. The Company has set up a website, allowing investors to access updates on the Company's particulars, statutory announcements, management and recent operating affairs. All published annual reports, interim reports, circulars and announcements since its listing are included in the "Investors Relations" section of the website. The Company persistently adheres to its information disclosure principle of honesty and integrity and actively initiates communications with various parties. In particular, it held seminars, press conferences and one-on-one investor meetings following the announcement of interim and annual results and decisions on major investments. The Company also participates in a series of investor activities and conducts one-on-one communication with investors on a regular basis.

Shareholders' rights

Convening extraordinary shareholders' general meetings by shareholders

According to the provisions of the Article 81 of the Articles of Association of the Company:

Shareholders demanding the convening of an extraordinary general meeting or a class meeting shall proceed in accordance with the following procedures:

(I) Two or more shareholders holding more than ten per cent (including ten per cent) of the voting rights at the proposed meeting may submit one or more written request(s) of identical form and substance requesting the Board to convene an extraordinary general meeting or a class meeting and stating the business to be transacted at the meeting. The Board shall, upon receiving the aforesaid written request(s), convene an extraordinary shareholders' general meeting or class meeting as soon as possible. The shareholding mentioned in the above shall be calculated as at the date on which the written request is made.

(II) If the Board fails to issue a notice of the convention of any meeting herein above-mentioned within thirty days after having received the written request, the requesting shareholders may themselves convene such meetings within four months after the Board received the request. The procedures according to which they convene such meeting shall, to the extent possible, be identical to the procedures according to which shareholders' meetings are to be convened by the Board.

Where shareholders convene and hold a meeting because the Board failed to hold such meeting pursuant to a request as mentioned above, the reasonable expenses incurred by such shareholders shall be borne by the Company and shall be deducted from the sums owed by the Company to the negligent Directors.

Raising proposals at shareholders' general meetings

According to the provisions of the Article 63 of the Articles of Association of the Company:

When the Company is to convene an annual general meeting of shareholders, shareholders holding more than five per cent (including five per cent) of the Company's total voting shares shall be entitled to move new motions in writing to the Company. The Company shall include into the agenda of the meeting the matters in the motions that fall within the scope of duties of the shareholders' general meeting, provided that such motions shall be served on the Company within forty days after the date of notice of the meeting hereinabove mentioned.

Putting forward enquiries to the Board

For putting forward any enquiries to the Board, shareholders may send written enquiries (by post, fax or email) to the following addresses, fax numbers or email addresses of the Company:

13th Floor, No. 1258, Zhen Guang Road, Shanghai, the PRC
Fax: 86 (21) 5279 7976
Email: zhuchaoli@chinalh.com, huangzhaojun@chinalh.com

Report of the Supervisory Committee

Dear shareholders,

During the period under review, all members of the Supervisory Committee had complied with the applicable requirements of the Company Law of the People's Republic of China and Articles of Association of the Company, adhered to the principle of integrity and performed their supervisory duties in good faith to protect the interests of the shareholders and the Group.

During the period under review, as a company listed on the Stock Exchange, the Company encountered higher requirement standards on governance imposed continuously by the Listing Rules, the Corporate Governance Code and the internal control policy. As such, the Supervisory Committee focused its efforts on the following three aspects: (1) to further improve the corporate governance structure; (2) to urge the Company and its Board to provide an open, fair, impartial and transparent environment for its investors in strict compliance with the Listing Rules; and (3) to monitor the major operating activities of the Group and remind the Board and the Group to avoid significant operational risks.

During the period under review, the Supervisory Committee held four meetings. On 29 January 2016, the Supervisory Committee reviewed the transactions under the Sales Agency Framework Agreement between the Company and Bailian Omni-channel E-commerce Co., Ltd. (百聯全渠道電子商務有限公司) from 2016 to 2018, and the transactions under the Membership Points Agency and Settlement Service Agreement between the Company and Bailian Group Finance Co., Ltd. (百聯集團財務有限責任公司) from 2016 to 2018. It confirmed the aforesaid continuing connected transactions were made in the ordinary course of the Company's business and on normal commercial terms, and the terms are fair and reasonable and in the interest of the Company's shareholders as a whole.

On 30 March 2016, the Supervisory Committee of the Company held a meeting, at which the Supervisory Committee objectively evaluated the Group's business operation for the year 2015, and was fully satisfied with the work done by the Group in 2015, including the Group's development plan, network expansion, improvement of the internal control systems and conduct of connected transactions. The Supervisory Committee also received reports on the financial position of the Group for 2015 and discussed and adopted the report of the Supervisory Committee for 2015. the Supervisory Committee discussed and adopted that the bad debt losses that the Company can not recover after liquidation by Beijing Century Lianhua Supermarket Development Co., Ltd. and Jining Century Lianhua Commercial Co., Ltd. were included in the profit and loss of the Company for the year of 2015. the Supervisory Committee reviewed the profit distribution plan for the year 2015 for the subsidiary of the Company, Hangzhou Lianhua Huashang Group Co., Ltd.,and the Agreement in relation to the Share Swap Transaction (B1 Project) between the Company and Bailian Group. the Supervisory Committee reviewed the transactions under the Supplemental Supply of Goods Framework Agreement pursuant to which the Existing Supply of Goods Annual Caps will be revised between the Company and Bailian Group from 2016 to 2018, the transactions under the Logistic Framework Agreement and the Property Leasing Framework Agreement between the Company and Bailian Group from 2016 to 2018, and the transactions under the Logistic Framework Agreement and the Supplemental Purchase Framework Agreement between the Company and Yonghui Superstores from 2016 to 2018. It confirmed the aforesaid continuing connected transactions were made in the ordinary course of the Company's business and on normal commercial terms, and the terms are fair and reasonable and in the interest of the Company's shareholders as a whole.

On 25 August 2016, the Supervisory Committee held a meeting regarding the operating conditions of the first half of the year ended 30 June 2016 and received reports from the management relating to the financial condition of the first half of 2016.

On 5 December 2016, the Supervisory Committee reviewed the transactions under the Sales Framework Agreement and the Logistic Framework Agreement between the Company and Hualian GMS, from 2017 to 2019, the transactions under the Warehouse Leasing Framework Agreement between the Company and Bailian Group from 2017 to 2019, and confirmed the aforesaid continuing connected transactions were made in the ordinary course of the Company's business and on normal commercial terms, and the terms are fair and reasonable and in the interest of the Company's shareholders as a whole.

During the period under review, the Supervisory Committee reviewed the financial system, annual financial reporting and internal auditing reporting of the Group, and of the view that the information as included in the Group's financial budget, final accounts, annual report and interim report are true and reliable, and the audit opinion issued by the auditors are objective and fair.

During the period under review, the Supervisory Committee conducted supervision on the operating activities of the Group with respect to the financial control, operation control, compliance control and risk management, and considered that the Group had established an improved internal control system, and has achieved significant progress in formulating and implementing internal workflow, effectively contained various corporate operating risks. The Group has performed its duties in accordance with the laws and regulations of the State, the Articles of Association and the workflow.

During the period under review, The Supervisory Committee conducted supervision on the due diligence of the Directors and managers of the Company and the execution of resolutions in general meetings. The Supervisory Committee considered that the Directors and the management had duly performed their duties in accordance with the resolutions of general meetings. None of the Directors and other management of the Company have been found to be in breach of the laws and regulations and the Articles of Association or involved in acts detrimental to the interests of the Group and shareholders of the Company during the execution of their duties.

During the period under review, the Supervisory Committee conducted a review on the Group's operating activities such as mergers and acquisitions and disposal of assets. The Supervisory Committee considered that the consideration for the Group's merger and acquisition and assets disposal activities were fair and reasonable. It was not aware of any insiders' dealings or any event detrimental to the interests of shareholders, in particular the interests of minority shareholders.

The Supervisory Committee conducted a review on the Group's connected transactions for the period under review which were subject to conditional waivers. It confirmed that such connected transactions had complied with legal and statutory procedures and the transactions were conducted on fair commercial terms and in line with the financial policies of the Group and the transaction amounts were within their respective caps.

The Supervisory Committee considers that the fifth session of the Board of the Company has formulated and implemented the operating strategies for the development of the Group in accordance with the operation objectives as determined in the general meetings since its inauguration. Against the backdrop of keen competitive in the domestic retail market, the Board has made proper decisions according to the operating environment, sought expansion aggressively and conducted operations prudently. At the same time, the Supervisory Committee considered that each Director in the Board had performed their duties in a diligent and responsible manner. The Supervisory Committee also appreciated the Board and management for their persistent efforts in improving various internal control systems of the Group according to the requirements applicable to public companies.

As more and more retail chains are seeking to get listed in Hong Kong, international investors will maintain their interests in the potential of retail businesses in the PRC. Good corporate governance and open and fair disclosures of information will facilitate the Group in building up a good corporate image in the international capital market. As such, the Group will continue to improve its work and systems. In the coming year, the Supervisory Committee will diligently discharge its responsibilities to protect and ensure maximization of the interests of the Group and its shareholders.

Independent Auditor's Report

TO THE SHAREHOLDERS OF LIANHUA SUPERMARKET HOLDINGS CO., LTD.
(a joint stock limited company incorporated in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of Lianhua Supermarket Holdings Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 110 to 180, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment on property, plant and equipment and intangible assets (including goodwill)	
We identified the impairment as a key audit matter as the Group incurred loss of RMB336,042,000 and closed down various stores during the year, this may indicate impairment on properties, plant and equipment and intangible assets (including goodwill). Reference to note 13 described the impairment loss and reasons made on properties, plant and equipment and note 16 described the impairment loss made on intangible assets (including goodwill) due to the decrease in recoverable amount of which was determined based on the value-in-use calculation of this cash-generating units. Details of the value-in-use calculation for the cash-generating-units were set out in note 17. During the year ended 31 December 2016, the Group recognised impairment losses of RMB7,363,000 on property, plant and equipment and RMB22,198,000 on goodwill respectively.	Our audit procedures in relation to the impairment assessment include: • Understanding the management process and assessment for the identification of property, plant and equipment that were impaired in full, due to physical damage and obsolescence; • Assessing whether the model used by management to calculate the value-in-use calculation of the individual cash generating units are in compliance with the requirement under HKAS 36 Impairment of Assets; • Analysing the underlying cash flow used in the models to determine whether they were reasonable and supportable; • Understanding the projected cash flows, including the assumptions relating to revenue growth rates and market outlooks and trends and comparing operating margins against historical performance; and • Understanding inputs used for the cash flow forecast and factors considered in the discount rate and assessing these rates.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Chen Ping Him.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
29 March 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	NOTES	2016 RMB'000	2015 RMB'000
Revenue	5	**26,666,069**	27,222,699
Cost of sales		**(22,728,564)**	(23,201,134)
Gross profit		**3,937,505**	4,021,565
Other revenue	5	**2,136,038**	2,089,271
Other income and gains	7	**461,047**	557,533
Selling and distribution expenses		**(5,984,113)**	(6,039,758)
Administrative expenses		**(686,224)**	(744,467)
Other expenses		**(84,386)**	(32,835)
Share of results of associates		**(687)**	2,853
Finance cost		**(118)**	(140)
Loss before taxation	8	**(220,938)**	(145,978)
Income tax expenses	9	**(115,104)**	(254,219)
Loss for the year		**(336,042)**	(400,197)
Other comprehensive (expenses) income			
Items that may be reclassified subsequently to profit or loss:			
Fair value gain on available-for-sale financial assets		**(1,840)**	7,672
Income tax relating to items that may be reclassified subsequently		**460**	(1,918)
Share of other comprehensive income of associates		**51**	4,047
Other comprehensive (expense) income for the year, net of income tax		**(1,329)**	9,801
Total comprehensive expense for the year		**(337,371)**	(390,396)
(Loss) profit for the year attributable to:			
Owners of the Company		**(449,955)**	(496,991)
Non-controlling interests		**113,913**	96,794
		(336,042)	(400,197)
Total comprehensive (expense) income attributable to:			
Owners of the Company		**(451,284)**	(487,190)
Non-controlling interests		**113,913**	96,794
		(337,371)	(390,396)
Loss per share	12	**RMB(0.40)**	RMB(0.44)

Consolidated Statement of Financial Position

At 31 December 2016

	NOTES	31/12/2016 RMB'000	31/12/2015 RMB'000
Non-current assets			
Property, plant and equipment	13	**3,082,366**	2,691,762
Construction in progress	14	**221,066**	773,418
Land use rights	15	**329,348**	335,580
Intangible assets	16	**198,783**	200,294
Interests in associates	18	**500,793**	535,636
Available-for-sale financial assets	19	**73,967**	76,007
Term deposits	21		
– restricted		**270,000**	783,000
– unrestricted		**1,185,000**	2,010,851
Prepaid rental	22	**33,190**	50,152
Deferred tax assets	23	**68,222**	66,614
Other non-current assets	24	**15,751**	17,210
		5,978,486	7,540,524
Current assets			
Inventories	25	**3,065,232**	2,836,825
Trade receivables	26	**82,633**	87,085
Deposits, prepayments and other receivables	27	**904,210**	995,473
Amounts due from fellow subsidiaries	28	**15,768**	14,879
Amounts due from associates	29	**58**	173
VAT refundable		**203,980**	–
Available-for-sale financial assets	19	**–**	7,000
Financial assets at fair value through profit or loss	20	**1,977,894**	538,782
Term deposits	21		
– restricted		**1,101,000**	606,000
– unrestricted		**952,851**	530,750
Cash and cash equivalents	30	**3,175,900**	4,447,365
		11,479,526	10,064,332
Total assets		**17,458,012**	17,604,856

Consolidated Statement of Financial Position

At 31 December 2016

	NOTES	31/12/2016 RMB'000	31/12/2015 RMB'000
Capital and reserves			
Share capital	35	**1,119,600**	1,119,600
Reserves		**1,343,237**	1,795,571
Equity attributable to owners of the Company		**2,462,837**	2,915,171
Non-controlling interests	36	**291,042**	283,915
Total equity		**2,753,879**	3,199,086
Non-current liability			
Deferred tax liabilities	23	**86,455**	96,971
Current liabilities			
Trade payables	31	**4,117,867**	3,804,069
Other payables and accruals	32	**2,365,021**	2,335,085
Coupon liabilities	33	**7,941,014**	7,996,463
Deferred income		**23,008**	26,400
Amounts due to fellow subsidiaries	28	**62,708**	37,259
Amounts due to associates	29	**1,417**	3,040
Amounts due to a shareholder (as defined in Note 42)		**–**	5,082
Bank borrowing	34	**2,000**	2,000
Tax payable		**104,643**	99,401
		14,617,678	14,308,799
Total liabilities		**14,704,133**	14,405,770
Net current liabilities		**(3,138,152)**	(4,244,467)
Total equity and liabilities		**17,458,012**	17,604,856

The consolidated financial statements on pages 110 to 180 were approved and authorised for issue by the Board of Directors on 29 March 2017 and are signed on its behalf by:

YE YONG-MING	**QI YUE-HONG**
DIRECTOR	*DIRECTOR*

Consolidated Statement of Changes in Equity

For the year ended 31 December 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 (Note 34)	Total RMB'000
At 1 January 2015	1,119,600	258,353	(234,842)	540,309	1,718,941	3,402,361	272,025	3,674,386
(Loss) profit for the year	–	–	–	–	(496,991)	(496,991)	96,794	(400,197)
Other comprehensive income for the year	–	–	9,801	–	–	9,801	–	9,801
Total comprehensive income (expense) for the year	–	–	9,801	–	(496,991)	(487,190)	96,794	(390,396)
Dividends recognised as distribution	–	–	–	19,491	(19,491)	–	–	–
Dividends paid to non-controlling interests	–	–	–	–	–	–	(84,904)	(84,904)
At 31 December 2015	1,119,600	258,353	(225,041)	559,800	1,202,459	2,915,171	283,915	3,199,086
(Loss) profit for the year	–	–	–	–	(449,955)	(449,955)	113,913	(336,042)
Other comprehensive expense for the year	–	–	(1,329)	–	–	(1,329)	–	(1,329)
Total comprehensive (expense) income for the year	–	–	(1,329)	–	(449,955)	(451,284)	113,913	(337,371)
Acquisition of additional interest in a subsidiary (note d)	–	–	(1,050)	–	–	(1,050)	(500)	(1,550)
Dividends paid to non-controlling interests	–	–	–	–	–	–	(106,286)	(106,286)
At 31 December 2016	1,119,600	258,353	(227,420)	559,800	752,504	2,462,837	291,042	2,753,879

Notes:

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

(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 fair value difference of the available-for-sales investments.

(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.

(d) During the year ended 31 December 2016, the Group entered into a share transfer agreement with the minority shareholder of Shanghai Lianhua Live and Fresh Food Processing and Distribution Co., Ltd. ("Fresh Food Co."), pursuant to which the Group agreed to purchase additional 10% equity interest in Fresh Food Co. at a cash consideration of RMB1,550,000. The carrying amount in respect of the 10% equity interest of Fresh Food Co. on date of acquisition of additional interest was RMB500,000, resulting in RMB1,050,000 debited to other reserve, accordingly.

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	2016 RMB'000	2015 RMB'000
OPERATING ACTIVITIES		
Loss before taxation	**(220,938)**	(145,978)
Adjustments for:		
Depreciation of property, plant and equipment	**395,400**	464,310
Amortisation of land use rights	**6,232**	6,232
Amortisation of intangible assets	**9,867**	10,010
Amortisation of other non-current assets	**1,459**	1,458
Loss on disposal of property, plant and equipment and intangible assets	**8,437**	684
Impairment loss recognised on property, plant and equipment	**7,363**	6,825
Impairment loss recognised on goodwill	**22,198**	–
Reversal of allowance for write-down of inventories	**–**	(6,776)
Recognition of allowance for write-down of inventories	**1,383**	–
Gain on disposal/redemption of available-for-sale financial assets	**(613)**	–
Interest income from available-for-sale financial assets	**–**	(4,384)
Gain on change in fair value of financial assets at fair value through profit or loss	**(94,862)**	(6,584)
Share of results of associates	**687**	(2,853)
Dividend from unlisted equity investments	**(1,444)**	(548)
Gain on disposal of an associate	**(2,810)**	–
Allowance for doubtful debts, net	**551**	270
Interest income	**(236,655)**	(399,012)
Interest expense	**118**	140
Operating loss before movements in working capital	**(103,627)**	(76,206)
Increase in inventories	**(229,790)**	(153,649)
Decrease (increase) in trade and other receivables	**18,775**	(22,309)
Decrease in prepaid rental	**19,642**	71,471
Decrease (increase) in amounts due from associates	**115**	(112)
Increase in amounts due from fellow subsidiaries	**(889)**	(1,991)
Increase (decrease) in amounts due to fellow subsidiaries	**25,449**	(10,934)
(Decrease) increase in amounts due to a shareholder	**(5,082)**	5,082
(Decrease) increase in deferred income	**(3,392)**	3,116
Decrease in restricted term deposits	**18,000**	87,000
Increase in trade and other payables	**234,826**	286,500
Decrease in coupon liabilities	**(55,449)**	(730,024)
Decrease in amounts due to associates	**(1,623)**	(2,475)
Cash used in operations	**(83,045)**	(544,531)
Income taxes paid	**(121,526)**	(137,793)
Interest received	**310,323**	466,160
Interest paid	**(118)**	(140)
Net cash generated from (used in) operating activities	**105,634**	(216,304)

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	2016 RMB'000	2015 RMB'000
INVESTING ACTIVITIES		
Purchase of property, plant and equipment and construction in progress	**(370,444)**	(456,769)
Proceeds from disposal of property, plant and equipment	**5,315**	8,723
Purchase of intangible assets	**(5,276)**	(6,882)
Purchase of available-for-sale financial assets	**–**	(31,765)
Purchase of financial assets at fair value through profit or loss	**(1,900,000)**	(530,000)
Dividend from unlisted equity investments	**–**	12,313
Proceeds on disposal of associates	**8,476**	–
Refunds of investment cost upon deregistration of an associate	**286**	–
Dividends received from associates	**28,296**	28,487
Income received from unlisted equity investments	**131**	25
Proceeds on redemption of available-for-sale financial assets	**7,813**	244,012
Dividend from financial assets at fair value through profit or loss	**81**	–
Proceeds on disposal of financial assets at fair value through profit or loss	**555,669**	–
Withdrawal of unrestricted term deposits	**2,541,601**	2,873,400
Placement of unrestricted term deposits	**(2,137,851)**	(2,541,601)
Net cash used in investing activities	**(1,265,903)**	(400,057)
FINANCING ACTIVITIES		
New bank borrowing raised	**2,000**	2,000
Repayment of bank borrowing	**(2,000)**	(2,000)
Dividends paid to non-controlling shareholders	**(109,646)**	(81,544)
Acquisition of interests in subsidiaries from non-controlling interests	**(1,550)**	–
Net cash used in financing activities	**(111,196)**	(81,544)
Net decrease in cash and cash equivalents	**(1,271,465)**	(697,905)
Cash and cash equivalents at 1 January	**4,447,365**	5,145,270
Cash and cash equivalents at 31 December	**3,175,900**	4,447,365
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	**3,175,900**	4,447,365

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

1. GENERAL

Lianhua Supermarket Holdings Co., Ltd. (the "Company") is a public limited company incorporated in the PRC. The address of its registered office is Room 713, 7th Floor, No. 1258, Zhen Guang Road, Pu Tuo District, Shanghai, the PRC. The Company is listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The directors of the Company consider that the Company's immediate holding company is Shanghai Bailian Group Co., Ltd. ("Shanghai Bailian"), a company incorporated in the PRC and listed on the Shanghai Stock Exchange, and the Company's ultimate holding company is Bailian Group Co., Ltd ("Bailian Group"), a state-owned enterprise established in the PRC.

The principal activities of the Company, together with its subsidiaries (the Company and its subsidiaries are collectively referred to as the "Group" thereafter) and its associates, are operation of chain stores including supermarkets, hypermarkets and convenience stores primarily in the eastern region of the PRC.

The consolidated financial statements are presented in Renminbi (the "RMB"), which is the same as the functional currency of the Company.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKFRS 11	*Accounting for Acquisitions of Interest 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 HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	*Investment Entities: Applying the Consolidation Exception*
Amendments to HKFRSs	*Annual Improvements to HKFRSs 2012-2014 Cycle*

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

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

Amendments to HKFRSs that are mandatorily effective for the current year (Continued)

Amendments to HKAS 1 Disclosure Initiative

The Group has applied the amendments to HKAS 1 Disclosure Initiative for the first time in the current year. The amendments to HKAS 1 clarify that an entity need not provide a specific disclosure required by an HKFRS if the information resulting form that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in HKFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance.

In addition, the amendments clarify that an entity's share of the other comprehensive income of associates and joint ventures accounted for using the equity method should be presented separately from those arising from the Group, and should be separated into the share of items that, in accordance with other HKFRSs: (i) will not be reclassified subsequently to profit or loss; and (ii) will be reclassified subsequently to profit or loss when specific conditions are met.

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 9	*Financial Instruments*[1]
HKFRS 15	*Revenue from Contracts with Customers and the related Amendments*[1]
HKFRS 16	*Leases*[2]
Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1]
Amendments to HKFRS 10 and HKAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to HKAS 7	*Disclosure Initiative*[4]
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[4]
Amendments to HKFRSs	*Annual Improvements to HKFRSs 2014-2016 Cycle*[5]

1 Effective for annual periods beginning on or after 1 January 2018.
2 Effective for annual periods beginning on or after 1 January 2019.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 January 2017.
5 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and amendments to HKFRSs in issue but not yet effective (Continued)

HKFRS 9 Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- All recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at fair value through other comprehensive income ("FVTOCI"). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at 31 December 2016, application of HKFRS 9 in the future may have a material impact on the classification and measurement of the Group's financial assets. The Group's available-for-sale investments, including those currently stated at cost less impairment, will either be measured as fair value through profit or loss or be designated as FVTOCI (subject to fulfillment of the designation criteria). In addition, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and amendments to HKFRSs in issue but not yet effective (Continued)

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may have an impact on the amounts reported (e.g. income from suppliers, royalty income, franchised stores, commission income and sales return) as the timing of revenue recognition may be affected/and the amounts of revenue recognised are subjected to variable consideration constraints, and more disclosures related to revenue is required. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the directors of the Company performs a detailed review. In addition, the application of HKFRS 15 in the future may result in more disclosures in the consolidated financial statements.

The directors of the Company consider that the performance obligations are similar to the current identification of separate revenue components under HKAS 18, however, the allocation of total consideration to the respective performance obligations will be based on relative fair values which will potentially affect the timing and amounts of revenue recognition. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the directors of the Company performs a detailed review.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and amendments to HKFRSs in issue but not yet effective (Continued)

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of -use asset and corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of RMB12,964,939,000 as disclosed in note 38. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors of the Company complete a detailed review.

Except as described above, the directors of the Company anticipate that the application of other new and amendments to HKFRSs in issue but not effective will have no material effect on Group's consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values at the end of the reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are within the scope of HKAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventory* or value in use in HKAS 36 *Impairment of Assets*.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity including reserves and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted after re-attribution of the relevant equity component, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses, if any, and is presented as an intangible asset.

For the purposes of impairment testing, goodwill is allocated to each of the relevant cash-generating units or groups of cash-generating units that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interests in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, interests in associates is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate and the retained interest is a financial asset within the scope of HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate of the Group (such as a sale or contribution of assets), profits and losses resulting from the transactions with the associate are recognised in the Group' consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

Sales of goods that result in award credits for customers under the Group's customer loyalty incentive program are accounted for as multiple element revenue transactions and the fair value of the consideration received or receivable is allocated between the goods sold and the award credits granted. The consideration allocated to the award credits is measured by reference to their fair value, based on the amount for which the award credits could be sold separately. Such consideration is not recognised as revenue at the time of the initial sale transaction – but is deferred and recognised as revenue when the award credits are redeemed and the Group's obligations have been fulfilled.

Service income is recognised when services are provided.

Income from suppliers includes promotion and store display income, delivery income and information system service income, all of which are recognised according to the contract terms and as services are provided.

Royalty income from franchise stores is recognised on an accrual basis in accordance with the substance of relevant agreement.

Commission income from coupon redemption in other retailers is recognised according to agreement terms and as coupons are redeemed.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset.

The Group as lessee

Operating lease payments, are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "land use rights" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to state-managed retirement benefit scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term and other long-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another HKFRS requires or permits their inclusion in the cost of an asset.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "loss before tax" as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable differences arising on investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the supply of goods or services, or for administrative purposes (other than properties under construction as described below), are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets (other than properties under construction) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal or retirement of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit and loss.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effective of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets other than goodwill below).

An intangible asset is derecognised on disposal, or when no further economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period of the consolidated statement of comprehensive income when the asset is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified as loans and receivables, financial assets at fair value through profit and loss ("FVTPL") and available-for-sale financial. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses.

Financial asset at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) held for trading or (ii) it is designated as at FTVPL. A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Financial asset at FVTPL (Continued)

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in the "other income and gains" line item. Fair value is determined in the manner described in note 41.

Available-for-sale financial assets

Available-for-sale financial assets ("AFS") are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss or loans and receivables. The Group designated certain items as AFS financial assets on initial recognition of those items, including investments in legal person shares, unlisted and listed equity investments and unlisted debts.

Equity and debt securities held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to interest income calculated using the effective interest method are recognised in profit or loss. Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of other reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the other reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment loss on financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from fellow subsidiaries/subsidiaries/associates, term deposits, and cash and cash equivalents) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment loss on financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For AFS equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, observable changes in national or local economic conditions that correlate with default on trade receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimate future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity investments, impairment loss previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated under the heading of other reserve. In respect of AFS debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

Financial liabilities at amortised cost

Financial liabilities (including trade and other payables, amounts due to fellow subsidiaries/subsidiaries/associates/other related parties and bank borrowings) are subsequently measured at amortised cost, using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liability when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating unit to which goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash, a material impairment loss/further impairment loss may arise. As at 31 December 2016, the carrying amount of goodwill is RMB129,743,000 (net of accumulated impairment loss of RMB22,198,000) (2015: RMB151,941,000 (without impairment loss recognised)). Details of the recoverable amount as determined by value-in use calculation are disclosed in note 17.

Estimated impairment of non-financial assets other than goodwill

The Group follows HKAS 36 to determine whether non-financial assets (other than goodwill stated in paragraph "Estimated impairment of goodwill") have suffered any impairment. The recoverable amount of an asset is determined based on the higher of the asset's fair value less costs to sell and value in use. The value in use calculations requires the use of estimates. As at 31 December 2016, the carrying amount of property, plant and equipment is RMB3,082,366,000 (net of accumulated impairment loss of RMB45,926,000) (2015: carrying amount of RMB2,691,762,000, net of accumulated impairment loss of RMB48,445,000).

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

Income taxes

As at 31 December 2016, no deferred tax asset has been recognised on the tax losses of RMB2,972,159,000 (2015: RMB2,704,004,000)due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In case where the actual future taxable profits generated are more than expected, or change in facts and circumstances which result in revision of future taxable profits estimation, a recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such recognition takes place.

Useful lives and residual values of property, plant and equipment

The Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The Group will increase the depreciation charge where useful lives are less than previously estimated lives, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. As at 31 December 2016, the carrying amount of property, plant and equipment is RMB3,082,366,000 (2015: RMB2,691,762,000).

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly in response to both competitor's actions and market conditions. The Group will reassess the estimations by the end of the reporting period. As at 31 December 2016, the carrying amount of inventories is RMB3,065,232,000 (net of accumulated impairment loss of RMB9,117,000) (2015: RMB2,836,825,000 net of accumulated impairment loss of RMB7,734,000).

Estimated store closure provision

The Group follows HKAS 37 to recognise store closure provision. Provisions are recognised when the Group has a constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Store closure provision comprises mainly lease termination penalties and employee compensations with corresponding amounts included in other expenses. The determination of provision requires the use of estimates. As at 31 December 2016, the carrying amount of store closure provision is RMB34,447,000 (2015: RMB11,153,000).

5. REVENUE AND OTHER REVENUE

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

	2016 RMB'000	2015 RMB'000
Revenue		
Sales of merchandise	**26,666,069**	27,222,699
Other revenue		
Income from suppliers (service income)	**1,485,137**	1,410,534
Rental income from leasing of shop premises	**600,389**	620,341
Royalty income from franchised stores	**44,677**	50,050
Commission income from coupon redemption in other retailers	**5,835**	8,346
	2,136,038	2,089,271
Total revenue	**28,802,107**	29,311,970

6. SEGMENT INFORMATION

Information reported to the Group's general manager, who is the chief operating decision maker of the Group for the purposes of resource allocation and assessment of performance, is focused on three main operations of the Group identified in accordance with the business nature and the size of the operations.

Specifically, the reportable segments of the Group under HKFRS 8 are as follows:

- Hypermarket chain operation
- Supermarket chain operation
- Convenience store chain operation
- Other operations

6. SEGMENT INFORMATION (Continued)

There are no significant sales or other transactions between the segments. Other operations of the Group principally comprise sales of merchandise to wholesalers, provision of logistic services for wholesale business, and sales through internet. Other operations of the Group are aggregated when the information is reported to the Group's general manager.

The following is an analysis of the Group's revenue (including revenue and other revenue) and results by each reportable and operating segment for the two years:

	Segment revenue		Segment results	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
Hypermarkets	**17,836,573**	17,966,840	**(148,818)**	(72,865)
Supermarkets	**8,809,770**	9,238,715	**101,605**	66,137
Convenience stores	**2,080,944**	2,080,258	**(114,812)**	(86,262)
Other operations	**74,820**	26,157	**(15,807)**	(6,888)
	28,802,107	29,311,970	**(177,832)**	(99,878)

A reconciliation of the total segment results to the consolidated loss before taxation is as follows:

	2016	2015
	RMB'000	RMB'000
Segment results	**(177,832)**	(99,878)
Interest income	**68,376**	84,238
Unallocated income	**2,931**	4,373
Unallocated expenses	**(113,726)**	(137,564)
Share of results of associates	**(687)**	2,853
Consolidated loss before taxation	**(220,938)**	(145,978)

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

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

6. SEGMENT INFORMATION (Continued)

The accounting policy of the operating segments are the same as the Group's accounting policies described in note 3. Segment results did not include share of profits of associates, allocation of headquarter income and expenses (including certain interest income relating to funds centrally managed). This is the measure reported to the Group's general manager for the purposes of resource allocation and assessment of segment performance.

The following is an analysis of the Group's assets by operating segments:

	31/12/2016 RMB'000	31/12/2015 RMB'000
Segment assets		
– Hypermarkets	7,723,046	8,448,116
– Supermarkets	4,798,902	5,311,757
– Convenience stores	490,894	644,245
– Other operations	137,631	137,117
Total segment assets	13,150,473	14,541,235
Interests in associates	500,793	535,636
Other unallocated assets	3,806,746	2,527,985
Total assets	17,458,012	17,604,856

For the purpose of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than certain financial assets, cash and cash equivalents centrally managed by headquarter and deferred tax assets.

6. SEGMENT INFORMATION (Continued)

Other segment information

2016

	Hypermarkets RMB'000	Supermarkets RMB'000	Convenience stores RMB'000	Other operations RMB'000	Total RMB'000
Amounts included in the measure of segment results or segment assets:					
Addition to non-current assets (Note)	171,219	86,121	49,877	402	307,619
Depreciation	262,589	85,291	35,818	11,702	395,400
Amortisation	5,650	5,841	947	5,120	17,558
Impairment losses on property, plant and equipment	7,363	–	–	–	7,363
Impairment on goodwill	–	–	–	22,198	22,198
Loss (gain) on disposal of property, plant and equipment and intangible assets	3,832	4,113	(23)	515	8,437
Interest income	124,746	42,033	741	69,135	236,655
Finance cost	–	–	–	118	118

2015

	Hypermarkets RMB'000	Supermarkets RMB'000	Convenience stores RMB'000	Other operations RMB'000	Total RMB'000
Amounts included in the measure of segment results or segment assets:					
Addition to non-current assets (Note)	291,535	250,175	49,709	195	591,614
Depreciation	298,105	38,898	114,616	12,691	464,310
Amortisation	4,847	629	6,942	5,282	17,700
Impairment losses on property, plant and equipment	5,100	1,450	275	–	6,825
(Gain) loss on disposal of property, plant and equipment and intangible assets	(783)	1,349	121	(3)	684
Interest income	236,743	71,839	5,243	85,187	399,012
Finance cost	–	–	–	140	140

Note: Addition to non-current assets include the additions of RMB146,018,000 (2015: RMB233,607,000) to property, plant and equipment, RMB156,325,000 (2015: RMB351,125,000) to construction in progress and RMB5,276,000 (2015: RMB6,882,000) to intangible assets.

6. SEGMENT INFORMATION (Continued)

Geographical information

The Group's operations and non-current assets are substantially located in the PRC. Revenues from external customers are substantially derived from customers located in the PRC. Therefore, no analysis of geographical information is presented.

Information about major customers

None of the revenue from any customer contributed over 10% of the total revenue of the Group during both years.

7. OTHER INCOME AND GAINS

	2016 RMB'000	2015 RMB'000
Interest income on bank balances and term deposits	236,655	399,012
Government subsidies (Note)	49,603	53,203
Change in fair value of financial assets at FVTPL	94,862	6,584
Gain on disposal/redemption of available-for-sale financial assets	613	–
Interest income from available-for-sale financial assets	–	4,384
Gain on disposal of an associate (Note 18(a))	2,810	–
Dividend from unlisted equity investments	1,444	548
Salvage sales	26,787	27,247
Others	48,273	66,555
Total	461,047	557,533

Note: The Group received unconditional subsidies from PRC local government as an encouragement for the operation of certain subsidiary companies in certain areas.

8. LOSS BEFORE TAX

	2016 RMB'000	2015 RMB'000
Loss before taxation has been arrived at after charging (crediting):		
Amortisation and depreciation		
Depreciation of property, plant and equipment (Note 13)	**395,400**	464,310
Amortisation of land use rights (Note 15)	**6,232**	6,232
Amortisation of intangible assets (Note 16)	**9,867**	10,010
Amortisation of other non-current assets (Note 24)	**1,459**	1,458
Total amortisation and depreciation	**412,958**	482,010
Share of results of associates		
Share of loss (profit) before taxation	**1,507**	(9,284)
Share of income tax (credit) expense	**(820)**	6,431
	687	(2,853)
Auditors' remuneration	**5,783**	6,843
Loss on disposal of property, plant and equipment and intangible assets	**8,437**	684
Impairment loss on property, plant and equipment recognised (included in other expenses)	**7,363**	6,825
Impairment loss on goodwill (included in other expenses)	**22,198**	–
Director's remuneration (Note 10)	**1,180**	2,321
Salaries, wages and other employee benefits of other staff	**2,683,208**	2,626,708
Retirement benefit scheme contribution of other staff	**273,119**	276,554
Total staff costs	**2,957,507**	2,905,583
Allowance for doubtful debts	**551**	829
Reversal of allowance for doubtful debts	**–**	(559)
Reversal of allowance for write-down of inventories	**–**	(6,776)
Recognition of allowance for write-down of inventories	**1,383**	–
Cost of inventories recognised as expenses	**22,728,564**	23,201,134

9. INCOME TAX EXPENSE

	2016 RMB'000	2015 RMB'000
Current tax on PRC Enterprise Income Tax ("EIT")	126,768	108,688
Deferred tax (credit) charge (Note 23)	(11,664)	145,531
	115,104	254,219

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

Under the Law of the PRC on EIT 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 31 December 2016.

	2016 RMB'000	2015 RMB'000
Loss before tax	(220,938)	(145,978)
Tax at PRC EIT tax rate of 25% (2015: 25%)	(55,235)	(36,495)
Tax effect of share of results of associates	172	(713)
Tax effect of expenses not deductible for tax purpose	1,551	3,238
Tax effect of income not taxable for tax purpose	(5,036)	(947)
Tax effect of tax losses and deductible temporary differences not recognised	179,318	292,003
Utilisation of tax losses previously not recognised	(5,666)	(1,336)
Effect of preferential tax rates granted to certain PRC subsidiaries	–	(1,531)
Income tax expense for the year	115,104	254,219

10. DIRECTORS', SUPERVISORS' AND EMPLOYEES' REMUNERATION

(1) Directors' emoluments

The remuneration of each director for the year ended 31 December 2016 is set out below:

Name of director	Fees	Basic salaries, allowances and benefits in kind	Discretionary bonus	Retirement benefit costs	Medical benefits	2016	2015
	RMB'000	RMB'000	RMB'000 (Note a)	RMB'000	RMB'000	RMB'000	RMB'000
Executive/Non-executive Directors:							
Mr. Hua Guo-ping (Note b)	–	–	–	–	–	–	370
Mr. Chen Jian-jun (Note c)	–	–	–	–	–	–	60
Mr. Zhou Zhong-qi (Note d)	–	–	–	–	–	–	268
Ms. Qi Yue-hong (Note e)	–	261	234	63	22	580	520
Mr. Shi Hao-gang (Note f)	–	–	–	–	–	–	503
Mr. Ye Yong-ming	–	–	–	–	–	–	–
Mr. Zhang Xuan-song	–	–	–	–	–	–	–
Mr. Qian Jian-qiang	–	–	–	–	–	–	–
Ms. Zheng Xiao-yun	–	–	–	–	–	–	–
Mr. Zhang Jing-yi	–	–	–	–	–	–	–
Mr. Wong Tak Hung	–	–	–	–	–	–	–
Independent non-executive Directors:							
Mr. Lee Kwok Ming, Don	150	–	–	–	–	150	150
Mr. Zhang Hui Ming (Note g)	–	–	–	–	–	–	138
Mr. Xia Da Wei	150	–	–	–	–	150	150
Mr. Huo Jia-zhen (Note g)	–	–	–	–	–	–	138
Mr. Gu Guo-jian (Note h)	150	–	–	–	–	150	12
Mr. Wang Jin (Note h)	150	–	–	–	–	150	12
2016	**600**	**261**	**234**	**63**	**22**	**1,180**	
2015	600	898	561	193	69		2,321

10. DIRECTORS', SUPERVISORS' AND EMPLOYEES' REMUNERATION (Continued)

(1) Directors' emoluments (Continued)

Notes:

(a) The discretionary bonus is determined based on the performance of Group's annual results.

(b) Mr. Hua Guo-ping resigned from the chief executive officer of the Company on 28 August 2015, and resigned from the office of executive director of the Company on 17 November 2015.

(c) Mr. Chen Jian-jun resigned from the chairman of the board of the Company on 17 November 2015.

(d) Mr. Zhou Zhong-qi resigned from the chief financial officer of the company on 24 June 2015, and resigned from the office of executive director of the Company on 17 November 2015.

(e) Ms. Qi Yue-hong was elected as the vice chairman of the board of the Company on 17 November 2015.

(f) Mr. Shi Hao-gang was elected as the new supervisor of the Company on 30 November 2015 and resigned from the office of executive director of the Company.

(g) Mr. Zhang Hui-ming and Mr. Huo Jia-zhen resigned from the office of independent non-executive directors of the Company on 17 November 2015.

(h) Mr. Gu Guo-jian and Mr. Wang Jin were elected as the independent non-executive directors of the Company on 17 November 2015.

The executive director's emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

The non-executive director's emoluments shown above were for their services as directors of the Company or its subsidiaries.

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

There was no arrangement under which a director or the chief executive officer waived or agreed to waive any emoluments during the years ended 31 December 2016 and 2015.

10. DIRECTORS', SUPERVISORS' AND EMPLOYEES' REMUNERATION (Continued)

(2) Supervisory committee members' emoluments

The remuneration of each supervisor for the year ended 31 December 2016 is set out below:

Name of supervisor	Fees	Basic salaries, allowances and benefits in kind	Discretionary bonus	Retirement benefit costs	Medical benefits	2016	2015
	RMB'000	RMB'000	RMB'000 (Note a)	RMB'000	RMB'000	RMB'000	RMB'000
Mr. Lv Yong (Note b)	–	–	–	–	–	–	–
Ms. Tao Qing	–	–	–	–	–	–	–
Ms. Qian Li-ping (Note c)	–	–	–	–	–	–	268
Mr. Shi Hao-gang (Note d)	–	238	211	63	22	534	46
2016	–	238	211	63	22	534	
2015	–	161	105	35	13		314

Notes:

(a) The discretionary bonus is determined based on the performance of Group's annual results.

(b) Mr. Lv Yong was elected as the chairman of the supervisory committee of the Company on 28 December 2015.

(c) Ms. Qian Li-ping resigned from the office of supervisor of the Company on 30 November 2015.

(d) Mr. Shi Hao-gang was elected as the new supervisor of the Company on 30 November 2015 and resigned from the executive director of the Company.

The supervisors' emoluments shown above were for their services as supervisors of the Company.

There was no arrangement under which a supervisor waived or agreed to waive any emoluments during the years ended 31 December 2016 and 2015.

10. DIRECTORS', SUPERVISORS' AND EMPLOYEES' REMUNERATION (Continued)

(3) Senior management emoluments

The remuneration of each senior management for the year ended 31 December 2016 is set out below:

Name	Fees	Basic salaries, allowances and benefits in kind	Discretionary bonus	Retirement benefit costs	Medical benefits	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Ms. Cai Lan-ying (Note a)	–	–	–	–	–	–	3,405
Mr. Liang Bao-long	–	238	211	63	22	534	533
Ms. Hu Li-ping (Note b)	–	238	211	63	22	534	527
Mr. Lin Song (Note c)	–	1,000	240	63	22	1,325	527
Mr. Jiang Xiao-fei (Note d)	–	218	193	57	20	488	498
Mr. Chang Yu-bing (Note e)	–	142	205	49	10	406	–
Ms. Zhang Hui-qin (Note f)	–	147	3,108	31	10	3,296	–
Mr. Xi Yu (Note g)	–	20	18	5	2	45	–
Ms. Xu Ling-yun (Note h)	–	62	19	6	2	89	–
2016	–	2,065	4,205	337	110	6,717	
2015	–	1,042	4,137	234	77		5,490

Notes:

(a) Ms. Cai Lan-ying resigned from the vice chief executive officer of the Company on 7 July 2015.

(b) Ms. Hu Li-ping was elected as the chief financial officer of the Company on 24 June 2015.

(c) Mr. Lin Song was elected as the chief executive officer of the Company on 8 August 2015.

(d) Mr. Jiang Xiao-fei was elected as the vice chief executive officer of the Company on 3 March 2015.

(e) Mr. Chang Yu-bing was elected as the vice chief executive officer of the Company on 4 May 2016.

(f) Ms. Zhang Hui-qin was elected as the vice chief executive officer of the Company on 13 June 2016.

(g) Mr. Xi Yu was elected as the vice chief executive officer of the Company on 5 December 2016.

(h) Ms. Xu Ling-yun was elected as the vice chief executive officer of the Company on 5 December 2016.

The senior management's emoluments shown above were for their services as one of the key management team rendered to the Company

11. FIVE HIGHEST PAID EMPLOYEES

Except for Ms. Cai Lan-ying, who resigned from the senior management of the Company on 7 July 2015, none of the five highest paid individuals in both years was a director or supervisor of the Company. The aggregate emoluments of these five highest paid individuals are as follows:

	2016	2015
	RMB'000	RMB'000
Salaries, allowances and benefits-in-kind	1,066	1,145
Discretionary bonuses	22,370	20,160
Retirement benefits	289	269
Medical benefits	89	76
	23,814	21,650

The number of the highest paid employees who are not the directors of the Company whose remuneration fell within the following bands:

	Number	
	2016	2015
HK$4,500,001 — HK$5,000,000	–	3
HK$5,000,001 — HK$5,500,000	4	1
HK$5,500,001 — HK$6,000,000	–	–
HK$6,000,001 — HK$6,500,000	1	1

During the years, no emoluments were paid by the Group to any of the directors, supervisors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

12. LOSS PER SHARE

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

	2016	2015
	RMB'000	RMB'000
Loss		
Loss for the year attributable to owners of the Company	(449,955)	(496,991)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	1,119,600,000	1,119,600,000

No diluted loss per share is presented for both years as there was no potential ordinary shares in issue.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Transportation vehicles and equipment	Operating and office equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST					
At 1 January 2015	2,063,438	2,356,695	294,000	1,774,873	6,489,006
Additions	–	119,386	6,819	107,402	233,607
Transfer from construction in progress	–	14,421	–	–	14,421
Disposals	(742)	(146,647)	(10,157)	(106,217)	(263,763)
At 31 December 2015	2,062,696	2,343,855	290,662	1,776,058	6,473,271
Additions	–	58,296	12,558	75,164	146,018
Transfer from construction in progress	545,788	2,788	55,774	56,751	661,101
Disposals	–	(222,331)	(22,776)	(117,367)	(362,474)
At 31 December 2016	**2,608,484**	**2,182,608**	**336,218**	**1,790,606**	**6,917,916**
DEPRECIATION AND IMPAIRMENT					
At 1 January 2015	566,581	1,645,545	185,131	1,167,473	3,564,730
Provided for the year	65,288	196,110	23,497	179,415	464,310
Impairment loss recognised	–	4,433	–	2,392	6,825
Eliminated on disposals	(382)	(145,382)	(7,503)	(101,089)	(254,356)
At 31 December 2015	631,487	1,700,706	201,125	1,248,191	3,781,509
Provided for the year	65,282	149,488	19,512	161,118	395,400
Impairment loss recognised	–	2,861	–	4,502	7,363
Eliminated on disposals	–	(220,458)	(16,911)	(111,353)	(348,722)
At 31 December 2016	**696,769**	**1,632,597**	**203,726**	**1,302,458**	**3,835,550**
CARRYING VALUES					
At 31 December 2016	**1,911,715**	**550,011**	**132,492**	**488,148**	**3,082,366**
At 31 December 2015	1,431,209	643,149	89,537	527,867	2,691,762

Notes:

(a) During the year, the directors of the Company conducted a review of the Group's leasehold improvements and operating and office equipment and determined that a number of those assets relating to those used in the retail stores which had been closed, were impaired due to physical damage and obsolescence. Accordingly, impairment losses of RMB7,363,000 (2015: RMB6,825,000) in respect of those identified assets have been recognised in full for the year ended 31 December 2016.

(b) Amongst the depreciation expense of RMB395,400,000 (2015: RMB464,310,000), RMB339,502,000 (2015: RMB406,802,000) and RMB55,898,000 (2015: RMB57,508,000) were included in selling and distribution expenses and administrative expenses respectively.

(c) As of 31 December 2016, the carrying amount of certain buildings without building ownership certificates is RMB14,062,000 (2015: RMB14,579,000) in aggregate.

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

The above items of property, plant and equipment are depreciated, taking into account their residual values, on a straight-line basis as follows:

Buildings	25 – 40 years
Leasehold improvements	Over the shorter of the term of the lease, or 5 – 8 years
Transportation vehicles and equipment	5 – 8 years
Operating and office equipment	3 – 8 years

14. CONSTRUCTION IN PROGRESS

	Construction in progress
	RMB'000
At 1 January 2015	443,667
Additions	351,125
Transfer to property, plant and equipment (Note 13)	(14,421)
Transfer to intangible assets (Note 16)	(6,953)
At 31 December 2015	773,418
Additions	**156,325**
Transfer to property, plant and equipment (Note 13)	**(661,101)**
Transfer to intangible assets (Note 16)	**(25,278)**
Transfer to others	**(22,298)**
At 31 December 2016	**221,066**

15. LAND USE RIGHTS

	Land use rights RMB'000
COST	
At 1 January 2015, 31 December 2015 and 2016	415,132
AMORTISATION	
At 1 January 2015	67,088
Charge for the year	6,232
At 31 December 2015	73,320
Charge for the year	6,232
At 31 December 2016	**79,552**
CARRYING VALUES	
At 31 December 2016	**335,580**
At 31 December 2015	341,812

	31/12/2016 RMB'000	31/12/2015 RMB'000
Analysed for reporting purposes as:		
Non-current portion	**329,348**	335,580
Current portion to be charged to the profit or loss next year included in deposits, prepayments and other receivables (Note 27)	**6,232**	6,232
Total	**335,580**	341,812

Notes: Amongst the amortisation charge for the year of RMB6,232,000 (2015: RMB6,232,000), RMB3,665,000 (2015: RMB3,665,000) and RMB2,567,000 (2015: RMB2,567,000) were included in selling and distribution expenses and administrative expenses respectively.

16. INTANGIBLE ASSETS

	Software RMB'000	Goodwill RMB'000	Total RMB'000
COST			
At 1 January 2015	177,574	151,941	329,515
Additions	6,882	–	6,882
Transfer from construction in progress (Note 14)	6,953	–	6,953
Disposals	(173)	–	(173)
At 31 December 2015	191,236	151,941	343,177
Additions	5,276	–	5,276
Transfer from construction in progress (Note 14)	25,278	–	25,278
Disposals	(5,511)	–	(5,511)
At 31 December 2016	**216,279**	**151,941**	**368,220**
AMORTISATION AND IMPAIRMENT			
At 1 January 2015	133,046	–	133,046
Charge for the year	10,010	–	10,010
Eliminated on disposals	(173)	–	(173)
At 31 December 2015	142,883	–	142,883
Charge for the year	9,867	–	9,867
Impairment loss recognised	–	22,198	22,198
Eliminated on disposals	(5,511)	–	(5,511)
At 31 December 2016	**147,239**	**22,198**	**169,437**
CARRYING VALUES			
At 31 December 2016	**69,040**	**129,743**	**198,783**
At 31 December 2015	48,353	151,941	200,294

Notes:

(a) Amongst the amortisation charge for the year of RMB9,867,000 (2015: RMB10,010,000), RMB888,000 (2015: RMB1,229,000) and RMB8,979,000 (2015: RMB8,781,000) were included in selling and distribution expenses and administrative expenses respectively.

(b) The above software has finite useful lives and is amortised on a straight-line basis over 5 to 10 years.

(c) During the year ended 31 December 2016, the Group recognised an impairment loss of RMB22,198,000 in relation to goodwill arising from prior acquisition of Century Lianhua (as defined in Note 17), in light of its continuous losses and change in market environment and conditions of hypermarket operation in the PRC. Detail of the value-in-use calculations are set out in Note 17.

17. IMPAIRMENT TESTING ON GOODWILL

For the purpose of impairment testing, goodwill set out in note 16 has been allocated to each individual cash-generating units (CGUs) identified according to the separate acquisitions. The goodwill as at 31 December 2016 allocated to these units are as follows:

	31/12/2016 RMB'000	31/12/2015 RMB'000
Hangzhou Lianhua Huashang Supermarket Group Co., Ltd. (杭州聯華華商集團有限公司)	69,534	69,534
Guangxi Lianhua Supermarket Joint Stock Co., Ltd. (廣西聯華超市股份有限公司)	47,638	47,638
Shanghai Century Lianhua Hypermarket Supermarket Development Co., Ltd. (上海世紀聯華超市發展有限公司)("Century Lianhua")	–	22,198
Others	12,571	12,571
	129,743	151,941

The recoverable amounts of the cash-generating units are determined based on a value in use calculations. Their recoverable amounts are based on certain similar key assumptions. All value in use calculations use above cash flow projections based on financial budgets approved by management covering a one-year period as extrapolated for perpetuity using a growth rate ranging from 0% to 5% (2015: 0% to 8%), as appropriate, and a discount rate at 14.5% (2015: 3% to 6.55%). This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on these relevant cash-generating units' past performance and management's expectations for the market condition. Management believes that any reasonably possible change in any of these assumptions which results in downward revision of future cash, an impairment loss may arise.

18. INTERESTS IN ASSOCIATES

The Group	31/12/2016 RMB'000	31/12/2015 RMB'000
Unlisted equity investments, at cost	233,001	255,061
Share of post – acquisition profits, net of dividends received	267,792	280,575
	500,793	535,636

18. INTERESTS IN ASSOCIATES (Continued)

Details of each of the Group's associates at the end of the reporting period are as follow:

Name of entity	Business structure	Place of registration and operation	Proportion of ownership interest held by the Group		Principal activity
			2016	2015	
			%	%	
Shanghai Carhua Supermarket Co., Ltd.("Carhua") (上海聯家超市有限公司("聯家"))	Corporate	The PRC	45.00	45.00	Hypermarket
Shanghai Sanming Taige information technology Co., Ltd. (上海三明泰格信息技術有限公司)	Corporate	The PRC	45.00	45.00	Trading Company
Shanghai Gude commerce Company (上海谷德商貿合作公司)	Corporate	The PRC	27.00	27.00	Trading Company
Tianjin Yishang Friendship Holdings Co.,Ltd.(Tianjin Yishang) (天津一商友誼股份有限公司 ("天津一商"))	Corporate	The PRC	20.00	20.00	Department Stores
Lianhua Mei Ri Ling Commercial (Shanghai) Co., Ltd. (聯華每日鈴商業(上海)有限公司) (Note a)	Corporate	The PRC	–	43.00	Cosmetic Drugstore
Shantou Liahua Southern Purchase and Distribution Co., Ltd. (汕頭市聯華南方採購配銷有限公司) (Note b)	Corporate	The PRC	–	45.00	Logistics Services
Shanghai Aofa Trading Development Co., Ltd. (上海澳發商貿發展有限公司)	Corporate	The PRC	30.00	30.00	Trading Company

Note:

a. During the year ended 31 December 2016, this 43%-owned associate has been disposed of to an independent third party for a cash consideration of RMB8,476,000. On the date of disposal, the carrying amount of this associate was RMB5,666,000, resulting in a gain on disposal of an associate of RMB2,810,000 credited to "other income and gains" in profit or loss.

b. This 45%-owned associate has been deregistered on 1 December 2016. The Group received a cash investment refund of RMB286,000, representing the carrying amount of this associate on date of deregistration.

All of the above associates are accounted for using the equity method in these consolidated financial statements.

18. INTERESTS IN ASSOCIATES (Continued)

Summarised financial information in respect of each of the Group's material associates is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with HKFRSs:

Carhua

	31/12/2016 RMB'000	31/12/2015 RMB'000
Current assets	1,495,321	1,489,813
Non-current assets	945,097	1,046,180
Current liabilities	1,690,912	1,711,306

	2016 RMB'000	2015 RMB'000
Revenue	5,222,548	5,365,356
(Loss) profit for the year	(12,393)	27,975
Dividends received from the associate during the year	28,255	28,255

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	31/12/2016 RMB'000	31/12/2015 RMB'000
Net assets of Carhua	749,506	824,687
Proportion of the Group's ownership interest in Carhua	45%	45%
Carrying amount of the Group's interest in Carhua	337,278	371,109

18. INTERESTS IN ASSOCIATES (Continued)

Tianjin Yishang

	31/12/2016	31/12/2015
	RMB'000	RMB'000
Current assets	418,823	454,827
Non-current assets	3,819,019	3,311,783
Current liabilities	1,806,974	1,785,140
Non-current liabilities	1,681,860	1,259,528

	2016	2015
	RMB'000	RMB'000
Revenue	2,966,118	3,228,862
Profit (loss) for the year	26,812	(34,959)
Other comprehensive income during the year	254	20,233

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	31/12/2016	31/12/2015
	RMB'000	RMB'000
Net assets of Tianjin Yishang	749,008	721,942
Proportion of the Group's ownership interest in Tianjin Yishang	20%	20%
The Group's interest in Tianjin Yishang	149,801	144,388
Goodwill	6,787	6,787
Carrying amount of the Group's interest in Tianjin Yishang	156,588	151,175

Aggregate information of associates that are not individually material:

	2016	2015
	RMB'000	RMB'000
The Group's share of loss	(473)	(2,744)
Aggregate carrying amount of the Group's interests in these associates	6,927	13,352

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31/12/2016 RMB'000	31/12/2015 RMB'000
Non-current		
Legal person shares, at cost (Note a)	312	312
Unlisted equity investments, at cost (Note b)	66,823	67,023
Listed equity investments, at fair value (Note d)	6,832	8,672
	73,967	76,007
Current		
Unlisted debt investments, at cost (Note c)	–	7,000
Total	73,967	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 of the Company 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 of the Company are of the opinion that their fair values cannot be measured reliably. One of these investments were disposed of during the year ended 31 December 2016 for a cash consideration of RMB303,000, resulting in RMB103,000 gain on disposal credited to "other income and gains" in profit or loss.

(c) The investments are 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. These investments redeemed were during the year ended 31 December 2016 for a cash consideration of RMB7,510,000, resulting in RMB510,000 gain on redemption credited to "other income and gains" in profit or loss.

(d) The equity investment has been listed during the year ended 31 December 2015. The listed equity investment is measured at fair value since then.

20. FINANCIAL ASSETS AT FVTPL

	31/12/2016	31/12/2015
	RMB'000	RMB'000
Equity securities listed in Shanghai Stock Exchange	2,524	2,688
Unlisted financial products (Note)	1,975,370	536,094
Total	1,977,894	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 RMB94,862,000 (2015: RMB6,584,000), credited to "other income and gains" in the current year.

21. TERM DEPOSITS

Term deposits placed with banks in the PRC are denominated in RMB. 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 31 December 2016, restricted term deposits amounting to RMB1,371,000,000 (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 1.80%to 6.80% (2015: 2.10% to 6.80%) per annum for the Group. The carrying amounts of the term deposits of the Group approximate their fair value.

22. PREPAID RENTAL

Prepaid rental is for the lease of certain store premises and is amortised over the relevant lease periods. Prepaid rental, amounting to RMB323,869,000 (2015: RMB326,549,000), to be charged to profit or loss within one year subsequent to the end of the reporting period is included in current assets as prepayments in Note 27.

23. DEFERRED TAXATION

The following is the analysis of the deferred tax balances for financial reporting purposes:

	31/12/2016	31/12/2015
	RMB'000	RMB'000
Deferred tax assets	68,222	66,614
Deferred tax liabilities	(86,455)	(96,971)
	(18,233)	(30,357)

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior years:

	Fair value adjustments	Bad debt and inventory provisions	Accrued expenses	Accrued income	Rental expenses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	(41,234)	3,367	47,296	(57,423)	165,086	117,092
Credit (charge) to profit or loss	417	(1,611)	(38,576)	3,187	(108,948)	(145,531)
Charge to other comprehensive income	(1,918)	–	–	–	–	(1,918)
At 31 December 2015	(42,735)	1,756	8,720	(54,236)	56,138	(30,357)
Credit (charge) to profit or loss	(15,221)	(210)	(4,082)	25,277	5,900	11,664
Charge to other comprehensive income	460	–	–	–	–	460
At 31 December 2016	**(57,496)**	**1,546**	**4,638**	**(28,959)**	**62,038**	**(18,233)**

At the end of the reporting period, the Group has unused tax losses of approximately RMB2,972,159,000 (2015: RMB2,704,004,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit streams.

The unrecognised unused tax losses will expire as follows:

	31/12/2016	31/12/2015
	RMB'000	RMB'000
Year of expiry		
2016	–	561,298
2017	732,240	738,901
2018	397,917	404,325
2019	456,344	460,273
2020	532,361	539,208
2021	853,297	–
	2,972,159	2,704,004

24. OTHER NON-CURRENT ASSETS

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

Amongst the amortisation of RMB1,459,000 (2015: RMB1,458,000), RMB1,336,000 (2015: RMB1,335,000) and RMB123,000 (2015: RMB123,000) were included in selling and distribution expenses and administrative expenses respectively.

25. INVENTORIES

	31/12/2016 RMB'000	31/12/2015 RMB'000
Merchandise for resale	3,060,694	2,831,109
Write-down for obsolescence	(9,117)	(7,734)
	3,051,577	2,823,375
Low value consumables	13,655	13,450
	3,065,232	2,836,825

26. TRADE RECEIVABLES

	31/12/2016 RMB'000	31/12/2015 RMB'000
Trade receivables	86,505	90,987
Less: allowance for doubtful debts	(3,872)	(3,902)
	82,633	87,085

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 (2015: 30 to 60 days), presented based on the invoice date is as follows:

	31/12/2016 RMB'000	31/12/2015 RMB'000
0 – 30 days	77,159	69,751
31 – 60 days	1,981	258
61 – 90 days	290	11
91 days – one year	3,203	17,065
	82,633	87,085

The trade debtors are mainly major retailer chains and well established banks, with good credit standing. The management considered the credit quality of the trade receivables that are neither past due nor impaired were good and there was no default from those debtors in historical record.

26. TRADE RECEIVABLES (Continued)

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB3,493,000 (2015: RMB17,076,000) which are past due as at the reporting date for which the Group has provided for impairment loss. The Group does not hold collateral over these balances.

Aging of trade receivables which are past due:

	31/12/2016 RMB'000	31/12/2015 RMB'000
61 – 90 days	290	11
91 days – one year	3,203	17,065
	3,493	17,076

Movement in allowance for doubtful debts:

	2016 RMB'000	2015 RMB'000
1 January	3,902	4,774
Impairment losses recognised	91	–
Amounts reversed during the year	–	(559)
Amounts written-off during the year	(121)	(313)
31 December	3,872	3,902

27. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	31/12/2016 RMB'000	31/12/2015 RMB'000
Land use right – current portion (Note 15)	6,232	6,232
Prepaid rental (Note 22)	323,869	326,549
Deposits and prepayments	234,974	251,223
Other receivables (Note)	342,773	415,045
Less: allowance for doubtful debts	(3,638)	(3,576)
	904,210	995,473

Notes: Other receivables included mainly interest recoverable from bank deposits in both years.

27. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (Continued)

Movement in the allowance for doubtful debts is as the follows:

	2016 RMB'000	2015 RMB'000
1 January	3,576	2,848
Impairment losses recognised	460	829
Amount recovered during the year	–	–
Amounts written-off during the year	(398)	(101)
31 December	3,638	3,576

28. 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 (2015: 30 to 60 days). As at 31 December 2016, balances of both amounts due from/to fellow subsidiaries are all aged within 60 days (2015: 60 days).

29. AMOUNTS DUE FROM/TO ASSOCIATES

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

30. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprising cash on hand and cash placed with banks in the PRC are denominated in RMB. The remittance of these funds out of the PRC is subject to the exchange control imposed by the PRC government.

Bank balances carry interest at prevailing market rates ranging from 0.30% to 4.80% (2015: ranging from 0.35% to 6.80% per annum) per annum for the year ended 31 December 2016.

31. 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 (2015: 30 to 60 days), is as follows:

	31/12/2016 RMB'000	31/12/2015 RMB'000
0 – 30 days	2,065,618	1,924,636
31 – 60 days	757,589	680,459
61 – 90 days	367,604	327,625
91 days – one year	927,056	871,349
	4,117,867	3,804,069

32. OTHER PAYABLES AND ACCRUALS

	31/12/2016 RMB'000	31/12/2015 RMB'000
Payroll, staff welfare and other staff cost payable	352,942	316,393
Value added tax and other payables	102,971	145,883
Rental payable	819,737	839,469
Deposits from lessees, franchisees and other third parties	198,158	200,885
Dividend payable to non-controlling interest	–	3,360
Amount payable to other retailers upon customers' redemption of coupon issued by the Group	29,523	6,191
Prepayments received from franchisees and other third parties	478,730	307,369
Payables for acquisition of property, plant and equipment and low value consumables	133,025	209,902
Store closure provision	34,447	11,153
Accruals	116,107	132,170
Advance from customers	55,234	110,664
Other miscellaneous payables	44,147	51,646
	2,365,021	2,335,085

33. COUPON LIABILITIES

The Group incurs coupon liabilities when coupons are sold. Coupons redeemed in exchange for products of the Group during the year are recognised as sales in the consolidated statement of profit or loss and other comprehensive income using the coupon sales value. Certain coupons redeemed in exchange for products or services of other retailers which have agreements with the Group are settled and paid to these retailers after deducting the Group's commission based on the agreement.

34. BANK BORROWING

	31/12/2016 RMB'000	31/12/2015 RMB'000
Bank loan, repayable within one year, unsecured, with effective interest rate of 6.09% (2015: 5.98%) per annum	2,000	2,000

The variable-rate bank borrowing was repayable within one year, but subject to annual renewal at the end of the maturity date. The Group's bank borrowings were renewed on 29 September 2016 with the maturity date on 19 September 2017.

35. SHARE CAPITAL

	Number of shares		Nominal value	
	31/12/2016	31/12/2015	**31/12/2016**	31/12/2015
			RMB'000	RMB'000
Ordinary shares of RMB1.00 each				
Registered, issued and fully paid:				
At 1 January 2015, 31 December 2015 and 31 December 2016	**1,119,600,000**	1,119,600,000	**1,119,600**	1,119,600

The share capital of the Company as at 31 December 2016 and 2015 comprises:

	Number of shares of RMB1.00 each		Nominal value	
	31/12/2016	31/12/2015	**31/12/2016**	31/12/2015
			RMB'000	RMB'000
Domestic shares (Note)	**715,397,400**	715,397,400	**715,397**	715,397
Unlisted foreign shares	**31,602,600**	31,602,600	**31,603**	31,603
H shares	**372,600,000**	372,600,000	**372,600**	372,600
	1,119,600,000	1,119,600,000	**1,119,600**	1,119,600

The H shares rank pari passu in all respects with the domestic shares and the unlisted foreign shares and rank equally for all dividends declared, paid or made except that all dividends in respect of H shares are to be paid by the Company in Hong Kong dollars and H shares may only be subscribed for by, and traded in Hong Kong dollars between, legal or natural persons of Hong Kong, Taiwan, Macau Special Administrative Region of the PRC or any countries other than the PRC. The transfer of the domestic and unlisted foreign shares is subject to such restrictions as the PRC laws may impose from time to time.

Shanghai Bailian and Bailian Group have entered into the equity entrustment agreement on 17 April 2015 (the "Equity Entrustment Agreement"), pursuant to which, Shanghai Bailian would manage 97,416,000 unlisted domestic shares of the Company (representing approximately 8.70% of the equity interest in the Company) held by Bailian Group and 156,744,000 unlisted domestic shares of the Company (representing approximately 14.00% of the equity interest in the Company) to be held by Bailian Group upon the completion of the Equity Entrustment Agreement together with any shares to be allotted to or acquired by Bailian Group during the term of the Equity Entrustment Agreement (the "Managed Shares"). As stated in the Equity Entrustment Announcements, Bailian Group agreed to pay Shanghai Bailian a fixed annual fee of RMB300,000 for managing the Managed Shares and the Equity Entrustment Agreement will be effective from the date of the Equity Entrustment Agreement until the date when Bailian Group ceases to hold equity interest in all the Managed Shares.

36. NON-CONTROLLING INTERESTS

	31/12/2016 RMB'000	31/12/2015 RMB'000
Balance at beginning of year	**283,915**	272,025
Share of profit for the year	**113,913**	96,794
Dividend paid to non-controlling interest during the year	**(106,286)**	(84,904)
Acquisition of additional equity interest in a subsidiary	**(500)**	–
	291,042	283,915

The summarised financial information in respect of the Group's subsidiary that has material non-controlling interests, namely Hangzhou Lianhua Huashang Group Co., Ltd. (杭州聯華華商集團有限公司) ("Lianhua Huashang") and its subsidiaries at the end of the reporting period is set out below. The summarised financial information blow represents amounts before intra group eliminations:

Lianhua Huashang and its subsidiaries

	31/12/2016 RMB'000	31/12/2015 RMB'000
Current assets	**7,062,304**	6,669,797
Non-current assets	**1,782,231**	1,789,543
Current liabilities	**7,973,129**	7,599,813
Non-current liabilities	**91,832**	100,513
Equity attributable to owners of the Company	**567,718**	551,156
Non-controlling interests	**211,856**	207,858

	2016 RMB'000	2015 RMB'000
Revenue	**12,758,419**	12,882,498
Total cost of sales, expense and other income	**(12,388,445)**	(12,541,339)
Profit for the year	**369,974**	341,159
Profit attributable to owner of the Company	**271,958**	252,843
Profit attributable to non-controlling interests	**98,016**	88,316
Dividends paid to non-controlling shareholders	**94,018**	71,638
Dividends paid to the Group	**255,396**	242,945

	2016 RMB'000	2015 RMB'000
Net cash inflow from operating activities	**575,105**	568,663
Net cash (outflow) inflow from investing activities	**(1,969,191)**	448,221
Net cash outflow used in financing activities	**(352,553)**	(313,697)
Net cash (outflow) inflow	**(1,746,639)**	703,187

37. RETIREMENT BENEFIT PLANS

Defined contribution plans

The employees of the Group are members of a state-managed retirement benefit scheme operated by the PRC government. The Group is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total expenses recognised in profit or loss of RMB273,119,000 (2015: RMB276,554,000) represents contributions payable to these scheme by the Group in respect of the current accounting period.

38. OPERATING LEASE

(1) The Group as lessee

	31/12/2016	31/12/2015
	RMB'000	RMB'000
Minimum lease payment paid and recognised as an expense under operating leases during the year		
– Land and buildings	**1,703,192**	1,811,194

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	31/12/2016	31/12/2015
	RMB'000	RMB'000
Within one year	**1,576,898**	1,607,250
In the second to fifth years inclusive	**5,224,563**	5,330,822
Over five years	**6,163,478**	6,883,873
	12,964,939	13,821,945

The minimum lease payments related to leasing of shop premises were negotiated for a lease period ranging from short to medium terms.

The operating lease rental of certain shop premises with a fellow subsidiary is based on the higher of a minimum guaranteed rental or amount determined based on the sales performance.

38. OPERATING LEASE (Continued)

(2) The Group as lessor

The Group had aggregate minimum lease receipts under non-cancellable operating leases in respect of shop premises as follows:

	31/12/2016	31/12/2015
	RMB'000	RMB'000
Minimum lease received under operating leases in respect of shop premises during the year	600,389	620,341

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	31/12/2016	31/12/2015
	RMB'000	RMB'000
Within one year	216,021	248,051
In the second to fifth years inclusive	480,321	443,806
After five years	312,171	337,774
	1,008,513	1,029,631

The minimum lease payments related to leasing of shop premises were negotiated for a lease period ranging from short to medium terms ranging from 1 to 20 years (2015: 1 to 20 years).

39. CAPITAL COMMITMENTS

	31/12/2016	31/12/2015
	RMB'000	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 in the consolidated financial statements	267,550	421,749

40. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group generally represents equity attributable to owners of the Company, comprising issued share capital, various reserves and retained earnings.

The management of the Group reviews the capital structure regularly. The Group considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through the payment of dividends, new share issues as well as issue of new debts or the redemption of existing debts.

41. FINANCIAL INSTRUMENTS

41a. Categories of financial instruments

Financial assets

	31/12/2016	31/12/2015
	RMB'000	RMB'000
Financial assets at FVTPL	1,977,894	538,782
Available-for-sale financial assets	73,967	83,007
Loans and receivables (including cash and cash equivalents)	7,122,345	8,891,572
	9,174,206	9,513,361

Financial liabilities

	31/12/2016	31/12/2015
	RMB'000	RMB'000
Bank borrowings	2,000	2,000
Other financial liabilities, at amortised cost	5,208,424	4,960,018
	5,210,424	4,962,018

41b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, available-for-sale financial assets, held-to-maturity financial assets, financial assets at fair value through profit or loss, term deposits, cash and cash equivalents, amounts due from/to fellow subsidiaries/subsidiaries/associates/other related parties, trade and other payables and bank borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

41. FINANCIAL INSTRUMENTS (Continued)

41b. Financial risk management objectives and policies (Continued)

Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances, terms deposits, and bank borrowings. It is the Group's policy to keep a portion of its financial assets and financial liabilities at floating rate of interests so as to minimise the fair value interest rate risk. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the People's Bank of China benchmark rates.

The sensitivity analysis below has been determined based on the exposure to interest rates for the Group's variable-rate bank balances and team deposits. The analysis is prepared assuming the variable-rate financial assets outstanding at the end of the reporting period were outstanding for the whole year. A 10-basis point (2015: 10-basis point) increase or decrease in the interest rates is the sensitivity rate used when reporting interest risk internally to key management personal and represent management's assessment of the reasonably possible change in interest rates.

If the interest rate had been 10-basis point (2015: 10-basis point) higher/lower and all other variables were held constant, the Group's post-tax profit for the years ended 31 December 2016 and 2015 would have been increased/decreased by approximately RMB6,551,000 and RMB6,748,000 respectively.

Equity price risk

The Group was exposed to equity price risk in relation to its available-for-sale financial assets in listed equity investments and debt security price risk in relation to its financial assets at FVTPL. The unlisted equity investments and legal person shares were measured at cost less impairment since they were the Group's investments in certain unlisted companies in the PRC or non-tradable shares. In management's opinion, the sensitivity of these investments is then insignificant to the Group.

The Group currently does not have a price risk hedging policy and the management will continue to monitor price risk exposure and consider hedging against it should the need arise.

The sensitivity analyses below have been determined based on the exposure to equity and debt security in relation to the Group's financial assets at FVPTL and available-for-sale financial assets in listed equity investments at the reporting date.

If the market prices for the available-for-sale financial assets in listed equity investments and financial assets at FVTPL had been 5% (2015: 5%) higher/lower, post-tax profit for the year ended December 31, 2016 would have increased/decreased by RMB74,427,000 (2015: RMB20,530,000) as a result of the changes in fair value of the financial assets at fair value through profit or loss.

41. FINANCIAL INSTRUMENTS (Continued)

41b. Financial risk management objectives and policies (Continued)

Credit risk

As at 31 December 2016, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Group consider that the Group's credit risk is significantly reduced.

Trade receivables are due from regular institutional customers with an appropriate financial strength. The Group did not experience any significant defaults by the debtors.

The credit risk on liquid funds, i.e., bank balances and short-term term deposit, is limited because the counterparties are banks with high reputation in the PRC. In addition, the credit risk on long-term term deposit and available-for-sale financial assets is also limited because the counterparties are either banks with high reputation or nationwide and regional renowned financial institutions in the PRC.

As at 31 December 2016, the Group's bank balances and term deposits deposited in the major five banks in the PRC accounted for 66.8% (2015: 67.5%) of total term deposits and cash and cash equivalents of the Group.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

As of 31 December 2016, the Group has net current liabilities of RMB3,138,152,000 (2015: RMB4,244,467,000). Taking into account of the possibility of immediate withdrawal of non-current unrestricted term deposits of RMB1,185,000,000, the historical settlement and addition pattern of the coupon liabilities of the Group and the financial support from Bailian Group, the directors of the Company consider the liquidity risk is significantly reduced and the Group is able to be continued as a going concern.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the earliest date on which the Group can be required to pay. The amounts disclosed in the table are contractual undiscounted cash flows.

41. FINANCIAL INSTRUMENTS (Continued)

41b. Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Financial liabilities	Weighted average interest rate %	On demand or Less than 6 months RMB'000	6 months to 1 year RMB'000	Over 1 year RMB'000	Undiscounted cash flows RMB'000	Carrying amount RMB'000
As at 31 December 2016						
Trade payables	–	4,117,867	–	–	4,117,867	4,117,867
Other payables and accruals	–	1,026,432	–	–	1,026,432	1,026,432
Amounts due to fellow			–	–		
subsidiaries	–	62,708	–	–	62,708	62,708
Amounts due to associates	–	1,417	–	–	1,417	1,417
Bank borrowings	6.09	–	2,122	–	2,122	2,000
		5,208,424	2,122	–	5,210,546	5,210,424
As at 31 December 2015						
Trade payables	–	3,804,069	–	–	3,804,069	3,804,069
Other payables and accruals	–	1,110,568	–	–	1,110,568	1,110,568
Amounts due to fellow subsidiaries	–	37,259	–	–	37,259	37,259
Amounts due to associates	–	3,040	–	–	3,040	3,040
Amounts due to a shareholder	–	5,082	–	–	5,082	5,082
Bank borrowings	5.98	–	2,120	–	2,120	2,000
		4,960,018	2,120	–	4,962,138	4,962,018

41c. Fair value measurements of financial instruments

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

Some of the Group's financial instruments are measured at fair value for financial reporting purposes.

In estimating the fair value, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group discussed with banks (representing the counterparties of the Group's purchased financial assets at FVTPL) to perform the valuation. The CFO works closely with the bankers to establish the appropriate valuation techniques, inputs to the model and verified the indicated expected return with the actual return on date of maturity. 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.

41. FINANCIAL INSTRUMENTS (Continued)

41c. Fair value measurements of financial instruments (Continued)

Fair value measurements recognised in the consolidated statement of financial position that are measured at fair value on a recurring basis

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 assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
	31/12/2016 RMB'000	31/12/2015 RMB'000			
1) Investments in low risk bank financial products classified as financial assets at FVTPL in the consolidated statement of financial position	**Assets – 1,975,370**	Assets – 536,094	Level 3	Discounted cash flow. Future cash flows are estimated based on expected applicable yield of the underlying investment portfolio and adjustments of related expenses, 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 FVPTL in the consolidated statement of financial position	**Assets – 2,524 Equity securities: – Real estates (2,497) – Agricultural (27)**	Assets – 2,688 Equity securities: – Real estates (2,659) – Agricultural (29)	Level 1	Quoted bid prices in an active market	Not applicable
3) Investment in equity shares listed in Shanghai Stock Exchange classified as available-for-sale financial assets in the consolidated statement of financial position	**Assets – 6,832**	Assets – 8,672	Level 1	Quoted bid prices in an active market	Not applicable

The following table represents the changes in Level 3 financial assets at FVTPL during the year ended 31 December 2016 and 2015.

	31/12/2016 RMB'000	31/12/2015 RMB'000
At beginning of the year	**536,094**	–
Addition	**1,900,000**	530,000
Disposal	**(555,669)**	–
Total gain recognised in profit or loss	**94,945**	6,094
At end of the year	**1,975,370**	536,094

42. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the consolidated financial statements, the Group entered into significant related party transactions during the year, the details of which are set out below:

(1) Related party transactions

	NOTES	2016 RMB'000	2015 RMB'000
Sales to fellow subsidiaries	(a)	67,639	2,463
Purchases from associates			
– Gude Trading Co., Ltd. (上海谷德商業流通有限公司), Sanming Taige Information Technology Co., Ltd. (三明泰格信息技術有限公司) and Shantou Lianhua South Purchase and Distribution Co., Ltd. (汕頭市聯華南方採購配銷有限公司)	(a)	7,205	12,257
Purchases from fellow subsidiaries	(a)	107,760	112,943
Rental expenses and property management fee paid to fellow subsidiaries	(b)	98,965	98,111
Rental income from fellow subsidiaries	(c)	17,795	14,195
Commission income received from fellow subsidiaries	(d)	659	631
Commission income arising from the redemption of coupon liabilities with a fellow subsidiary	(e)	8,663	10,294
Commission charges arising from the redemption of coupon liabilities with a fellow subsidiary	(e)	11,161	11,659
Interest income earned from a fellow subsidiary	(f)	23,376	1,285
Purchases from shareholder Yonghui Superstores (note)	(g)	146,378	3,006
Management fee paid to Yonghui Superstores (note)	(g)	491	2,041
Logistics fee incurred with Yonghui Superstores (note)	(g)	3,803	–
Capital injection in a fellow subsidiary	(h)	–	11,765
Platform usage fee paid to fellow subsidiaries	(i)	1,859	–
Transaction amounts transferred from the Group's relevant account into a fellow subsidiary's settlement account	(j)	3,521	–
Transaction amounts transferred from a fellow subsidiary's settlement account into the Group's relevant account	(j)	1,593	–

Fellow subsidiaries above are other subsidiaries of Bailian Group.

42. RELATED PARTY TRANSACTIONS (Continued)

(1) Related party transactions (Continued)

Notes:

(a) This represents sales to and purchase from Bailian Group 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 hypermarket 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 rates ranging from 0.5%-1% (2015: at rates ranging from 0.5%-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) Shanghai Baiqing Investment Co., Ltd. ("Baiqing Investment"), a prior major shareholder of the Company, and Yonghui Superstores had entered into an equity transfer contract (the "Equity Transfer Contract") on 17 April 2015, pursuant to which, Baiqing Investment agreed to transfer its 237,029,400 unlisted domestic shares (representing approximately 21.17% of the equity interest of the Company) to Yonghui Superstores at the consideration of HKD3.92 per domestic share.

Subsequently on 23 December 2016, Yonghui Superstores entered into a share transfer agreement with Shanghai Yiguo E-commerce Co., Ltd. ("Shanghai Yiguo"), pursuant to which agree to transfer its total 21.17% equity interest of the Company to Shanghai Yiguo at a cash consideration of HK$950 million. The transfer of shares have been completed on 28 December 2016.

The amounts represent purchase of various kinds of merchandise from and management fee and logistics fee paid/payable to Yonghui Superstores for the period from 1 January 2016 to 28 December 2016 (2015: from 17 April 2015 to 31 December 2015). The transaction amounts were all determined in accordance with the terms of underlying agreement at the market price.

42. RELATED PARTY TRANSACTIONS (Continued)

(1) Related party transactions (Continued)

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

(i) This represents the platform usage fee paid/payable to Bailian which is equivalent to 4% of the total transaction amount of goods sold through Bailian and/or its subsidiaries on behalf of the Group through their e-commerce platforms according to the terms of the underlying agreements.

(j) These represent the transaction amounts to be transferred from/to the Group in respect of the membership points earned by customers of Bailian Group or the Group with Bailian Finance via its settlement account under the membership points agency and settlement service agreement between Bailian Finance and the Group.

(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 from 1 January 2016 to 31 December 2018. The summary of cash and cash equivalents and unrestricted deposits placed to the fellow subsidiary is set out as below:

	31/12/2016 RMB'000	31/12/2015 RMB'000
Cash and cash equivalents in a fellow subsidiary	134,464	237,182
Unrestricted term deposits in a fellow subsidiary	270,000	415,000

42. RELATED PARTY TRANSACTIONS (Continued)

(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, jointly controlled or significantly influenced 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, deposits placement, and bank borrowing with other Government Related Entities.

In view of the nature of the retail business operated by the Group, the directors of the Company 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 both years, significant amount of the Group's purchase were from Government Related Entities and most of the Group's deposits and bank borrowing are placed with and advanced from banks which are also Government Related Entities.

(4) Compensation of key management personnel

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

	2016 RMB'000	2015 RMB'000
Salaries and other short-term employee benefits	7,212	6,904
Post-employment benefits	463	462
Other long-term benefits	154	158
	7,829	7,524

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's principal subsidiaries at the end of the reporting period are set out below.

Name of entities	Date of establishment	Paid up issued/ registered capital	Proportion voting power and ownership interest held by the Company				Principal activities
		RMB'000	Directly		Indirectly		
			2016	2015	2016	2015	
			%	%	%	%	
Subsidiaries							
Tianjin Yishang Lianhua Supermarket Co., Ltd. (天津一商聯華超市有限公司)	1 September 2002	30,000	100.00	100.00	–	–	Hypermarket
Shanghai Century Lianhua Supermarket Development Co., Ltd. (上海世紀聯華超市發展有限公司)	24 November 1997	500,000	100.00	100.00	–	–	Hypermarket
Hangzhou Lianhua Huashang Group Co., Ltd. (杭州聯華華商集團有限公司)	1 June 2001	120,500	74.19	74.19	–	–	Supermarket and hypermarket
Lianhua Supermarket Jiangsu Co., Ltd. (聯華超市（江蘇）有限公司)	21 March 2003	50,000	100.00	100.00	–	–	Supermarket and hypermarket
Guangxi Lianhua Supermarket Joint Stock Co., Ltd. (廣西聯華超市股份有限公司)	18 November 2001	68,670	95.00	95.00	–	–	Supermarket hypermarket and convenience store
Shanghai Lianhua Supermarket Development Co., Ltd. (上海聯華超級市場發展有限公司)	8 April 2006	10,000	100.00	100.00	–	–	Supermarket
Lianhua Quik Stores Co., Ltd. (上海聯華快客便利有限公司)	25 November 1997	63,000	100.00	100.00	–	–	Convenience store
Shanghai Lianhua Commercial Trading Co., Ltd. (上海聯華商業流通有限公司)	27 June 2001	3,000	100.00	100.00	–	–	Wholesaling
Shanghai Lianhua Supermarket Distribution Co., Ltd. (上海聯華超市配銷有限公司)	29 October 1998	5,000	100.00	100.00	–	–	Purchase and distribution
Lianhua Logistic Co., Ltd. (聯華物流有限公司)	17 October 2007	50,000	100.00	100.00	–	–	Purchase and distribution
Shanghai Lianhua Supermarket Jilin Purchase and Distribution Co., Ltd. (上海聯華超市吉林採購配銷有限公司)	9 August 2000	1,000	51.00	51.00	–	–	Purchase and distribution
Shanghai Lianhua Live and Fresh Food Processing and Distribution Co., Ltd. (上海聯華生鮮食品加工配送中心有限公司)	29 December 1999	5,000	100.00	90.00	–	–	Fresh food processing and distribution
Lianhua E-business Co., Ltd. (聯華電子商務有限公司)	4 October 1995	55,000	90.91	90.91	–	–	Trading
Hualian Supermarket Holdings Company Limited (華聯超市股份有限公司)	15 August 2006	300,000	99.40	99.40	0.60	0.60	Supermarket

The above table lists the principal subsidiaries of the Group which, in the opinion of the directors of the Company, affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in excessive length.

All of the subsidiaries described above are limited liability companies established in the PRC. None of the subsidiaries had issued any debt securities at the end of both years.

44. STATEMENTS OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period includes:

	31/12/2016	31/12/2015
	RMB'000	RMB'000
Non-current assets		
Property, plant and equipment	204,560	213,524
Construction in progress	9,098	5,121
Land use rights	26,316	27,244
Intangible assets	15,636	10,847
Investments in subsidiaries	1,262,695	1,766,145
Interests in associates	232,732	254,232
Available-for-sale financial assets	9,567	11,407
Term deposits		
– unrestricted	230,000	453,851
Deferred tax assets	33	2,874
Other non-current assets	2,470	2,593
	1,993,107	2,747,838
Current assets		
Inventories	784,377	349,451
Trade receivable	–	6,258
Deposits, prepayments and other receivables	41,103	69,223
Amounts due from fellow subsidiaries	2,951	354
Amounts due from subsidiaries	5,620,197	5,679,142
Amounts due from associates	58	173
VAT refundable	9,234	–
Term deposits		
– restricted	–	3,000
– unrestricted	923,851	440,000
Cash and cash equivalents	606,780	1,026,856
	7,988,551	7,574,457
Total assets	9,981,658	10,322,295

44. STATEMENTS OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (Continued)

	31/12/2016	31/12/2015
	RMB'000	RMB'000
Capital and reserves		
Share capital	1,119,600	1,119,600
Reserves	3,840,343	4,046,167
Total equity	4,959,943	5,165,767
Non-current liability		
Deferred tax liabilities	1,458	1,918
Current liabilities		
Trade payables	2,012,269	1,968,975
Other payables and accruals	21,866	31,766
Coupon liabilities	2,297,016	2,422,584
Amounts due to fellow subsidiaries	49,422	36,832
Amounts due to subsidiaries	624,265	672,093
Amounts due to associates	1,417	3,040
Amounts due to other related parties	–	5,082
Tax payable	14,002	14,238
	5,020,257	5,154,610
Total liabilities	5,021,715	5,156,528
Total equity and liabilities	9,981,658	10,322,295
Net current assets	2,968,294	2,419,847
Total assets less current liabilities	4,961,401	5,167,685

44. STATEMENTS OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (Continued)

Movement in the Company's reserve

	Share capital	Capital reserve	Other reserve	Statutory common reserve fund	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	1,119,600	258,353	3,595	540,309	2,948,720	4,870,577
Profit for the year	–	–	–	–	289,436	289,436
Other comprehensive income for the year	–	–	5,754	–	–	5,754
Total comprehensive income for the year	–	–	5,754	–	289,436	295,190
Profit appropriation	–	–	–	19,491	(19,491)	–
At 31 December 2015	1,119,600	258,353	9,349	559,800	3,218,665	5,165,767
Loss for the year	–	–	–	–	(204,444)	(204,444)
Other comprehensive expense for the year	–	–	(1,380)	–	–	(1,380)
Total comprehensive (expense) income for the year	–	–	(1,380)	–	(204,444)	(205,824)
At 31 December 2016	**1,119,600**	**258,353**	**7,969**	**559,800**	**3,014,221**	**4,959,943**

The amount of the Company's retained profits available for distribution to shareholders as at 31 December 2016 amounted to approximately RMB3,014,221,000 (2015: RMB3,218,665,000).

45. AUTHORISATION FOR THE ISSUE OF THE ACCOUNTS

These consolidated financial statements were authorised for issue by the Company's Board of Directors on 29 March 2017.

Environmental, Social and Governance Report

Table of Contents

1. Management of Social Responsibility

1.1 Concept of Social Responsibility

Enterprise Mission, Vision and Value

Lianhua Supermarket Holdings Co., Ltd. (hereinafter referred to as Lianhua Supermarket or the Company) commenced its business in Shanghai in 1991 and has developed into a nation-wide chain retailer with a full range of retail segments, expanding through a combination of direct operation, franchising and merger and acquisition. In 2003, it went public in the Stock Exchange of Hong Kong Limited ("HKEX"). The Company and its subsidiaries ("the Group") operate in the main three retail segments of hypermarkets, supermarkets and convenience stores, in order to cater for the diverse demands of all consumers and the sales of daily necessities. These retail segments operate under the brand names of "Century Mart", "Lianhua Supermarket", "Hualian Supermarket" and "Lianhua Quik".

Lianhua Supermarket, as China's leading chain retailer for fast-moving consumer goods, focuses on the basic needs of diet and the pursuit of better livelihood and has always born in mind the mission of "creating values for customers, staff, shareholders and society", followed the operational guideline of "Lianhua is always around you, trying to make you feel at ease" and advocated the philosophy of "providing and benefiting the people with convenience".

With the continuous development of the Company, the Group have been operating a total of 3,618 outlets (excluding those operated by the Company's associated companies), spanning 19 provinces and municipalities around the nation and covering a total operating area of 2,306,450 sqm. The Company's operational principle of "providing and benefiting the people with convenience" is implemented in various regions and outlets.

Concept of Social Responsibility

The Group has a staff of 44,000 people under contract. As a company in the labor-intensive industry, we have been continuously focused on protecting rights and interests of workers and providing a working environment that is inclusive, healthy and safe. At the same time, as a leading operator of daily necessities, we regard the offering of commodities that are convenient, quality and healthy as an important approach to fulfill and realize the operational target of "providing and benefiting the people with convenience". In 2002, the Group started to operate fresh produce and has since kept providing safe fresh produce and improving health of consumers as its eternal pursuit. In addition, as an enterprise citizen, the Group attaches great importance on environment protection and the joint development with community. We promote green operation in department stores and supermarkets, advocate sustainable consumption, and carry on various community volunteer services.

Consumer	• Providing commodities that is convenient, quality and healthy
Staff	• Providing a working environment that is equal, inclusive, healthy and safe
Environment	• Practicing green operation and promoting sustainable development
Community	• Establishing disaster prevention center and convenience center in community

Organization for the Promotion of Social Responsibility

To perform social responsibility earnestly, one shall not stay away from the effective management of related tasks. The Company established a system for promoting social responsibility in which managers are involved and various departments coordinate in order to guarantee the implementation and advance of social responsibility tasks.

Moreover, this Report sets out the approach, strategy and objectives of the Company's management on Environmental, Social and Governance ("ESG") relating to its business, and measures and systems adopted by the Company to implement the ESG strategy. As the Board is responsible for assessing and determining the Company's risk related to ESG, and ensuring that proper ESG risk management and internal control systems are in place, the Board, with confirmation from the management, considers that the ESG risk management and internal control systems are effective.

1.2 Model of Social Responsibility

Participation of Stakeholders

We firmly believe that the participation of all stakeholders serves as the core factor of business success. Therefore, the Group has established a communication platform for our shareholders, partners, suppliers, customers and consumers, the government and supervision departments, staff, the public and community, in an effort to respond to their demand. The sustainable development is believed to be realized through the communication, cooperation and establishment of solid relationships between the Group and all stakeholders.

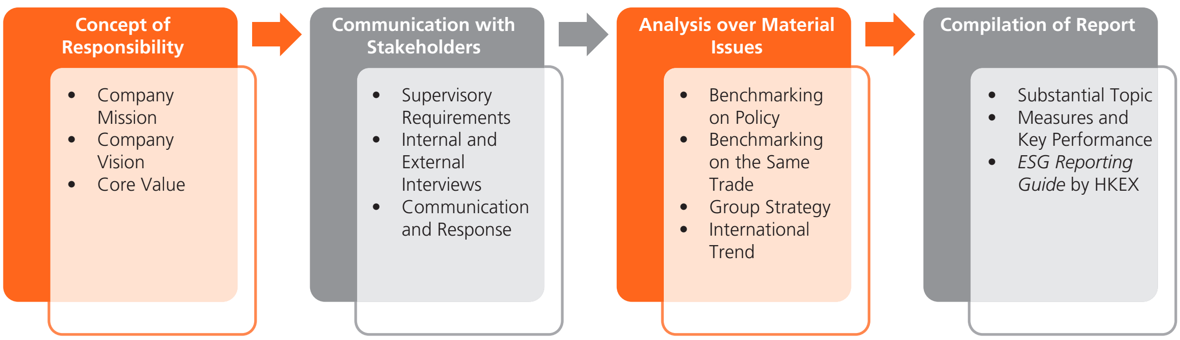
Table about Major Stakeholders and Topics of Lianhua Supermarket

Major Stakeholders	Major Topics	Communication and Response
Shareholders	• Company Governance • Risk Control • Investment Return	• Information Disclosure of Listed Companies • Shareholder's Meetings • Investors Meetings
Partners	• Experience Sharing • Morality & Integrity	• Strategic Cooperation • Internal Control and Audit
Suppliers	• Fair Competition	• Standardized Management System for Suppliers • Transparent and Fair Purchase • Coordinated Development
Customers and Consumers	• Quality and Cheap Produce • Healthy and Safe Food	• Quality Management System • Trace System for Food Circulation • Self-operating Vegetable Base • Education of Food Security • Customer Service
Governments and Supervision Departments	• Complying National and Local Laws and Regulations	• Compliance Operation • Intellectual Property Protection
Staff	• Interests and Benefits • Healthy and Safe Working Environment • Improvement of Capability and Professional Development	• Trade Union and Workers' Conference • Safety Training and Contingency Exercises • Training and Promotion
General Public and Community	• Participation in Community Development • Alleviating Impact over Environment	• Public Welfare Program for Various Community • Green Operation • Promotion of Sustainable Consumption

Compilation of Social Responsibility Report

To better disclose the Group's practice of social responsibility to all stakeholders, the Group regards the compilation of ESG reports as a channel to reveal its performance in social responsibility and deliver responsibility concepts to investors and the public, as well as an important tool to improve the transparency of the Group and enhance the management of social responsibility.

The report is compiled based on the ESG Reporting Guide issued by HKEX. Meanwhile, the strategic direction and operational focus, requirements and expectations of the stakeholders, international and domestic laws and regulations or standards that the Group shall follow and other related proposals are all taken into consideration in order to identify, analyze and evaluate the Group's social responsibility issues. The substantial topics determined thus serve as the core content revealed in the report.



2. Responsibility to Customers • We Try to Make You Feel at Ease

Lianhua Supermarket operates business related to the daily life of consumers, as its hypermarkets, supermarkets and convenience stores cater for diverse demands of consumers. The Group keeps following rules and regulations about the sales of commodities and food stipulated in *Product Quality Law of the People's Republic of China*, *Food Safety Law of the People's Republic of China*, *Measures about Safety Supervision and Management of Marketing of Edible Agricultural Produce*, *Measures about Management of Food Recall* and *Provisions on Protection of Interests and Rights of Consumers of Shanghai*. At the same time, with the continuous pursuit of a better livelihood, Lianhua Supermarket keeps improving social welfare through introducing quality and healthy produce while maintaining commodity safety.

2.1 Quality Assurance of Commodity

In 2016, the Company integrated the function of quality safety inspection of commodities into the Department of Safety and Quality in order to implement the unified planning and management over commodity quality, firefighting security, shopping security and the safety of staff, thus further reinforced the control over commodity quality.

Following the principles of quality saying that "People, service and quality prevail and management is upgraded", the Group stipulated Requirements about *Inspections of Commodity and Examination of Suppliers of Lianhua Supermarket Holdings Co., Ltd.*, *Procedure about Commodity Purchase Management and Procedure about Commodity Acceptance and Control* and other similar systems and procedures related to management. We check commodity quality through various steps including inspections by suppliers, commodity inspections and random inspections of commodities on shelf. Department of Safety and Quality shall ask for effective licenses and certificates of all newly-introduced suppliers and commodities in accordance with related laws and regulations. Such licenses and certificates should be comprehensively examined in detail, thus ensured to be complete and effective, and be upgraded if the time limit is exceeded when renewing suppliers.

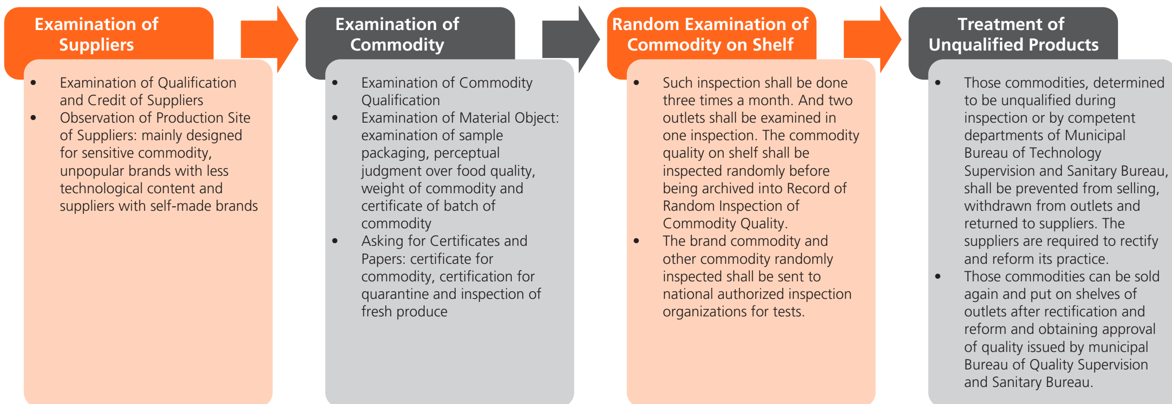
Licenses Examination – the suppliers shall submit the following effective licenses based on types and models of commodity operation, including but not limited to:

- Production Certificate, Hygienic License, License of Slaughter on Appointed Site, Certificate on Animal Epidemic Prevention, Inspection Report on Non-Genetically Modified Food, Instructions about Cosmetics with Special Purpose, Compulsory Authentication Certificate 3C, Trademark License and Patent License and etc.

The inspection and management of suppliers is not only an important measure to ensure commodity quality, but also a way of protecting intellectual property rights through management over suppliers. In the Sales Agreement and Joint Operation Agreement signed with the suppliers, the Group clearly requests the suppliers to promise that all products supplied shall not infringe upon trademark rights, patent rights, other proprietary technologies, commercial secrets or other intellectual property rights of any third party. If the relevant certificates of trade marks or patents become invalid, expired or ceased for any kind of reason, the Group would ask the supplier to cease marking and using the registered trademarks and the patent numbers on its goods.

Discovery and Treatment of Quality-related Problems

For the treatment of unqualified commodities discovered from the internal self-inspection or customers' complaints, the Group stipulated *Procedure about Control of Unqualified Commodity* to standardize the procedure. As for those unqualified commodities discovered through initiative inspections or random inspections by relevant departments like bureau of quality and technical supervision and Sanitary Bureau, the Group shall inform all outlets of various segments to stop selling and withdraw unqualified commodities from the shelf immediately, and shall ask suppliers to rectify its practice. As for the issues related to the fines of suppliers for the quality and labels of commodities by the department of market supervision and management, the Group shall coordinate with relevant departments to ensure effective communication between supervisors and manufacturers.



Requirements about Examination of Suppliers and Commodity Inspection of Lianhua Supermarket

Protection of Personal Information of Customers

As a retailer not targeted at any specific customer or enterprise, Lianhua Supermarket's business rarely involves personal information of customers. Members' information would be collected by the Group in some outlets and its security would be protected in terms of safe storage and classified access and use.

2.2 Safe and Healthy Food

By following the principle of "People regard food as their prime want, and food safety is of top priority", Lianhua Supermarket commenced its fresh produce business in 2002 and has since devoted itself into facilitating customers' need of acquiring safe and healthy food and gradually established both a quality management system and a accountability mechanism covering the process from purchase, delivery to outlets, thus ensuring the quality, scientific standards and health of the food.

At the same time, the Group continues to make all information related to fresh produce public and transparent, and has clearly announced more than 17 standards related to inspection and quarantine, sanitary management, measurement standards, pricing and service commitment in order to make customers feel at ease and to facilitate supervision from the government and our customers.

In 2016, the Greenpeace announced its *2016 Report on Pesticide Residue in Vegetables of Six Supermarkets*[1] based on its investigation of pesticide residues in vegetables sold in many supermarkets. The Report showed that Lianhua Supermarket has the least number of samples both with pesticide residue and with pesticide residue beyond the limit in all vegetables sold.

Food Flow and Traceability Mechanism

The food flow and traceability mechanism is conducive to establishing an effective supervision over food quality from production to sales, promoting the process of making information public and transparent, and providing convenience for customers to understand food information.

The Group has been actively building its food traceability system and has finished its information traceability system for meat, vegetables, red meat, grain and aquatic products. The consumers can check online[2] the origins of produce, the manufacturing plant, production date, and information about quarantine, inspection and dealers by way of the code on product labels. At present, there are 309 outlets registered on Lianhua Supermarket food flow and traceability system, including 40 markets of Lianhua Century Mart and 269 Lianhua supermarkets. The traceability system can cover meat, vegetables, grains and aquatic products in all outlets of Shanghai, and the traceability of pork can be basically realized in Lianhua supermarkets.

1 Greenpeace issued on October 24, 2016.

2 Shanghai Shiyong Nongchanpin Liutong Anquan Xinxiwang http://www.shian.gov.cn/web/index.aspx.

Construction of Self-operating Vegetable Base

To enhance the control over vegetable quality and guarantee the health and freshness of vegetables, the Group established its self-operating base which cuts short the process of delivering vegetables with its model of "Base – Distribution Center – Outlets". The illicit drugs are prohibited in the Base by adopting standard, recorded and archive-uploaded application of drugs. Also, the security of drugs is checked through the process of standard inspection, and the safe production chain has been established to involve process before, in the middle of and after the planting of vegetables, thus effectively ensuring that the security of vegetable planting can be traced.

The vegetable base in Chongming conducted fast inspection of 19,778 times in a year (averagely 1.35 times/unit product/day), i.e. every single product shall be checked at least 1 time or more per day. Every day, all vegetables delivered from Chongming will be checked to ensure that the level of pesticide residue is less than 50, complying with national standard (pollution-free vegetables ≤45, green vegetables ≤30 and organic vegetables ≤15). The actual level inspected in Chongming was between 0.28 – 32.47, roughly within the limit for green vegetables, safeguarding the food security of Chongming vegetable base and guaranteeing that all customers can be supplied with safe vegetables.

Lianhua Supermarket Served as the Sole Vegetable Supplier to G20 Summit in Hangzhou

In G20 Summit of Hangzhou, Lianhua Supermarket (Zhejiang) excellently fulfilled its duty of supplying food to the summit, including the establishment of warehouse, purchase of food materials, and the distribution of food materials to 52 restaurants on B20 and G20, satisfying the customized needs of major heads of state. It added a special flavor to the G20 Summit and received awards and reputation. Also, Lianhua Supermarket was awarded many honorable titles including Advanced Collective for G20 Summit, Collective with Outstanding Contributions in Service to G20, Model Collective of Hangzhou and Advanced Collective of Service to G20 Summit in Hangzhou.

Education of Food Security

Food security is a common topic that everyone concerns and a common goal that requires the joint efforts of society. Lianhua Supermarket held activities of Food Security Week and provided education about food security and the selection of high quality products based on the principle of "providing quality, scientific and healthy food", in order to draw public attention to the safeguarding of food security, and create a sound environment jointly.

In addition, Lianhua Supermarket cares about the food security progress in the industry. In 2016, the Company co-sponsored with China Chain Store and Franchise Association in organizing the seminar on How to Deal with the Observed Unqualified Produce in Random Inspection of Food Industry, studied *Best Practices in Management of China's Poultry Quality and Food Security*, and discussed the mechanism and practice of food security management with China Chain Store and Franchise Association, World Wildlife Fund and RT-Market.

Table of Performance on Commodity Quality of Lianhua Supermarket 2016

Performance Index	2014	2015	2016
Percentage of total products sold or shipped subject to recalls for safety and health reasons (%)	0.002	0.002	**0.007**
Number of products and service related complaints received	2,619	1,361	**1,169**
Treatment rate of products and service related complaints (%)	100	100	**100**
Number of suppliers by geographical region:			
Number of Mainland suppliers	268	289	**332**
Number of suppliers in HK, Macao and Taiwan	2	2	**2**
Number of overseas suppliers	0	0	**0**

3. Employee Responsibility • Establishing Harmonious Enterprise

As a labor-intensive enterprise with a staff of 44,000, the Group has always been focusing on providing our staff with an equal, inclusive, healthy and safe working environment. The Group always concerns with China's Labor Law, Labor Contract Law, Special Provisions on Labor Protection of Female Employees and Law on Prevention and Control of Occupational Disease in order to safeguard the legitimate rights and interests, guarantee the occupational health and safety, and promote the development of staff.

3.1 Interests of and Solicitude towards Employees

Employment of Staff

The Group has a huge number of staff with diversified knowledge structures, thus the employee management of the Group is in complicated situations. The Group follows the principle of "fair competition and employment on selective basis", and established a human resources policy that is standard, legal and humanized, which covers recruitment, promotion, working hours, vacation, salary, welfare and staff training. In 2016, the rate for contract signing and the coverage rate for social insurance are both 100%. In addition, the Group strictly follows the laws and regulations about prohibiting child and forced labor, thus hiring workers under 16 years old is banned. The Group also established structure and policies to ensure its compensation and dismissal mechanism is reasonable and in compliance with applicable laws and regulations.

Staff Employment and Rights System Overview of Lianhua Supermarket

Employment & Promotion

- ✓ **Principle**: fair, equal, competitive and selective
- ✓ **Flow**: announcement of information, resume delivery, interview, recruitment, archiving and keeping confidential of information, key internal employment shall be done based on evaluation, announcement and publication of results.
- ✓ **Promotion Channels**: recommendation by higher level of organization, appointment and removal by party committee's discussion and investigation, competition for posts, promotion of staff with outstanding performance through annual evaluation

Working Hours & Vacation

- ✓ **Working Hours**: the staff following standard working hours shall work no more than 40 hours per week; staff following comprehensive working hours shall work for no more than standard working hours per month or quarter.
- ✓ **Overtime**: 3 times of salary shall be given to those who works overtime in statutory festivals and holidays; shift leave shall be arranged for those who works overtime at ordinary times, otherwise, 1.5 to 2 times of salary shall be given.
- ✓ **Vacation**: annual leave with pay, marriage leave, funeral leave, parental leave and sick leave shall follow national regulations. The staff donated their blood voluntarily shall be given 10 days leave with pay (including weekend).

Salary & Welfare

- ✓ **Salary**: salary standards shall be adjusted based on the minimum salary and guideline of salary increase of various localities.
- ✓ **Medical Health**: medical treatment of staff, mutual assistance insurance for accidents, annual physical examination
- ✓ **Subsidy**: subsidy for meals, transportation, working in high temperature and gift of birthday
- ✓ **Compensation and dismissal**: reasonable and in compliance with relevant laws and regulations

Table for Performance of Staff Employment 2016

Index of Performance(Note 1)	2014	2015	2016
Total Workforce	52,905	47,623	**44,033**
by Gender:			
No. of Female Staff	16,560	14,404	**13,540**
No. of Male Staff	36,345	33,219	**30,493**
by Types of Employment:			
No. of Contract Staff	40,902	36,624	**35,413**
No. of Staff Dispatched	5,003	4,180	**3,372**
No. of Staff Re-employed	2,657	1,997	**1,868**
No. of Hourly Workers	1,403	1,868	**1,416**
No. of Outsourcing Workers	117	599	**15**
No. of Other Types(Note 2)	2,823	2,355	**1,949**
by Ages:			
No. of Staff Older than 50	8,298	9,190	**6,709**
No. of Staff between 30-50	33,671	30,531	**30,555**
No. of Staff Younger than 30	10,936	7,902	**7,269**
by Regions:			
No. of Mainland Staff	52,904	47,622	**44,032**
No. of Staff from HK, Macao and Taiwan	0	0	**0**
No. of Overseas Staff	1	1	**1**
Male-Female Ratio in Management (%)	38.55	38.65	**37.65**
Employee Turnover Rate (%)	23.00	23.27	**16.48**
by Gender:			
Male Staff (%)	20.58	20.69	**14.18**
Female Staff (%)	24.38	24.69	**17.64**
by Age:			
Staff Older than 50 (%)	12.70	12.59	**8.10**
Staff between 30 and 50 (%)	20.83	21.54	**15.24**
Staff Younger than 30 (%)	31.67	38.41	**26.48**
by Region:			
Mainland Staff (%)	23.00	23.27	**16.48**
Staff from HK, Macao and Taiwan (%)	0.00	0.00	**0.00**
Overseas Staff (%)	0.00	0.00	**0.00**
Staff Coverage of Collective Agreement (%)	100	100	**100**
Total Number of Labor Disputes	48	174	**40**

Note 1: statistical caliber of data in the table shall be subject to parent company, subsidiary companies and outlets.

Note 2: other types of employment include borrowed employees, personnel under agreement to retain social insurance relations and interns.

Democratic Communication and Solicitude towards Staff

The smooth communication channels and sincere solicitude toward staff serve as an important part in building a harmonious labor-capital relationship. Irregularly forums and the suggestion box of General Manager are established to accept complaints, suggestions and ideas from staff. We encourage our staff to understand the demand and settle difficulties of where they work. We also carry out events for the self-report and democratic evaluation of managers, and collect ideas and suggestions about the competency and work style of managers from our staff.

In addition, the Group has established the labor union to protect rights and interests of our staff and built a working environment that is equal, inclusive and harmonious. All branch companies of different segments and regions carried out various activities for staff which enrich the spare time life of our staff. With regard to solicitude towards staff, Lianhua Supermarket cares much for grass-root-level employees, female employees and those with difficulties. The Group conducts activities to express our solicitude towards staff, such as medical treatment for staff, helping those living in poverty, assisting those who are unable to support their children's education, and a series of activities showing Solicitude towards Female Staff.

Table of Performance of Solicitude towards Staff 2016

Index of Performance(Note)	2016
Investment in Showing Solicitude towards Staff and Helping Those Living in Poverty (ten thousand yuan)	545.78
Person Times of Showing Solicitude towards Staff and Helping Those Living in Poverty (person times)	80,388
Investment in Showing Solicitude towards Female Staff (ten thousand yuan)	38.01
Person times of Showing Solicitude towards Female Staff (person times)	1,081

Note: statistical caliber of data in the table shall be subject to parent company, subsidiary companies and outlets.

Highlights of Staff Activities 2016

Our branch in Zhejiang organized female staff to participate in tug-of-war themed as "Union is strength" and exercises of etiquette themed as "Embracing G20 and Taking the Lead in Showing Etiquette", thus displaying the positive healthy spirit and go-aheadism of female staff.

Our branch in Jiangsu organized its outlets and carried out competition of cooking skills and commodity display.

Our branch in Guangxi organized garden parties, exercises and Yoga classes for female staff.

Labor Union of Century Mart organized hiking for managers and staff of outlets in east China to consolidate cohesiveness of team and strengthen coordination between outlets in the region.

The Headquarter organized "Cohesiveness Cup" broadcast gyms and badminton contests in which nine teams from the Headquarter and member enterprises participated.

Solicitude towards Female Staff – Unique Service of Female Staff of Lianhua Supermarket themed as "Seven-color Solicitude, Seven-color Females"

The Company has a relatively high female staff rate and therefore pays more attention to solicitude towards female staff. Lianhua Supermarket carries out activities of unique service for female staff themed as "Seven-color Solicitude, Seven-color Females" in order to help them better balance their work and life.

★ Red: enthusiasm, passion

Various entertainment activities and skill competitions were organized.

★ Orange: warm, friendly

Solicitude was shown towards females in their menstrual period, pregnancy, lactation period and climacterium, and leaders of various teams of Trade Union shall be responsible for collecting ideas, calling for actions, coordinating and pacifying staff.

★ Green: life, development

Special insurance and settlement of claims for female staff is conducted; unique service by female staff is done (we sign special contract with female staff, purchase special medical insurance and hold forum about the health of female staff working in the front line).

Every year, physical examination is organized for female staff.

Materials related to relieving those female staff from poverty is submitted in order to settle their difficulties.

Regular visits are paid to female staff living in poverty.

★ Blue: sad, anxious

Special attention is paid to those single mothers, especially those who are widowed with young children. The Trade Union will provide subsidy to those children living with single mothers.

★ Purple: elegance, self-satisfied

Various salons for shop managers and directors have been organized for senior female managers, some advanced female shop managers and female leaders in order to ease them and create conditions for them to be "excellent on their position and colorful in their lives".

★ **White: peace, safety**

Legal assistance is provided to female staff to protect their legitimate rights and interests and fight against domestic violence.

★ **Pink: healthy, sweet**

Special service is provided to the female staff with "female cancers" (mammary cancer and cervical cancer), which includes the open of doctor hotline and establishment of relevant accounting materials as well as reporting to higher-ups to implement supporting matters to help those with female cancers out of difficulties.

3.2 Healthy & Safe Working Environment

The Group provides its staff with equipment, sites and environment that comply with national safety standards to show its concern on their health and safety. We distribute and upgrade labor protection items regularly to reduce dangerous factors in works thus lessening the adverse effect to the health of staff. In addition, at least one physical examination will be held for staff every two years and health archive is established for all staff in order to promptly observe and respond to unhealthy factors. Two accidents occurred in recent three years, one of which involves a traffic accident on their way to company and the other one was heart attacked after leaving the company and passed away after being rescued to the hospital. The Group will improve its efforts in safety education and health care, trying to provide a comprehensive guarantee to the health and safety of staff.

The Group follows the principle of "Safety and prevention first while focusing on comprehensive governance" to deal with matters related to the posts with higher rate of accidents and sticks to the practice that combines emergency reaction and prevention. Following the rules in *Law on Prevention and Control of Occupational Disease of the P.R. China*, the Group designs, constructs and utilizes the facilities related to occupational health basic living needs simultaneously with the main project in the process of building new enterprises, expanding and reforming old ones. The member enterprises of the Company hold safety education for all tier-one and newly-hired staff before they are qualified for their position, and conduct trainings and regular re-trainings about occupational knowledge and prevention of accidents for all those staff operating special tasks and contacting occupational hazard factors. Qualified occupational sanitary service providers are regularly invited to carry out tests and evaluations of the operating site before declaring the inspection results to the workers. Workers would receive examination of occupational health before taking their posts, while on their posts and after leaving their posts. Once we observe such workers whose health is harmed due to the occupation, we shall promptly transfer them to other posts and make suitable arrangements. In hot seasons every year, we will provide relevant labor protection measures and competent departments will pay special visits to those workers.

To cope with emergencies and prevent accidents, the Group stipulated *Contingency Plan for Treating Emergencies of Lianhua Supermarket Holdings Co., Ltd*. and carried out regular training on safety and emergency exercises in order to raise staff's awareness of safety and emergency. The trainings and exercises involve basic education on safety, emergency disposal training for firefighting and disaster, fighting against terrorism, safe production, prevention of losses, and so on. In 2016, the Group carried out training for "Safe Production Month" and training for "119 Firefighting Education Promotion Month", with different types of activities including watching slides and competition of safety. This helps safeguard the health of staff and guarantee the safe shopping experiences of consumers.

Table of Performance on Health and Safety of Staff 2016

Index of Performance(Note)	2014	2015	**2016**
Number of Holding Safety Trainings (times)	1,011	1,030	**1,061**
Number of Participating Safety Trainings (person-time)	62,613	60,533	**58,168**
Number of work-related fatalities	0	1	**1**
Rate of work-related fatalities (%)	0	0.002	**0.002**
Lost days due to work injury	17,320	22,009	**20,995**

Note: statistical caliber of data in the table shall be subject to parent company, subsidiary companies and outlets.

3.3 Training & Professional Development

Talents are important guarantee to our sustainable development. Therefore, we attach great importance on the cultivation and development of talents, including training of post skills, of vocational and occupational qualifications and of training on professional knowledge and for managers. We worked out plans for the development of our staff's career and provide them with a platform of occupational development.

In 2016, the Group invested RMB5.7924 million and organized 268,562 person times of training. Apart from trainings on enterprise culture and outlets operation, we carried out project of "Micro-class of Lianhua" and special trainings of "Benefiting All" for the project "Benefiting All" launched by Bailian Group.

Main Training Projects of 2016

Lianhua Supermarket (Zhejiang)	• It organized micro-class of Lianhua and training themed as "Breaking up Operation Entities and Training Talents", projects for making up deficits and increasing surplus, trainings for English and etiquette lovers, launched 487 courses, 102 online courses and 36 courses about system education.
Convenience Stores of Lianhua Quik	• It carried out regular training for division managers, shop managers and newly-employed staff. A concentrated training will be held for shop managers. The regular trainings include enterprise culture, management on outlets operation, management of commodity, management of fresh produce, information management, e-commerce operation, equipment maintenance of outlets and standardized process for safe growth.
Century Mart	• It mainly opens such courses as special training about commodity sales, training about commodity quality supervision, grade training for cashiers, training about shift of posts and special training about "Benefiting All".
Lianhua Supermarkets	• It mainly opens such courses as enterprise classroom, training for the newly employed, training on fresh produce skills, special training on "Benefiting All", training on delivery to your home by Bailian and training for shop managers and manager assistants.

Table of Performance on Staff Training and Occupational Development in 2016

Index of Performance	2014	2015	2016
Number of Completing Staff Trainings (person-time)	275,347	220,582	**268,562**
Total Expenditure on Holding Staff Trainings (ten thousand yuan)	666.86	387.15	**579.24**
The Percentage of Employees Trained (%)	76.28	75.63	**71.63**
by gender: Male Staff (%)	75.07	74.29	**74.90**
Female Staff (%)	79.69	80.92	**66.56**
by employee category: Grass Root Employees (%)	80.45	81.55	**78.76**
Medium Level Management (%)	61.72	57.34	**62.29**
Senior Level Management (%)	11.10	43.50	**51.90**
The average training hours completed per employee per year (hour)	24.58	17.87	**13.98**
by gender: Male Staff (hour)	24.79	17.69	**16.78**
Female Staff (hour)	24.47	18.27	**12.92**
by employee category: Grass Root Staff (hour)	25.73	18.16	**16.58**
Medium Level Management (hour)	16.57	9.22	**11.23**
Senior Level Management (hour)	4.44	7.30	**11.80**

Note: statistical caliber of data in the table includes parent company, subsidiary companies and outlets.

3.4 Anti-Corruption

Honesty, integrity and free from corruption are all important personalities of staff and an important guarantee for the Group's healthy operation. Meanwhile, considering the nature of retail business, the Group has also observed that there are corruption and commercial bribery risks in daily businesses such as purchasing commodities and assets, attracting investment and handling business. Therefore, fighting against corruption and commercial bribery has always been a focus of the Company.

The fight against corruption and commercial bribery is mainly carried out by the Discipline Inspection Committee And Human Resources Department, in which the Discipline Inspection Committee is mainly responsible for follow-up education of party members and cadres and Human Resources Department is mainly responsible for training and education of all staff and supporting investigation of Discipline Inspection Committee and providing suggestions about punishment of staff who breach the rules.

Since 2014, the Group has standardized the professional activities of all personnel in key posts and managers of key departments dealing with purchase, attracting investment and projects by way of signing liability statements or letter of commitment. At the same time, the Group stipulated the *Rules on Management of Group Purchase of Commodity in Marketplace* and *Measures about Management of Treatment and Business Expenses of Leaders at Various Levels of Lianhua Supermarket Holdings Co., Ltd.*, thus providing a systematical guarantee for the work related to the fight against corruption and commercial bribery. The Group also established hotline and suggestion boxes to receive supervision reports from our staff.

In 2016, the Group continued its improvement over the restrictive mechanism to contain corruption and established a platform for checking archives about bribery of Lianhua Supermarket in order to inquire criminal acts of bribery of suppliers in advance and realize the advance interference of supervision and prevention. At the same time, the Group added new articles about containment of corruption in all Sales Agreement which clearly stipulates that all units which are listed onto records of bribery shall be included into "List of Prohibited Access". Such units will be banned from accessing, bidding, undertaking any project and supplying any commodity.

Table of Performance on Fight against Commercial Bribery in 2016

Index of Performance	2014	2015	**2016**
Number of Holding Anti-Corruption Trainings (time)	1	2	**5**
Number of Completing Anti-Corruption Trainings (person-time)	150	840	**1,050**

Platform for Checking Archives about Bribery of Lianhua Supermarket

To enhance the prevention and control over the sources of corruption risks, the Company cooperated with Putuo Procuratorate to build a platform for checking archives about bribery of Lianhua Supermarket which can help checking bribery of suppliers in advance through the big data platform of the procuratorate and the restriction mechanism. Such a platform raises the threshold of the business access for such six key departments as fresh produce, asset project, investment attraction and marketing.

Since its operation in June 1st of 2016, the Discipline Inspection Committee of the Company has conducted inquiries for 305 new suppliers reported by segment companies and has enforced that all inquiries should be replied within one day, all inquiry results should be returned within 5 days and all feedbacks should be registered promptly. The Discipline Inspection Committee of the Company will issue access certificate for all those suppliers that are clean. Such mechanism can endow Discipline Inspection Committee with its duty and help clean operation environment of the enterprise.

4. Responsibility to Environment • Promoting Sustainable Development

The concept of green development was raised in the 13th Five-year Plan, and every one of us believes that "Lucid waters and lush mountains are invaluable assets". As a member of the society, the Group cares about the environment protection and regards it as a way to protect our community and ourselves. We make efforts to relieve the adverse impact of operation over environment, and try to influence and encourage other enterprises and individuals to take part in the environment protection, thus promoting sustainable development with reference to local laws and regulations such as the *Environmental Protection of the People's Republic of China and Law of the People's Republic of China on Environmental Impact Assessment*.

4.1 Environment Management

The Group mainly operates in Chinese mainland where severe environmental problems exist and severely harm people's health, e.g. air pollution due to $PM_{2.5}$ and PM_{10}. In addition, the whole world is adversely challenged by climate change. Therefore, the Group tries to alleviate influence of its operation over environment. Although as a retail enterprise, the Group does not directly discharge large amount contaminants in product manufacturing process, we still identified the adverse factors in our operation that could damage environment, mainly including: first, the consumption of energy and resource in operation and the greenhouse gas emitted indirectly by electricity purchased; second, the disposable plastic shopping bags and plastic packages for fresh produce commonly used in sales, which can hardly be degraded and result in secondary contamination in treatment. Through identifying environmental influences, the Group can emphasize on important tasks in environment management.

In terms of environment management, the Group advocates saving energy, protecting environment and improving operation efficiency. It mainly focuses on the following two areas, first, the Group, as a key energy emission unit of Shanghai, actively pushes forward its own green operation and reduces its consumption of energy and resources and emission of greenhouse gas in operation. With the implementation of Standards about Green Department Stores[3] (SB/T 11135-2015) in September of 2016, the Group carried out benchmarking with the index of the department stores. In addition, as China's top 100 chain enterprises[4], Lianhua Supermarket fully influenced its suppliers and consumers, thus promoting sustainable consumption. The Company established Department of Asset Project and Department of Operation to handle affairs related to environment management, while the Department of Asset Project is responsible for equipment management, e.g. transformation of LED lighting of outlets, the Department of Operation is responsible for trial projects about green outlets.

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3 On Nov 9th of 2015, Ministry of Commerce of People's Republic of China issued Industrial Standards for Domestic Trade of People's Republic of China (SB/T 11135-2015) which will come into effect on Sept 1st of 2016.

4 In May of 2016, China Chain Store Franchise Association issued list about top 100 chain stores of China in 2015, and Lianhua Supermarket ranked No. 7.

4.2 Green Operation

Saving Energy and Resources

To satisfy the needs of consumers in terms of shopping, fresh food keeping and freezing, the lighting system, air-conditioning system and cold chain system of outlets of Lianhua Supermarket are the major causes of energy consumption. The water consumed by the Group mainly comes from the tap water supplied by municipal pipes. Most of the water is consumed in offices and operation of outlets. In order to reduce consumption of energy in operation, the Group takes a series of measures of energy saving and transformation.

Main Projects and Outcomes of Energy Saving in 2016

Projects for Saving Energy	Details and Achievements
Energy Saving Project for Cold Chain	The intelligent energy-saving-and-control cold chain system has been installed in 21 outlets. It is estimated that 2.8 million kW-h can be realized (saving about 1,120 tons of standard coal), reducing 2,790 tons of CO_2 emitted(Note 1).
Energy Saved by Central Air-conditioning	Intelligent control model is adopted to improve the efficiency of auxiliary system of air-conditioner. About 60,000kW-h (about 24 tons of standard coal) of each outlet can be saved in a single cooling season, thus reducing emission of 60 tons of CO_2(Note 2).
Transformation of LED Lights	Transformation of LED lights of 16 outlets is done, saving 4.26 million kW-h of electricity (about 1,704 tons of standard coal) every year, thus reducing CO_2 emission(Note 3) by 4,248 tons.

Note 1, 2, 3: converted based on "each degree of electricity (kilowatt hour) = 0.404kg standard coal=0.997kg CO_2 emitted"

Table of Performance for Saving Energy and Resources in 2016

Index of Performance	2014	2015	2016
Electricity consumption in total (ten thousand kWh)	7,811.00	7,257.31	**6,858.39**
Electricity consumption per unit business area (kWh/sqm)	344.90	362.77	**355.29**
Electricity consumption per ten-thousand-yuan turnover (kWh/ten thousand yuan)	124.89	126.69	**118.13**
Water consumption in total (ten thousand tons)	24.78	25.45	**22.65**
Water Consumption per unit business area (ton/sqm)	1.09	1.27	**1.18**
Water Consumption per ten-thousand-yuan turnover (ton/ten thousand yuan)	0.43	0.44	**0.36**

Heat Recovery of Refrigerating Unit

To improve utilization efficiency of energy and reduce energy consumption, our branch in Zhejiang started the project of heat recovery in machine rooms which can collect the heat emitted by the refrigerating unit in machine rooms. It uses the heat recovered to heat the water which will be supplied to processing rooms. This project helped save much energy, improved environment of machine room and settled the problems related to the use of hot water in the processing room of a supermarket. It was awarded the Prize for Five Subtle Innovation of Hangzhou Workers.

At present, such system is installed in 6 marketplaces. It is estimated that each outlet can save over RMB15,000 each year by adopting this system.

Reducing Emission

The gas emitted in the operation of the Group is mainly the greenhouse gas such as CO_2 generated indirectly by electricity purchased. The greenhouse gas can be regarded as an important factor of global warming. The Group recognizes the importance of alleviating global warming over the Group and the whole world. Through activities of saving energy and reducing consumption, the emission of greenhouse gas can be reduced. The following index all decreased over the past three years, e.g. total volume of greenhouse gas emitted, volume of greenhouse gas emitted in unit operation area and volume of greenhouse gas emitted for unit business turnover.

Table of Performance for Reducing Emission in 2016

Index of Performance	2014	2015	**2016**
Greenhouse gas emissions in total (ton CO_2e) (Note)	63,362.86	58,871.32	**55,635.23**
Greenhouse gas emissions per unit business area (kgCO_2e/sqm)	280	294	**289**
Greenhouse gas emissions per ten-thousand-yuan turnover (kgCO_2e/ten thousand yuan)	101	103	**96**

Note: the range of calculation for the volume of greenhouse gas emission shall include the indirect emission generated by the electricity purchased by parent company and outlets and shall be subject to the emission factor of power grid of east China stipulated in 2015 Reference Emission Factor for Power Grid of China Section.

Management of Wastes

The wastes generated in operation are mainly the paper receipts and out-of-date fresh produce. No hazardous wastes will be generated in this process. The Group follows the principle of "reducing" in the management of wastes, which alleviates the pressure of treating such wastes, prevents secondary contamination while on the other hand, utilizes resources more effectively and saves resources.

The fresh produce is easy to spoil and cannot be stored for longer period of time. The spoiled fresh produce adds more pressure on treatment of wastes and results in unnecessary wastes. The Group offers discounts and promotions of fresh produce that is nearly expired in order to reduce wastes and save resources.

4.3 Promotion of Sustainable Consumption

Sustainable consumption is mainly about advocating saving energy and reducing wastes, selecting services and products that are highly effective, environment-friendly, reducing energy consumption and contaminants emission in consumption. In February of 2016, ten national ministries and commissions including the National Development and Reform Commission, the Propaganda Department of the Central Committee of the CPC and the Ministry of Science and Technology issued Notice about Guidelines of Promoting Green Consumption which provides "encouraging and guiding citizens to practice green living style and consumption model", "encouraging consumption of green produces", "expanding markets for green consumption" and "increasing supply of green products and services". Lianhua Supermarket is a retailer that connects upstream suppliers and downstream consumers. The Group serves as an intermediate link between the production and consumption of products and will regard promoting sustainable consumption as an important opportunity for environment protection. On the one hand, we shall urge suppliers to upgrade their performance in production through selecting right suppliers and in the process of purchasing. On the other hand, we advocate the green, suitable and reasonable consumption philosophy in order to guide all consumers to set foot on a road towards sustainable consumption.

Plastic shopping bags are everyday consumables, large amounts of which are consumed each year in China. They are convenient but leading to serious wastes of energy and resources as well as contamination due to excessive use and improper recycling. Since 2008, the Group has been advocating the paid use of plastic bags in outlets, thus have effectively restricted and reduced the use of such bags.

5. Responsibility to Community • Lianhua is always with you

Lianhua Supermarket operates 3,618 outlets spanning 19 provinces and municipalities across the nation. "Lianhau is always with you" is its guideline for operation and its concept in servicing community. In recent years, Lianhua Supermarket pursues its common development with community with the help of its outlets and through establishing community disaster prevention center, community convenience center and community service center.

Community Disaster Prevention Center

The Group has various outlets in communities and boasts large amount of materials for daily use. It also establishes long-term and sound interactive and cooperative relations with community citizens and local governments. The Group gives play to its advantages and establishes community disaster prevention centers as a way to make contribution to society.

Outlets of Lianhua Supermarket rapidly and actively respond to natural disasters frequently seen in recent years and coordinate the supply of goods for emergency use and distributes such goods to relieve disasters. We send the goods to the regions and citizens that are in urgent need.

Main Events of Disaster Relieve in 2016

January	•	Cold temperature resulted in cracking of water supply pipes of Chengqiao District of Chongming County in Shanghai, our supermarkets in Chongming coordinated the water supply from nearby regions, thus safeguarding local water supply.
June	•	When hails disaster struck in Funing of Yancheng in Jiangsu Province, our branch in Jiangsu delivered goods to disastrous regions for relief. The outlets of HK road and Liangjia distributed items for people's livelihood to disaster areas, including 525 boxes of mineral water, 200 boxes of mixed porridge, 300 pieces of clothes, 20 quilts, 50 bags of bread and 100 tanks of mosquito coils.
July	•	Guided by Bureau of Commerce of Wuhu City of Anhui Province, Century Mart (Zhongshan) in Wuhu actively participated into the disaster relief and distributed biscuit, instant noodles and mineral water to the frontline. And the headquarter office of disaster and emergency relief under Wuhu municipal government then sent the goods to disaster areas. Altogether, 120,000 bottles of drinking water, 120,000 portions of instant noodles and 5 tons of biscuits have been distributed.

Community Convenience Center

To better serve the community, Lianhua Supermarket organized staff volunteer teams. In recent years, the Group keeps investing in providing volunteer services and the bases of the teams, while the time length of services keeps expanding. We are trying to be the best neighbor and assistant of community citizens while making citizens feel comfortable and rest assured.

By adopting the concept of "providing volunteer service to cope with daily needs of ordinary people", Lianhua Quik has held community service activities of "Sunshine Caravan" for 8 years and delivered rice to homes of senior citizens, thus have received warm welcome.

At the meantime, as community convenience centers, the Group keeps following its service concept of "delivering goods to community and providing thoughtful services" in order to provide new services. Apart from heating meals and offering hot water for the community cleaners, the Group established "Rookie In" in 2015 to provide pick-up service for online consumers. By the end of 2015, 380 Lianhua Quik outlets in Shanghai has operated online.

Table of Performance of Social Contribution by Lianhua Supermarket in 2016

Index of Performance(Note)	2014	2015	**2016**
Number of volunteer service (person-time)	248	321	**556**
Total hours contributed to volunteer service (hours)	440	513	**1,797**
Donation amount by Company (ten thousand yuan)	55.96	28.76	**16.99**
Donation amount by Staff (ten thousand yuan)	44.28	40.68	**33.94**

Note: person times and time length of volunteer service, and statistical caliber of data of donation by the Company shall be subject to parent company, subsidiary companies and outlets.

6. Key Performance Indicators for Social Responsibility of Lianhua Supermarket

Index of Performance	2014	2015	2016
Responsibility to Consumers			
Percentage of total products sold or shipped subject to recalls for safety and health reasons (%)	0.002	0.002	0.007
Number of products and service related complaints received	2,619	1,361	1,169
Treatment rate of products and service related complaints (%)	100	100	100
Number of suppliers by geographical region:			
Number of Mainland suppliers	268	289	332
Number of suppliers in HK, Macao and Taiwan	2	2	2
Number of overseas suppliers	0	0	0
Responsibility to Staff			
Total workforce	52,905	47,623	44,033
Employee turnover rate (%)	23.00	23.27	16.48
Number of work-related fatalities	0	1	1
Rate of work-related fatalities (%)	0	0.002	0.002
Lost days due to work injury	17,320	22,009	20,995
Responsibility to Environment			
Electricity consumption in total (ten thousand kWh)	7,811.00	7,257.31	6,858.39
Electricity consumption per unit business area (kWh/sqm)	344.90	362.77	355.29
Electricity consumption per ten-thousand-yuan turnover (kWh/ten thousand yuan)	124.89	126.69	118.13
Water consumption in total (ten thousand tons)	24.78	25.45	22.65
Water Consumption per unit business area (ton/sqm)	1.09	1.27	1.18
Water Consumption per ten-thousand-yuan turnover (ton/ten thousand yuan)	0.43	0.44	0.36
Greenhouse gas emissions in total (ton CO_2e)	63,362.86	58,871.32	55,635.23
Greenhouse gas emissions per unit business area (kgCO_2e/sqm)	280	294	289
Greenhouse gas emissions per ten-thousand-yuan turnover (kgCO_2e/ten thousand yuan)	101	103	96
Responsibility to Community			
Frequency of volunteer service (person-time)	248	321	556
Total time devoted on volunteer service (hours)	440	513	1,797
Donation amount by Company (ten thousand yuan)	55.96	28.76	16.99
Donation amount by Staff (ten thousand yuan)	44.28	40.68	33.94

7. Index of ESG Reporting Guide by HKEX

Aspects, General Disclosures and KPIs	Description	Chapter Disclosed
	Major Area A. Environmental	
	Aspect A1: Emissions	
General Disclosure A1	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	4.1, 4.2
KPI A1.1	The types of emissions and respective emissions data.	4.2
KPI A1.2	Greenhouse gas emissions in total (in tons) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	4.2
KPI A1.3	Total hazardous waste produced (in tons) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	None
KPI A1.4	Total non-hazardous waste produced (in tons) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	4.2 (statistical data not applicable)
KPI A1.5	Description of measures to mitigate emissions and results achieved.	4.2
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	4.2
	Aspect A2: Use of Resources	
General Disclosure A2	Policies on the efficient use of resources, including energy, water and other raw materials.	4.1, 4.2
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility)	4.2
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	4.2
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	4.2
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	4.2

Aspects, General Disclosures and KPIs	Description	Chapter Disclosed
KPI A2.5	Total packaging material used for finished products (in tons) and, if applicable, with reference to per unit produced.	Packaging materials are mostly attached to commodities and consumed by the Company mainly through fresh produce packaging.
	Aspect A3: The Environment and Natural Resources	
General Disclosure A3	Policies on minimizing the issuer's significant impact on the environment and natural resources.	4.1
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	4.3
	Major Area B. Social Employment and Labour Practices Aspect B1: Employment	
General Disclosure B1	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	3.1
KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	3.1
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	3.1
	Aspect B2: Health and Safety	
General Disclosure B2	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	3.2
KPI B2.1	Number and rate of work-related fatalities.	3.2
KPI B2.2	Lost days due to work injury.	3.2
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	3.2

Aspects, General Disclosures and KPIs	Description	Chapter Disclosed
	Aspect B3: Development and Training	
General Disclosure B3	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	3.3
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management and middle management).	3.3
KPI B3.2	The average training hours completed per employee by gender and employee category.	3.3
	Aspect B4: Labor Standards	
General Disclosure B4	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	3.1
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	3.1
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	No breaches
	Major Area B. Social Operating Practices Aspect B5: Supply Chain Management	
General Disclosure B5	Policies on managing environmental and social risks of the supply chain.	2.1
KPI B5.1	Number of suppliers by geographical region.	2.1
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	2.1
	Aspect B6: Product Responsibility	
General Disclosure B6	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	2.1
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	2.2
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	2.2
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	

Aspects, General Disclosures and KPIs	Description	Chapter Disclosed
KPI B6.4	Description of quality assurance process and recall procedures.	2.1
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	2.1
	Aspect B7: Anti-corruption	
General Disclosure B7	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	3.4
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	3.4
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	3.4
	Aspect B8: Community Investment	
General Disclosure B8	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	5
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	5
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	5

8. About the Report

2016 Environmental, Social and Governance Report of Lianhua Supermarket (hereinafter referred to as the "Report") states the principle adopted by Lianhua Supermarket Holdings Co., Ltd. in 2016 in fulfilling social responsibility and the performance of the work, including the topics about sustainable development of economy, environment and society that attract attention of important stakeholders.

Reasons for Compilation

The Report is compiled based on ESG Reporting Guide by HKEX and by referring to *Sustainability Reporting Guidelines* by Global Reporting Initiative (GRI4).

Range of Reporting

Range of Stores Involved: the Report is mainly about Lianhua Supermarket Holdings Co., Ltd. and its subsidiaries and outlets.

Range of Data: all data in the Report shall be collected from parent company and outlets, unless with special explanations.

Range of Period: January 1, 2016 to December 31, 2016
Duration of Publication: the Report is an annual version report.

Explanation to Data

All data and cases are collected based on the original records and financial report about the actual operation of the Company. In 2016, there were no confirmed non-compliance incidents in relation to environmental protection of Lianhua Supermarket and its subsidiaries included in this report, based on the data retrieval through the environmental databases of Institute of Public and Environmental Affairs (IPE) and Shanghai Qingyue.

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